

# Business Matters

STRATEGIES FOR MANAGING YOUR BUSINESS



**dfk**oswin griffiths  
CHARTERED ACCOUNTANTS  
Business Solutions International Connections

## The year of the dragon

It is the Year of the Dragon, the luckiest year in the Chinese zodiac. It should be a great year for small business owners, according to what is predicted to affect you and your business in the coming year.

If you're not a believer in astrology, it may be a good time to set some goals. There is nothing to lose by learning something from this tradition that more than a billion people share around the globe. It is an opportunity to embrace some of the astrological traits associated with the coming year, as you plan to grow your business in 2012.

Chinese astrology is based on a twelve-year cycle. Each year is named by one of the animals that is said to have responded when Buddha called. Each animal is associated with certain traits, usually fairly obvious ones: the ox for hard work, the tiger for aggressiveness. In a large part of the world, personal and business decisions are determined, or at least influenced, by which year it is in the Chinese zodiac.

The Year of the Dragon is an incredibly promising year and the most fortunate of all - according to Chinese tradition. Dragon years are associated with good luck, money, accomplishment, celebrations, longevity and success.

The Dragon is considered the most powerful symbol. It is the only symbol in Chinese

astrology that is not a real animal and also has mystical qualities.

In China, many people want children who embody Dragon traits. Births in China typically increase by about 5 percent in Dragon years. Similarly, it is considered to be a good year to start a new business.

So what are the astrological implications for your business this year?

### Wealth

It should be a good year for making money and with luck, this means an increasingly strong overall economy. If a quarter of the global population think it is going to be a good year, there is a good chance it will be. Don't miss out. Aggressively pursue financial goals this year, but remember the Dragon is a risk taker and can be a little reckless. Consider getting a second opinion before making any big decisions.

### Ambition

With a slow global economy it has been difficult for many to pursue their dreams. With so many feeding on the upbeat mood, now may be a good time to go for it.

### Innovation

It will be a good year for trying new approaches, introducing new products or services, and reinvigorating your company with creative ideas. Have a brainstorming session with your team.

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### Virtue

As business picks up this year, don't forget your social responsibility to others - employees, society and the environment.

### Harmony

Seek better ways to communicate with your employees and customers. Strive to create an amiable workplace.

### Big changes

Dragon years can be challenging so be prepared for the unexpected. This year can be a time to shake yourself up. It could be a terrific year to try new things, take big chances and make a significant change.



If the astrological concepts don't work for you, there is always the economic aspect. If a quarter of the world's population believe this year is going to be a good

year and act and spend accordingly, then there is a good chance that we are in for the most promising financial ride for many years.

## New minimum wage

- New minimum wage rates take effect from 1 April 2012.
- The new adult minimum wage rates (before tax) that apply for employees aged 16 or over will be increased from \$13 to \$13.50 an hour.
- The training and new entrants' minimum wages will increase from \$10.40 to \$10.80 (or 80% of the adult minimum wage).
- There is no statutory minimum wage for employees who are under 16 years old.

## Employer superannuation contribution tax

From April 1, changes to the employment superannuation contribution tax (ESCT) will see employers' tax on cash contributions to KiwiSaver schemes increase as it falls into line with other registered superannuation plans. Employers are advised to become familiar with the changes so that they are aware of their new obligations that come into force next month.

Since KiwiSaver's introduction in 2007, employers received a two per cent exemption from the ESCT, capping employers' tax on contributions during the scheme's initial years. However, from next month this two per cent exemption rate will be removed, meaning that from this date all employer contributions to KiwiSaver schemes will now be liable for ESCT.

Eliminating the exemption will see the voluntary, work-based savings initiative KiwiSaver, fall under the same tax regime as other New Zealand registered superannuation schemes.

### What you need to know:

From April 1, you must calculate each employee's ESCT rate at the ESCT threshold amount which is available through the Inland Revenue. The ESCT threshold amount is the total of the employee's gross salary or wages,

plus any superannuation contribution paid by the employer (before ESCT is deducted) to their superannuation fund or KiwiSaver scheme.

An employee's ESCT rate is set when the employee initially begins employment with you and is updated each subsequent April 1, unless the legislation changes. There are two ways to calculate the ESCT threshold amount depending on whether the employee was employed by you for the full twelve months of the previous tax year:

- Where the employee was not employed for the entire previous tax year, an estimate of the total amount of salary or wages, plus gross employer cash contributions that the employee will earn in the year ahead, or
- Where the employee was employed

for all of that year, the annual salary or wages, plus gross employer cash contributions paid to the employee in the previous standard tax year.

Only one rate can be used for any employee in a tax year, so the initial rate that you select for an employee will remain the same for the entire year. The only time the ESCT rate can be changes is at the beginning of a new tax year.

### What you need to do:

- Find the appropriate information about calculating and selecting ESCT threshold rates.
- Download appropriate paperwork from the IRD, this includes; employer deduction form and employer monthly schedule.
- Update payroll software if required.



# Beware the price shopper

**M**ost businesses work on the basis that they are supposed to sell on value and not price. What happens when a business is faced with the prospect of a price-only buyer?

First, make sure they really are in fact a price-only buyer. In most cases, salespeople are too quick to place a 'price-only buyer' label on their prospect's forehead. It is stuck on before they dig deep enough into the prospect's world to truly understand their business and their motivation to buy the cheapest.

For example, a customer in the construction industry may be finding that they have a large number of tools 'disappear' on a worksite. They may be compelled to purchase cheaper tools in order to minimise losses. This may mean missing out on the increased performance of the higher quality tools that they may prefer. This does not necessarily make them a price shopper - just prudent in minimising a problem.

Before making the assumption that a prospect is truly a price-only buyer, dig deeper. Once you have revealed their true reason and it is, truly, a price-only reason, be aware of how they can affect your work.

Here are the five ways a price shopper can harm a business:

- They waste staff time. They tie salespeople up as they write different versions of proposals, provide different variations on solutions, and go back-and-forth with their decision too many



times to count.

- They waste company time. All of those proposals submitted and meetings you hosted involved people from other departments. Simply put, they stole time from the resources that could have been focused on securing more qualified prospects - prospects that would have been more willing to pay for the true value of your products or services.
- They are unforgiving. After jumping through hoops to get the order, they now scrutinise your every move. If the invoice is off by a few dollars, they want another discount. If the delivery is three minutes late...guess what they are asking for?
- They damage your image. When your top customers (who pay a premium price for your premium offering) hear about the prices that a price-only buyer is paying, it can create doubt in your company's quality and value.
- They erode your margin. Price-only buyers have a higher cost of sale

by eating up more of your internal resources, continually driving your price down and usually taking forever to pay.

Not all price shoppers are bad. Some can even benefit a business. Here is how they can damage your competitor:

- Let your competitors have them. While your competition is doing back flips trying to keep them happy, you can be out closing business with profitable prospects.
- They can provide you with competitive intelligence. The price buyer will often reveal your competitors' pricing, product, and information (in some cases you might even get a complete proposal). They do this to play salespeople against each other. Be polite and let them deal with your competitors.
- They can be used as a pricing gauge. If you discover that these price-only buyers are increasing their orders with you then it must be time to raise your price!

## Cutting tax liability enterprises

**D**espite the complex and constantly changing tax laws, there is always opportunity to minimise end-of-year tax liability for your small to medium enterprise (SME). If you found it difficult to find legitimate ways to do so this end of financial year, implementing the following strategies will ensure you make the most out of the next tax year.

- Organise donations before the year end. If your SME donates to charities throughout the year, you are entitled to a deduction.
- Reduce, where possible, the

value of your trading stock as this is all contributes to your taxable income.

- Reassess your fixed assets. Often you may have assets on your books that hold little or no value. Reviewing property and equipment is advised before the tax year end.
- Defer income and accelerate deductions where possible. Overheads which can be paid in advance, e.g. insurance, advertising, rent, can be deducted in the current year even though they may correlate with future years. Where possible defer income to the next financial year.
- Reassess your debts. If your debts are unrecoverable, ensure they are

wiped off your books.

- Make the most of tax concessions and exemptions. If your SME provides its employees with business tools, you can claim a deduction for these exempt from being subject to FBT.
- Payout employees within 63 days. Your SME is eligible for a deduction for amounts, e.g. salaries, wages, bonuses, owed to employees which are paid out within 63 days of balance date.
- Accruals. Ensure that you accrue for any liabilities outstanding at balance day as you can claim this amount as an expense. This includes amounts owing for electricity, rates, etc.

# ACC levy reductions



**A**CC's \$3.5 billion surplus in 2010/11 saw levy reductions signed into law last month, saving small businesses on average more than \$1100 a year.

The ACC's surplus, combined with continuous improvements in rehabilitation rates has enabled the levy cuts, which will reduce the levy on employers and self-employed by 22 per cent – a saving of \$1120 annually for small businesses with on average seven employees. For wage and salary earners, the levy will be reduced by 17 per cent - \$170 annually for someone on the average wage.

The Earners' Account Levy, paid by wage and salary earners, will be reduced from \$2.04 to \$1.70, and the average Work Account Levy, paid by the self-employed

and employers, will decrease from \$1.47 to \$1.15 per \$100 of liable earnings from April 1 this year.

Work levies for individual companies are dependent on their industrial classification and experience rating.

You can reduce your levies further through rewards from ACC for your safe workplace practices. These include:

- Experience rating – Your workplace levy can be modified using ACC's experience rating system, which works out your levy based on claim history. This system recognises and rewards business owners with good claims experience, and encourages improved workplace safety within New Zealand businesses.
- ACC workplace safety discounts – While these discounts only apply to some

industry groups, they offer a great way for small businesses to save money and reduce the risk of injuries.

- ACC workplace safety management practices programme – Aimed at medium sized employers, this programme gives safer workplaces discounts of up to 20 per cent on their ACC levies.
- ACC partnership programme – For larger employers whose levies exceed \$250,000 annually, this programme can reduce levies by up to 90 per cent if they take responsibility for their employees' work injury claims.

## A great read

### Execution: The discipline of getting things done

Authors: Larry Bossidy and Ram Charan

There is a big difference between promises and deliverance and as a business owner this difference should never come to play. This book enlightens us on how to close that gap and deliver on all business promises for business success.

Larry Bossidy is responsible for transforming company AlliedSignal, into a major success leading to his being named CEO of the year in 1998 by Chief Executive magazine. Ram Charan is an advisor to senior executives and boards of directors and with his experience, he provides solid insight to reasons behind the success or failure of businesses.

This book will help you to master the practice of execution and understand how to link together people, strategy and operations into three core elements in every business. Taking a hold of these elements is the key to 'running' the business as opposed to having visions which never come to play.

**Execution: The discipline of getting things done**, details the realities of hiring the right staff and directing that staff upon a team building strategy that is in sync with the realities of the marketplace, the economy and the competition.

**Execution: The discipline of getting things done**, is the perfect tool for transforming winning strategies into genuine results. Larry Bossidy and Ram Charan offer a compelling leadership prescription that comes down to realism, discipline and great execution!

## WEB WATCH

### ESSENTIAL SITES FOR BUSINESS OWNERS

#### [www.bplans.com](http://www.bplans.com)

Writing a business plan can be tricky. Getting practical advice from renowned business planning experts can be very useful for those wishing to start a business or for those who want to improve their existing one.

This website offers users business management advice and how-to articles, free business plan templates and online calculators useful for determining start-up costs and cash flow.

## REMINDERS FOR YOUR DIARY

| March  | April  |
|--|--|
| 31 Final date for ration provisional tax applications.   | 7 Tax payments if you have a time extension.   |
| Student loan repayments due for overseas-based borrowers. Paying on time means avoiding penalties. | 30 If you claimed a tax credit last year, you will receive a tax credit claim form by this date. |

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals.

We consider it a compliment when you recommend us to your friends and business contacts.

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