

Welcome...

WELCOME TO our first newsletter for 2016.

This issue comes to you at a time when many businesses are setting budgets and establishing business plans for the financial year ahead.



I encourage you to sit back and take stock of your business and consider what you would like to achieve over the coming financial year/s. I also recommend that you prepare a budget for the forthcoming trading year as this can help you focus on, and more actively manage your business.

Coupled with the above, I suggest that you also take the opportunity to stand back and have a good look at not only what you've created in your business but how you operate it.

In simple terms: Are you working IN your business; or working ON it?

To assist your business planning process I include an article on calculating a business's gross profit percentage and breakeven point and how these numbers can be useful in controlling your business.

As usual at this time of the year, shortly we will be posting out our annual questionnaires ready for your completion, so be on the lookout for them. The article on this front page is a good guideline as to a number of matters to be aware of.

As always, if there is anything in the newsletter you would like more information on, please feel free to give me a call.

Ross Engert
Simmonds Ball Engert Ltd

 **Simmonds Ball Engert**
ACCOUNTANTS

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newsletter



GST on the way for offshore web purchases

YOU'LL SOON be paying GST on purchases you make online from overseas companies.

Many overseas companies have agreed to co-operate with the New Zealand Government and charge their customers GST, provided the system is kept simple.

These companies will collect GST and remit to our IRD. Australia is also looking at creating a register of offshore sellers.

Offshore sellers will be able to recognise their New Zealand customers in various ways such as their IP addresses, credit card

BINs and phone numbers. Tax collection will start from 1 October 2016.

If the overseas supplier is selling only to New Zealand businesses (which are registered for GST) there will be no need to register for GST. Overseas suppliers will not need to issue tax invoices.

If a New Zealand business is charged GST by mistake and the amount is less than \$1000, the supplier may issue a tax invoice so the New Zealand customer can claim the

continued on page 3

Checklist for annual accounts

MAKE A CHECKLIST of the things you need to do to streamline your annual accounts. Here are some suggestions to start you off:

- Answer all questions in our questionnaire;
- Make sure you have everything asked for in the questionnaire;

- Sign the completed questionnaire;
- Arrange for a stocktake if needed;
- Count cash in the tills and petty cash at the end of the last working day;
- Work out money you have earned and not been paid as at the end of the financial year. If it's earned

but not invoiced, it must still be counted;

- Work out money you owe your creditors at balance date; and
- If you have a high income (more than \$179,030 after deducting expenses) make sure you've paid enough tax.

• In Brief

Tax on holiday pay

USE THE extra pay tables to get holiday pay correct:

- If the employee is leaving unless the holiday forms part of the 8% of gross earnings – see below;
- If you are paying a lump sum holiday pay payment in advance;
- For cashed-up annual leave.

Use ordinary tables and spread out the income when:

- Holiday pay is in substitution of salary for annual paid holiday;
- Holiday pay forms part of the 8% of gross earnings.

These rules will apply from 1 April 2016.

Let staff take risks

THE STAFF you should want are those willing to use judgement and take the risk of getting things wrong, occasionally. By taking risks, they will also get things right and this will be the case, hopefully, in the majority of circumstances.

Avoid discouraging someone who has made a mistake. On the contrary, congratulate them for trying and encourage them to continue. These are the people with enthusiasm; the ones who will be capable of taking the load off you. Their sin would be repeating the mistake.

Travel in comfort

TO MAKE a comparison of possible aeroplanes and the comfort they offer try seatguru.com.

Trustees and Inland Revenue

INLAND REVENUE will hold a trustee personally responsible for all taxes until it has been notified he/she has resigned. Therefore, if you resign, make sure Inland Revenue knows, and keep evidence of this.

Got a bad debt looming?

BE QUICK and be persistent applies particularly to debt collection. If you're offered a cheque and you don't like to suggest it might bounce, see if you can get two cheques for half each. Your debtor might have the funds to let \$500 through but not \$1000.



Targeting the cash economy

INLAND REVENUE'S crackdown on 'cashies' continues with their focus on undeclared cash in the construction and hospitality sectors.

Last year, the Auckland region saw the most activity, however Inland Revenue are now widening their reach. They've been trying to change attitudes among tradies and subcontracting businesses and their efforts seem to be getting results.

Inland Revenue acknowledge people

trying to cheat on tax are in the minority but stress that they're a very expensive minority. The so-called 'hidden economy' is a cost to all New Zealand taxpayers, who carry more than their fair share because of it.

There's another hidden cost too, as business owners who are meeting their tax obligations find it hard to compete with operators who can undercut on quotes because they don't pay tax.

Write off those bad debts

REVIEW YOUR DEBTORS now and if you think you're not going to be paid, write off the amount. Don't delay beyond balance date, because you can't backdate a write-off.

Show evidence to confirm when you wrote off the bad debt. For example, if you type out your bills and keep copies as your record of what is owed to you, write on your copy something like "written off as a bad debt on (write in the date)". Initial the note, too.

Inland Revenue requires you to do everything reasonably possible to collect the money before you deem it a bad debt.

Once you have written off a debt as bad, you don't have to stop trying to get the money. Sometimes you are lucky and get paid even though you had good reason to believe it wouldn't happen. That is a 'bad debt recovered' and becomes income when you receive the money.

Getting your PIE tax right

IF YOU'RE INVESTING in a PIE, be sure to get the right tax rate (PIR). You should check with us when we do your tax return each year as it can change from year to year and there are no refunds of overpaid tax.

If your income is less than \$48,000, use a rate of 17.5% unless you have so much PIE income that it exceeds \$22,000.

If husband and wife have PIE income in their joint names but their taxable incomes are taxed at different rates, it's better to split the PIE investment into two halves and invest separately, so one can be taxed at the lower rate. Otherwise, the whole of the investment has to be taxed at the rate applying to the higher taxpayer.

How well do you know your breakeven point?

MOST PEOPLE are familiar with the concept of breaking even. Your breakeven point tells you how many units you need to sell or what dollar value in sales you need to achieve just to cover your costs.

Once you know that, you know the point you need to pass to turn a profit. Pretty easy right?

But a breakeven point isn't set in stone. It will shift as your business grows, costs fluctuate and as you continue to surf a constantly changing business environment.

Monitoring breakeven

A breakeven point therefore becomes something you keep in play over time as a tool for you to think about your sales, costs and pricing in a different way. For instance, say you know your breakeven

point and you take it at face value. Tell your team. It's a powerful motivator for your sales people to know exactly what the numbers are to put the business in profit.

Say you don't accept your breakeven point at face value. What can you do? Can you reduce your costs to lower your breakeven point so you can start earning profit sooner? That might lead you into analysis of your fixed and variable costs to judge whether you have room to move.

Or does your breakeven point uncover an issue with your pricing that you need to deal with?

Lifting your pricing might mean your numbers are into profit sooner but you might have to think about whether your market will tolerate that. Does that line of thought indicate that you simply have to



lift your sales volume?

And then you're looking at marketing strategies, market reach and coaching your team on what the sales goals really are. If you're not sure you really have a handle on analysing your breakeven point, we're happy to talk through options which could increase your profit.

Profit – the nuts and bolts

WHEN YOU Look at your accounts, can you read your profitability? Here are some things to look for.

Gross profit: $\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$

On your balance sheet, **gross profit** is the difference between revenue and the cost of goods sold (or services provided). It generally appears before administrative expenses and general overheads are accounted for. Ideally, gross profit covers your overheads as well as generating your targeted profit, your net profit.

Net profit: $\text{Net Profit} = \text{Total Revenue} - \text{Total Expenses}$

Net profit is what you're going for – it is the actual profit after all expenses and overheads have been paid. Net profit is the bottom line. When you are assessing your business' actual profitability, bottom line tells you a lot (it is, after all, the bottom line).

They're the basics. But there are other indicators worth analysing. Gross profit percentage is one.

Gross profit percentage: **Gross profit percentage** is a percentage of sales and it's a valuable metric to keep hold of. It is the ratio of your gross profit in proportion to your sales:

$$\text{Gross profit \%} = \frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$$

Now that you've calculated it, what are you going to do with it? For a start, calculate your breakeven point:

Breakeven point (see our article above on using breakeven point strategically)

$$\text{Breakeven} = \frac{\text{Total Expenses}}{\text{Gross Profit \%}} \times \frac{100}{1}$$

continued

GST on the way for offshore web purchases

GST. If the amount is greater than \$1000 or the New Zealand business can't get the supplier to send a tax invoice, the New Zealand business will have to get the GST refunded by the supplier.

Businesses will, of course, be caught in the net but they'll be able to claim back their input tax.

The big unsolved question is how to collect GST on parcels coming in from overseas. Currently, there's no GST on articles costing less than \$400. This is because it is uneconomic to collect the tax. If digital transactions such as downloaded music are to be taxed regardless of the cost, how will the Government find a way to tax small items coming in by post?

Why a newsletter?

HAVE YOU ever wondered who that plumber, lawyer etc was you dealt with 18 months ago? Next time you want a plumber, what do you instinctively do? You try to remember who you dealt with last time and if you have forgotten, you look elsewhere.

That's one reason why you should send regular newsletters to your customers or clients. Another is to encourage referrals from them and from other contacts. These include friends and suppliers. Compile as big a mailing list as you can.

The best way to ensure customers or clients read newsletters is to keep the articles short and to the point. Each article should have a benefit to the reader.



Advertising for profit

DO YOU MEASURE your responses from advertisements? How many of those responses turn into sales? Don't know? Then ask your new customers, every time, why they came to you.

Further, have a look at the quality of customers you're attracting, in other words, whether they're serious about what you offer. There's no point in advertising for poor quality business.

Above all, keep figures to see if the advertising is earning its keep. The revenue you derive from your advertising is not just what you get

from the first sale. It's the earnings over the lifetime of that customer. So if the average customer stays for five years, measure the expected sales you're going to make over this time. The profit on those sales needs to exceed the cost of the advertising.

Advertising is expensive. Some people advertise, get responses but never follow up. Perhaps they have more business than they can handle! If this is you, why advertise?

Examine your return on your advertising. Keep records. If your advertising works, that's fine. If it doesn't, save your money.

Personal Property Security could save your bacon

IF YOUR BUSINESS is a company, you've probably had to give a personal guarantee to your bank and maybe to some suppliers, too. This means if your business runs into trouble, you're going to have to find personal money to pay off those debts.

Often our clients are owed money by their companies from loans they have made and salaries they have not fully drawn out. These debts are treated as unsecured creditors when a company goes broke. The debt is added to the other debts owing and our client will only get their share of any cash left over.

However, you can be paid ahead of these other creditors by registering a Personal Property Security for the debt owing to you. Alternatively, you could let a supplier (to whom you are giving a personal guarantee) have a Personal Property Security. The Personal Property Security would be taken into account in any adjustment made between you and the supplier.

Once the security is in place, it has to be renewed every five years. The registrar charges a small fee (about \$20) for renewal.

Tax changes afoot for student loans

DID YOU know proposed changes to tax laws regarding student loans mean:

- The income of those owing student loans will be adjusted on a similar basis to the adjustments required for Working for Families Tax Credit – for example, money you get from a trust, which is not usually included as income.
- The Australian Tax Office will be helping New Zealand's Inland Revenue to get addresses of New Zealand borrowers resident in Australia.
- Volunteers overseas will find it easier to get their write-offs.

These changes will come into force when the law is enacted.

TAX CALENDAR

April 7 2016

2015 Terminal Tax
(March balance date)

May 9 2016

3rd instalment of 2016 Provisional Tax
(March balance date)
GST for March 2016

May 30 2016

1st Instalment 2017 Provisional Tax
(December balance date)
GST for April 2016

May 31 2016

Deadline for Fringe
Benefits Tax returns



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