



SADLER OAKLY NEWMAN
CHARTERED ACCOUNTANTS

Calculating Thoughts



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

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Tip for the Month

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.

Remuneration of Shareholder Employees

The *Penny and Hooper* decision is a landmark tax avoidance case that has implications for small businesses operating through a company or trust. Essentially, the Supreme Court decided in favour of Inland Revenue, concluding that setting artificially low salaries amounted to tax avoidance.

Penny and Hooper were two Orthopedic Surgeons, each earning taxable income of between \$600k and \$850k a year. They restructured their businesses into companies with a family trust owning most of the shares. They provided their services to the companies in return for salaries of \$100k - \$120k each year. The balance of the company's income was declared as dividends to the family trust which the surgeons drew from regularly.



Each year tax of between \$20k and \$30k was saved by having the profits after salaries taxed at the trustee rate rather than at the surgeons' individual top personal tax rates. The court found these savings a 'more than merely incidental' reason for their low salaries.

The IRD has put businesses on alert and is actively reviewing those operating through a company or trust where the income is generated from services provided by an individual, and the individual's salary is unreasonably low. Although there may be good reasons for setting the salary low in a particular year, e.g. adverse business conditions, or a planned expansion of the business, in some cases the sole reason for the salary level is to take advantage of the lower tax rate that applies to companies.

The IRD is entitled to go back four years into a business' records, but have publicly confirmed that where a 'voluntary disclosure' is made, only the last two income tax returns will be reassessed. A voluntary disclosure might significantly reduce IRD penalties or avoid them entirely.

Whenever we're discussing your business we'll look at this for you. In the meantime, if you are concerned and would like to discuss this with us, please do contact us.

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 caught, 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 and compensation would be less than you earned.

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Vanilla Dream



HEILALA™
VANILLA

The vanilla plant flowers just once a year, offering a mere four hours to complete the intricate act of hand pollination. In this window of opportunity a dream has flowered. The Heilala Vanilla story is a PR dream: 100% natural, sustainable, organic, transpacific, sweet and delicious, much like Heilala's own success.

The story begins with John Ross, boat builder, farmer and frequent visitor to Tonga. In 2002, following Cyclone Waka, John recruited six Rotary Club colleagues to deliver medical supplies, help rebuild houses and restore infrastructure to the Tongan village of Utungake in Vava'u. In return, a local chief gifted him the use of dormant land. Upon discovering wild vanilla orchids growing, he developed a vanilla plantation, enhanced job prospects for locals and created Heilala Vanilla.

Producing vanilla seed pods is extremely labour intensive, requiring optimum growing conditions. John engaged the expertise of his son-in-law Garth (agriculturalist and IT consultant) to harness this rare opportunity. They carefully matched organic growing principles with the virgin soil, sustainable coconut husk frames, hand pollination and the Pacific sun, achieving the first Heilala vanilla harvest in 2005 - an admirable 40 kg. This grew to two tonne in 2010.



Upon harvest, the vanilla seed pods are imported to Tauranga where the vanilla products are manufactured and packaged per order. They are then dispatched to executive chefs, gourmet food manufacturers and specialty retail outlets.

Heilala Vanilla's growing product range includes vanilla beans, vanilla extract, vanilla paste, vanilla syrup, ground vanilla, vanilla sugar and vanilla ice cream and has received numerous culinary awards.

From the early days of knocking on restaurant doors with a delicious nameless product it was clear they required a strong brand. The challenge would be enlisting the right advocates - the brand needed to entice. Margins are much tighter on small orders, but they knew this temporary pain would spark wildfire momentum and secure the big orders.

Down the track, John oversees the Tongan plantation. Garth is in charge of research and product development and daughter Jennifer (a qualified accountant with a marketing degree) is onboard to manage sales and marketing. We spoke with Jennifer about their journey to date.

Biggest challenge? Giving up the security of her day job. 'But if you have the passion then it's definitely worth it'.

Best management decision? Implementing quarterly Client Advisory Boards with specialised 'foodies' to drive their focus and direction. 'In a family business tunnel vision can be a natural stumbling block'.



Advice? Jennifer was fortunate to utilise her accounting skills within the business, stressing 'every entrepreneur needs guidance, advice and a close relationship with their accountant'. Clearly defined budgets and goals, performance measurement, viability testing and patience are also required for any long term business model.

Jennifer emphasised 'when engaging external services you get what you pay for'. Don't scrimp on the things that support the backbone of your business, whether it be your branding, marketing, or business advisors (us).

Highlights so far? 'Taking Peter Gordon and US pastry chef Natasha MacAller to the Tongan plantation'. The Heilala crew guided 20+ foodies to witness the source of Heilala Vanilla, and enjoy local produce prepared amongst the plantation by Peter and Natasha. Entering the Williams-Sonoma food retail chain (boasting 200 stores across America and Canada) was another memorable milestone.

Having direct ownership of the vanilla seed pods throughout the process, Heilala are proud to have control from plantation to pantry. This ultimately guarantees the quality and integrity of their product.

With each hurdle successfully mounted, the Heilala team keep moving the finish line. As they enter the American market they're aware that initial margins will be tight, sales and profits low. But they'll soon achieve the exposure and reputation their product deserves.

Having John on the ground has been vital to this multi-cultural business. Jennifer and Garth are equally committed to maintaining relationships with the locals, keeping in touch with the dream at its roots. When one day John steps back, their succession plan will have a solid foundation.

The passion, hard work and commitment of this Kiwi family and their Tongan colleagues have made Heilala a sweet story of generosity, imagination and ingenuity.

It's about rising to the challenge and seizing the opportunities that are gifted to you.

www.heilalavanilla.co.nz



The UOMI Monster

Use of Money Interest (UOMI) is such a monster we make no apologies for repeating advice we have given in an earlier newsletter.

Many of you choose to meet us just once a year. By now you should have a fair idea of how well you have done for the year.

If we see you so infrequently, we cannot monitor your income and potential tax liability. In most cases this does not matter. However, if your business is a company which does not distribute all the profit to shareholders, or you have a trust, be careful. If you anticipate either of them is going to have a much bigger profit than in the previous year, you should check your tax situation.

You may be exposed to the Use of Money Interest penalty for success. Unless your business is short of funds, it is better to pay some more tax now than to wait until we see you later in the year. The current interest rate is 8.89% and it may have been accumulating, on a small scale, since you paid (or didn't pay enough) in your first provisional tax payment for the year. For March balance dates this is 28 August 2011.

UOMI also applies to individuals whose income generates \$50,000 or more annual tax to pay. For most people this cuts in at a taxable income of \$179,030.

Call us if you need any help.

Tax Talk



KiwiSaver

As of 1 April 2012 employer contributions will no longer be tax free. Employer Superannuation Contribution Tax (ESCT) will apply to employers contributions. The ESCT rate is determined at the beginning of the tax year (April) and is based on the gross annual salary/wage plus any superannuation contribution paid by the employer (before ESCT is deducted).

ESCT Thresholds:-

ESCT Threshold Amounts	ESCT Rate
\$0 - \$16,800	0.105 (10.5%)
\$16,801 - \$57,600	0.175 (17.5%)
\$57,601 - \$84,000	0.300 (30%)
\$84,001 - and above	0.330 (33%)



Minimum Wage

As of 1 April 2012 the minimum wage will increase from \$13.00 per hour to \$13.50 per hour. Training and new entrants' minimum wages will increase from \$10.40 to \$10.80 - 80% of the adult minimum wage.



New GST Rules for multi-use assets

New rules came into effect 1 April last year replacing the old change-in-use rules by apportioning input tax deductions in line with the actual use of the goods and services.

As the 2012 financial year closes, the new rules will be applied for goods and services acquired on or after 1 April 2011. In subsequent periods, when a change to the actual taxable use occurs, from what was first intended, a GST adjustment within an adjustment period must be made (a number of exemptions may apply). There is a maximum number of adjustment periods according to the asset's value or estimated useful life. Special 'wash-up' rules apply when goods and services that have been subject to the apportionment rules are sold or the person deregisters.

Dealing with a dissatisfied customer

A complaint is an opportunity to turn a disgruntled customer into a loyal customer.

- Act FAST, don't stew over the complaint
- Be a good listener and keep your cool
- Be positive in your response, the tone of your voice or correspondence must always remain fair and professional
- Offer several solutions and resolve the problem to THEIR Satisfaction, not yours

Your brand can easily be damaged by one dissatisfied customer. A happy customer tells one friend. An unhappy customer tells everybody! A complaint that is resolved effectively can result in a loyal customer with revived trust in your brand and fresh confidence to buy again, knowing that complaints will be dealt with promptly.

Remember, the customer is always right. When you receive a complaint, make sure to review the necessary processes, without pointing fingers at staff. One small change could produce a big improvement.

Accounts chaos - paying bills with the wrong chequebook

OUR client has an interest in a couple of companies and a family trust.

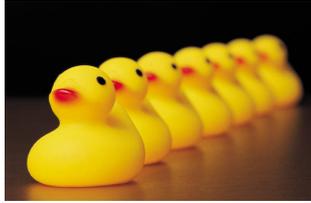
Sometimes, when it is convenient to do so, she grabs whatever cheque book she can lay her hands on to pay the bill in front of her. Thus personal bills get paid by the trust and trust bills get paid out of the company.

We have to correct the situation manually. It takes a lot of time. Surprise! The accounting fees go up.

Recently we struck an extreme case of this. Paying bills out of the wrong account is a nightmare. Never do it. As we've said before, make a loan if needed to the entity which has to pay the bills. By the way, loans from one company to another can also be a headache unless the two have identical shareholdings.

Get your ducks all in a row

We aim to prepare your financial statements and tax returns in good time. To do this we need your completed annual questionnaires with full supporting documentation. Keep in mind, the following are supporting documents, we will need:-



- **New Bank Loans**, balance outstanding at year end, security, interest rate, loan term
- **Fresh Hire Purchases Items**, interest rate, term and repayment plan
- **Vehicle/Plant & equipment purchases**, agreements. Was finance obtained?
- **Closing Stock and WIP (Work in Progress)**. Stock on hand at year end? Any un-billed work in progress?
- **Income**, include details of Wage or Employer Subsidies, additional income as defined for Working for Families
- **Bank Statements**. If you use MYOB or a similar system, copies of final bank and credit card statements let us check the reconciled balance
- **Property/Business Sales/Purchases**, agreements and settlement statements
- **Debtors and Creditors**. What is owed **by** or **to** your business, including whether amounts are GST inclusive or exclusive?
- **Donations/school fees?** Receipts needed please
- **Interest, dividends and rebates?** Provide details

The Tip for the Month

FYI:-

Employment Agreement:

An agreement between an employer and an employee stating the terms and conditions of employment. It is mandatory that each employee has an employment agreement and that the employer retains a signed copy of this agreement.

Collective Agreement:

A collective agreement is an employment agreement that is negotiated by a union, covering a group of employees.

Prioritise your priorities!

In the age of information we're constantly being distracted and stimulated by people, advertising and messages. It's like working with the TV on in our heads! It's time to limit procrastination and filter the white noise.

Implement LOCKDOWN

Lockdown is a regular period of self imposed isolation. Block out two hours in your calendar, shut the door and put that phone on DND (do not disturb!). Make sure staff are aware that they shouldn't interrupt you unless it **really is** urgent. You'll plough through work quickly with a higher standard. And when time is up or the job done, reply to your emails, return necessary calls and revel in your achievement. Lockdown works best with regular intervals!

Multitasking is a myth.

Humans are like computers: when we open two programs, things run slower. Next time you jump tasks or decide to work on another project 'simultaneously' ask yourself if it's because it will produce effective results or because you're bored or you've finished the easy part? We all need diversity but flicking between many tasks is messy and unproductive.

OFFICE NEWS

Saver Team

Becks and Troy have had a lovely baby daughter. Emily was born on the 27 February. Everyone very well and happy.



Newman Team

Nicole is returning from maternity leave to the Newman Team after Easter in a part time role. She will be working Tuesday and Wednesday (offsite) and in our office on Thursday morning. Given the reduction in hours not all of Nicole's clients will be reassigned to her. Those affected will be notified in the next few weeks.

Business House Sport

Sadler Oakly Newman entered a team in the Business House Bowls this year. Team Leader Carissa said the team had improved since last season and they all had a lot of fun playing this year.



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.