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*"In the middle of difficulty lies opportunity."*

*Albert Einstein*

## What can businesses do to continue to survive?

### • Understand and Manage Cash Flow

"Cash is King" is the oft repeated refrain heard today and it's true. Keeping cash flowing is critical to a business's continued survival and sufficient resource and time should be allocated to cash flow management.

### • Forecasting

Cash flow and profit and loss forecasts should be modelled and actual v budget variances analysed. Sensitivity analysis of the forecasts and modelling of "what if" scenarios should be undertaken. Businesses need to remember that a projected statement of financial position will provide the check that the model works. Underlying assumptions need to be reviewed and changed if necessary.

### • Risk Management

Potential areas of risk for a business should be identified and policies/procedures put in place for managing identified risks. "SWOT" (Strengths, Weaknesses, Opportunities, Threats) analysis can be a useful exercise.

### • Advice

Use of independent advisers (such as a Chartered Accountant) is important to gain perspective in relation to problems a business may be experiencing. Keeping up to date with local and international economic news and market movements can be useful.

*Source: Meltzer Mason Heath*

## Implications for businesses as GST rate rise looms

As announced in the budget on 20 May 2010, the Government will increase GST to 15% from 1 October 2010. Start thinking about the repercussions for your business:

If you are a retailer, are you are going to re-price all stock? What will your competitors do? Will your customers be willing to pay a higher price if your competitor down the road sells the same item at the old price?

What about prices stated in advertisements? Are your accounting systems ready? Can you easily switch to the 15% rate when charging or invoicing? This is something that your software adviser will be able to advise on or provide an update for.

Think about the cut-off. Retail customers are going to want to be billed using the 12.5% rate where possible. This will apply particularly in the housing industry, where the amounts of money are large. How about cashflow? You are going to be paying more for your goods and the money owing to you (debtors) is going to be larger. You are going to need to fund this.

When the last GST increase occurred there was a rush to buy goods by 30 September and an unpleasant lull following the

introduction of the new GST rate. What can you do, if anything, to combat this? Is it worth promoting your firm as holding GST at 12.5% until Christmas? You would be giving away a 2.22% discount.

There will be some cross-over problems. For example issuing a credit note at the 12.5% rate after 30 September for goods purchased prior to 30 September. Can your system cope with two GST rates at once?

What if you provide financial services? You are not going to be able to pass on the costs. This will affect your pricing.

A client once told us "One of the implications for us, is that we have many regular advertisers who pay regularly through automatic payments. They get a discount for this, as it saves a lot of time chasing them for payment, and they have a commitment to advertise for a year. When the GST rise comes through, we will need to redo all the automatic payments to avoid being out of pocket 2.5%, or we might just wear the cost."

If you are on a payments basis, you will need to make an adjustment for bills sent out before the change-over date. They will have 12.5% GST in them. You will need to be careful you don't find yourself paying 15% GST to the IRD when that money comes in. Those on an invoice basis will, generally, have no such problem.

Start planning now for an increase to 15% GST effective 1 October 2010.



## Top eleven reasons why you should talk to your accountant NOW

- To identify strengths and weaknesses in your business.
- To analyse the financial impact of decisions before making them.
- To get a health check of current and future financial position.
- To look for ways to improve cash flow and bottom line profitability.
- To predict possible tax liabilities before the end of the financial year.
- To plot the future direction of your business in a manner that can be effectively monitored.
- To create projections, discovering solutions and averting possible disasters.
- To determine whether the next \$100 of sales have a positive or negative cash flow effect.
- To improve your financial literacy skills and help you to make better business decisions.
- To understand how accountants, banks and other businesses measure performance.
- See your accountant for advice, tips and ideas on how to go forward.

## Measuring business performance with KPI's

These days you need more than a set of financials to accurately measure business performance.

Today business owners and financiers are demanding more effective performance measuring systems that will not only enhance their performance levels, but also give them that all important competitive edge.

The traditional statement of financial performance, statement of assets and liabilities, and so on, is great for providing the financial information.

But what they don't do is link operational performance to the business's strategic objectives.

Performance needs to be judged against objective criteria.

This is where KPI's come in - Key Performance Indicators. KPI's are those critical measures which ultimately determine profitability and shareholder value.

KPI's are essentially a method of measuring business objectives against performance.

They tell businesses, amongst other things:

- How well they provide services
- How long they take to process customer requests
- Their product delivery performance

- How much time they spend fixing mistakes.

Investors are demanding to know that management strategies are creating value and business people need the appropriate tools to accurately measure performance in the critical areas of profitability and return on net assets.

The financials alone are not enough to effectively manage businesses that are seeking to survive and add shareholder and owner value.

KPI's are a way to broaden what businesses measure.

Most small businesses would benefit from improving performance measurement standards, and while there are different views on how this should be achieved, one point is clear.

No single measure can provide a clear picture of a business.

The complexity of managing a business today requires managers to be able to view performance in several areas.

Understanding Key Performance Indicators will greatly assist in finding out the financial health of your business, identify the critical strengths and weaknesses and evaluate the impact of future business strategies.

## Business action tips

### Sales Reps

Make the calls, the only way to sell is to get face to face and negotiate. Emails, and texts and phone calls are no substitute for face to face.

Selling is helping the buyer make informed buying decisions, so focus on the decision the buyer needs to make, understand it and help the buyer make it. Buyers need benefits, budgets are broken by benefits, focus on the benefits message when explaining your products or services.

Ask for the decision, after your planned sales presentation and follow up every time, don't be reactive be proactive and ask for the time the decision will be made, and ask for the result.

Remind the buyer what the problems is they have, and what the effect on their business is if they don't fix it now!

### Customer Service:

Give your team daily items to sell, specials that change, products to feature in conversation that change every day or weekly. Create a list of suggestion lines to add to offers or bundle together to add value.

Praise the wins, praise the successes, praise the challenges, remind the team of the wins and they get repeated.

Get your phone going by ringing customers with offers about your products? Say thank you for every sale in person, by text and by email.

### Sales Managers

Get out and do the calls with your sales team, make sure 80% of your time is spent on the calls with reps.

Make your sales meeting positive by reminding the team of customers, products, calls completed. Get participation from everyone.

### Implement 'Yes We Can'!

Spend your time with your winners - those reps that have the right plans to get the sales and ignore the problem reps until they listen and perform. Reward good behaviour with your time.

### Marketing

Create 21 reasons for doing business with you and send them to all your clients, suppliers and keep on your website.

Focus on the speed of replies to requests for quotes, emails, phone queries and review your hours of operation for customer suitability.

Source : Geewiz News

# Further changes to personal income tax rates

## What is changing?

- All personal income tax rates will be cut from 1 October 2010 as shown in the table below.

## Comparison of old and new income tax rates

Income	Current Rates	New Rates
\$0 - \$14,000	12.5%	10.5%
\$14,001 - \$48,000	21.0%	17.5%
\$48,001 - \$70,000	33.0%	30.0%
Over \$70,000	38.0%	33.0%

- Secondary tax and resident withholding tax rates will be reduced from 1 October 2010, to align with the new personal tax rates.

Please contact your accountant if you wish to discuss the impact these changes could have on you.

# Manage the office work load

A small administrative staff, when asked to collect additional information for you, may be unable to do so because they don't have time.

Ask them to keep time records for a couple of weeks detailing the work they do and the time each task takes. They need to account for all their working hours.

You will often find them doing some work which has little value.

A small manufacturer who was costing all the jobs after they were completed never did anything with the information. You might find work being done which could be handled more efficiently or even eliminated.

Analyse the information you get from time records and, hopefully, make changes to reduce the office work load. Then you will be able to gather the information you want.

# Finding your competitive edge

- Do your customers know exactly what you do and how you do it?
- Do you go that extra mile for your customers?
- Are you doing something different from your competitors that should be known by your customers?
- Are there any other differences in what you do that stands out from others in your industry?
- What are the strengths and weaknesses of your business and those of your competitors?
- Are there any strengths that you have over your competitors?
- How experienced is your team? Do they have a particular expertise?
- How good is your quality control?
- How well do you treat your employees or suppliers?

Chances are you've already found your competitive edge.

If not, think about what opportunities are now available to your business to create a point of difference.

*"Action speaks louder than words but not nearly as often."*

Mark Twain

# Budget fact sheet

## Company Tax Cut

- The Company tax rate will fall from 30 per cent to 28 per cent from the 2011/12 income year. For most companies, this will apply from 1 April 2011.
- The Government will allow dividends issued after the new company rate takes effect to be imputed at the existing 30 per cent rate for two years if company tax has been paid at the 30 per cent rate.

## Depreciation Loading

- Businesses will no longer be able to claim 20 per cent accelerated depreciation on new plant and equipment.
- This change will apply to assets purchased after Budget day (20 May 2010). The old rules will continue to apply for assets purchased before this date.

## Building Depreciation

- Depreciation deductions will no longer be allowed for buildings with an estimated useful life of 50 years or more, such as rental houses and offices.
- Owners of the buildings with an estimated useful life of less than 50 years might be able to obtain the IRD's consent to depreciate such buildings.
- These rules will change for all such buildings from the 2011/12 income year. For most businesses they will be effective from 1 April 2011.

## LAQC & QC Changes

These changes will affect everybody who is a shareholder of a qualifying company (QC) or a loss attributing qualifying company (LAQC)

- QC's and LAQC's will become flow-through entities for tax purposes - similar to Limited Partnerships. The main change is that profits as well as losses will be attributed to shareholders. This change aims to prevent shareholders choosing to leave profits in LAQC/QC company's to be taxed at the lower company tax rate while electing to distribute losses to be deducted at the marginal personal tax rates.
- The allocation of QC/LAQC profits and losses to shareholders will be based on the shareholder's "effective interest" in the company (usually the number of shares held).
- A shareholder of a QC/LAQC will only be able to offset allocated losses to the extent of their investment in the company (this would include the share of any debt personally guaranteed by the shareholder).
- Changes will take effect from income years starting on or after 1 April 2011. Legislation implementing these changes will be enacted later this year. It is crucial to reassess your position prior to the changes coming into force - is a QC/LAQC still the best (most effective) option for you to go forward? Should you consider electing out of the regime or review your shareholding interest in the company? Please make sure you discuss this with your accountant to ensure that you are not adversely affected by the changes to the QC/LAQC regime.

# What characteristics make up a good salesperson?

*What makes them stars? They come in all shapes and sizes, ages, backgrounds, and genders.*

*We have identified certain characteristics that are common to most of them:*

- *Enthusiasm - is contagious (and nice to work alongside) and top performers believe and understand that owning your own business is the best investment.*
- *Empathy - a willingness to listen and really understand the dreams and desires of both sellers and buyers.*
- *Energy - hard work does not guarantee success, but certainly won't prevent it.*
- *Ego - the inner drive to be the best they can be, producing results, respected by their peers.*
- *Persistence - not all businesses sell, not all buyers buy, but top salespeople continue doing the basics consistently and persistently.*
- *Integrity - this is non-negotiable, and is essential for a long career.*

Source : *Clyth Macleod Ltd*

# Are you using 2011 tax tables for PAYE?

Reminder: The rates for tax deductions changed at 1 April 2010. Inland Revenue expects you to get the new tax rates off the internet.

You can also get the new tables by ringing the IRD and asking them to send the tables to you.



## Can't pay tax on time?

If you cannot pay your tax on time, you can arrange for payment in instalments. Set up these arrangements with the IRD before the due date for tax. Note the following:

- It is better to consult us before approaching the IRD. We will aim to get an arrangement you can live with.
- Use of Money Interest will be charged. At the time of writing, the rate was 9.73%.
- A special arrangement to pay tax is not ongoing. It is specific to the instalment you have been unable to pay. Some clients think, so long as they keep paying the instalments, everything will be ok. This is not the case. The IRD will charge you penalties if you fail to pay on time, taxes which are not subject to the arrangement.
- Never renege on your agreement. If you can't stick to it, consult us and we may be able to vary the arrangement.

For larger provisional tax debts, we can put you in touch with a firm which provides medium term loans so your tax is paid on time. The interest you will have to pay is significantly less than you would pay IRD.

NZ CA



An Association of Independent Chartered Accountants

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