

Off the plan 'sales of property'

The IRD recently issued a pamphlet regarding sale of land by "investors", where that property has been purchased "off the plans". The usual situation is where an investor pays a deposit on a section or apartment/unit that will be completed – perhaps – a few years away. Prior to the investor actually settling the purchase, they sell it – perhaps due to a change in circumstances – sometimes making a profit

along the way.

The IRD's stated view is that gains from 'off the plan' sales are taxable – "with few exceptions" – because the investor arguably had an intention of resale during the extended purchase period (i.e. the date from signing up, to the date of title being issued).

The IRD have also made the comment that many taxpayers believe that because the

investors name doesn't appear on the title there is no need to return the sale as income.

We understand that the IRD is targeting these sales. If you have been involved in such sales and are considering the tax implications, or you are being reviewed by IRD, please call us to discuss.



XERO

It is critical to keep up to date and on top of your business finances, now more so than ever before, and in order to make key financial decisions, you require accurate and up-to-date information.

As Chartered Accountants, we have found that Xero offers a superb in-house accounting package that can assist greatly with business financial management and decision making. Xero is easy to use and offers software packages that will cater for the needs of most SME's in New Zealand.

We firmly believe that any in-house accounting package must first of all work for the client. Having the ability for your accounting system to be checked at any time by your accountant, can help to resolve any user frustrations and also help you get the most out of your accounting software. This assistance can range from identifying errors (which result in cost savings) to helping to produce the best

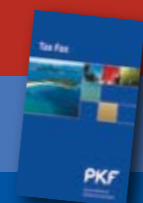
financial reports to give you a greater understanding of your own particular business.

So if you are interested in more information as to how to improve on your systems, or have any issues with your accounting software, contact us and we will be only too happy to share our knowledge with you.

REMINDER Provisional Tax due 7 May

For March balance dates your next provisional tax installment is due on 7 May. If a payment is due, you will be receiving a reminder from us shortly.

PKF offices have a new Tax Fax which neatly summarizes current tax and business information relevant to people in business. Tax Fax is published in a handy pocket sized leaflet. Readers are invited to contact their nearest PKF office if they would like a complimentary copy.



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BUSINESS AND FINANCIAL

NewsBrief

Introduction

The end of daylight saving warns us that winter is almost upon us. Just as most businesses need to plan for their "seasons", so must we. This time of the year sees a concentration on completing our clients' compliance obligations for 2009/10 and an eye on planning for the 2010/11 year. This should involve business and strategic planning for many of our business clients or, at the very least, the preparation of profit and cash flow forecasts for the coming year.

Although we do have a significant client base and, we do have pressure points at times (hopefully with client understanding) – we nevertheless would remind all existing clients, friends and others in our referral base that we always welcome new business and approaches from people in need of our advice and assistance.

This first Newsbrief for 2010 looks at fraud in the work place and possible tax legislation, together with some tips for invoice collection.

6 tips for invoice collection

Businesses will find as they start to expand after the recession, that pressure will be put on working capital and cash flow. Capital will need to be found to pay for growing inventories and debtors lists, and all will need to remain vigilant to ensure debts are collected as they become due.

Newsbrief offers 6 tips to help all businesses in improving credit control.

1. Calculate the current average age of your accounts receivable, and set a task of reducing this month by month until you get to your ultimate target.
2. Set a minimum amount a customer must purchase before you give credit. This will reduce the amount it costs to send out invoices for small amounts. Ask for a deposit for larger sale amounts; if this can cover the actual expenses so much the better.
3. Don't open a new account without the customer first completing a Credit Application form, which clearly sets out your conditions of trade.
4. Change terms of trade for new customers, (and some old ones if possible). For example instead of invoices payable on the 20th of the month following purchase, reduce this to 7 or 14 days from date of sale. Get agreement on this when you make a sale. Make sure you have the ability to charge interest on overdue accounts.
5. Get invoices out promptly, particularly if your terms are 7 or 14 days. Send the invoice out on the day of the sale if possible. State your payment terms on your invoice, for instance "Payable on invoice in seven days, no statement sent" etc.
6. Follow up immediately if the invoices are not paid on time, a polite phone call is often all that is needed. You can call just to ask if they have received the invoice and that everything is in order – often that is all that is needed.



A timely reminder about fraud controls

Previously we outlined some of the ways in which organisations can prevent fraud. The recent case of an IHC worker who defrauded the organisation of around \$600,000 provides a timely reminder of the need to have effective internal controls.

Two of the most important features of effective internal controls are:

- a culture of honesty and ethical behaviour and
- effective separation of duties

While some employees are simply dishonest by nature, even honest employees under sufficient pressure may engage in dishonest behaviour. In fact the majority of fraud is committed by long-term and trusted employees. The creation of an ethical environment is effective because a large percentage of employee theft is brought to the attention of the employer by another employee. Studies also show that employees are less likely to steal if they believe there is a chance they will be caught. The best way to create such an environment is for management to put in place clear policies regarding expected standards of ethical behaviour and to demonstrate a low level of tolerance for any breaches of these policies.

The effective separation of duties ensures that employees cannot both initiate fraudulent transactions and then hide them by circumventing controls. The IHC fraud was carried out through the creation of fake invoices from fictitious companies over a period of two-and-a-half years, and highlights the importance of the following key controls:

1. The addition of new creditors or changes to the details of existing creditors such as bank account numbers should be subject to careful review. If your accounting system produces an audit trail report of creditor master file edits then this should be inspected by someone independent of the creditor maintenance function regularly. Otherwise a list of standing creditors can be kept by the person authorising invoices for payment, to be checked against the details on the invoices.

Where new creditors appear, they should be checked back to supporting documents to ensure



they are bona fide suppliers.

2. The payments authorisation function should be independent of the payments processing function. The segregation of invoice authorisation and payments processing will help to ensure that the review of invoices for payment is effective.

Of course the payments schedule then needs to be checked to ensure that only authorised payments have been processed.

3. All employees should be required to take regular leave.

Long term fraud is often uncovered simply because there is an opportunity for irregularities to come to light when they are not being actively concealed.

4. Employers should be alert for the signs of employee behaviour that typically accompany fraud.

Disgruntlement or stress may be attributable to underlying financial difficulties or frustrations. Another common warning sign is an

unexplained disparity between an employee's living standards and their obvious means of support. It has been reported that the IHC theft largely coincided with the building and lavish furnishing of a luxury lodge. The perpetrator here had conducted a successful business prior to her employment by IHC which at first glance might have explained her ability to fund the lodge, and it is always difficult for an employer to directly enquire into personal financial matters. But if an employer is alert to the warning signs, a timely check of the processes by which the misappropriation of funds might occur is an appropriate response.

If you can't afford fraud, now is the time to check your controls. Our Financial Risk Reviews have been designed to quickly identify weaknesses in key areas where fraud may occur.

Call us and we will be happy to discuss your needs on a no obligation basis.

Government signals tax changes

Over the last year or so, the Tax Working Group, made up of tax professionals, economists and the like have been reporting to the Government on possible changes to New Zealand's tax systems. The overall aim is for New Zealand to move towards a 'World Class' tax system as advocated by John Key

The Prime Minister has provided some clues as to which of the Tax Working Group's recommendations may proceed and those which are likely to be unpopular with voters and are therefore off the table.

The Government clearly wants a positive tax take from rental property investment. Investment in rental properties reportedly tops \$200 billion and whereas those investments generate income (rent and capital gains etc), tax losses allowed on those properties means that the Government is out of pocket by about \$150 million per year.

Mr Key has now ruled out a comprehensive capital gains tax, a land tax, and a risk free rate of return assessment method in regard to property. That leaves the options of reducing or eliminating depreciation allowances, or perhaps some form of loss quarantining or reduction in the use of LAQCs and - perhaps - a tightening of the rules to ensure more 'capital' gains are taxed. The Government has also signalled 'across the board' cuts to personal tax rates, with the changes mooted to either reduce the top personal tax rate (33% seems likely) or adjust the thresholds for all rates.

Part of this change is intended to compensate middle and lower tier taxpayers for a possible increase in GST.

The increase in GST to 15% seems very likely, but Mr Key did not confirm the rise, preferring to obtain further advice on the impact of the proposed rise on lower income earners. Working for families ('WFF') tax credits will also be revised to ensure, for example, high net worth individuals (perhaps with their wealth in Trusts) do not qualify and rental losses cannot be used to increase the tax credit, together with changes to fix some other anomalies.

There may also be a change to the personal attribution rules to further minimise the ability of highly paid individuals to quarantine their personal services income in companies and/or trusts, thereby avoiding the top tax rate. The need for such a change will however decline as the top personal tax rate reduces.



Annual business performance review

The completion and presentation of your annual accounts presents an opportunity to review with you - your past, present and future financial performance and to highlight various issues confronting the business.

In addition to a more in-depth assessment of the trading performance and current financial position, a financial health analysis quickly identifies financial strengths and possible weaknesses and the need to ensure primary targets are sought and constantly monitored. Ultimately, it is the increase in value of your business and/or the creation of sustainable growth that should be pursued and appropriately monitored - we need to work

with you in establishing your financial objectives (including the achievement of financial security) and determining a targeted equity value to give purpose to all business planning.

Where possible, we will be offering to carry out an 'Annual Business Performance Review' for all our business clients over the coming year. This will involve a meeting to fully review the 2010 year-end results and

tax implications, but also to look at developing with you 'a process for the future' to ensure the pursuit of financial strategies, tailor-made for your needs.

