

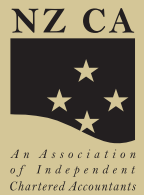


Trial Balance

THE OFFICIAL NEWSLETTER OF NZ CA LIMITED

December 2007

ISSUE TWENTY ONE



Pay Out Dividends

THE TAX RATES for companies will be reduced to 30% from the start of the 2009 tax year (for 31 March balances this is 1 April 2008).

When dividends are declared out of these profits, they will carry an imputation credit of only 30%.

The Government realises there are accumulated imputation credits from past years and these represent tax paid at 33%. If you want to use up these 33% credits, you have until 31 March 2010 to do so. After that, all tax credits attaching to dividends will be at 30%.

If a family trust owns most of your company shares, consider paying the dividends as soon as possible, unless you think the tax rate for trusts will be reduced.

If individuals own the company shares it could be wise to wait for the next Budget to see if you can declare a dividend in a lower tax year.

Log Book Reminder

IF YOU NEED to keep a log book, remember you have to do this every three years for a three month period.



What would happen if your business was destroyed by fire?

An interesting question, and one which all business owners should consider as part of their risk management review.

MOST BUSINESSES CARRY insurance for such events. Do you? This insurance generally includes distinct areas:

- Profits lost from the event. This is usually based on the value of your gross profit as you would usually wish to retain your experienced staff while you rebuild.
- Increased costs of operation during the insurance period. These costs might include additional rental costs of alternate premises; additional advertising to ensure your customers know where you're operating from and to build the business back up once you are fully operational; extra overtime worked by staff once you're operational to catch up on backlogs.
- Claim preparation costs. This can include employing a specialist experienced in this work to prepare the claims and deal with queries from the assessor.
- Replacement plant, furniture and stock.

With current resource consent and building delays many operators are reviewing their length of period over which they insure their loss of profits. Twelve months is a common term of cover but with factors such as these this is now seen to be too short. A recent supermarket fire resulted in reopening one year after the event. However the organisation this company is affiliated to had experienced this catastrophe previously at another site, had full cooperation of the local council to speed things along and could recover market share relatively quickly.



The period of insurance should not just cover to reopening day in many cases as it will normally take some time to regain your customers and volume of business.

The values covered for the remaining areas are also important. These should be reviewed with your broker on a regular basis using their experience and advice.

Now is also a good time to consider a plan of what you would do in the early stages after such an event:

- How will you replace specialist equipment quickly – will this need to be imported, would it be feasible to have backup equipment held elsewhere for key components?
- Where are your computer backups stored and are they adequate to allow recovery quickly. Do they include both software and data. Do you have a guaranteed rebuild time from your IT supplier?
- How would you get communications back up and running. Where would you initially divert your phone and fax lines?
- How would you communicate with your team to ensure they are retained and continue to be motivated to do the best for the company during these stressful times?
- How will you communicate to customers expecting deliveries from you in the near and distant future?

Continued on page 2...

We wish all our readers a Merry Christmas and a Safe and Prosperous New Year!

Prescribed Investor Rate

With Portfolio Investment Entities officially starting on 1 October 2007, you will be asked to provide a prescribed investor rate.

Individuals

Individual investors will either qualify for the reduced rate of 19.5% or the default rate of 33% (soon to be 30%). Joint investors are required to use the rate of the highest earning individual.

The chosen rate will be a final tax on the investor's income and they will not be required to show that income in their return. If the fund makes a loss or receives tax credits in excess of tax paid, the investor's share will be credited to the investor in the form of a rebate from the PIE.

An exemption to this is that an investor in a Portfolio Listed Company that receives dividends can elect to return the dividends in their return. This is likely to benefit individuals on a tax rate of 19.5%.

Trusts

A Trust can choose a 0% rate or the 33% rate.

If the Trust chooses 0%, then the Trust returns the income less any share of losses in the Trust tax return. Tax credits are offset directly against the income rather than indirectly as a rebate from the PIE.

The other option of 33% will result in a final tax as for "Individuals" above and the Trust will not return PIE income in the income tax return.

The choice of rate will depend on allocation to beneficiaries of the Trust. For example a Trust may have 19.5% beneficiaries who will be overtaxed if the Trust chooses a 33% final tax. Or, if the Trust is an estate, there may be some benefit of choosing the 33% rate because when the tax rate for PIEs changes to 30%, the Estate will benefit from paying 3% less tax on PIE investments.

A Trust may also benefit from electing to return Portfolio Listed Company dividends in the tax return if these are to be distributed to 19.5% beneficiaries.

Other Entities

Companies, Superfunds, Societies, PIEs and Registered Charitable Trusts all have rates of 0%.

Non residents have a rate of 33%.

Incorrect Rate

If the investor provides a Prescribed Investor Rate which is lower than their correct rate then the income allocated to them by the portfolio tax rate entity is not excluded income. This means that they will need to include this income in their tax return, and it may be taxed at their marginal tax rate of up to 39% and possibly affect any child support and student loan payments. The tax paid on this income would be allowed as a credit in their tax return.

Source: Megan Shaw, NSA Tax Limited



Time to Reregister on the Personal Property Securities Register ("PPSR")

FINANCING STATEMENTS do not stay registered forever and section 154 of the Personal Property Securities Act ("PPSA") states that the registration of a financing statement becomes ineffective at the expiry of the indicated term or five years after initial registration, whichever occurs first.

The PPSR commenced operation on 1 May 2002. Between 1 May 2002 and 31 October 2002 there was a transitional period where prior security interests (i.e. those interests credited before 1 May 2002 and registered on one of the registers replaced by the PPSR) were deemed to be perfected by the PPSA. This meant that their priority dates were preserved as if they were already registered in the PPSR and registering prior security interests in the PPSR during the transitional period allowed them to retain their original registration date as their priority date.

As most registrations in the PPSR are probably for the default five year period it is likely that a large number of registrations will expire over the coming months.

In order to maintain priority, registration must be done while the first registration is still effective (Section 154). Reregistration is accomplished by the secured party registering a financing charge statement. The renewal period is for a further five years or until the nominated period in the financing statement expires.

A secured party who does not reregister before expiry of the applicable initial term would have to register a new financing statement. This would result in the secured party losing the initial registration date as their priority date, which would result in potential disastrous consequences for suppliers.

Secured parties need to ensure that their PPSR registrations are renewed prior to expiry of the initial registration date.

Source: Arron Heath, Meltzer Mason Heath

What would happen if your business was destroyed by fire?

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- Are there competitors whom you may contract to provide supply to retain your customer base?
- How will you liaise with suppliers to ensure they continue to support you and have appropriate levels of supply available when you are back to operation?
- What additional staff will you need to prepare claims and liaise with customers and suppliers?
- What short term funding might you need while you deal with the insurer and place claims? Can this be discussed with your bankers so they will be on board immediately?
- While a lot of information is on computers copies of key employee information such as

signed employment agreements, applications and file notes, signed key contracts and leases could be held offsite to minimise time and effort?

- Once you are up and running how will you ensure quality control in the early stages and how will you communicate to customers that you want their business back?

Consider working with your accountant and your team to prepare a disaster recovery plan for your business. Knowing what your plan is when an event like a fire occurs can significantly save in costs and personal stress!

Contributed by Leah Peacock, Sudburys Limited, Whangarei.

Pay Your Provisional Tax and your GST at the same time!

The IRD is making changes to the way we pay our provisional tax. For taxpayers with standard balance dates the changes will apply from 1 April 2008. This applies to all taxpayers who come within the provisional tax regime.

The new changes:

Align provisional tax payment dates with GST payment dates; and
Introduce the GST ratio option for calculating provisional tax instalments.

Staying with the three payment system for provisional tax

If you decide to remain with the existing system, using the uplift or estimate method, your provisional tax dates will change. The three payment dates will fall on the 28th day of the 5th, 9th and 13th months of your income year. The exceptions to these dates are where your provisional tax dates would fall in December or April. In this case the payments are due 15 January and 7 May respectively. These dates are designed to allow extended time for Christmas and Easter. For example, a taxpayer with a March balance will pay provisional tax on 28 August, 15 January and 7 May.

Companies, Trusts and Sole Traders on 1 or 2 monthly GST

Taxpayers who are GST registered can elect to pay Provisional Tax at the same time as their GST payments using the GST Ratio Option. This method allows taxpayers to base their provisional tax payments on a percentage of their GST taxable supplies. This option is not available to partnerships, or to taxpayers who are not registered for GST.

The ratio is calculated by dividing your Residual Income Tax (RIT) for the preceding tax year by your GST taxable supplies for that year i.e.

RIT for previous tax year

Total GST taxable supplies for previous tax year

Once the ratio is worked out you then multiply this by your GST taxable supplies for the current period you are preparing to

determine the relevant provisional tax payable.

Taxpayers who file GST returns every two months will then pay provisional tax on the due date of each GST return for the year, that is, for a March balance date two monthly registered payer, on the 28th June, 28th August, 28th October, 15th January, 28th February and 7th May GST returns. The amount actually payable will be calculated based on the taxable supplies made in that period.

Taxpayers who file GST returns monthly will make a provisional tax payment, under the ratio method, on the same dates above for two monthly GST filers.

This method can be useful for businesses that have high degrees of seasonality so they can align their tax payments with their cashflows. If you use the Ratio Option Use of Money Interest (UOMI) will not apply to underpayments or overpayments of tax unless the tax is paid late.

The downside is that you have to pay both GST and provisional tax on the same day.

The Ratio Option is not available to taxpayers who have RIT greater than \$150,000 or less than \$2,500.

In order to use the GST ratio option an election needs to be made with the IRD before the start of your income year.

Companies, Trusts and Sole Traders on 6 monthly GST

These taxpayers only pay their provisional tax twice a year on the same day they pay GST.

The GST ratio option is not available to taxpayers that file GST returns six monthly meaning they have to use existing the uplift and estimate methods. The amount of provisional tax payable under the uplift method is calculated based on last years RIT with the normal uplift divided by 2.

Summary

These options may benefit some business owners. We'll be talking to you about which option best suits you before 1 April 2008 so you can make the appropriate decision to suit your business.

Source: Leah Peacock, Sudburys Limited.

BOOKS

GOOD TO GREAT*

Grant Hally of Prince and Partners RSM in Auckland reviews some of the main points of how to take your business from *Good to Great*...

1. A Level 5 Executive heading a great company builds enduring greatness through a paradoxical blend of personal humility and professional will.
- Ambition first and foremost for the institution, not themselves.

2. Get the right people on the bus (and the wrong people off the bus) and then figure out where to drive it.

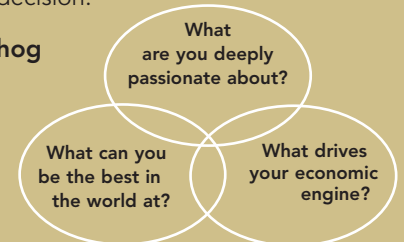
3. Confront the brutal facts of the current reality

- Lead with questions not answers
- Engage in dialogue and debate, not coercion
- Conduct autopsies without blame
- Build red flag mechanisms that turn information into information that cannot be ignored

4. Build a council of imaginative and forward looking executives to review new business and research and development proposals. This may include non-executive appointments. The CEO makes the final decision.

5. The Hedgehog Concept:

A hedgehog continues to move slowly in the right direction and gradually builds up momentum. It has very good defences against attack. The hedgehog outruns the cunning and wily fox.



It's like a giant flywheel. It's hard to start but once everyone pushes in the same direction it builds speed and momentum. The opposite is the Doom Loop of failed projects, which we can't afford to let happen!

6. The Culture of Discipline

Self disciplined people do not require bureaucratic cultures to monitor them

7. Technology will accelerate progress but is not the silver bullet. You do not need to be first with technology but you should use it fully to your advantage.

Good to Great is based on Colorado University research project comparing the only eleven listed US companies that had 15 good years followed by 15 great years. They were compared with 11 companies that remained good and 7 companies that became great but could not sustain it for 15 years. Great companies were chosen because they outperformed the US stock market growth index by three times or more.

* *Good to Great*, Written by Jim Collins and Published by Random House Business Books.

Charitable Trust Deadline Slips

REGISTRATION OF CHARITABLE trusts and incorporated societies, expected to initiate "the most significant changes to affect them in modern times", have been deferred.

Originally, charitable organisations had until October 1, 2007 to register with the Charities Commission if they wished to retain their tax exempt classification. Initial registration will now take place between February 1, 2007 and July 1, 2008.

Failure to register will see organisations lose their tax exempt status.

The aim of registration is intended to allow the Commission to 'monitor and support' charitable organisations, and allow the public to check certain information held by the Charities Commission, including the credentials of a trust.

Our recommendation is that charitable trusts and societies use the next 18 months to review their rules and regulations, and to make any structural changes they consider necessary to continue to operate successfully in the post July 2008 environment.

While registration is likely to require changes to the way charities are administered, it will be difficult for charities to attract donors if they are not registered.

Conversely, some charities may be prepared to forgo their tax free status in return for keeping their affairs confidential. Further information can also be obtained from www.charities.govt.nz.

Source: Campbell Tyson Cooper White



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What Articles Would You Like?



IF YOU HAVE any questions you want answered or have any topics or ideas you would like to see included in a future newsletter, please contact Sandra at sandra@prince.co.nz or Heather at heather@nzca.com.

We are endeavouring to make the newsletter easy to read, broad and interesting. Your assistance and input would be much appreciated.

**"Winter is on my head,
but eternal spring is in my
heart." Victor Hugo**

Changes in Particulars

Please remember to let us know of any changes in:
* Physical address * E-mail address * Phone and/or fax numbers * Shareholdings * Directorships * Trustees
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