



SADLER OAKLY NEWMAN
CHARTERED ACCOUNTANTS

Calculating Thoughts



(the newsletter service of Sadler Oakly Newman, Chartered Accountants, Masterton)

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Be sure to read each article with the mindset "How this could apply to our business".

Thinking of it that way will guarantee that you get the best value. Share the newsletter with staff and colleagues.

To really make sure something positive happens talk to us for that special piece of advice that will manage and grow your business ideas.

Trusts — no hiding place in divorce asset disputes

Many who hold considerable assets in their family trusts are unaware of a law that could cost them dearly if they go through a divorce.

The NBR recently featured an article about the significance of the case of Ward versus Ward. In this case the courts ruled to divide the assets of the Ward Family Trust (established nine years into the marriage) down the middle into two separate Trusts.

The article stated:-

"This case has set a new precedent for how a trust may be treated in the event of a relationship breakup. Family Trusts sit outside the property relationship laws that require a 50/50 split of joint assets when a marriage or de facto relationship ends. However, section 182 of the Family Proceedings Act allows the court to make changes to the terms of the trust following break-up of a marriage."



Even if a Trust deed addresses such matters as what would happen in case of a break-up, if legal action is taken it is done so regardless of what's in the deed.

The significance of this case is that the Trust was established during the period of the relationship. Should a Trust be set up to hold significant personal assets prior to a relationship, this may have an impact on any court proceedings particularly if a pre-nuptial agreement was entered into.

Companies Office

You may be aware the Companies Office have recently updated their website and systems.



Our PA's have access under our Agency to make changes to any Company records handled here in the office. If you have requested changes to be made e.g. address changes, shareholder changes etc... you may get an email from the Companies Office addressed to one of the following people: Roslyn Lafrentz, Gail Irwin or Christine Macfarlane. There is no need for any further action by you.

GST 2010 - 12.5% → 15%

For more information please see our special insert in this month's newsletter.

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Do you use subcontractors?

From time to time you may hire subcontractors to do some work for you. If you hire a subcontractor you will need to deduct withholding tax from the (GST-exclusive) payments you make to them. The amount of withholding tax to deduct is shown on the back of the Tax code declaration (IR 330). The only time you don't need to deduct withholding tax is if the payment is made to a company, or to an individual who has a certificate of exemption.



If you are unsure if your subcontractor is a company or an individual you can check by using the free service at the Companies Office website www.companies.govt.nz.

If the company is not registered with the Companies Office please ask your contractor to complete a Tax code declaration (IR 330) and deduct withholding tax from the (GST-exclusive) payments you make to them. If they do not fully complete the IR 330 an additional 15% withholding tax should be deducted from any payments you make to them.

If the contractor doesn't have a certificate of exemption record the:

- contractor's name
- start date
- IRD number
- amount of the gross payment, and tax deducted.

You should also include the gross schedular payment details in the "Earnings and/or schedular payments not liable for ACC earners' levy" column in your employer monthly schedule. This will ensure you don't get charged ACC earners' levy on the schedular payments made.

Tax codes for Contractors

A contractor needs to give their employer an IR330 (tax code declaration) showing the "WT" tax code. The employer then deducts tax at the standard rate of 15 cents in the dollar. This is unless the contractor holds a valid certificate of exemption or special tax code certificate.

Please sight the original certificate and check that it's in the name of the contractor being used. If you want to check the authenticity of the certificate please call 0800 377 772. You should keep a copy of the certificate for your records.

A contractor without a certificate of exemption or a fully completed IR330, has tax deducted at the no-notification rate of 30 cents in the dollar.

Tax and GST for Contractors

To calculate GST and tax from a contractor's tax invoice where no certificate of exemption is provided, see the example below. (example based on current 12.5% GST rate).

Example		
Charge for work	\$15,000 plus GST (\$1,875)	\$16,875
Less tax	(15% of \$15,000)	\$ 2,250
Net payment		\$14,625

You deduct the tax from the \$15,000 and show the \$15,000 as the gross amount on the employer monthly schedule and the \$2,250 as the tax deducted.

These rules only apply where there is not an employee/employer relationship. If you are unsure what the difference is between an employee and a subcontractor see the link for details:

www.ird.govt.nz/forms-guides/number/forms-300-399/ir336-guide-self-emp-or-employee.html

Monitor Solvency...

so you don't get into difficulties

In the current economic circumstances business owners and managers should be monitoring their business' solvency so as to avoid potential problems.

Signs of potential insolvency include:

1. Declining profit margins - leaders should be conscious of gross profit percentages and net profit percentages
2. Declining cash flow - this can be caused by delay in payments from debtors; demand from creditors for earlier payments; build-up in stock and work-in-progress levels; or unnecessary capital expenditure
3. A high level of staff turnover can be a clue of some financial instability in the business
4. Creditors putting a stop on supplies - can be a real indicator that something is wrong with the business
5. A never decreasing bank overdraft is also a danger sign
6. Loss of a major customer can cause instability in the business
7. Falling behind in payments of GST and income tax
8. Incurring interest on credit card balances
9. Paying creditors well beyond their stated terms of trade can highlight financial problems and could be very dangerous if the creditor stops supply and demands immediate payment.

If any of these problems are occurring in the business, the earlier the business asks their accountants for a full review of business activities, the better, so that a policy can be determined, including:-

- Full diagnostic review of the business
- Review of debtors, stock and work-in-progress levels

What's It Mean?

Price/Earnings Ratio... Defined as the share price divided by the earnings per share.

One of the most widely used ratios, the Price/Earnings ratio compares the current share price with earnings to see if a stock is over or under valued. It indicates an expectation of the company's performance in the future. Generally a high P/E ratio means that investors are anticipating higher growth in the future, though if a company has a low P/E ratio it doesn't necessarily mean that it is undervalued. It can be useful to compare the P/E ratios of other companies in the same industry, or to the market in general, or against the company's own historical P/E ratios. The P/E ratio is available on a daily basis in the NZ Herald for all companies listed on the New Zealand Stock Exchange.



- Review of creditors to determine days taken to make payments compared to creditors' terms of trade
- Update or preparation of a business plan which outlines the business' strategies for successful trading over the next 12 months. This will include budget and cash flow projections

The key thing for the business leader to do is to take action and not sit in the hope that the situation will improve itself. This will mean maintaining relationships with the bank and keeping the bank informed; talking to key customers and entering into realistic payment arrangements with suppliers; keeping team members informed so that they are able to answer comments being made to them by customers and suppliers; and at the same time, continue to be outstanding ambassadors for the business.

If things are 'off the rails', accept that changes are necessary even though some of them may be painful.

If you have any concerns about your business' performance in the current circumstances please contact us.

From a Sadler Oakly Newman Employee

The Tip for the Month

Don't forget to update your software

Tessa Southey writes –

With the upcoming changes to tax and GST you must ensure that your software is up to date and able to handle these changes. All payroll software will need to be upgraded, and for those who calculate your wages manually you will need up to date tax tables. All other software will need to be able to handle the 15% GST rate.

Ask us

If you are struggling with your current software and think maybe now is the time to change you may be pleasantly surprised with the new more simple and cost effective options that are available. Please phone us and we will help find the right solution for you.

Correspondence and Payments to the Inland Revenue Department

Log Returns with the IRD

For many of you, not all forms and returns you send to the IRD are completed electronically. If a return goes astray, you are going to need to be able to prove you sent it.

We encourage you to keep a log of anything you send to the Inland Revenue. This is considered reasonable evidence. We suggest taking a copy of any returns before you send them and note the date they were sent on the form.



Remember the Postcode

Recently returns have gone missing because perhaps there was no postcode on the envelope.

Don't forget everything you put in the mail should now have a postcode on it. To look up a post code use the following address or google "post code finder nz"



www.nzpost.co.nz/Cultures/en-NZ/OnlineTools/PostCodeFinder/

Online Payments

We certainly encourage the use of online payments to the IRD.



Unfortunately we seem to spend a lot of time rearranging these payments because they have ended up in the wrong period or tax type.

Please make sure you have the correct IRD number, tax type, and period. If you are making payments for more than one entity or individual at once separate payments must be made.

Payments to Inland Revenue should be made to bank account number 03-0049-0001100-27.

For more information on electronic payments go to:- www.ird.govt.nz (keywords: electronic payments).

"Why does a slight tax increase cost you two hundred dollars and a substantial tax cut save you thirty cents?"

Peg Bracken

"Taxes, after all, are dues that we pay for the privileges of membership in an organised society".

Franklin D. Roosevelt

OFFICE NEWS

SEMINAR SERIES:-

Banklink

On the 7th July we held a seminar for our Banklink Books and Invoice Plus Software Users. Helgard from Banklink presented to 48 people. We were pleased with the response to this seminar and even the staff that attended learned new things as Helgard went through his "tips and tricks."

GST Increasing to 15%

We will be holding a seminar in September to reinforce the upcoming changes to GST and assist with the practical aspects of this change which will be covered in your GST returns up to 30th September. For most of you the changes won't become a reality until you file your October/November GST return which is due 15 January 2011. We will send seminar notices shortly.

Budget Implications

Once we have further details with regards to the "uncertain future" of LAQC companies and the technical implications of these possible changes we may hold a seminar to provide clarity about the impending changes in LAQC and QL companies.

For more information regarding upcoming seminars and other training that is offered that could be of interest to you please see our website www.son.co.nz and click on the link to the training and events page.

If you are interested in attending a GST seminar or have any suggestions as to future seminars please let us know by emailing ca@son.co.nz.

BUSINESS HOUSE SQUASH

We recently entered a team in to the Red Star Business House Squash Tournament. Donna played and by the end of the 3rd week was looking pretty sharp after not playing for over 20 years! Rebecca and Donna were pleased to have Rebecca's fiancé Troy fill in as their No. 1 player in the absence of David in this round.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.