Accountable News

29 October 2007

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Your Account Overdue?

Drawn out, late payment of accounts can be a major issue for small to medium size businesses. It can cause unnecessary headaches with cash flow and result in ruining client relationships when you are forever put in the position of having to chase up payment instead of putting your time into working for the client.

We regretfully have to admit that too many of our clients have been taking advantage of our relaxed nature over the last few years which can not continue to happen. We have recently had to proceed down the route of putting one client through liquidation proceedings which hurts us immensely! We do not want to be put in this situation with any of our clients!

Therefore along with ensuring that every client with a debit/credit balance gets a statement every month, we are being forced to ensure our payment policy is strictly adhered to. This policy can be found in your signed engagement letter (copies available at request) for those unsure of what that policy entails.

For those clients that always see to our accounts being paid promptly, we would like to extend a big thank you.

Compliance Costs

Small business compliance costs are three times higher than large businesses according to this year's Compliance Cost Survey run by KPMG and Business NZ. The burden for small companies (fewer than 10 staff) equates to $2,400 per employee per year, while for companies with more than 50 staff, the figure is $780 per employee per year.

Tax still the big concern

As in previous years, the top concern overall was tax. Businesses surveyed said tax structures were too complicated and too much time was taken calculating GST and PAYE and preparing provisional tax payments and accounts for tax returns.

KPMG Tax Partner Paul Dunne said there had been a considerable volume of tax changes either announced or implemented in the last year, so tax compliance was set to become more, not less onerous.

"There is a significant compliance cost burden imposed by KiwiSaver and this compliance cost spike can be expected to continue as employers make KiwiSaver-related changes to their employment terms," Mr Dunne said.

"Fringe benefit tax again features as a compliance problem despite last year's amendments to the FBT rules. This highlights the need for FBT to be limited to real and substantial benefits in place of salary and wages, like motor vehicles and low interest loans.

Employment law heavy on compliance

The next most pressing compliance concerns after tax were employment-related, with the Holidays Act, ACC, and the Employment Relations Act scoring high concerns. Larger companies were significantly more concerned about the Employment Relations Act and the Health & Safety in Employment Act. Given their greater ability to hire expert assistance to cope with compliance with these Acts, this raises the question whether the lesser concern shown by smaller companies indicates that some may not be compliant with the law.

'Ease of doing business' and the Quality Regulation Review

The results of the KPMG-Business NZ Compliance Cost Survey are at variance with New Zealand's high ranking in the international 'Ease of Doing Business' survey. This is because the 'Ease of Doing Business' survey does not cover compliance with tax, resource management or environment law, which are key issues for New Zealand companies. New Zealand's high ranking in the 'Ease of Doing Business' survey is heavily influenced by its ranking on 'ease of getting credit', while its ranking on employment issues is far from the top.

The results of the KPMG-Business NZ Compliance Cost Survey also differ from the conclusions of the Government's Quality Regulation Review, again because employment and other key issues were not covered by this Review. Mr O'Reilly said while the Quality Regulation Review was useful in part, it would have been more relevant had it focused on tax, KiwiSaver and employment relations issues that are creating compliance problems for New Zealand firms.

Quote

"Statistics are to the truth what light poles are to drunks....they offer some support but very little illumination..."

-Samuel Clements

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Business Tip

Everyone involved in your business must be involved in marketing your business

PPSR

Do you need to re-register Financing Statements on the Personal Property Security Register (PPSR)?

When the PPSR was initiated in 2002 a transition period where both the PPSR and the registers that it replaced were run side-by-side. The Ministry of Economic Development required that all existing security interests were reregistered on the PPSR. During the transition period a large number of Financing Statements were registered on the PPSR replacing all those that existed on the separate registries.

The PPSR replaced a number of existing registers including:

- Motor Vehicle Securities Register
- Chattels Registers
- Register of Companies Charges

During the transition period an old registered interest could be registered on the PPSR at the date of its original registration - this was available until the end of the transition period on 1 November 2002. At the conclusion of the transition period old interests were no longer backed dated, but were dated at the date of registration on the PPSR.

1 November 2007 marks five years since the initiation of the PPSR and the conclusion of the transition period. As the default expiry period for a Financing Statement is five years, a large number of Financing Statements are set to expire before 1 November 2007.

*If you need **help** with this please call one of our team at (03) 348 4403*

Online Consultation

We would like to remind you of our exciting new service offering online consultations.
From the comfort of your own home or office you can receive the same personalised service as when you meet here at our premises. As long as you have an internet connection and a microphone (or headset) this could be you! No more traffic buildup's, or having to find time to come to our office, try the convenience of an online consultation! Give Rowan a call so we can book a time that suits you with your accountant now.

The Overdrawn Account

What is an overdrawn current account?? Well, if you derive your net income from a business or investment activity operated through a limited liability company you will naturally want to take out of the company's bank account some of the accumulating cash surpluses for your day-to-day living expenses. Trouble is that money technically belongs to the company since it is legally a different identity from its owners. As your accountants we keep a record of this in an account (similar to a bank account) known as a current account. Usually, it is not a problem and at the end of the year when we know how much profit the company has earned we relabel some of that profit as owing to you (shareholders salary), and credit that profit amount to the current account. This offsets the amount you have taken out for living expenses and all is well.

Where the problem arises is if there is insufficient profit to offset the cash which has been taken out. In that situation the Current Account is said to be overdrawn. In itself that is not usually a major concern. The concern arises because Inland Revenue take the view that the overdrawn current account represents the company providing some of its money to one or more of its owners. That is, the owner(s) are in debt to the company. Aha says Inland Revenue that owner/shareholder/director has had the benefit of the company's money so we had better have the benefit of the company paying us Fringe Benefit Tax. That is why you don't want an overdrawn current account.

We have several techniques in our bag of tax management tricks to help you deal with this but they come at the price of added work and more fee. Prevention is a much better alternative.

So how do you prevent the spectre of FBT at 49% on an overdrawn current account? It's as simple really. You just need to resist the temptation and the restraint over how much cash you take out your company's bank account. Until after we have had an opportunity to finalise the end of year accounts. If there is a pressing need for some unusually high expenditure talk to us about it before you take the money out of the company.

The Dreaded Overdrawn Current Account - and why you don't want one