

# The LO Down



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chartered accountants



## Risk and Reward

### Evaluating employment changes

A new report by the Ministry of Business, Innovation and Employment looks at outcomes of key changes to employment law made in 2011 to see if they are working as intended.

#### What the changes were meant to do

The broad aims of the changes were to:

- reduce compliance costs for businesses
- reduce employment relationship problems
- improve the balance of fairness
- provide more clarity and guidance to employers and employees

### The changes and how they're measuring up

**Trial periods** were opened up so that all employers have the option to use trial periods of up to 90 days.

To stimulate business confidence to hire new staff and encourage more job opportunities for disadvantaged job seekers.

Trial periods are now being used by both small and large firms across a range of industries, positions, and skill levels. Employers reported trial periods have reduced the potential cost of dismissals without adding additional costs. Of employers who used trial periods with new hires, 27% had dismissed at least one employee during or at the end of the trial period. It seems while trial periods have not changed the nature of employer/employee relationships, employers see them as a way to help manage risk when trialling new staff. Interviews with employers who had dismissed staff indicated they followed correct procedures and were more comfortable there would be no comebacks.

**Changes to the Holidays Act** meant employees can apply to cash in up to one week's annual holidays and also to transfer public holidays to another working day. Employers were provided with an additional method to calculate payments for types of leave and holidays - Average Daily Pay. It's also easier for employers to ask for proof of sickness or injury.

To make it easier for businesses and employees to understand and apply the Act in a wider range of employment arrangements, increasing choice and flexibility.

While the Holidays Act changes have increased flexibility and choices for some employers and employees, it seems overall the changes have neither increased ease of use nor decreased costs. There is still a lack of understanding of how the law works. Some employers find the Holidays Act provisions difficult to apply in some arrangements, such as for people with variable work hours or shifts. Compliance costs for businesses in calculating entitlements and payments haven't really changed.

**Union access** to workplaces is now conditional on employer consent and employers are able to communicate directly with employees during collective bargaining.

To enable businesses and employees to understand and apply their obligations more easily and help resolve employment relationship problems faster.

While there was no increase in the number of problems reported, changes to union access and communications during collective bargaining seem to have had comparatively little impact overall among employers and unions though they seem likely to have worsened matters in sites where employer-union relations are already poor.

## Evaluating employment changes (cont'd)

**Changes to mediation processes** provided additional options for parties, specifically early assistance from mediators. The so-called test of justification was changed to give greater recognition to the fact that there may be a range of possible responses that a fair and reasonable employer may make in the circumstances before it. Conduct must be viewed against what a fair and reasonable employer 'could' have done rather than 'would' have done.

To help resolve workplace disputes faster and improve the balance of fairness.

Parties in disputes have more choices as mediators are now able to make formal recommendations. The use of informal recommendations by mediators has increased. There has been little change in the time taken to resolve cases.

Key commentators said that fairness was already relatively well balanced between employers and employees and this balance has not shifted much. The amendment preventing mediation settlements from being agreed for less than minimum entitlements was sometimes seen as not helping the balance of fairness where the employer did not have funds to pay the employee's full entitlement and agreement could not always be achieved. The amended test of justification hasn't yet produced practical outcomes, although codifying the considerations in applying the test may have increased the transparency to the disputants.

Although it's still too early to assess the changes' full impact, the findings were seen by the Ministry as generally positive, though it did acknowledge little change or mixed results in some areas.

## Tax Talk

### Making payments to IRD – what's changed

IRD are changing some of your options to make payments to them as of 1 October 2014.

#### Paying at Westpac

If you're used to paying your tax through Westpac, you won't be able to pay by cheque any more or drop off returns and forms. You will still be able to pay through Westpac by:

- cash and eftpos payments
- online banking
- credit/debit cards
- international money transfers



#### Posting cheques and returns - get the timing right

You can post cheque payments and returns direct to IRD. From 1 October **all cheques must reach IRD on or before the due date to avoid interest and late payment penalties.** Until now, it's been enough that the postmark shows you posted the cheque on or before the due date but not anymore.

#### Online payments

IRD is encouraging taxpayers to make their payments online. You can file returns and make payments online, up to and including the due date. If you haven't done this before but want to start, we can walk you through it.

### Parental leave

On 1 July, the rates for paid parental leave increased. If you're self-employed or an employee and eligible for paid parental leave, you may receive up to a maximum of \$504.10 a week before tax. If you're self-employed and make a loss or earn less than the minimum wage, for at least 10 hours work a week, the payment is \$142.50 each week before tax (equivalent to 10 hours each week at the current minimum wage rate).

If you'd like a fact sheet on your obligations as an employer or on paid parental leave for self-employed people, please contact us.

### **ENSURE YOU PUT THE CORRECT IRD CODES ON INTERNET PAYMENTS!!**

**GST** – for GST payments

**INC** – for Provisional & Terminal Income tax payments

**GAP** – is for GST & Provisional Income Tax paid together – this one is often used incorrectly and confuses IRD so we have to get involved to fix it and put payments where they should be



## Minimum Wage heads up

After the government increased the minimum wage rates earlier this year, it made a further amendment to the Minimum Wage Order, issuing a new fortnightly rate. The fortnightly rate is \$1,140 for adult employees and \$912 for starting-out workers and trainees. If you're an employer already fully compliant with minimum wage requirements and your employees' hours don't vary from week to week, stop reading here. For you, nothing has changed.

Some farmers have had difficulties with minimum wage compliance as farming hours vary considerably over busy periods such as lambing and calving through to quieter periods. Traditionally many have agreed with their employees to average wages out over quiet and busy periods so employees have some certainty about their income. Two recent cases, followed up by a Position Statement from MBIE, have made it clear that such averaging breaches the Minimum Wage Act unless an employee receives at least the minimum wage relevant to his or her basis of payment: hourly, daily, weekly and, now, fortnightly. The fortnightly rate applies to anyone paid on that basis or on the basis of a longer period, so it applies to those on annual salaries.

This means that, for employees on an annual salary, the longest period over which an employer can average an employee's wages is a fortnight. If, during a busy fortnight, employees have worked more than a total of 80 hours, you'll need to pay them at least \$14.25 (at current rates) per hour for each hour over 80. Since farmers often use fortnightly rosters, this represents an improvement over the necessity to limit the averaging to the period of one week (the maximum averaging period permitted before the law change).

*'Success one day does not give you a free lunch every day thereafter.'* **Richard Branson, Business Stripped Bare**

## Latest changes to GST

A raft of amendments to GST came through in June, clarifying grey areas and closing loopholes from some of the major changes of the last few years. In broad brush, these include:

- a new wash-up rule in the GST apportionment rules applies when use of an asset changes to 100% taxable or 100% non-taxable use when usage has previously been split between private and commercial use. Depending on the change, there may be output tax to pay back
- residential units in retirement villages or rest homes where occupants live independently now come under GST-exempt supplies
- the backdating effect of the tax residency rules has been removed for GST purposes
- the definition of 'hire purchase agreement' now includes any contract with an option to purchase
- where an employee is engaged by a third party to be a director or board member, and required to remit fees from the third party to their employer, there is a new flow-through rule which means the employer will be treated as supplying services to the third party
- non-profit bodies can claim all GST input deductions other than those relating to the making of exempt supplies

Please contact us if you'd like to run through whether the changes affect you.



*I don't measure a man's success by how high he climbs but how high he bounces when he hits bottom.*

**George S. Patton**



# FAMILY TRUST MANAGEMENT



It is common for people involved in family trusts to underestimate the ongoing management and administration requirements.

While people settle (create) a family trust as a means of providing a form of protection for assets, experts believe that if challenged, many New Zealand family trusts could be overturned. An estimated 75% of family trusts wouldn't withstand legal scrutiny and this would invalidate the protection that was being sought when the trust was created.

A common reason for trust non-compliance is poor ongoing administration. Common problems include a lack of clear decision-making process by all trustees, poor record-keeping around decisions and the retention of documentation, mixing financial arrangement of individuals with those of the trust and more.

A New Zealand company – Trustworks, has recently launched a software product of the same name, to help improve the compliance and management of trusts.

It brings all the parties involved in the trust and all information together within the product. This means that communication and information is shared by all trustees, plus the trust's accountant, lawyer, or professional manager. Other parties, such as a financial advisor can also access the trust's information if you wish.

Trustworks is easy and intuitive to use. Requirements such as creating discussions and resolutions around trust decisions can be undertaken and shared in seconds using built-in templates. Trustees can then approve and sign resolutions and documents online. Plus, all trust records can be found easily by all parties

Trustworks contains "Tips for Trustees" to help guide you and, by sharing your actions with your advisors and/or professional trustees, they can help ensure that your trust is being managed effectively and therefore able to achieve its goals.

Like online banking services, Trustworks software is in the cloud. This means that you can access the trust's information from anywhere in the world, at any time, via the Internet, bringing people and information together in the cloud.

Trustworks stores records in multiple locations overseas with both top-levels of security and encryption. So in the event of a natural disaster or other event all the trusts records are still held securely.

The annual cost of a Trustworks subscription covering all the parties involved in a single trust ranges from \$70-\$149 plus GST.

Talk to us today about how we can help you maintain the records and the integrity of your Trust in the most efficient way possible.

"Managing a Trust badly is a bit like insuring the contents of your house But then going on holiday and leaving the doors wide open"

**Martin Hawes – Author of Family Trusts – The Must Have New Zealand Guide**

## Reduce the cost of paying late terminal, provisional tax

Anyone who has been hit hard by Inland Revenue (IRD) late payment penalties and use of money interest (UOMI) for unpaid or underpaid tax knows how crippling this can be. It's the last thing you want to happen.

However, using tax pooling to settle income tax liabilities reduces your exposure to late payment penalties and UOMI, meaning it is cheaper than paying the money directly to IRD. Tax pooling allows you to purchase tax from someone who has overpaid and then apply that tax to meet your liabilities on the correct tax dates. As such, you can eliminate IRD late payment penalties and significantly reduce UOMI costs by up to 30 percent.

**When might it work?** If, having just paid your third instalment of provisional tax for the 2014 year, you think you might have underpaid at one of your earlier dates, you can top up at any time with a number of IRD approved tax pooling agents to eliminate late payment penalties and reduce UOMI interest costs.

How Tax Pooling Works – ABC Ltd had a Provisional Income Tax liability expected to be \$300,000. Because the year has been better than expected, the company realises it has underpaid its first two provisional tax payments by \$40,000 each. It purchased the underpaid tax through tax pooling for \$83,048. By paying only \$3,048 in interest, it saved \$9,219 in potential IRD late payment penalties and \$561 in UOMI.

**Contact us if you would like to talk through your tax plan & want to know more about using Tax Pooling to Manage Income Tax.**

## Update on changes to financial reporting

You may have heard about changes to the financial reporting legislation. In the short term, many people are finding it a bit hard to work out how or whether the changes affect them.

The requirements are changing for some businesses that used to have to file financial statements based on the New Zealand version of International Financial Reporting Standards (NZ IFRS). For example, your requirements have changed if your business:

- has less than \$30m in turnover or less than \$60m in assets, or
- is a subsidiary of a multi-national company and your annual revenue is \$10m or less, your assets \$20m or less

Inland Revenue has said businesses like this won't have to file financial statements based on NZ IFRS, but do have to prepare financial accounts to the standard of IRD's minimum reporting requirements. You may see some changes to the way your financial statements are presented while we transition to the new regime.

Your bank, of course, will still be interested in seeing financial statements, as will any investors. And business owners, boards and shareholders will still need enough information to have a good grasp of how the business is progressing against key financial targets.

## Options for financial reporting for companies

The changes to financial reporting have had a knock on effect, driving changes to reporting requirements for companies from accounting periods beginning on or after 1 April 2014. Some companies have options about which financial reporting regime they fall under or about whether or not they will have an audit. But, if you want to exercise your options, it's important to have the paperwork straight within the timeframe allowed.



### Opting out

Companies with 10 or more shareholders default to audited NZ IFRS, but are in a position to opt out of the NZ IFRS regime and/or the audit if at least a 95% majority of the shareholders vote to do so and pass the required company resolution.

Most large companies may opt out of an audit with a similar 95% resolution. 'Large' companies must prepare financial statements based on NZ IFRS in any case. This is what happens already, but the definition of 'large' has changed. Call us to find out whether your company will be 'large' if (including subsidiaries) your sales or assets will exceed \$10 million.

### Opting in

Companies that don't qualify as 'large' under the legislation, and that have fewer than 10 shareholders don't have to comply with NZ IFRS or have an audit. However, they may opt in to the regime if shareholders of the company holding at least 5% of the voting shares require the company to comply.

### Getting the timing right

Company resolutions are required, whether opting in or opting out. The resolutions to opt in or opt out must be passed well before the accounts are prepared. The date of the choice is critical. In many cases it will be the date of the company's annual meeting, but in some circumstances it can be earlier.

We will be reviewing each of our Company clients in the new year and may wish to discuss your options with you for the 2015 Financial Statements.

**What you do is what matters, not what you think or say or plan.**

***From Rework, by Jason Fried & David Heinemeier Hansson***

# How to Understand Working Capital

How can you calculate your working capital and why is it so important?

Your Working Capital is your Current Assets, ie assets that will be turned into cash within the next 12 months - Less your current liabilities ie all money owed and due to be paid within the year.

## Current Assets

Credit at Bank	\$5,000
Inventory for Sale	\$7,000
Accounts Receivable	<u>\$22,000</u>
	\$34,000

## Current Liabilities

Accounts Payable	\$18,000
GST Due	\$3,400
PAYE Due	\$4,200
Hire Purchase	<u>\$12,000</u>
	\$37,600

Why is this so important? Working Capital measures a business's health. If you have working capital, you can pay your bills as they fall due. And if you don't have working capital, you are insolvent and can't pay your bills.

This Example is a very simple one so we can see the basic concept of Working Capital but it could include all sorts of current assets such as, prepayments, short term loans due, shares, or short-term investments or current liabilities such as, wages payable, interest payable, bank overdrafts, customer deposits, dividends payable, etc.

As a business grows it needs more working capital. Why? Because you have bigger expenses, eg more wages, more purchases, more debtors, and so on.

## NEGATIVE WORKING CAPITAL

**(\$3,600)**

The rule of thumb to ensure you have enough working capital is to have double the current assets to current liabilities.

## Red Alert!! Red Alert!!

Failure to realise the importance of and understand working capital is one of the main reasons why a businesses may fail.

When money comes in for work you have done, it does not mean you can go shopping and spend the funds.

The money in the business cheque account may be needed to sustain the business and maintain a healthy level of working capital and the pay tax.

The importance of keeping a good eye on your working capital and the day-to-day cashflow of your business is imperative. Please talk to us today about cashflow forecasts and tools that can help you maintain a Healthy Working Capital and a Healthy Business.



GOLD  
PARTNER

**We are pleased to announce that Leslie & O'Donnell Limited is now a Gold Partner with Xero.**

**We have a lot of clients converting to Xero as their preferred Accounting Software and we are happy to help with this process.**

**Over the next month, all staff will be undergoing Xero training to enable them to work more closely with clients.**

**Give us a call if you are considering changing software and we can help work out the best option to suit you.**



**Congratulations to the Team at Whitehaven Wine Company on the opening of their new Building.**

**A tremendous effort by a great team and using a lot of local industries and talent to achieve an impressive result.**

**LESLIE & O'DONNELL LIMITED HAVE BEEN VERY PROUD TO BE SUPPORTERS OF THE TASMAN MAKOS IN THE 2014 SEASON.**

**CONGRATULATIONS TO THE TEAM ON A GREAT RESULT AND HUGE EFFORT.**

**LOOKING FORWARD TO MORE ACTION IN 2015.... FINS UP!!**



## Disclaimer

*This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.*

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