

Business Matters

News & Information from MR Curd Limited

4th Quarter 2007



M R CURD LTD

CHARTERED
ACCOUNTANTS

KiwiSaver for the self-employed

Those who are self-employed, operate as sole-traders or independent contractors generally do not pay themselves a salary or wage through the PAYE system, and therefore not considered an employee for KiwiSaver purposes.

Despite this membership is still possible. Where an individual is self employed they can simply choose a scheme provider and apply directly. The choice of the fund, the frequency and the amount of the contribution is decided based on individual circumstances.

Self employed individuals are considered to be an employee for KiwiSaver purposes, and have contributions deducted from their pay at the rate of 4% or 8% under certain circumstances. These include:

- Where a business is operated through a trust or a company, and the individual is paid a salary or wage from which PAYE is deducted, or
- The business is a partnership, and the working partners receive a salary or wage for services provided under a written contract of service.

The government will help self employed individuals providing for their own financial future. As a result, self employed individuals retain benefits otherwise provided to employees under KiwiSaver.

KiwiSaver members are eligible for a \$1,000 kick-start payment and a contribution from the Government to KiwiSaver through an annual tax credit of up to \$20 per week (approximately \$1,040 per annum).

In addition, the Government will also make a yearly contribution of \$40 to subsidise scheme fees. This subsidy will be paid directly to the scheme account until members are eligible to access savings. Savings are held until the age of eligibility for New Zealand Superannuation (currently 65), or after five years membership, whichever is later. Some exceptions do exist, for example, for significant financial hardship, serious illness, death or permanent emigration.

There are some other benefits associated with KiwiSaver, including being able to have contributions put towards paying a mortgage on a residential property. This option is not available with all scheme providers, so choice of scheme may be important.

Because arrangements and decision for tax, PAYE, and finance have implications for your KiwiSaver scheme it is advisable to obtain professional advice that take into consideration each individuals circumstances.

If you are unclear or if you have concerns about your employment status and how it may impact your KiwiSaver options please call our office.

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Business Growth
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Primary Sector
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KEEPING YOU ON THE RIGHT TRACK

We can help your business and your personal finances stay on the right track.
Call us now and we'll arrange a meeting to discuss:

- Strategies to help your business improve its efficiency and profitability
- Reducing the burden of taxes on your business
- The tax issues that affect you and your family
- Maximising your wealth
- Retirement planning strategies for you and other family members

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Working with family and friends

One of the greatest complaints small employers have is how difficult it is to find good employees. But there's one place they often fail to search for new job applicants – the families and friends of their best employees. After all, current employees who have great work attitudes probably have brothers and sisters with great work attitudes too.

Before rushing headlong into hiring family or friends, consider the ups and downs.

Advantages

Family members and close friends often come into a business with a strong commitment to the company, more so than the average employee.

Friends and family often think of the company as an extension of the relationship. They may be more flexible and more willing to work when needed, anticipating that they will personally benefit from the long-term success of the company.

Often you know family and friends well, and are familiar with their capabilities and shortcomings. This may enable you to place them in just the right position. Also, your familiarity may allow you to train them more quickly than other new employees.

Disadvantages

A relative may take advantage of family status, knowing that it's hard to fire them when you're going to be sitting down at the dinner table with them at night.

Other employees may see the hiring as nepotism, especially if the family member is given preferential treatment, or given a

position without having the appropriate experience or training.

Family problems can be brought into the workplace. It's one thing to have a family disagreement at night and be able to leave it at home when going to work in the morning. But it is entirely different when you're facing the same person at work. The strain may affect the entire business.

Managing the mix

Hiring friends and relatives is tricky. If not handled well, it can sour the work environment. But hiring friends and family can have great benefits, as long as you proceed carefully:

Business is not a charity. Don't hire someone's relative just because they "need" a job. If someone has trouble holding down a job, you don't want them either.

Write a detailed job description. Make it clear that if the relative or friend doesn't perform as expected, he or she will have to go. Hire on a probationary basis, establishing a two-week or month-long period to see how things work out.

The right "stuff". Ask specific, detailed questions about their qualifications before you agree to interview them. People rarely see their own relatives clearly. They're likely to make comments such as "He's a great guy" or "She's so smart." That doesn't tell you if they've had relevant work experience or training. While you want to hire people with the right attitude, leave yourself a way out: "I'm not sure Chris has the right computer skills we need."

Don't have too many chiefs. It is advisable not to have relatives or friends reporting to one another, or working too closely



together. It's one thing to have siblings work for the same company in different areas, but if they work together on the same project, you're likely to see family or friendship patterns emerge.

The trouble with spouses. Spouses or domestic partners working together can present a number of difficulties. There are logistical issues: holidays or family emergencies may leave you doubly short-handed. And behavioural issues: a terrific, eager worker may change dramatically with a spouse around. The dynamics of a couple's relationship is stronger - and usually more emotive - than an employer/employee relationship.

Cruel to be kind. Be toughest on your own relatives. Before you hire a relative, make it clear to them that they are going to have to prove themselves, and they will be held to the highest standards.

Never play favorites. Make sure all the rules apply to all employees. Everyone has to be qualified and they have to do their jobs well. Otherwise, they're not hired.

Changes for the Companies Act 1993

The Companies Amendment Act 2006 comes into effect on 1 November 2007. The new legislation serves to make several amendments to the existing Companies Act 1993. A summary of those changes are as follows:

The Act introduces voluntary administration as a new business reorganisation option for companies.

Voluntary administration provides an alternative to liquidation for companies

in financial distress. It is intended to be a short-term measure that freezes the company's financial position while the administrator and the creditors determine the company's future.

These changes bring the legislation in line with that already existing in Australia.

The Act also serves to tighten existing liquidator reporting obligations. A liquidator will no longer be exempted from filing reports with the Registrar of Companies if the dividend to unsecured creditors is not likely to exceed 20 cents in the dollar.

The new legislation also provides measures to prevent abuse by directors of failed companies through phoenix company arrangements. A phoenix company is a company that carries on business using the name of a failed company or a name that is similar to the name of a failed company.

If you have any questions regarding how the changes to the Companies Amendment Act 2006 may affect you, please contact our office.

A simple review of break-even point

A person starting a new business often finds themselves asking “What level of sales are needed for my business to make a profit?” Established companies often find themselves asking the same question – many times a little too late.

Break-even point or break-even analysis is based on the relationship between expenses and revenues. It is fundamental to understand how expenses will change as sales increase or decrease. Some expenses

increase as sales increase. On the other hand, some expenses will not change as sales increase or decrease:

Variable expenses

Variable expenses increase when sales increase. They also decrease when sales decrease. These expenses include items such as cost of goods sold, or some wages.

Fixed expenses.

Fixed expenses remain the same when sales change. These expenses include items such as rent and administration.

Consider the basic Profit and Loss Statement shown in Example 1. The business with sales of \$750 000 has not made a profit, but it has just reached break-even point.

Calculating break even point

The basic formula for calculating break even point sales revenue is:

FC (fixed costs) divided by the gross profit percentage (or contribution margin). In the example, \$450 000 divided by 60% gives a break even sales level of \$750 000. That's the level of sales required to break even.

Targeting Profit

Break even analysis can be used to calculate the level of sales that are required to reach a desired profit. In order to do this, the desired profit is simply added to the fixed cost.

In Example 2, a profit of \$100 000 is targeted. The calculation for required sales is fixed cost plus profit, all divided by 60%. In this case, that would be \$550 000 (\$450 000 + \$100 000) divided by 60%, giving a required sales of \$916 667.

	Example 1	% of sales	Example 2
Sales	\$750 000	100%	\$916 667
less Variable expenses (cost of goods)	\$300 000	40%	\$366 667
Gross profit or contribution margin	\$450 000	60%	
less Fixed expenses	\$450 000		\$450 000
Profit	\$0	0%	\$100 000

Keep an eye on your cash flow

Every business owner wants to make more money. But surviving in business is not only about how much money you make, but when you make it and when you spend it. In other words, “cash flow.”

If cash flow is out of control so is your business.

To keep cash flow problems from turning into a tidal wave that drowns your business, you have to plan:

1. Understand the impact of timing. All businesses have to pay money out before being paid by customers. In a services business this may be minor: expenses such as marketing materials and basic administrative costs, rent, your website and some travel. Clients will still normally pay well after you have outlayed for these items.

For manufacturers or wholesalers, things are much worse. In these businesses money is usually outlayed to pay for costs of manufacture or inventory. That's in addition to the normal administrative costs and rent.

2. Prepare a cash flow projection. Even if you don't create an annual budget, sketch out when you expect money to come in and

when you need money to go out. Take into account any seasonal variations that may effect your business.

3. Watch your inventory. Inventory is just money sitting around in a different form. Whether it's marketing brochures or a warehouse full of books, inventory costs you. The drain of having your cash tied up often counteracts the benefit of the lower cost of buying in bulk. So aim for just-in-time inventory management to keep your cash liquid.

4. Understand the impact of purchasing assets. If you purchase fixed assets from revenue, you may find yourself at year end with a profit and no money to pay your tax obligations tied up in assets.

5. Manage growth. You may want your business to get bigger, but growth costs money. This isn't just a matter of increased marketing expenses; it can also include things like additional expenses to produce new goods, hire employees, expand facilities, add equipment, and buy supplies. Typically, the bulk of these costs come BEFORE you've received sufficient income to pay for them.

6. Consider a line of credit or overdraft. A line of credit differs from a term loan. A term loan is for a specific amount of

money, a specific amount of time, often for a specific purpose. A credit line is more like a credit card. You can take money out when you need it and pay either all or some back every month. Credit lines need to be managed with a cashflow plan.

7. Prepare for a rainy day. Every business has income fluctuations. By starting to look for annual income and spending patterns, you have a better idea of when you'll need cash. So build up your financial reserves in your high-income months to prepare for the lean months. The best way to have cash when you need it is to put some away when you've got it.



WEB WATCH

ESSENTIAL SITES FOR BUSINESS OWNERS

Asia New Zealand www.asianz.org.nz

Asia New Zealand website, offers resources, links and information about Asian and Asian & NZ affairs. The non-profit organisation works for mutual understanding between NZ and Asian neighbours.

New Zealand Company Office www.companies.govt.nz

The Companies Office is the government agency responsible for the administration of corporate body registers, including the Companies Register. The website includes information and details about legislative changes that affect those operating a company.

Commerce Commission <http://www.comcom.govt.nz>

The Commerce Commission enforces legislation that promotes competition in New Zealand markets and prohibits misleading and deceptive conduct by traders.

Further rise in FBT rate for low-interest loans

The prescribed rate used to calculate fringe benefit tax on low-interest, employment-related loans has risen to 10.37%, up from the 9.79% rate announced for the preceding quarter.

The revised rate applies from 1 October 2007.

REMINDERS FOR YOUR DIARY

OCTOBER

- 23 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR348) due.*
- 29 GST return and payment due.

NOVEMBER

- 7 Provisional tax instalments due for people and organisations with a March balance due.
- 20 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR348) due.*
- 28 GST return and payment due.

DECEMBER

- 20 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR348) due.*

JANUARY

- 15 GST return and payment due.
- 21 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR348) due.*
- 28 GST return and payment due.

FEBRUARY

- 7 End of year income tax due
- 20 Employer deductions (IR 345) or (IR 346) form and payment due and Employer monthly schedule (IR348) due.*
- 28 GST return and payment due.

*Note: This calendar shows due dates for small employers only - less than \$100 000 PAYE and SSCWT deductions per annum.

A Great Read

Customers For Life: How To Turn That One-Time Buyer Into a Lifetime Customer

Author: Carl Sewell

In this completely revised and updated edition, Sewell enhances his time-tested advice with fresh ideas and new examples and explains how the ground breaking "Ten Commandments of Customer Service" apply to today's world.

Drawing on his success in transforming his motor vehicle dealership into the second largest in the US, Sewell reveals the secret of getting customers to return again and again in the original Customers for Life. A lively, down-to-earth narrative, sets the standard for customer service excellence has become a perennial best-seller.

Sewell focuses on the expectations and demands of contemporary consumers and employees, showing that businesses can remain committed to quality service in the fast-paced new millennium by sticking to his time-proven approach: Figure out what customers want and make sure they get it. His "Ten Commandants" provide the essential guidelines, including:

- Underpromise, overdeliver: Never disappoint your customers by charging them more than they planned. Always beat your estimate or throw in an extra service free of charge
- No complaints? Something's wrong: If you never ask your customers what else they want, how are you going to give it to them?
- Measure everything: Telling your employees to do their best won't work if you don't know how they can improve
- Borrow ideas from others: Sewell, for example, learned about hospitality from Japanese culture, cleanliness from Disney, and politeness from his mother.

The recent edition is an expanded version of the original. A great thought provoker for any business owner or manager.

Business and personal planning need not be left until the end of the tax year - talk to us now about tax and financial strategies for you and your business.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.