

Winter 2012

Risk and Reward

ACC Changes self-employed invoicing

ACC has recently changed the way it invoices self-employed clients with regard to their full or part-time status, dependent on whether you work 30 hours or more a week.

Information on your full or part-time status no longer flows through to ACC's database on the IRD IR3 form. If you held part-time status last year and this year your earnings crossed the threshold you will receive a letter from ACC automatically confirming your change to full-time status. In all other scenarios it is up to you to formally confirm a change of status with ACC.

It would pay to check your invoice this year and call us if there's any confusion. Clients could get stung, for instance, if they have been paying levies on the basis of part-time status, have an accident, and then declare full-time status. In such a case ACC may query it and can backdate levies up to four years.

We provide an on-going ACC administration and advisory service to our clients on an agreed annual fee basis. Being recognised by ACC as your online agent gives us secure online access to your levy information, your cover status and invoices, allowing us to work directly with ACC. A simple signed authority from you and we'd be happy to review your cover structure and premiums, to ensure your cover is appropriate and levies are minimised.

The benefits and pitfalls of trial periods

The trial period regime was labelled a success for its apparent increase in employment and was designed to make our job market more flexible. But you need a robust process. A number of cases have shown where poor process can come back to bite the employer.

Case study: Mr Blackmore emailed acceptance in response to a letter offering him employment with Honick Properties Ltd (HPL). The offer referred to a Federated Farmers employment contract but this was not enclosed with the offer and Mr Blackmore did not know that these contracts contained trial period provisions. Mr Blackmore resigned from his previous role, worked out his notice period and started work with HPL.

Within hours of beginning his first day he was presented with an employment agreement to sign on the spot, which he did. This agreement included provision of a 90 day trial period. This was the first he'd heard of it.

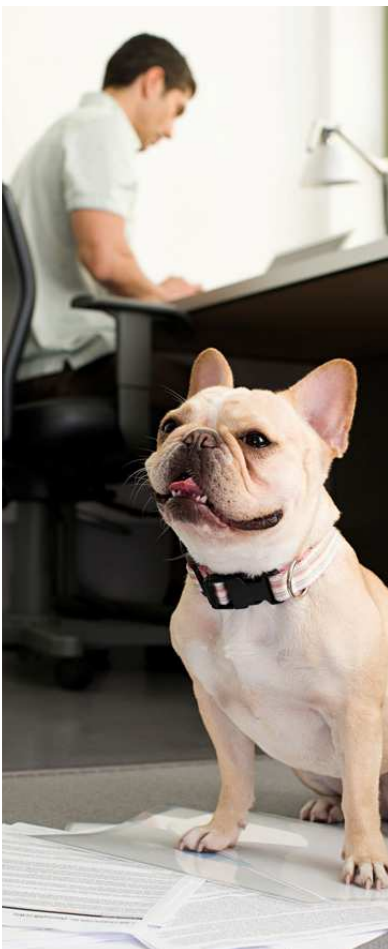
Mr Blackmore was later dismissed within that

90 day trial period. He was now jobless, unhappy and shocked at the turn of events.

Mr Blackmore disputed his dismissal, taking his case to the Employment Relations Authority which referred it to the Employment Court. The court ruled Mr Blackmore was entitled to challenge the justification for his dismissal stating that he was an existing employee when he signed the employment agreement. His employment was considered to have commenced at the earliest when he accepted the offer and at the latest when he started work - and therefore a 90 day trial period could not apply to him.

Also, the court deemed the 90 day trial period defective due to unfair bargaining. HPL had expected Mr Blackmore to sign the agreement before he could consider it, seek guidance or negotiate prior to commencing work.

Cont.



Trial period best practice

1. Show good intention!
2. Discuss the inclusion of the trial period before the offer is made, and include a copy of the intended agreement when negotiating and offering the role.
3. Give the prospective employee time to consider the employment agreement and seek independent guidance or clarification.
4. Give him or her an opportunity to negotiate the agreement with you after the opportunity to seek advice has been given.
5. Ensure the trial period clause states you can dismiss the employee during the period and he or she can't then bring a personal grievance.
6. Ensure the employment agreement is signed before work starts.
7. When the agreement is signed, implement an effective induction process to ensure the quality of an employee's work.
8. Address performance issues during the trial period as you would with any other employee.

Employers shouldn't be complacent in their understanding of the 90 day trial. Recruitment and induction take time and cost money... and that's without factoring in the disruption and cost of a dismissal dispute.



Tax Talk

Reminder of payroll changes

By now all employers should be aware of the changes to the Student Loan Scheme, KiwiSaver and ACC levy rates that have affected payroll from 1 April 2012.

In brief:

- SL is the new tax code suffix for all student loan borrowers, regardless of earnings, unless they provide their employer with a repayment deduction exemption certificate. Extra student loan repayments made by employees (whether voluntary or due to arrears) will have a specific additional suffix
- Employer cash contributions are now subject to ESCT, **OR with the employee's agreement can be treated as salary or wages subject to PAYE**

If you don't use an external payroll system or you're unaware of the changes and how these affect payroll please visit www.ird.govt.nz/changes ... for more information.

The hammer is falling on student loans

Several changes to the Student Loan Scheme were announced in last year's budget, to be implemented over several years. On 1 April another instalment was delivered, including:

- IRD can now demand full repayment of a student loan from a borrower consistently non-compliant with repayment obligations, whether or not the entire amount is outstanding
- Borrowers will no longer be able to use business or investment losses to offset their income for repayment purposes
- Borrowers going overseas for 6 months or more can apply for a repayment holiday before they leave or within 6 months of being overseas. The maximum time of a repayment holiday has been

shortened from three years to one.

And from the 2012 budget;

- The parental income threshold for student allowances will be frozen for 4 years
- The loan repayment rate will increase from 10% to 12% of income
- The repayment scheme allowing voluntary payments to be discounted by 10% will be scrapped
- Student allowances will not be available beyond the first four years of study



It's business time - cracking down on cash

It's no secret that the IRD are cracking down on the hidden cash economy. Cash trade jobs, under-the-table wages and online trading cost the Government an estimated \$7 billion a year in lost tax and last year the government set aside \$120 million in government funds to help the IRD combat tax avoidance.

IRD has now rolled out industry benchmarks to spotlight suspicious players - focusing on industries more

likely to deal with lots of cash and therefore with scope to understate their income.

Statistics NZ have calculated these standard performance ranges using the financial statements and tax returns of all businesses (in each industry) with turnover below \$10m. Another 34 industry benchmarks are due for release this year and IRD intend to update benchmarks annually.

The 16 released benchmarks are financial ratios expected from a typical business in higher risk industries, including those relating to cafe, bar and restaurant owners, painters, electricians and car rental firms. The data is carved up into small, medium and large business brackets according to annual turnover.

This is a great opportunity for you to analyse how your business is performing in a number of areas. If for some reason your business falls outside the normal profit range, you can establish weaknesses to make positive changes and boost your profits.



Some legitimate reasons for falling below a benchmark are:

- Insufficient product mark-up
- Difficult trading circumstances
- High wastage
- You may be starting up or preparing to close down
- You may be running in a niche area of your industry
- Your competitors may be sourcing product at lower cost

Does your business measure up compared with others in the industry? Are you doing enough to remain competitive? If you'd like to discuss this further please contact Brent or Stephen on 522-6590

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Business Perspective

'The optimist sees the donut, the pessimist sees the hole.' **Oscar Wilde**

How optimistic are you?

There's no doubt recent times have seen the tightening of belts and an abundance of no.8 wire mentality. We're working smarter; however the world isn't out of the economic danger zone yet. It's likely to be a marathon, but kiwis are fit for the task - equipped with a positive attitude and sensible running shoes.

According to the April MYOB Business Monitor (The Voice of New Zealand Business Owners - economic report 2012) survey of 1,000 businesses, New Zealand businesses are confident and positive despite delayed global recovery. In fact we're even chirpier than our big brothers: just 12% of the New Zealand business owners surveyed expect to make a loss in the next 12 months, compared with 24% of Australian business owners.

The number of business owners reporting

revenue gains in the past year have increased from 28% to 34%. For the next quarter 33% of business owners have more work than usual on their plate including 43% of Christchurch business owners, signalling early benefits of the Canterbury rebuild.

11% of businesses are looking to hire full time employees while 14% plan on hiring part timers as well.

This year kiwi businesses are set to focus on the customer with 38% looking to invest in customer retention, and 28% in attracting new customers.

The true star of the show has been the humble start-up. The last 12 months saw start-ups report the most revenue gains (49%) and the least losses (18%).

The toddlers (2 - 5 years old businesses) also did well, 39% reporting revenue gains.

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How optimistic are you? Cont.

It is often said wars are won in winter, and this global financial crisis has provided the ammo for many entrepreneurs. If you're thinking of starting up a new business or dreaming of ways improve your current venture please give us a call to see what we can do to help you in your quest. Whether it be a business health check or initial business planning - we want you to experience the gains and rewards you deserve.

Are you planning for succession

Do you have an end game?

You've grown your business gradually and now your mind turns to collecting your reward from your investment of capital, know-how, and years of effort. Achieving the most money for your business requires the same diligence it took to grow it. So, how can you ensure you receive a return for your efforts?

Effective Succession Planning is the key to protecting, growing and realising the maximum value for your business. It is a strategic process that allows you to smoothly transition the ownership and/or management of your business.

Research shows that business value can be impacted by a number of issues, including:

- Complacency of business owners in addressing succession
- Business owners often being unaware of all their succession options
- Generation Y lacking the aspiration to be a business owner
- Increased house prices restricting the funding options for successors

Why is Succession Planning a key-issue now?

Do you remember what you paid for petrol when you started in business? Maybe 39 cents a litre? Times change, markets change and so does the business environment.



Not long ago, business entry costs and competitive forces were lower and business growth could be funded by borrowing against increasing house prices.

Business success demands focus by you on the operation, but ultimately, issues of succession and retirement will creep up. By then, getting the price you need could be elusive.

The next generation of business owners, Generation Y, face a completely different business environment. Start-up and acquisition costs are higher, regulatory barriers are higher, and competition has increased. Business funding opportunities are also more limited in comparison.

You're a business owner and you understand the driving forces behind competition, supply and demand. So when:

- More businesses are for sale –lower prices result
- With fewer qualified buyers - it becomes a Buyer's market
- In a Buyer's market- they can be selective and value driven

Therefore, it is important for you to start planning your succession now.

If you would like to discuss your plans and how we can help you with your planning please give us a call.

'Capital isn't scarce, vision is.' **Sam Walton**

DAVIDSON
& ASSOCIATES CPA
CHARTERED ACCOUNTANTS

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