

A word from the boss

We have changed the format of our newsletter and hope that you find this useful and readable.

Business development has become a major part of our work and having Jeremy Campbell on board has given a strong impetus to this growth. We will be looking to grow this part of our business in the next few months.

BUSINESS PLANNING AND THE IMPORTANCE OF STRATEGIC THINKING

As the vast majority of small and medium business owners can attest, having the initial vision is the easy part. The decision to go into business often begins with a grand plan to do what you love or be your own boss but can quickly become a source of high stress and even higher hours as the realities of running a business set-in.

When this happens it is common for people to become so immersed in day to day issues that the initial vision is put to one side or completely forgotten. While this is a necessary and often rewarding part of going it on your own it is still important to take time to outline who you are, what you are doing and where you are going. This exercise is known as business planning and is all too often performed only at the start-up stage to convince the bank manager to support the business, if in fact, it is done at all.

The Advantages of Business Planning

A well thought out business plan will guide you on all aspects of your business. Even if your business plan isn't referred to daily the very act of taking time out on a regular basis to consider where you have been and where you are going will be hugely beneficial.

The main benefit of business planning is to provide a clear outline of what is required for your business to succeed. Having a clear picture of where you are heading (this is sometimes called a picture of success) will allow you to build the business in a planned and controlled manner rather than by reacting to every opportunity that comes your way.

Once you know where you are heading and what success looks like you can then start working on the other layers that are necessary for success. This will include a consideration of the key aspects of the business such as marketing, sales, production, finances and resourcing.

Some Tips

- Go out of the office and away from the phone. You will be surprised how quickly you can come up with great ideas with all of your daily distractions removed for a while.
- There are no bad ideas when you are brainstorming. Often really great ideas come out of really bad ones. You are better to include all possibilities while you are brainstorming and then cull the bad ones once the initial ideas have run dry.
- Critique ideas and not people. When it is time to cull some of the bad ideas be prepared to let go of ideas that just aren't going to work and more importantly be sure you stick to critiquing the ideas themselves and not the people who came up with them.
- Don't get stuck on detail at this stage. It is important that you don't let details slow you down while you are thinking big picture. Sometimes our perceived constraints can prevent us from exploring really good opportunities.
- Get an independent eye. Often when you are stuck in the day to day it is hard to see the wood from the trees. Don't be afraid to discuss ideas with someone who is not involved in the day to day running of your business as their fresh approach can really help you to take a fresh approach of your own.

SOME GST REMINDERS

As accounting for GST is an important function of most businesses we would like to remind you of some common things to watch out for

Trading with non-GST registered parties

Often in the course of business, it becomes necessary to obtain goods or services from parties who are not registered for GST. There is no problem with this as long as you do not claim GST on the transaction. The reason for this is if the party you are purchasing a good or service from is not registered for GST then you have not paid GST on the transaction. Therefore you can not claim GST on your expenditure.

Compliant Tax Invoices

For supplies of more than \$1,000 (including GST), a tax invoice must clearly show:

- the words "tax invoice" in a prominent place
- the name and registration number of the supplier
- the name and address of the recipient
- the date the tax invoice is being issued
- a description of the goods or services supplied
- the quantity or volume of the goods and services supplied and either:
 - the total amount of tax charged, the consideration excluding tax and the consideration inclusive of tax, or
 - the consideration for the supply and a statement that includes the tax charge.

For supplies between \$50 and \$1,000, a simplified tax invoice is acceptable. It must clearly show:

- the words "tax invoice" in a prominent place
- the name and GST number of the supplier
- the date the tax invoice was issued
- a description of the goods and/or services supplied
- the total amount payable for the supply and a statement that GST is included.

If you do not have a compliant tax invoice then you cannot claim GST. A common error is to claim GST based on either an eftpos confirmation receipt or a credit card statement. Neither matches the criteria above and therefore neither can be relied on to support a claim. An exception to this rule is for supplies less than \$50. You do not need a tax

invoice for supplies of \$50 or less (including GST) however some record of these transactions should still be kept.

Purchasing Second Hand Goods from non-GST registered Parties

With the prevalence of Trade Me and other 'pre-loved' markets it is useful to know the GST treatment of goods purchased second hand from non-GST registered parties.

Second hand goods are basically goods that have been previously used. Purchases of second hand goods from an unregistered party can be claimed on your GST return providing you keep a record of the name and address of the supplier, the date of purchase, a description of the goods, the quantity of the goods and the price paid.

The reason for this is that it is deemed that the previous owner has paid GST when the goods were purchased but was unable to claim the credit.

A TRUE STORY (APPARENTLY)

We read this 'true' story recently and felt it was far too good to not pass on.

"The pilot of an Air Canada Jazz flight from Ottawa to Winnipeg stepped out 20 minutes from Winnipeg to go to the restroom. When he finished, he found he was locked out of the cockpit and couldn't get back in to land the plane. Passengers watched as the captain banged on the cockpit door for 10 minutes, but apparently neither the first officer nor the flight attendant in the cockpit with him could get the door open. The pilot finally took the door off its hinges in time to land the plane. Air Canada admitted the incident did occur, but said that a pilot lockout is a "non-reportable incident" that doesn't have to be reported to Transport Canada."

No further comment required!!

CLIENT ENTERTAINMENT

Now that our Manawatu Turbos are back in the rugby big time where they belong, some local businesses will be tempted to invest in season passes for either client entertainment or staff rewards. This scenario creates several tax implications.

Client Entertainment

If the purpose of the season passes is to take clients or suppliers along to the big game then this is classified as entertainment.

Entertainment expenses must be incurred for business purposes before they can be deducted from income. In this case the expense is incurred hosting a client who will potentially generate or has already generated income for your business and therefore the entertainment has a business purpose.

In this specific example, the entertainment is for an existing or prospective client (or supplier) making the expenditure 50% deductible.

Staff rewards and Fringe Benefit Tax (FBT)

The other alternative is for a pass to be shared amongst staff as a form of reward or as a morale building exercise. In this case as the employee 'can choose when to receive or use the benefit' and 'does not consume or enjoy the benefit in the course of employment or as a necessary consequence of their employment duties', the expenditure is subject to FBT.

The expense is fully deductible for income tax but FBT must be calculated. FBT is charged on the total taxable value of the benefits provided and attracts a rate of 64% although there is a quarterly exemption of \$200 per quarter per employee and an exemption of \$15,000 for employers for the current and 3 previous quarters. Given the value of season passes is around \$75 for the season, as long as there are no other benefits to employees, the expenditure would be exempt.

If you are in a situation where you are unsure whether expenditure should be classified as entertainment, a fringe benefit or neither then please don't hesitate to give us a call. And finally, don't forget there are GST implications to all of this, but that is another article in itself.

STAFF UPDATE

There are several pieces of staff news to report.



Jeremy Campbell has joined us from Wellington. Jeremy has a background in business planning, analysis and management reporting. He has worked in both the forestry and local government sectors. Jeremy was schooled at PNBHS and Massey University and is really enjoying his return to friends and family in Palmerston North.



Stuart and his wife Marama had a second little boy on the 19th of September. Logan is doing well and his proud parents and even prouder older brother Liam are really enjoying the addition to the family.

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