



Your accounting update from BWR **September '08**

outside the square

Client Profile

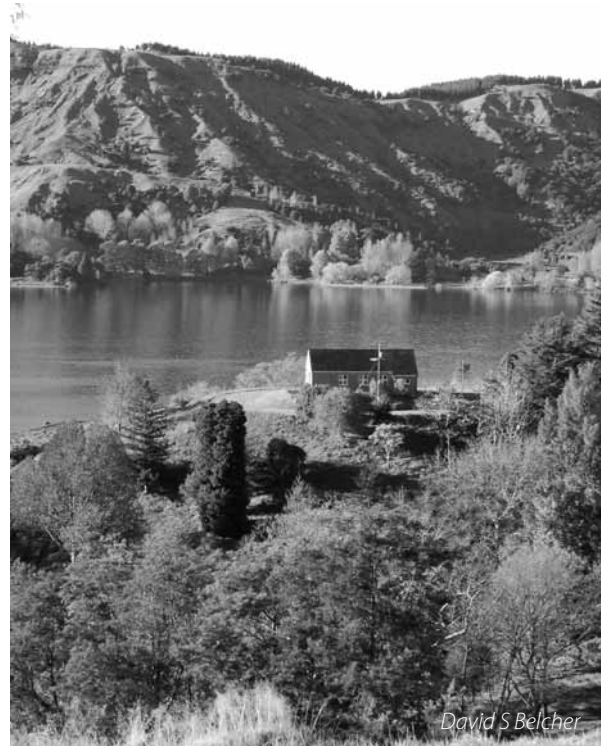
Putting their trust in BWR

The Guthrie-Smith Trust Board was founded in 1942 after Barbara Absolom, daughter of Herbert Guthrie-Smith, donated 800 hectares of land to the Trust for the benefit of the people of New Zealand for educational and recreational purposes. Today the Trust owns 80 hectares of hill country overlooking the picturesque Lake Tutira about 50km north of Napier.

Up until his death in 1940, Guthrie-Smith had farmed 20,000 hectares of pastoral land at Tutira. A committed conservationist, Guthrie-Smith maintained meticulous records of the land and seasons while writing numerous books including "Tutira: Story of a New Zealand Sheep Station."

These days the property comprises Guthrie-Smith's homestead, an outdoor education facility, a regenerating hangar of native bush and an enviable and continually developing arboretum of over 8,000 native and exotic trees from more than 600 species.

BWR director John Springford has had a long association with the Guthrie-Smith Trust Board and together with Teresa Burton and the rest of the team, BWR look after most of the administration of the Trust including the day-to-day payments and deposits, preparing the annual financial statements, organising the Board meetings and looking after the Friends of Tutira newsletters. John and the team at BWR enjoy the wide variety of work that the Guthrie-Smith Trust provides. "Having such a hands on role with the Trust is great. It gives you the feeling that you are preserving a piece of New Zealand for future generations" says John.



Long time Trustee (38 years) and current Chairman of the Board, John Nott enjoys working with John and his team and comments "the long relationship we have with John and BWR means that they really understand our organisation and we can trust that they have the best interest of the Trust in mind. The Trust appreciates everything BWR does for us."

Twice a year, in the Autumn and Spring, the Board hosts an open day at the property for the public to enjoy and learn about the property and look over the development of the arboretum. The next open day is planned in early November so why not pack a picnic lunch and come along and enjoy the outdoors?

PIEs can reduce income tax for investors

If you are investing in large banks or investment companies, then choosing a Portfolio Investment Entity (PIE) could be the right choice for you.

Since the PIE legislation was introduced on 1 October 2007 a number of benefits have become apparent, most significantly tax savings.

What is the tax rate for a PIE?

As a personal investor (slightly different rules apply for companies and trusts) you can select a PIR of 19.5% or 30%. Generally, if your taxable income (excluding PIE income) is less than \$38,000 and you select a PIR of 19.5%, the withholding tax deducted from your investment income earned in the PIE is treated as full and final tax on that income. Similarly, if your non-PIE income is greater than \$38,000 and you select 30% as your PIR, this too can be treated as the final tax on your

investment income earned from the PIE. This income is also excluded from the calculation of working for families and student allowance entitlements as well as student loan and child support obligations.

What is a PIE?

A PIE is a managed fund or investment entity registered as a Portfolio Investment Entity. These funds are granted a capped income tax rate (30% as of 1 April 2008) that enables the PIE investor to achieve greater net returns by paying lower taxes. Each investor elects a Prescribed Investor Rate (PIR) which is the rate of withholding tax deducted from your investment income earned by the PIE.

How much can a PIE save me?

The potential to make savings on your tax is shown in the following example:

Michael and Karen own a carpet cleaning company. Both work in the company and are paid an annual shareholder salary of \$38,000 each that they draw from the company in monthly amounts. Any further profits are retained in the company where they are taxed at the company tax rate of 30% (from 1 April 2008).

Michael and Karen have built up a nest egg of \$450,000 (by leaving the property market at the right time) that they would like to invest in bank term deposits.

If Michael invested his half of their nest egg in a normal fund and Karen invests in a PIE fund, a comparison of their individual tax positions based on 2008 personal tax rates follows.

	Michael Normal fund	Karen PIE fund
Shareholder salary	38,000	38,000
1/2 share of interest on term deposit	18,000	-
Taxable Income	56,000	38,000
Tax payable	-13,350	-7,410
Net individual income	42,650	30,590
PIE income (i.e. 1/2 share of interest on term deposit)	-	18,000
Less tax at PIR (19.5%)	-	-3,510
Net PIE income	-	14,490
Total after tax income	42,650	45,080
TAX SAVINGS		2,430

By placing her investments in a PIE earning the same interest rate, Karen is able to save \$2,430 each year in tax.

The scheme may be double-edged if you do have significant variations in your earnings from year-to-year as many self-employed people do. For instance, if your income is normally over \$60,000 and you have a PIR of 30%, if your income reduces to below \$38,000, your PIR of 30% will deduct too much tax.

The government is currently reviewing PIR rates for individuals to bring them in line with the tax rate changes applying from 1 October 2008.

As we have outlined, the scheme does give the potential for making significant savings to your investment income. If you would like to discuss if and how you can benefit from using a PIE please contact your BWR Director.

Seminars

Be Aware - Seminars to keep you in the know

After much interest in our KiwiSaver seminars last year, we are launching a series of seminars to keep you in the know with changing policy and opportunities for your business or personal financial affairs.

Our first one, **FOCUS ON FARMING**, is being held on Tuesday 16 September in Hastings at 4pm. The seminar is repeated again in Hastings on Wednesday 17 September and Thursday 18 September in Waipukurau.

This first seminar is a great opportunity for our farming clients to learn more about how to fine tune your feed

with Farmax, the realities of carbon trading and forestry, biodynamic farming and using livestock tax to your advantage.

For more information see www.bwr.co.nz. Seats are limited so be sure to register before Friday 12 September.



GST

The team at BWR are leaders in their knowledge of legislation. We are able to offer accurate, timely assistance in a number of areas. These include:

- Registration queries
- Preparation of GST returns
- Filing GST returns
- IRD review and audit assistance
- Specialist events involving GST - e.g. sale or purchase of property

Management Consulting

Our aim at BWR is to ensure that your business achieves the potential that it is capable of.

Management consulting is a service that we offer to businesses to help them reach their full potential. The team at BWR:

- Have the know-how and experience to offer advice to help you run your business more effectively
- Are practiced in acting as a sounding board for management, bringing to the relationship years of experience in business growth
- Can identify key performance indicators in your business, through which you will see the positive changes occurring with the help of our professionals
- Are able to check that your business is as competitive, focused, and as profitable as it can be
- Offer flexible strategies designed to address the issues affecting your business

If you feel your business would benefit from a health check, then please call BWR today.

Accounting Services

At BWR we are aware that your bookkeeping and accounting needs can be a burden. Our knowledgeable team provides all accounting and bookkeeping services including:

- The preparation of your annual accounts
- Periodic management accounts for your end of year tax
- Business appraisal for management/planning purposes

We can discuss your requirements with you and provide you with tailored information and constructive advice on a regular basis. Just contact us.



What is revolving credit?

Revolving credit is basically a floating interest rate overdraft secured over your property. It allows you to put your income into an account that you use to cover your expenses, with direct debits and automatic payments.

They are particularly popular with business and personal borrowers who are approaching loan renewals. After a period of relatively low rates with a lot of competition from lenders, interest rates are now considerably higher. With a perception that interest rates may fall again over the next 12-18 months, many borrowers may be reluctant to re-fix their loans at the current rates. Most borrowers will appreciate the ability to have some flexibility when they do re-finance.

Banks are often willing to split loans between a fixed and floating/revolving proportion. This gives customers the certainty of the fixed payments on part of the loan as well as the ability to make principal repayments or even re-fix the loan should the rates improve.

Revolving credit loans work very well for businesses or individuals who receive advance payments or significant bonus/commission payments and want to repay their loans faster than a standard loan. The borrowers are able to reduce their loan balance earlier and pay lower interest before drawing the balance up again. Ideally by paying less interest each month, the loan can be paid off faster.

There are some drawbacks to having a revolving type loan. Usually the floating interest rate is higher than the fixed rate. Having the ability to draw funds easily can be tempting enough to cause problems. Anyone using such a loan does need to be disciplined to ensure that generally they repay more than they spend so the loan works for them.

Here is an example of how it works:

If you start with a loan balance and limit of \$100,000 and then deposit your weekly sales of \$1,000 into the account, the balance will be \$99,000 after the first week, \$98,000 after the second and so on. The interest is payable on the daily balance of the loan which has reduced for the first three weeks. On the 20th of the month you pay \$1,800 for stock, fuel and power. This increases the loan balance but it starts to reduce again in week four when another \$1,000 is received. At the end of the month, the balance is \$97,800.

If you are considering a revolving credit loan feel free to contact BWR to speak about how it can affect you.

The Springford Team

Within BWR sits a team under long-standing director John Springford, with a special interest in farming, commercial & retail businesses and charitable organisations, and as such many of their clients are from these areas. The team is experienced in all aspects of accounting including financial and strategic planning, preparation of financial statements as well as secretarial and payroll services. The team prides itself on innovation and going that bit further for their clients, recently incorporating graphs and statistical reporting (specifically designed by Regan) into many of the financial statements they prepare.

Of his team John says, "I have every confidence in them to relish the challenge of the diverse work load and come through offering the best support to our clients." The face-to-face contact that the team has with clients is also important. Team leader Heather Coombe comments, "We all enjoy the personal interactions with our clients and it is very rewarding to see them develop and succeed". John's team will always endeavour to give timely and practical answers to questions their clients have and pride themselves on their strengths and different areas of expertise.



Pictured from left to right are Jeanette Ellery, Regan Loach (CA), Heather Coombe, John Springford, Brooke Ballantyne, Teressa Burton (AT), Cory Janssen.

Provisional tax dates deferred

As reported in previous newsletters, the IRD have been aligning the due dates for provisional tax payments with GST payment dates.

At the end of September 2008 the process will be complete and each taxpayer's provisional payments should now line up with their GST returns irrespective of their balance date.

For most taxpayers the change means there has been a deferral in the due date of their provisional tax payments of about seven weeks (in some cases over nine weeks). For example, payments previously due on 7 November are now not required until 15 January.

For a schedule of the upcoming payment due dates, refer to the key dates section at the back of the newsletter. For the complete list of tax due dates for the year for every balance date go to www.bwr.co.nz.

Maintain your margins and protect your bottom line

When economic activity starts to decline, service and retail businesses often jump on the bandwagon used by major retailers of offering a sale or discount to attract customers. Sales and discounts can be useful tools used in the right place e.g. clearing out of season or obsolete stock. However, be careful as too much use of the practice can lead your business to a spiral of reducing margins that are often unsustainable and may even cause your business to fail.

Competing on price can be very difficult because:

- Larger competitors can take advantage of greater buying power or direct importing
- Customers attracted by price seldom show any loyalty
- Price alone is not likely to result in customer satisfaction

To encourage repeat business and build a sustainable business you can:

- Direct your efforts into establishing relationships and improving service
- Draw attention to the prices that already offer value-for-money
- Consider a loss-leader product to encourage customers in the door

- Offer an incentive to buy which has a high perceived value but relatively little cost to you
- Address your customers' cash-flow by offering finance, deferred payments, deposits / lay-by

If you can't avoid negotiating on price:

- Make sure you know exactly how low you can go before a sale starts to cost you money
- Rather than offer a blanket discount, why not wait until customers ask you for it?
- Research what level of discount will satisfy your clients to avoid reducing your margins more than you need to
- Take a deposit up front or offer a prompt payment discount which will assist your business's cash flow

At BWR we have lots of ideas to help you maintain your margin. We can also provide you with advice on costing systems that show you where your business can save money or set limits for negotiating with customers.

If you would like to know more, please contact one of our team.



2008		
5-Sep	PAYE/Employer deductions	Large employers for August 2008
7-Sep	Provisional Tax (2008)	September 2008 balance dates
16-Sep	Brown Webb Richardson Be Aware Seminar Series Focus on Farming	Hastings
17-Sep		Hastings
18-Sep		Waipukurau
20-Sep	PAYE/Employer deductions	August 2008
28-Sep	GST	Periods ending 31 August 2008
	Provisional Tax (2009)	December and April balance dates
	Provisional Tax (2009)	February Balance Dates (6 mthly payers)
5-Oct	PAYE/Employer deductions	Large employers for September 2008
20-Oct	PAYE/Employer deductions	September 2008
	FBT	Quarter ended September 2008
28-Oct	GST	Periods ending 30 September 2008
	Provisional Tax (2009)	January and May balance dates
	Provisional Tax (2009)	March Balance Dates (6 mthly GST payers)
5-Nov	PAYE/Employer deductions	Large employers for October 2008
7-Nov	Terminal Tax	October 2007 Balance dates
20-Nov	PAYE/Employer deductions	October 2008
28-Nov	GST	Periods ending 31 October 2008
	Provisional Tax (2009)	June, February and October Balance Dates
	Provisional Tax (2009)	April and October Balance Dates (6 mthly GST payers)
5-Dec	PAYE/Employer deductions	Large employers for November 2008
7-Dec	Terminal Tax	November 2007 Balance dates
20-Dec	PAYE/Employer deductions	November 2008
2009		
15-Jan	GST	Periods ending 30 November 2008
	PAYE/Employer deductions	Large employers for December 2008
	Provisional Tax (2009)	July, March and November Balance Dates
	Provisional Tax (2009)	May and November Balance Dates (6 mthly GST payers)
	Terminal Tax	December 2007 Balance Dates

Disclaimer:

Please note this client newsletter is not intended to be advice and therefore you should not act solely on the information contained within. We recommend you obtain our formal advice before acting in any areas presented within.