



## FEBRUARY 2012

### USEFUL SNIPPETS

#### GST TREATMENT OF CREDIT CARD SURCHARGES

Agreements reached in 2009 between the Commerce Commission and credit card companies allow retailers to make an additional charge or fee (the surcharge) where payment for goods or services is made by credit card. This is charged by some retailers as reimbursement for the fee they are charged by the credit card issuer.

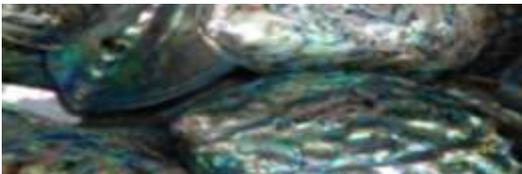
The GST treatment of such a surcharge is often inconsistent. The Inland Revenue Department considers the surcharge to be part of the underlying supply and it should therefore be treated the same for GST purposes.

This means, if the underlying supply is subject to GST, so is the surcharge.

#### STUDENT LOAN CHANGES

The Student Loan Scheme Act 2011 introduced changes that improve the way student loans are managed, repaid and administered. One such change is a new student loan repayment code to take effect 1 April 2012.

If you have employees with student loans, they will be using an "SL" repayment code unless they are exempt. Your employee is now able make extra student loan deductions from their salary or wage on top of their compulsory repayment deduction. In this case the employer will need to use the new "SLBOR" repayment code on their Employers' Monthly Schedule.



#### THE FUTURE ACCORDING TO PITA!

Well known Christchurch Accountant, Pita Alexander, whose practice is 98 per cent farming business, is an inveterate writer of advice to his clients and the wider community and has recorded these thoughts on the future to come!:

- It is not difficult to foresee within 20 years a "Licence to Operate a Rural Business" being required by farming couples. It is coming from urban concerns about pesticides, water quality, animal welfare, effluent, genetically modified food, nitrate fertiliser use, water rights and shortages, livestock on roads, food traceability and generally town meeting country head on.
- The customer is now the boss. We need to merge with this goalpost movement, rather than be confrontational about customer demands.
- The future of New Zealand sooner or later as an efficient, clean food provider will be determined by China and India.
- The global food crisis coming can only be to New Zealand's benefit as ten New Zealands are added to the world population each year and huge farming land tracts in Africa are being grabbed by several countries wanting to secure food supplies.

#### GST - A CASE OF SUPPLY

Even if you are registered for GST you cannot claim GST input tax for any donations you make. This is because GST is claimable on supplies purchased as part of your taxable activity, but your donation does not purchase any such supplies.

It is worth noting that it is over twenty five years since GST was introduced and the question of what transactions are subject to GST is still being debated. But the golden rule remains – no GST tax invoice: no GST claim.

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## THE 'HOW MUCH' QUESTION :

How much will I need to live on if I say goodbye to the daily grind?

The question is a big one asked by many as they approach middle age and beyond and this thought leads to another – “How long is my retirement likely to last?” Of course no-one can answer this query but working on a best-case scenario, we can make some educated guesses. Life expectancy is not what it was for our ancestors. Currently in New Zealand, the average 65 year old man can expect to live until 84 years of age; for the average 65 year old women it is 87.

Given these figures, if you stopped working at 65 years of age, it would be wise to count on a retirement period of 20 years! That is close to a quarter of your life where you would be dependent on your savings and investments, along with the modest amount the government offers through New Zealand Superannuation. And that’s working on today’s figures. Of course, advances in medical science and better living standards mean the life expectancy curve is tracking ever upwards.

NZ Superannuation maximum payment rates	
Superannuation type	Net weekly rate (after tax at M code)
Single, living alone	\$339.92
Single, sharing	\$313.78
Married, civil union, or de facto couple both qualifying (total)	\$522.96
Data sourced from Ministry of Social Development	

The next point to consider would have to be - “What are the things I really want to do in retirement?” If you want to build a handsome seaside home, travel overseas to every All Black Test or go out of town every second weekend, you will need to have some serious savings to call upon. While you may be realistic enough about what you expect out of retirement, the basic living costs will still be there and all those modest activities you will have time for in retirement invariably come with some costs attached.

The Retirement Commission has prepared a quick, though only approximate, formula. To maintain your pre-retirement lifestyle, it recommends you base your annual retirement income needs on 70 per cent of the annual income you expect to be receiving just before you leave the workforce. Visit [www.sorted.org.nz](http://www.sorted.org.nz) to work this out. Any planning you can do now will be a positive step towards the sort of retirement you deserve.



## GUILTY OF RE-GIFTING?

“Tis the months after Christmas and all through the house, people are trying to sell unwanted gifts without offending the spouse!”



Or so it has been for the past few summers, with Trade Me listings spiking by 10,000 items or more during the 24 hours after Christmas lunch.

As gifts, holidays and the costs of entertaining bored children pile on top of everyday living costs, January can be a time of financial strain as much as rest, relaxation and spending time with loved ones. It is no wonder then that some of us engage in a little ‘re-gifting’.

Trade Me Spokesman Paul Ford is quoted as saying “The unwanted gift’ category will be among the top searches on the online trading site during the post-Christmas period again this year, with Susan Boyle’s latest CD and unwanted ties predicted to feature strongly among the items for sale.” Last year, common unwanted items included large volumes of women’s new clothing – “Blokes seem to be pretty bad at guessing sizes, it would seem!” says Ford.

It was reported in the Dominion Post that an online survey of just over 1,000 people during the second week after Christmas found 38 per cent of women and 21 per cent of men passed on unwanted gifts, with people earning more than \$70,000 pa and those living in Wellington slightly more likely than the average New Zealander to do so.

So, should you feel guilty about selling a hand-picked gift? Not necessarily!!

## BANKING RELATIONSHIPS

With economic activity looking like it is picking up, some small to medium sized businesses are re-assessing their banking relationships.

The banking relationship for some of these businesses has been tumultuous during the last few years where the financial performance of the business has deteriorated, breaching banking covenants and thereby causing the bank to take a closer look at the activities of the business and how it is being run. This is not to say that banks have not been supportive, but more that the relationship between the bank and the company has been tested.

Depending on how ‘at risk’ the business is, the relationship may be managed on a more formal basis by the bank’s ‘at risk’ division. This is of course a different relationship to the normal banking relationship, which would ordinarily exist during better times.

## CLOUD COMPUTING

With an improvement in the economic landscape and with that the possibility of improved financial performance, it may be worthwhile to review your banking relationship as a whole and determine whether or not your business is getting what it wants out of that relationship, or if there is a better alternative. A new relationship may allow a different perspective to be brought to the table. Also, a number of banks have come up with different products in recent times that may provide greater business flexibility.

Like any service provider, banks need to provide good client service. If, as a business owner, and a recipient of that service, you are not happy with how you are being treated it may be worth testing the offerings of the other banks – in conjunction, that is, with an honest discussion with your current bank to identify what is the best option for your business going forward. It is often at these times that the most change in banking relationships occurs. This can be dictated by different degrees of risk and exposure that certain banks want in particular industries. For example, in a farming business context, one bank may wish to increase their exposure to the farming industry, especially in better income times, whereas another may want to decrease it.



It would also be wise to negotiate hard in relation to covenants and guarantees. Ensuring covenants are not unduly restrictive, nor securities over personal assets oppressive, will ensure a better working relationship.

While both these factors protect the bank, they often constrain the ability of the businesses to grow. If you intend to enter into a dialogue with a new bank, you should be well prepared. This demonstrates that you are in control of your business and know your funding requirements.

To assist the bank in gaining an understanding of your business you should be equipped with a recent business plan, annual financial statements, key performance indicators (such as gross profit margin, inventory turnover, creditor and debtor aging), budget and cashflow forecasts and a year to date profit & loss statement and balance sheet.

Entering into dialogue with another bank to test the market should be undertaken on a fair basis and probably should not be undertaken unless the business is ultimately prepared to move banks. If trust has been lost in the existing banking relationship, this is often difficult to repair and a change may often be best for both parties.



If you have heard the term 'cloud computing' but don't know what this means or much less how it can benefit your business you aren't alone. A survey conducted in 2011 found two-thirds of small businesses did not know how cloud computing worked and were surprised to find that they already used some behind the scene cloud platforms when sending emails or buying things online.

The easiest way to understand cloud computing is by thinking of it as an online version of the programmes that are installed on your computer. Rather than being a piece of software that is downloaded or installed onto your machine from a disc, the programmes are on the web and load just like a web page. The main difference with cloud computing is that everyone uses the programme together on the Internet rather than through individual copies of programmes installed on each computer. The metaphor of a cloud represents the integration and networking of numerous computers and services in a virtual online network because most software used on a typical work computer is available in a cloud platform, including word processors, spreadsheet and presentation software and even accounting packages. Some software can also be accessed from mobile devices, enabling sharing between PC and mobile.

Cloud computing has a number of potential benefits for small and medium sized enterprises. These include cost savings because there is no need to purchase any software or annual programme licences outright. If you need a specific programme, it can be accessed on the cloud for a set price without having to buy a whole suite of software you might not use. Because data is not stored on the hard drive, it does not require high-specification computers so upgrading less saves money and allows the retention of older computers longer.

One benefit to your business could be that information stored in the cloud can be assessed from anywhere with an Internet connection – useful for travel purposes or working from home. Cloud computing also allows collaboration with a co-worker in another location, as well as multiple people entering data in real-time.

Before you take the plunge and take your business data online, consideration must be given to several important risk factors. No systems are totally immune to the risk of a security breach or infection. Password and internet security policies in your business need to be strong and up-to-date. With your data and software stored remotely somewhere in the 'clouds' at a secret location, there will be concerns about liability in the event your data is lost or passed onto another company. Choosing a reputable cloud provider will minimize any potential risks.

### NEWSLETTERS VIA THE WEBSITE

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## FINANCIAL ADVICE THE KIWI WAY

Just imagine...

If you had purchased \$1,000 worth of shares in Air New Zealand one year ago,  
you would have \$49.00 today.

If you had purchased \$1,000 worth of shares in Allied Farmers one year ago,  
you would have \$33.00 today.

If you had purchased \$1,000 worth of shares in South Canterbury Finance one year ago,  
you would have \$00.00 today.

But, if you had purchased \$1,000 worth of beer one year ago, drank all the beer,  
then turned in the aluminum cans for a recycling refund, you would have received \$214.00!

Based on the above, the best current investment plan is to drink heavily and recycle.  
It is called the Kiwi Saver-keg.

A study once found that the average Kiwi walks about 900 miles a year.  
A recent American study found that Kiwis drink, on average, 22 gallons of alcohol a year.

That means that, on average, Kiwis get about 41 miles to the gallon!

Makes you damned proud to be a Kiwi!

