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## VALUE, NOT PRICE

**W**hen setting prices you have two options: you can either compete against your competitors on **price**, or you can compete on **value**. If you do not compete on value then the default is competing on price. Unless you have a low cost model, competing on price will put you out of business.

### So what do customers value instead of price?

**Convenience** – will I will pay more at the dairy than the supermarket if I am short on time?

**Service** – are the staff friendly, will I be able to call them if I have problems?

**Reliability** – will the products last, will I get my car fixed in the time promised?

**Reputation** – choose a plumber with good reviews, or go with the cheapest?

**Range of products** – how much choice do I have?

**Problem solving** – will they solve my problem, or will they just sell me what they have to offer?

**Flexibility** – will the café be able to modify their menu to cater for allergies?

**Payment options** – can I pay by credit card/EFTPOS?

The benefit to you when buying is the value of the purchase less the cost of buying that product or service. To accept a higher price, you need to receive an increase in value.

### What is value?

When you want to purchase a product or service, you are trying to solve a problem. To

solve that problem you have certain requirements.

Imagine your car is now costing you too much in maintenance, so you need to buy a new car. These are the value items you might have on your shopping list:

The car must be able to fit the whole family

- It must be comfortable for family weekends away and have enough boot space

- It must have a good safety rating

- It needs to be purchased from a reputable car yard that will be able to fix any problems that occur after purchase

- It must be reliable and not need immediate repairs

- If the car yard salesman focuses on getting you a low price car, you are likely to walk away very quickly. At the other end of the scale, if the salesman wants to only show you the latest and greatest car with all the gadgets, the cost of that car is going to very quickly exceed the value you want from that car.

So when you are setting prices for your customers, consider what the problems are that you are trying to solve, and what value are you providing for your customer.

Source: *Oxygen8 Consulting*



## Managing your team effectively - 5 basics to get right at the start

**S**mall businesses, by their nature, are going to be intimate, so it's crucial to manage your team well.

Working closely together often means you'll have to share the same goals and the same frustrations ... sometimes even the same work space. Getting the basics handled early on is essential.

**1 Roles & Responsibilities** – make sure everyone's clear on who's doing what. This avoids blurring job boundaries and helps reduce conflict. It also puts an end to needless duplication.

**2 Expectations** – ensure everyone understands what's expected of them.

This can be as simple as a dress code, coffee and lunch breaks ... even down to when you have a beer or wine on a Friday.

**3 Socialising** – don't underestimate the value of setting the scene for when the team can socialise. It helps with team building and encourages the personal stuff to stay in the lunchroom rather than get in the way of work.

**4 Team Meetings** – regular team meetings are important in that they help ensure everyone is on the same page and has the same goals and objectives. It's a great way to create team buy-in.

**5 Best mates with your staff?** Sure

you can be friendly and chums with your staff. But best mates? Probably not. In some situations this has worked out well, but it's the exception to the rule. You can enjoy time with your team and have a few laughs together. But it's important everyone is clear on who's captain of the ship.

Regular interactions with your team, either one-on-one or group, is important and will ensure you have their professional respect. After all, as the business owner the buck does stop with you. Your staff need to understand that, and that it's not their money on the line.

Source: *FullFocus*

## Tax calendar

April 7 2020

Terminal tax for 2019  
(March April, May and June  
balance dates)

For all clients except  
those who have lost their  
extension of time privilege

7 May 2020

3rd instalment of 2020  
Provisional Tax  
(March balance date)  
GST for March 2020

28 May 2020

1st Instalment 2021  
Provisional Tax  
(December balance date)

31 May 2020

Deadline for Fringe  
Benefits Tax returns

# How to get your business & personal affairs sorted

**D**o you ever wonder if you've got the right things in place to safeguard your family and your business? Or whether what you've already got in place will actually do the job you want? It can be easy to put this in the 'too hard' basket ... you might not know what to do, how to do it, or who to go to for the right advice.

There are many aspects to consider and it can seem confusing. But don't wait until it becomes urgent, or it's too late. The cost of inadequate or non-existent planning could be devastating. Some might include the IRD deeming your Trust a sham; the exposure of all your assets; or a former spouse targeting your business. The list of consequences is long. Why take the risk if you can fix it now?

There are some key steps to follow to get the right things in place for your business and personal affairs:

## 1 Build a Strong Foundation

Like building a house – a shaky foundation will put everything at risk. The foundation for your structures is the same. Make sure this is strong, and you have a basis for success. Identify your personal and business objectives, and be clear on your priorities and values.

## 2 Establish Your Direction

With a firm foundation in place, you can establish your direction. You'll want to make sure that outside concerns match your direction ... rather than bending your structures to fit with outside concerns.

## 3 Assess What You Need

Identify all the things you need to put in place. These can include –

- Trust/s
- Will/s
- Power of Attorney/s
- Property relationship agreements

- Cash flow paths
- Taxation structures and levels

## 4 Form the Entities

Now you can start preparing and executing the documents. You might have to register some for tax purposes. Others will need opening minutes, declarations of trust etc.

## 5 Establish the Cash Flow Streams

Make sure your money flows through your structures in the right way. Your cashflow streams should be simple and need minimal administration. This makes them easy to follow and maintain. Sending money through the wrong channels could jeopardise the safety of your wealth. It could also put the stability of your structures at risk.

## 6 Establish the Documentation Systems

Incorrect documentation (or no documentation) will also put your structures at risk. It's critical to prepare and execute your documents in the right way. Know what documents to prepare; when to prepare them; and where to record them.

## 7 Review Your Affairs

Time moves fast. Life is busy. Circumstances change. All manner of things will occur that you cannot foresee. This is why it's imperative you review your structures regularly. Make sure they are still doing what you want them to.

This can sound overwhelming. Where do you start and who do you go to for the right advice? It helps to have someone independent alongside you who knows what they're doing and can guide you. It should be someone who is only concerned about what's in your best interests – not their own or anyone else's.



## Increases to minimum and migrant wages

From April 1st 2020 the adult minimum wage will increase from \$17.70 to \$18.90.

The starting-out and training wages will also see an increase, with this rate continuing to be 80% of the adult minimum wage.

Employers can expect a further increase to the minimum wage, with the government aiming for \$20.00 per hour from 1 April 2021.

Hiring migrant workers will also be more costly in 2020. This comes after Ian Lees Galloway, Minister for Immigration, has announced higher remuneration thresholds for both Skilled Migrant Resident Visas and Essential Skills Work Visas. The new rates apply to new applications submitted on or after February 24th 2020 only.

## Overseas businesses charging GST

Overseas businesses may elect to charge GST on all sales to New Zealand consumers. This means they won't have to treat low value goods differently from items costing more than \$1000. This election can be made provided "75% or more of total value of goods supplied to customers in New Zealand in the 12 months from the date of the election will consist of goods individually valued at \$1000 or less". If they make this election, they need to let Inland Revenue know. This can be done on the registration form or at a later date.

## Habitual buying and selling of land

Inland Revenue has observed people use various entities for purchasing their main home or taking advantage of the business premises exclusion (CB 19). They also vary the transactions so there is no pattern. The document proposes a regular pattern would be established where a person, or a group of people or entities has a regular pattern of buying, occupying and selling land. There is also concern about interpretation of "similar activities". For example, you buy a property, live in it and sell it. The next property you renovate while you are living in it and then sell it and the next property is just a bare section. It is arguable these are not similar activities. It is proposed all patterns of buying and selling land would be caught.

## Loss continuity rules

The loss continuity rules are to be changed in order to assist new businesses. Details have not yet been supplied. This new law is proposed to commence from the beginning of the 2021 income year.



# It's that time of year again

The most common **balance date – 31 March** – is rapidly approaching. Are you ready for it?

The following reminders are some of the things you should be thinking about:

Write off bad debts by balance date or you'll have to include the debts as income for the 2020 year.

If you're claiming for motor vehicle expenses on the basis of kilometre rate, don't forget to read the odometer of your vehicle at the end of the day on your balance date.

Organise stock-taking. It could be a good idea to get rid of old stock before balance date.

If you want to pay out any holiday pay or bonuses, you're allowed 63 days after balance date in which to do this and still claim a tax deduction for 2020.

If you have PIE investments, make sure you're using the correct tax rate, called Prescribed Investor Rate (PIR). If you overpay, Inland Revenue is not going to give you a refund. Look at the 2019 and 2020 tax returns and take the one

with the lower income. If the income is less than \$48,000 you should not be paying the top rate of tax on your PIE income.

To calculate how much money is owing to your business at balance date, include invoices you have raised after balance date for work done prior to balance date as well as money still owing for jobs done prior to balance date.

If your annual tax bill on income not subject to PAYE is greater than \$60,000, Inland Revenue thinks you ought to be able to complete your tax return by 7 May, if you have a 31 March balance date.

That would enable you to get the exact amount of tax you would need to pay.

However, you should do your best to estimate your income and adjust your 7 May tax payment to minimise your risk of incurring Use of Money Interest, which will start accumulating from 8 May.



**BE PREPARED**

## Winding up an ordinary company

Capital gains cannot be accessed until a company has been put into liquidation. If they are paid out early, it is usual to treat the payments as advances to the shareholders with consequential requirement for interest or fringe benefit tax. Once the special resolution winding up the company has been passed, prepare a minute for approval of the distribution of the capital profits. This becomes effective on the date it is signed. For the purposes of potential FBT on an overdrawn current account it is not back dated to the beginning of the year. You will also need a minute to approve a distribution of retained earnings to shareholders together with the related imputation credits. RWT has to be deducted and paid to Inland Revenue in the usual way. This distribution is credited with effect at the beginning of the financial year. It might be tax effective to make the distribution in the following tax year, if the income of the recipients is expected to be taxed at a lower rate. You need to do the sums if without this dividend the current account will become overdrawn in the current year. No such problem arises for a Look Through Company as this is a partnership for tax purposes

## Calculations for using your home for business

The current rate to calculate how much you can claim for using part of your home for business is \$41.70 per square metre, plus a share of mortgage interest and rates or rent.

Use of home should be calculated on the area separately identifiable as being set aside for business. Any area of the room that cannot be used for a business purpose has to be excluded.

You are entitled to use the actual costs instead of the Inland Revenue square metre rate.

## Use correct tax rate for KiwiSaver

If you pay into a KiwiSaver account, make sure you're using the correct tax rate.

Check with the company which administers your KiwiSaver account to make sure you're not on the default rate of 28%. If you are, and this is too high, you still will not get your overpayment back.

At the present time, the Government is still planning to defer changing the law for a further year. It's very unfair and it probably isn't necessary to defer the change, but that's the way it goes.

When they do change the law, they are proposing to credit your tax account with the overpayment rather than send out the money to you.

In the long run, you will get it back, but not this year.

# Think about the intangible assets of your business

The intangible component of the value of your business could be very significant. Business sales data (BIZSTATSTM) indicates that, on average, close to 60% of the sales price of SME's is intangible value. However, this varies enormously from business to business (literally from 0% to 100%!).

In 2000 Exxon Mobil, Merck, General Electric, Citigroup and Wal-Mart were the largest US listed companies. All with very significant tangible assets. Today Apple, Amazon, Microsoft, Google and Facebook have taken their place with massive amounts of their value held in intangible assets.

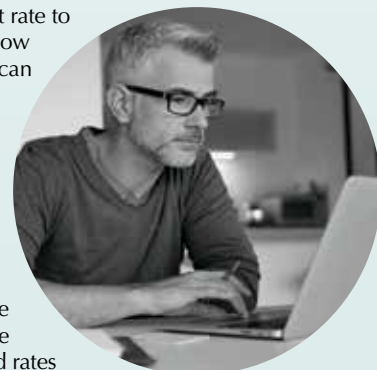
A useful definition of the value of intangible assets in SME's is; the difference between the value of the business (determined by market and earnings-based valuation methods) and the value of the tangible assets of the business. Therefore, investing in more plant, equipment or stock doesn't necessarily increase the value of your business. There also needs to be a corresponding increase in earnings, or at least an expectation thereof.

With increased emphasis on intangible asset value, it has become more common for buyers to question what it is that is supporting this value. Intangible assets can include rights, licenses and benefits owned by the business and may extend to supplier and customer contracts, leases (one of the most important tangible assets for retail businesses), franchise agreements, trained employees, communications (phone, 0800,

email addresses etc.), intellectual property, including patents, trademarks, copyrights, software, registered designs, trade names, domain names, symbols, logos and trade secrets. Goodwill is regarded as another intangible asset and is sometimes thought of as the reputation and relationships with public, customers, suppliers and staff, but, is also the assurance to a buyer that comes with a historical track record of profitable trading.

So, when considering the sale of your business, careful consideration should be given to what intangible assets the business owns, if/how these can be secured with contracts or registration and if/ how they can be transferred to the buyer of your business.

Source: Tim McLaren



# Employment Court examines employee commissions and holiday pay

The Employment Court has recently given new clarity to a previously untested area of the Holidays Act. In *Tourism Holdings Limited v A Labour Inspector of the Ministry of Business, Innovation and Employment* [2019] NZEmpC 87, the Employment Court considered how the definition of ordinary weekly pay requires an employer to treat commissions when calculating holiday pay.

Under the Holidays Act, when an employee takes a paid annual holiday they are entitled to be paid the greater of their:

- Ordinary weekly pay; or
- Average weekly earnings for the previous 12 months (starting from their last pay period).

Ordinary weekly pay includes productivity or incentive based payments (such as commission) which are a "regular part of the employee's pay". This case was mainly concerned with these words - "regular part of the employee's pay".

Tourism Holdings employs bus drivers, who earn commission on the sale of activities they book for passengers. The dispute between the Labour Inspector and Tourism Holdings concerned whether commissions earned in this manner should be considered a 'regular part' of the drivers' pay for an ordinary working week. If they are a 'regular part' of the driver's pay, they are required to be included when

calculating holiday pay.

Tourism Holdings argued that commissions earned by drivers was excluded from the statutory definition of 'ordinary weekly pay', as it was not earned weekly, but at irregular intervals measured by the length of each trip and subsequent reconciliation.

The Labour Inspector argued that:

- The drivers are 'regularly' paid commissions earned on trips;
- That no period of time is expressly given in the Holidays Act against which the regularity of commission payments can be measured; and
- That Parliamentary intention, and a 'balanced and harmonious approach to the formula' was a period of at least 4 weeks when considering commissions earned.

The Employment Court held that in light of the wording of the statute and its purpose, the intended meaning of 'regular' within the Act is what is received under the employment agreement for an ordinary working week. Tourism Holdings' drivers commonly received pay including commission, but that was earned over varying intervals of time and required reconciliation after each trip (which could extend well beyond a week), and as such did not constitute the 'regular' type of payment contemplated by the Act.

*Duncan Cotterill*

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