trialbalance
The official newsletter of NZ CA Limited
nz ca
AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS
March 2024 Issue 86

"The secret to getting ahead is getting started."
– Mark Twain

STRESS & PRESSURE
How are they different?

While stress and pressure are related concepts and often used interchangeably, they refer to different aspects of experience and can have distinct effects on an individual. Here are the key differences between stress and pressure:

DEFINITION:
Stress: Stress is a physiological and **psychological response** to a perceived threat or challenge. It is the body's reaction to any demand or change that requires adjustment.
Pressure: Pressure is the **external force or demands placed on an individual.** It can come from various sources such as work, deadlines, expectations, or responsibilities.

SOURCE:
Stress: Stress can arise from **internal factors** (such as personal expectations, fears, or worries) **or external factors** (such as work demands, relationship issues, or financial problems).
Pressure: Pressure is typically external and results from **expectations or demands** imposed by the environment, society, or specific situations.

RESPONSE:
Stress: It is the body's response to the **perception of a threat**, and it can manifest as emotional, physical, or behavioural symptoms.
Pressure: Pressure is the **external force or expectation**, and individuals may feel pressure to perform, meet deadlines, or fulfil expectations.

DURATION:
Stress: It can be a temporary response to a **specific situation**, or it can become chronic if the perceived threats persist over an **extended period.**
Pressure: Pressure is often associated with specific tasks, events, or responsibilities and may be time-limited.

PERCEPTION:
Stress: It is a **subjective experience**, and what is stressful for one person may not be stressful for another. It depends on individual perceptions and coping mechanisms.
Pressure: While pressure is external, how individuals perceive and respond to it can vary. Some individuals may thrive under pressure, while others may find it overwhelming.

CONSEQUENCES:
Stress: Chronic stress can have **negative effects** on physical and mental health, leading to issues such as anxiety, depression, or physical health problems.
Pressure: While pressure can motivate individuals to perform well, excessive or prolonged pressure without adequate coping mechanisms can contribute to stress and its associated negative consequences.

Remember, stress is a response, while pressure is an external force or demand. Pressure can contribute to stress, but not all pressure leads to stress, as individuals may respond to pressure in different ways based on their perceptions and coping skills.

Source: www.thementalfitnesscompany.com

IN THIS ISSUE

8 EMPLOYEE RETENTION STRATEGIES in a competitive market

Retaining top talent in a competitive market requires a strategic and proactive approach. Here are eight employee retention strategies you can employ to keep employees engaged and happy.

1 Offer competitive compensation and benefits

Ensure that your employees are compensated fairly and receive attractive benefits packages. Conduct regular market research to stay informed about industry standards and adjust your offerings accordingly. Providing perks like flexible work arrangements, healthcare coverage, and professional development opportunities can enhance employee satisfaction and loyalty.

2 Create a positive work culture

Foster a supportive and inclusive work environment where employees feel valued and respected. Encourage open communication, provide constructive feedback, and recognise and reward exceptional performance. Promote work-life balance and prioritise employee well-being. A positive culture can significantly contribute to employee engagement and retention.

3 Career development and growth opportunities

Establish clear career paths and provide growth opportunities within the organisation. Offer training programs, mentorship opportunities, and support employees' professional development goals. Regularly review employees' performance, provide feedback, and identify areas for growth. Employees who see a future and potential for advancement are more likely to stay with the company.

4 Enhance work-life balance

Promote work-life balance by implementing policies that support flexible work arrangements, such as remote work options, flexible scheduling, or compressed work weeks. Encourage employees to take holidays and time off to recharge. Supporting work-life balance demonstrates your commitment to employee well-being and can help retain top talent.

5 Recognise and reward outstanding performance

Implement a recognition and rewards program to acknowledge and appreciate employees' achievements. Recognise outstanding contributions publicly, offer monetary rewards, gifts, or prizes, or provide non-monetary incentives like additional time off, special projects, or professional development opportunities. Feeling valued and appreciated boosts employee morale and encourages them to stay.

6 Foster a sense of purpose

Communicate your organisation's mission, vision, and values clearly, and ensure employees understand how their work contributes to the overall objectives. Align their individual goals with the company's goals to create a sense of purpose and fulfilment. Engaged employees who connect with the organisation's purpose are more likely to remain loyal.

7 Conduct 'stay' interviews and act on feedback

Regularly conduct stay interviews to understand employees' motivations, concerns, and aspirations. Create an environment that enables open and honest conversations about their experiences, job satisfaction, and areas for improvement. Use the feedback received to make meaningful changes that address concerns and enhance employee retention.

8 Provide leadership and growth opportunities

Invest in leadership development programs to cultivate future leaders within the organisation. Provide opportunities for employees to take on new challenges, lead projects, or mentor others. When employees feel empowered and see a clear path for growth, they are more likely to stay and contribute to the organisation's success.

Remember, each employee is unique, so it's essential to personalise your approach and consider their individual needs and aspirations. Regularly reassess and adapt your employee retention strategies to ensure you remain competitive in the market and retain your top talent.

www.eclipserecruitmentment.co.nz

Tax changes loom for rental income

Changes are coming for tax on rental income.

RESIDENTIAL RENTAL

For the year ending 31 March 2024 the interest deduction allowed for those who owned properties on 27 March 2021 will be reduced to 50%. The government had indicated they will keep the rule for the 2024 Tax Year then increase the deductions to 80% in the year to March 2025 and 100% in the year to March 2026.

Presumably, there will be no more need for the proposed build-to-rent exclusion for those building 20 or more dwellings on one or adjoining sites.

We would hope that anyone who has bought a property since 27 March 2021 or buys between now and when the government changes the law will be able to claim interest again. We will have to wait to see what the rules are going to be.

COMMERCIAL RENTAL

The depreciation deduction, which is allowed on commercial buildings but not residential, is going to be withdrawn from 1 April 2024.

BRIGHT LINE

Residential property sold within 10 years (in some cases five years) of purchase is subject to the Bright Line Test. This means the profit made forms part of taxable income. The government has announced the time limit for holding property to avoid the profit on sale becoming taxable is going to be reduced to two years from 1 July 2024. This has retrospective effect such that any property purchased two years or more prior to this date will automatically be outside the bright line period.

Reminder: The profit made on property bought with the intention of selling for a profit is still taxable income and always has been.

Purchasing a rental property for the purpose of ongoing rental income, with the knowledge you will get a capital gain in the long run, is not considered purchase with the intention of selling for a profit. We all know property goes up in value over time.

> "Success is not the key to happiness. Happiness is the key to success. If you love what you are doing, you will be successful."
> – Albert Schweitzer

Family trust shareholder – pay dividends now?

If your company shares are owned by your family trust, consider paying the maximum possible dividend before 31 March 2024. The income tax rate in the family trust will probably be increasing to 39% from 1 April 2024. Therefore, any dividend declared from that date onwards is going to incur an extra six cents in the dollar of tax. The law has not yet been passed, however the IRD recently released guidelines on what might constitute tax avoidance in terms of the trust rate moving to 39% so it would seem it is likely to happen.

Family trusts and children who grow up

The maximum amount you can distribute from a family trust to a child who is under the age of 16 on the trust balance date is $1,000 to still have this taxed at the child's personal tax rate.

If you distribute just one dollar more, the tax rate becomes the same as for the trust.

It's easy for us, with our busy business lives, to not notice when a child goes over the age of 16. Instead of paying 39% tax on the trust income, it could be handy to allocate some of its income to the youngster, perhaps to help with tertiary education. Once the age of 16 has been reached, the amount you can allocate to a young person is no longer limited.

GST registration for part-time business

You do not have the right to continue to be registered for GST if your business is not being carried on continuously or regularly. Sometimes clients either take a salaried job, operating their business part-time, or drift into semi-retirement. They need to look at the amount of work they do to see whether they still comply with the "continuously or regularly" criteria. If they don't, they need to deregister for GST and pay GST on the market value of any assets they retain.

Loans to your company

If you borrow money for your company, you should make sure it is the company that signs up for the loan. If the money is lent to you and just put in the company, then the interest is not tax deductible. It is possible to get around the problem, but to do so adds to your costs. There's also the risk of Inland Revenue not agreeing with what you might do.

BUSINESS VALUATION

– What is your business worth?

A guide to better understand how our business valuation service shows the true value of your business.

How much of your wealth is tied up in your business?

When you have most of your financial 'eggs' in one basket, it is a good idea to watch that basket! Successful business owners check the value of their business every year, as part of their wealth creation and succession plan.

Periodic indicative valuations of the business allow for a way to measure the impact of:

- consolidating strengths;
- fixing weaknesses;
- opportunities taken;
- and the minimizing of threats executed.

This allows for realistic expectations between a perceived current business value and the target business value commonly known as the business value gap. The game is to reduce the gap!

If you have never had a business valuation done or have no idea what your business is worth, it's a common occurrence that many business owners talk to us about.

It's also why we decided to put together this simple, easy to understand article.

We know from our experience that valuing businesses is a specialist area which requires industry knowledge, benchmarking and understanding the true risk and value drivers within a business.

We aim to provide some better understanding on what, how and when of business valuation. Plus, we'll give you some tips and simple ways to make your business more valuable as well.

What is a Business Valuation?

A business valuation is a process whereby a set of methods are used to determine the economic value (quantitative and qualitative) of a whole business or company unit. This ascertains a value at which company shares (equity), or business enterprise (stock, plant & equipment, intangibles) can be bought or sold.

Understanding the Difference between Share Value and Business Enterprise Value

How do you value a business?

We lift the hood and look at what the risk and return within the business looks like to make an assessment.

Typically, as a starting point we get a good understanding by asking key questions, reviewing documentation and obtaining financial statements of a relevant period e.g., the last three years.

Once we understand the risk and value drivers within the business, and its relationship with the current industry and economic climate, we can ascertain which approach and methodology is best suited.

There are different valuation approaches and methodologies for consideration:

- Asset Based – Current value of all assets less all liabilities.
- Earnings Based – Traditionally the most frequently chosen to value SME's
- Market Based – Industry comparable data

Earnings based valuation method is the most popular method to use. In this, we use:

- WANEBIT – Weighted Average Notional Earnings Before Interest and Tax
- Capitalisation Rates - Business Cap Rate/ Profit Multiple – A patented and scientific business value assessment algorithm which caps the value of the business based on its after-tax cash flow and risk profile.

Good growth, stability and return on investment (ROI) will mean stronger value, however if there are glaring cracks internally and externally, the valuation will reflect this. Most business buyers aren't looking for a risky purchase. They want something reliable and robust.

Source: www.rsmnz.co.nz

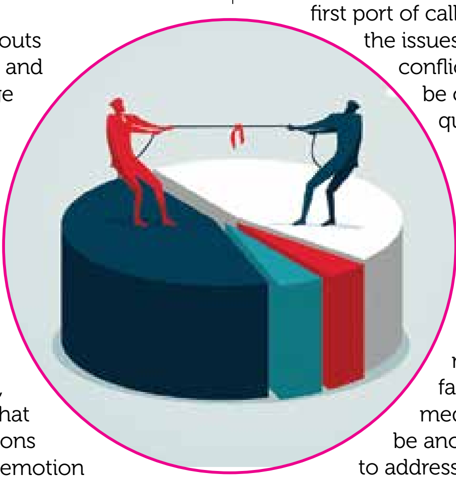
Advice from a tree

Stand tall and be proud.
Go out on a limb.
Reach for the sky.
Adapt to change.
Branch out.
Stay grounded.
Remember your roots.
Drink plenty of water.
Get rid of dead wood.
Be confident.
Never stop growing.
Bend before you break.
Turn over a new leaf.
Enjoy the view.
Source: www.thementalfitnesscompany.com

Shareholder fallouts

Much like a relationship, when venturing into business with others, you place trust in your fellow shareholders. When this trust is breached, or broken, the effects can be significant.

Shareholder fallouts can become toxic and cause a wide range of issues within a company. Profitable businesses are jeopardized when harmony on the board is not kept.



Shareholder's judgement becomes affected, and it is possible that actions and decisions are influenced by emotion rather than logic.

What Causes Shareholder Disputes?
Shareholder disputes can have many causes.

Common causes include shareholders not agreeing on the direction of the company, personal disputes between shareholders, financial benefits and remuneration, as well as disagreements between shareholders for not pulling their respective weight in terms of the company moving forward.

Ways to solve Shareholder Disputes:
Shareholder disputes are not always avoidable. However, there are measures that can be taken to mitigate the chance of them occurring and/or escalating.

● **Shareholder Agreements:**
Shareholders can agree to sign a shareholder agreement in which they outline the following:

- Their responsibilities as shareholders
- Details on how the business will be managed
- How to deal with disputes/ disagreements
- Exit procedures for shareholders Formal agreements can be effective when it comes to minimising disputes. The agreement removes ambiguities and establishes more certainty on how the company is to be run, where shareholders stand, and what should happen if a dispute arises.

● **Negotiation/Mediations:**
Once shareholder disputes arise, the first port of call is to negotiate the issues causing the conflict. This can usually be cost-effective and quick.

Negotiations often result in compromises which leads the company and its shareholders to a suitable solution.

If standard negotiations fall short, then mediation may be another option to address the dispute.

Mediation, however, often involves extra time and cost.

● **Buyouts/Exit strategies:**
If an agreement or compromise cannot be reached through negotiations or mediation, then buying out the disgruntled shareholder(s) may be one of the only options left. A buyout requires a valuation of the company's shares, which usually requires an independent party to conduct the valuation due to conflicting perspectives on the value of the shares.

- This process is not always quick, and it is not foolproof. These shares are required to be purchased for the buyout to be executed. Existing shareholders or external investors may not agree upon the valuation.
- A well assembled shareholder agreement should detail any processes for a shareholder buyout.

● **Litigation:**
If none of the above-mentioned methods can remedy the shareholder conflict, then litigation may the only option left. Under Section 174 of the Companies Act, shareholders can seek relief if the business is being operated in such a way that it oppressive, unfairly discriminatory or unfairly prejudicial, and can apply to the Court for assistance.

Litigation can however to be expensive and protracted for the shareholders, not to mention a distraction for the company's progress.

Tax calendar

7 April 2024
Terminal tax for 2023 (March, April, May balance dates). For all clients except those who have lost their extension of time privilege.
7 May 2024
Third instalment of 2024 Provisional Tax (March balance date)
28 May 2024
First instalment 2025 Provisional Tax (December balance date)
31 May 2024
Deadline for Fringe Benefits Tax returns.

NZ CA
AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS

RSM

RSM New Zealand Group Limited
Auckland, Auckland Central, Auckland North

Carl Cachopa	Lyle Irwin	Bhavika Topiwala
Wei Chen	Lloyd Kirby	Wayne Tukiri
Ben Cooper	Lisa Murphy	Nicola Turner
Craig Cooper	Tony Oliver	Colin Wilson
Nigel de Frere	Geetesh Raniga	Charles Worth
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Brophy Knight Limited	- Ashburton	(03) 308-5104
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	- Christchurch	(03) 343-4012
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McDonald Vague	- Auckland	(09) 303-0506
McIntyre Dick & Partners	- Invercargill	(03) 211-0801
McKenzie & Co	- Oamaru	(03) 434-7944
nsaTax Limited	- Auckland	(09) 309-6505
RSM New Zealand	- Auckland	(09) 271-4527
	- Auckland North	(09) 414-6262
	- Auckland Central	(09) 367-1656
Southey Sayer	- Masterton	(06) 370-0811
Strettons	- Taupo	(07) 376-1700
Sudburys Limited	- Whangarei	(09) 430-4888
Vazey Child Limited	- Hamilton	(07) 838-2169
Wallace Diack	- Blenheim	(03) 578-7389
Whitelaw Weber Limited	- Kerikeri	(09) 407-7117
	- Kaikohe	(09) 401-0991
	- Kaitaia	(09) 408-1220
YRW Limited	- Tauranga	(07) 578-0069

Changes in Particulars
Please remember to let us know of any changes in:
• Physical address • E-mail address • Phone and/or fax numbers
• Shareholdings • Directorships • Trustees
Or anything else that may be relevant.

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AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS

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Six things your business needs to do NOW

Here are six-step steps that organisations can take now in planning for a positive outcome in the future.

1 Plan well
Planning is key. It is important to look at the numbers and consider where you are going to be in six, twelve or eighteen months' time and plan a way forward.

2 Forecast your future
Build forecasts and projections within this plan. Businesses should involve their advisors to make the best forecast possible which can be adapted as necessary.

3 Engage with the right stakeholders
Engage with all significant financial stakeholders, banks, investors and funders to ensure there is transparency and support for the plan of action.

4 Think Differently
Industries are changing rapidly. Beyond adapting to the current environment, organisations should think ahead to be prepared for different scenarios.

5 Adapt and be flexible
Be prepared to adapt and be flexible. Put financial modelling at the centre of your plans. Actively monitor these models and be open to adapting the approach as required.

6 Be prepared for the unexpected
This is about creating headroom in your facilities to enable you to cope with the unexpected, whether good or bad.

In summary, there is much for businesses in the middle market to consider. However, by creating a robust plan of action there is a far greater opportunity to achieve a successful outcome. We have the tools to assist with your planning and trialling different scenarios. Please give us a call.

Deal with important stuff now, before balance date

You need to think about the following before your balance date, which is 31 March for most businesses.

Bad debts
Don't forget to write off bad debts. It is illegal to backdate writing off bad debts, so go through your debtors ledger soon and determine which businesses are not likely to pay you. You must show you have taken all reasonable steps to collect the debt and also evidence it has been written off. If your business is very small, perhaps the best evidence you can show is to write on a copy of the invoice that you have written it off, sign it and put in the date.

Stock
Cull your stock. If some of it is only fit for the tip then get rid of it. If it is still on your premises, it has to be included. Remember, stock has to be valued at its cost, including the cost of getting it into your shop, warehouse etc. You may use market value, if it is lower than cost, instead of cost for an item, but you will need to keep evidence to show where you could have bought the item at the lower price.

Motor vehicle
If you are going to make a claim for use of your vehicle for business on a kilometre rate basis, remember to read your odometer at the end of the day on balance date. (See vehicle logbook below)

Insurance premiums
If you get to the end of the financial year and you're paying off an insurance policy, make sure you have an agreed arrangement for payment with the insurance company. If you haven't and the insurance company would have a right to cancel your policy for unpaid premiums (even though it would be unlikely to do so), you might not be entitled to bring the whole of the unpaid portion into account as a sundry creditor (also known as Accounts Payable).

Vehicle logbook
If you need to keep a vehicle logbook, this needs to be for a continuous typical three months of vehicle running. A new recording needs to be made once every three years (or more often if there is a major change – more than 20%) in the proportion of business and private running.

Year-end Tax Implications

There are a number of issues that need to be considered when preparing year-end financial statements.

The timing and treatment of certain expense items can have tax implications, and in some cases the accounting treatments applied can result in tax efficiencies.

Typically accountants in conjunction with the business owners, need to consider the treatment of certain expenditure in particular whether it can be bought forward into the current period. The general rule is that business expenditure is deductible in the tax year that is incurred.

PREPAID EXPENSES

Repairs and Maintenance

If carried out before year end, then the amount will be deductible in the current year. The total cost of a service contract is deductible if it has less than three months to run at balance date and costs less than $23,000 for a full year. If purchasing a fixed asset and there is a warranty or service contract, ensure the warranty or service contract is separately identified, as these are deductible.

Stationery

If re-stocking is about to occur in April or May, consider moving this forward to March. The total costs of stationery are deductible in the year these are paid.

Travel and Accommodation

Advance bookings for business related travel and hotel or motel accommodation are deductible provided it is not more than six months in advance and does not exceed $14,000.

Subscriptions

Newspapers, journals and periodicals are deductible without adding back unexpired amounts. Associated memberships are tax deductible provided they extend no more than 12 months after balance date and the subscription does not exceed $6,000 Insurance

Insurance

Insurance premiums are deductible provided they are not prepaid for more than 12 months, and the total amount of such expenditure incurred in the income year in respect of the contract does not exceed $12,000, you don't have to adjust it for the prepaid period.

Advertising

If advertising is paid prior to year-end and if the period of the advertising relates to no more than 6 months after balance date and the advanced portion is less than $14,000, then it is fully deductible in the current year.

Rent

Prepaid rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than $26,000.

Livestock

Prepaid expenses for the lease or bailment of livestock or bloodstock are deductible provided they are not prepaid for more than six months, and the amount does not exceed $26,000.

Consumables

Consumables used in conjunction with but not forming part of the final product can be deducted in the year of purchase, provided total stocks at year end do not exceed $58,000.

Telephone

Payments for the use or maintenance of telephone and other communication equipment are deductible if not prepaid for more than two months.

Services

Prepaid costs for services, other than those mentioned above, of up to $14,000 and for no more than six months are deductible in the current year.

Motor vehicles

Motor vehicle registration and driver licence fees paid in advance are fully deductible in the current year.

Leave Provisions/Bonuses

Amounts owing at balance date for holiday pay and long service leave is only deductible if paid out within 63 days of year end. If you want to pay staff bonuses relating to the tax year, they must be paid within 63 days of the business's tax balance date to be claimable for that year.

Bad Debts

Bad debts are deductible only in the year that they are written off. Bad debts must be written off before balance date.

OTHER ITEMS TO CONSIDER AT BALANCE DATE:

Accounts Receivable

Every year we have clients who do not understand they must pay tax on all their earnings, including money not yet received. March invoices paid in April are part of year end income as are April Invoices for March work.

Stock and Work in Progress

You must count and value your trading stock at balance date, unless it is less than $10,000 and your sales are less than $1.3 million. Keep your stock sheets to show Inland Revenue if they ask for them. Dispose of obsolete stock now as it must be valued at its cost, unless you can prove it has a lower market price. A guess is not acceptable. You have to find evidence to support the price. This can be difficult. Work in progress must be valued unless your business is only providing services which cannot yet be billed.

Overseas Income

If you receive overseas income and are a tax resident in New Zealand, you will be taxed in New Zealand on your worldwide income. There is a temporary tax exemption available for those residents who are 'transitional tax residents' for a four year period (please contact us for more details).

As the tax treatment of overseas income is quite specific it is important that you advise us of all the types and amounts of overseas income you have.

There are many issues to consider at year end. We strongly recommend you talk to your accountant/tax advisor before the year end to minimise negative consequences and avoid disappointments.

Kilometre rate

If you claim for the running costs of your motor vehicle on a kilometre rate basis, make a note to get an odometer reading on balance date. The rate is calculated based on the total number of kilometres travelled in the year and the proportion of them used for business. There is a two-step process for the calculation.

Vehicle logbook

If you need to keep a logbook you must do so for a consecutive three-month period at least once every three years.

Maintenance of equipment

Any maintenance you carry out before the end of your financial year is tax-deductible for that year. If you are planning maintenance in the short term, it might save you tax if you got on with it before the end of the financial year. Maintenance means bringing the asset back up to its original condition.