

client newsletter

Autumn 2013

Risk and Reward



Creating a sustainable company culture

Businesses performing well in the current climate recognise the opportunities that lie within the office walls... your key staff! Developing a healthy business culture will prove a valuable investment, helping you to retain, motivate, and propel key team members and your business. It all starts with strong values and capable leadership.

Fear is a massive barrier to innovation and improvement. Employees face many everyday workplace fears, including: fear of making a mistake, being made redundant, of public speaking, of dealing with a disgruntled client and fear of conflict.

Communication is an effective tool in minimising workplace fear. Through consistent, clear communication and greater employee engagement, you can develop an optimal mix of skills for the future, while fostering awareness, collaboration, and mutual trust. When your team feel trusted, their sense of belonging will grow, as will their confidence, their achievements and their resounding loyalty to you and your business.

- 1. Express the business' core values.** If your team truly understand the principles behind the business, then they need not be governed by a set of defined rules. Grant them confidence to act honourably and sensibly of their own accord.
- 2. Develop a strong sense of trust.** Be consistent, transparent, and follow through on promises. Relationships thrive on clarity and you'll get out what you put in.

- 3. Openness from the top.** Encourage open discussions, and always air conflict. Accept that everyone is different and everyone should be comfortable telling you if they're unhappy or disappointed by your actions. Listen, show compassion and accept feelings whether or not you agree with them.
- 4. Minimise fear of rejection, encourage appropriate risk-taking.** Your team will willingly experiment and thrive on developing better processes and products.
- 5. Avoid blame, focus on problem solving.** Team members must be accountable for their mistakes, but blaming and shaming only destroys confidence and stifles creativity. Encourage people to openly accept personal responsibility.
- 6. Optimism over pessimism.** Positivity spreads like wildfire... and setbacks can prove to be great opportunities. Be patient and find the positive outcome.
- 7. Collaboration builds relationships and increases output.** Don't encourage narrow minded competitiveness. Collaborate and bring your team together.
- 8. Healthy relationships are built on mutual respect.** This goes for your staff and your clients or customers - respect is fundamental. Especially the kind where you respect someone even if they disagree with you, annoy or oppose you.
- 9. Let everyone have their say.** Dominant personalities can outshine quieter teammates. Encourage those less likely to put their hand up and make it clear that all opinions and ideas are treated equal.
- 10. Recognise effort and success.** As the boss, you stand to learn a lot from your team. Be specific with praise, share the love and keep morale at an optimum.

Fear generally develops in an information vacuum. In the absence of truth, employees will assume negatively. Regularly communicate the state of your business, its future direction and any potential hurdles with your team.

Honest and clear communication will promote greater respect for your leadership. It can be a springboard to better performance for your team and your business.



'None of us are as smart as all of us.' Japanese Proverb

Tax Talk



Changes to rates and thresholds as of 1 April 2013:

Working for Families

The net income level guaranteed by the minimum family tax credit will rise from \$22,568 to \$22,724.

ACC

The government announced that the 2013/2014 levy rates will remain at their current levels. However they have introduced three new initiatives:

- Extended Workplace Safety Discounts
- Vehicle Classification System
- Fleet Safety Incentive Programme

We will be following up on these changes in future issues of Wilco, but in the meantime, visit the following website for more information:

www.acc.co.nz/news/WPC116639

KiwiSaver

The minimum contribution rate for employers and employees will rise to 3% from April.

Primary and Secondary School Children

From 1 April 2013 PAYE must be deducted from payments of salary/wages or schedular payments to school children.

Student loan changes

The repayment rate for student loan deductions increases from 10 to 12 cents per dollar earned over the current threshold of \$19,084 per annum.



Changes to the tax treatment of commercial lease payments

If you're considering entering or exiting a commercial lease arrangement in the coming months we advise you to contact us to discuss the potential tax implications arising from proposed changes effective 1 April 2013.

Lease inducement payments are a lump sum paid by a commercial landlord to a tenant providing incentive to enter a lease arrangement in times of high lease vacancy. Currently such payments are treated as deductible for the landlord and as capital or non-taxable receipts for the tenant.

The proposed changes will make lease inducement payments taxable income for the tenant with the income spread evenly over the lease term. Landlords will now also have to spread the deduction over the lease term.

Lease surrender payments are a lump sum paid by the tenant to a landlord to exit a long term lease. Generally lease surrender payments are treated as taxable to the landlord, but non-deductible to the tenant. In future these payments will be made tax deductible to the tenant.

Both proposed changes will only apply to leases entered on or after 1 April 2013. Effectively landlords and tenants will in future receive symmetrical tax treatment for receipts and payments.



KiwiSaver employer contributions and minimum wage

A recent case must have given some employers pause for thought. The Employment Court has ruled that employers must pay KiwiSaver contributions in addition to the minimum wage, not inclusive in the minimum wage. In a 'total remuneration' package, the gross wage must amount to at least the minimum wage plus compulsory employer contributions. Anything less is a breach of the Minimum Wage Act 1983.

Case Study: Employees were being paid the minimum wage, with their employment agreements stating remuneration was 'inclusive of KiwiSaver compulsory employer contributions'. The KiwiSaver Act 2006 allows total remuneration packages, provided that mandatory employer contributions are accounted for.

The Court found that employees have an inalienable right to receive the minimum rate irrespective of anything in any other statute or agreement. A payment of a compulsory employer contribution was not 'payment for ... work' performed by an employee for the purposes of the Minimum Wage Act. Here, the Court said, the employer was effectively expecting its employees to pay for the employer contributions.

In themselves, the caregivers' agreements did not infringe the requirement to account for the contributions. The Court said there did not need to be a numerical figure for the deduction; simply a statement as to how that figure is arrived at.



'A good plan today is better than a perfect plan tomorrow' - old proverb ted.

New rules for mixed-use assets

In the 2012 budget the government announced proposed changes to the rules surrounding the deductibility of expenditure incurred for mixed-use assets. The main purpose of the change is to reduce the ability for people to offset the holding costs of their assets by renting the asset occasionally. Mixed-use assets include such things as bachs, boats and aircraft. Owners still need to apportion the use of their assets into taxable and non taxable deductions, but the apportioning rules have changed.



An asset will fall into the apportioning rules if:

- It is used privately by owner or relative
- It is used to generate income
- There are more than 62 days when the asset is unused
- It costs more than \$50,000

The rate changes are still in the process of becoming law but once in place, they are likely to apply for the next financial year. The proposed changes to the apportioning of mixed-use assets are likely to extend to the deductibility of interest where you have more than one entity. If you have mixed-use assets, the impact of these changes may be significant and we will let you know as soon as we have an update. In the meantime, if you're concerned about how these changes may affect you, talk to us today to find out more.

Are you ready for 2013 payroll changes?

For more information on 2013 payroll changes effective April 1, visit the IRD website and use their helpful checklist. Visit the website and follow the simple step by step guide from the homepage: www.ird.govt.nz

Timely Reminders

- The proposed starting out wage will be available 1 April
- Terminal tax for clients on our agency list is due 7 April (if balance date is between March and September)

Business Perspective

Redcurrent

Moving a business online is no menial task. It requires in-depth planning, accurate timing and the right team to pull it off. Having spent years creating beautiful bricks and mortar stores, the Redcurrent team found it a hard decision to move a business that is focused on appealing to the five senses, from an actual environment to a virtual one. It was one of the main reasons preventing Audrey McHardy and her daughter Rebecca, from making the move earlier.

The family duo began Redcurrent in 1999 after discovering there was a gap in the market for beautiful homewares. Audrey trekked back and forth to Bali with requests from friends for beautiful collectable items which she then sold out of an old shed at her Havelock North property. As sales grew, so did the demand for a larger store which they opened later that same year.

Since then, Redcurrent has grown substantially and now employs over 100 staff throughout 10 stores nationwide. With a focus on giftware, homewares, jewellery, baby wear and fragrance, they source their products from Hong Kong, India, Indonesia, Vietnam and Spain, with suppliers also based in Australia and New Zealand.

The decision to move online was made to coincide with a complete business rebrand that took almost two years. Calling in the experts, they recruited Havelock North based company Mogul, to design and build the site. Kain was passionate about the move and was specific with her instructions to the team. 'We'd spent a lot of time and energy making Redcurrent a beautiful place to be, so we wanted our online store to be just as beautiful. Otherwise we just wouldn't do it. If it was any less than beautiful, it would be potentially damaging to our brand, because that's what we stand for; that's the essence of Redcurrent and I think we do it well.'



Online sales have swiftly picked up as people living overseas have discovered the delights of Redcurrent. 'We feel like we've gone global,' Kain muses. But it's not just overseas buyers. Male shoppers are enjoying the confidence that cyberspace allows and are proving to be among the top online customers. 'We also deliver to many rural areas. The online store is great because we're now covering many areas of New Zealand that we weren't before.'

It hasn't all been easy sailing though and the biggest challenge for the team came in 2011 when the devastating earthquakes threatened the Victoria Street store in Christchurch. As part of the red zone, it was uncertain whether the store would ever exist again. A decision was made to open a second Christchurch store at the Colombo in Sydenham. The move was worthwhile and this is now one of the most successful Redcurrent stores.



Kain is quick to point out that the assistance from her accountant has been invaluable, 'for the first ten years our accountant gave us a lot of advice and patiently explained some basic accounting fundamentals. He is amazed that I still can't read a balance sheet but he has helped me become very confident at running the business and driving profitability up and increasing revenue.'

Although Redcurrent has a slightly unorthodox business structure, with no board of directors or stakeholders, their business ethos is simple: 'I think one of our biggest strengths is that we love what we do, we love the product and we love working with each other as a team. We run the business on good principles, we treat our staff well, pay our bills on time and we care about our suppliers.'

www.redcurrent.co.nz

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.



Aitken Sinko
ACCOUNTING
CHARTERED ACCOUNTANTS - BUSINESS & TAX ADVISORS