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A year in NZ business resilience

A year ago our nation was reeling following the Pike River Mine disaster and the first earthquake in Christchurch. One year on Christchurch has suffered another devastating quake with tragic loss of life and major property damage; the Hawke's Bay has been hit by a huge storm that washed out large areas of productive farm land; across NZ gold kiwifruit crops have been decimated by the Psa virus (with infection confirmed to green crops also). Most recently the Bay of Plenty's beaches were polluted by oil and debris from the Rena grounded on Astrolabe Reef.

These critical events apart, businesses have to cope with localised crises, such as losing a contract, a major bad debt or a key staff member leaving. How to cope when adversity strikes? Dr Sven Hansen of the Resilience Institute succinctly advises 'be calm, advance steadily, prevail.' We expand on this approach.

Be calm, a clear head will deliver decisive, thoughtful action. Mayor Bob Parker's calm strength in the aftermath of the Christchurch earthquakes is a classic example.

When a business crisis hits don't be afraid to communicate with your staff, customers, suppliers, advisors, and bank manager! The load gets shared and a solution may come from any quarter.

Advance Steadily, focus on the basics and mobilise the resources you need to plan your recovery. Plant and Food Research are doing just that in developing Psa resistant strains of kiwifruit and when oil spilled from the Rena, thousands of volunteers were marshalled in the clean-up.

Look for innovative bounce back solutions to stem the loss. The newly opened Cashel Street 'pop-up' Mall has bought retailing back to central Christchurch in a vibrant way.

Prevail, recovery from business crises can be slow and frustrating but a relentless approach will get you there...

Our isolation has made us a resilient nation. When the chips are down we're generous and supportive towards each other. As 2011 comes to a close, be uplifted by our amazing 2011 Rugby World Cup win (24 years in the making) - when an All Black team troubled by injury, securing scraps of possession and facing an impassioned French Les Bleus, stoically won the final. They remained calm, advanced steadily and prevailed.

The Team at Chester Grey wishes you a very Happy Christmas and a prosperous 2012

Our offices are closed from 12noon on the 23rd December 2011 till 9am on the 9th January 2012



What's happening..



ASB Classic

ASB Tennis Centre, Auckland,
 2 January - 7 January 2012
 Sunshine, strawberries and a feast of great tennis are all on offer at the ASB Classic. It's the only place to be in January!



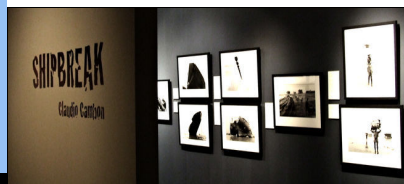
Lauren Lysaght: The Nita Gini Project

Gus Fisher Gallery, Auckland,
 4 Nov 2011-14 Jan 2012
 The Nita Gini Collection is an assembly of unorthodox objects, painstakingly constructed by hand, using cardboard, plaster of Paris, wood veneer, and other found materials



Tuborg Summer Sunday,

Music Mountain, Matakana,
 29 January 2012
 Tuborg Summer Sunday line-up features: Fly My Pretties, Kora, The Nudge, Little Bushman, Tahuna Breaks, Electric Wire Hustle, AHoriBuzz and @Peace.



Shipbreak - A Biology of Steel

Voyager Maritime Museum
 6 Sept 2011 - 31 Jan 2012
 A stunning photography exhibition by Claudio Cambon showing the dismantling of oil tanker SS Minole (mostly by hand) by Bangladeshi shipbreakers.

Business Perspective

'Tis the season to be jolly! - It's officially the silly season and you're probably faced with the dilemma of how to reward your team for their year's efforts. 2011 hasn't been easy but there are ways to make your team feel appreciated and boost job satisfaction without hemorrhaging cash.

Fun and fresh present ideas:

- A voucher for The Nile - NZ's biggest online book store
- Magazine subscriptions
- Get photos printed onto photo blocks or create a calendar online
- Send the girls off for a manicure
- Make your own gift baskets
- Secret Santa - cheesy but fun, and cheap!
- Make vouchers for an afternoon off to be used in December

- Hit Trade Me and source some retro desk ornaments, or wall hangings
- Organise a masseuse with a mobile massage table and treat everyone to a half hour de-stress

Frugal ways to treat the team and boost morale:

Don't be a Grinch, a few decorations and a tree brighten the season spirit

- Take the team to a local walking track and enjoy the sights
- Organise a picnic at the beach
- Borrow a boat and head out fishing
- Arrange a potluck BBQ at your house
- Have you ever played a round of bowls?
- Take the team wine tasting at a local winery
- Surprise the crew with Friday sushi or pizza

Book out your bach: avoid the tax headache

Recent years have seen a surge in popularity in the short-stay rental of holiday homes. The internet has made it easier to list, book and review baches and cribs which are available when owners aren't in residence.

Inland Revenue have recently issued a paper proposing new rules on mixed-use assets (including holiday homes) where there is a mixture of business and personal use, with revised criteria that should be adhered to when booking out the bach. But until the rules are formally changed, the current policies still apply.

Firstly, it's vital that your intentions are bona fide. You must market the holiday home in a commercial manner such as setting up and using a website for the property, registering the property with a reputable holiday home website or listing the property for short stay rental with local real estate agencies.



These efforts cannot be seen to be 'token', you should be accepting offers from suitable renters.

Secondly, your own (plus family and friends') use of the property must be diarised so you can determine the days in a year that the property was available for renting out.

If the property is owned by an individual or a family trust the expenses relating to the property including the utilities (power, rates, insurance), maintenance and interest on debt will be apportioned according to the number of days in a year the house was available for rent.



There are GST issues too. Short stay accommodation is a taxable supply for GST purposes so if the annual rent you are receiving exceeds \$60,000, the owning entity (individual, partnership, company or trust) is required to register for GST and return GST on the outputs (rent) and inputs (expenses and improvements) made and received.

This threshold may seem high but some do have more than one holiday home in the same entity! This threshold includes the market value of free or cheap use of the bach by persons associated to the owner.

The value of the property becomes a taxable supply when registration occurs and when the property is sold or the entity de-registered. Both the income tax and GST issues can be quite tricky so we recommend consulting us to make sure all the tax bases are covered correctly.

Year end computer detox!

By December most computers are feeling the effects of over-indulging, not on Christmas wine and chocolate, but as the result of viruses, document hoarding etc. Detox your computer to get it working faster, safer and more efficiently.

- Clean it. Literally. You'll be amazed what appears when you tip that keyboard upside down (only use anti-static wipes or a soft brush. NOT water!)
- Remove clutter, delete unwanted documents off the desktop and tidy up your folder structure
- Remove any programs that are no longer required
- Empty your recycle bin!
- Check that all necessary updates have been installed

- Is it time to look at upgrading your programmes?
- Update your security passwords!
- Double check your antivirus protection is up to date and won't expire while you're on holiday
- Make sure your firewall is active
- Perform a last minute virus scan
- Perform a disk cleanup and disk defragmentation (set this to run overnight as it may take several hours)
- Perform routine backups of all files and settings and archive files offsite



And remember... your computer needs a holiday too - make sure to shut down and turn off before you leave the office!

IRD Response to Penny & Hooper Case

The Facts: Two orthopedic surgeons (Penny & Hooper) formed companies and employed themselves, but only took some of the profits as salaries.

IRD adjusted their personal tax returns to include what they considered to be commercially realistic salaries. The Supreme Court agreed with the approach taken by IRD.

IRD's View:

IRD considers that tax avoidance may be present where:

1. The controllers of a business arrange for an entity (e.g. a trading trust or company) to operate and own the business. The operating entity employs or contracts the controllers;
2. Where the business has been transferred, the business operates substantially as it did before its transfer to the operating entity;
3. The business may not in substance be operated according to standard commercial business practices;
4. The degree to which the individual service providers or their family ultimately control the entity and cash flows from the business;
5. Whether there is a redistribution of the income to the person or to family members, usually via a trust, employment of the family members at inflated salaries, related party loans or the payment of management and other service fees to associates; and
6. The extent to which, as a consequence of the arrangement, significant tax benefits are obtained.

IRD recognise that it can sometimes be difficult to determine an appropriate remuneration for the individual. There is no exact science to weighing up the extent to which the individual is responsible for the business' profit (instead of other profit drivers). However, they consider that in most circumstances, the main profit driver of a service business is the personal skills and exertions of the controllers of the business - particularly where the business does not require a great deal of capital.

IRD are more likely to examine arrangements where the total remuneration and profit distributions received by the individual service provider is less than 80% of the total

distributions received by the controller, his/her family and associated entities. There may be particular reasons as to why the controllers of the business may not be adequately remunerated in a particular year. Examples of this include:

- It is financially prudent to retain some profits in the business because it is anticipated that the business may experience financial difficulties in the near future;
- The profits are set aside to acquire business assets in the next financial year.
- There may be other non-tax reasons why a business may pay the individual less than an arm's-length party would receive over the short-term. However, in those circumstances, IRD would accordingly expect to see no significant distributions being made to entities associated with the individual.

Current Status:

IRD has investigated a number of these arrangements over recent years and will continue to investigate similar arrangements where there are significant tax benefits. Where the tax avoidance rules apply, IRD will take steps to counteract the tax benefits obtained.

Late payment penalties and use of money interest may be applied to people entering into the type of arrangement described above. Shortfall penalties may also apply, although these may be reduced where a voluntary disclosure is made.

IRD have stated that where a taxpayer makes a full and complete voluntary disclosure in respect of Penny & Hooper type arrangements, they will only reassess the two most recently filed income tax returns. This is a concession as ordinarily the standard approach will be to go back four years.

Conclusion:

While opinion is divided on the circumstances in which the IRD are able to make reassessments, in light of these developments we recommend that the owners of companies and trading trusts that are employed in the business consider whether they are receiving a market salary for the work they do.

Conclusion continued on page 4

Five ways to save money on your Life and Disability Insurance

1. Have all your policies with one insurance company. Each company applies a policy (administration) fee. Being with one company means you only pay one fee.
2. Apply an excess to your health insurance. Excesses range from \$250 - \$6000. A \$300 excess equates to a 15% premium saving.
3. Look to link your life, trauma and permanent disablement benefits together. Having a linked policy (accelerated benefit) is cheaper than a standalone benefits.
4. Implement a longer wait (stand down) period to your Income Protection policy. Extending the wait period

from 4 to 13 weeks could reduce your premium by 50%.

5. Get quotes from various companies to compare with your current premium.

P.S. GET INSURANCE WHILE YOU ARE HEALTHY - DON'T SMOKE

If you would like to discuss your insurance's with Gerard Gill of Bizinsure Limited (formerly Designer Protection Limited), please contact Carole Smith (09) 277 8278 or email carole.smith@chestergrey.co.nz to make an appointment



Business Insurance
Specialists in Auckland
New Zealand



Welcome to Live Accounting

Xero. Online Accounting In Real-Time - Simple. Smart. Secure. Xero puts you in control of your business.

Recently we advised of our new Partnership with Xero - the online, real-time accounting solution. We are now launching our seminar series aimed to demonstrate and introduce you and your business to Xero.

Now's a great time to be considering a move to Xero with the New Year approaching. Our in-house seminars series starts Monday 12th December at 10am at our Manukau office - further dates listed below. To register please send an email to scott.mai@chestergrey.co.nz with the date you wish to attend, your name and contact phone number to register your attendance.

- **Monday 12th December 2011 - Level 2, 652 Great South Road, Manukau**
- **Monday 16th January 2012**
- **Monday 13th February 2012**
- **Monday 12th March 2012**

If you cannot join us then you may wish to register for our online webinars - all you need is an internet connection.

This is a short introduction to Xero and the benefits of Cloud computing lasting approximately 45 minutes and we will be providing morning tea (unfortunately if you wish to attend our online webinars you'll have to supply your own)

Webinar dates

If you wish to register for our online webinars please email scott.mai@chestergrey.co.nz with the date you wish to attend and include your name and contact number in the email - we will send you an email with the registration details:

- **Friday 16th December 2011**
- **Friday 20th January 2012**
- **Friday 17th February 2012**
- **Friday 16th March 2012**

For more information please visit our Xero pages on our website www.chestergrey.co.nz/cg_biztech/xero or email Scott Mai.

IRD Response to Penny & Hooper Case continued

As noted the IRD have indicated they will be active in this area and to encourage voluntary disclosures are offering a concessionary treatment in some circumstances. In some situations business owners may want to consider making a voluntary disclosure to IRD in order to minimise shortfall penalties in respect of previous years' tax returns. Therefore if you consider that you may not have been paid a market salary it is best to seek tax advice now rather than leaving it until the end of the year.

One of the advantages for doing this is that if it is appropriate to revise your salary going forward you have the opportunity to adjust provisional tax amounts or make a voluntary payment of tax so that "use of money" interest can be minimised.

If you have any concerns about the impact of the Penny and Hooper decision on your business, please contact your Chester Grey Partner or Tim Appleton, Tax Manager tim.appleton@chestergrey.co.nz

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