MONEY MATTERS

END OF YEAR UPDATE

ISSUE Q4/2016

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LEADING CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

# Tap into the spending season

The holiday season provides the perfect opportunity to connect with customers and leverage off the seasonal shopping period.

For many businesses, the upcoming Christmas season presents a peak in sales and revenue. Businesses that fail to maximise the holiday shopping season can miss out on a huge revenue opportunity and risk losing customers to competition.

It pays to adjust your marketing based on seasonal sales opportunities. A marketing campaign that capitalises on the upcoming season provides businesses with the opportunity to position themselves as an adaptive and quick-to-react business.

When crafting your holiday marketing campaign, it is not a good idea to leave planning and execution to the last minute. Here are five ways to boost sales and awareness this holiday season:

## Pick the right opportunities

Ensure your marketing campaign meets the needs of your target market. Understanding your target market and their purchasing behaviour will help hone into the festivities that may appeal to them and allows you to design your marketing campaign based around their wants and needs.

## Advertise ahead of the holidays

Consider offering special discounts, increasing your availability for appointments (if you are a service based business) and introducing early bird offers to attract customers who like to shop ahead. Promoting your holiday sale early helps to prime customers to choose your business as a default shopping destination before your competitors get a chance.

## Integrate with social media

Successful holiday campaigns integrate social media to increase reach and engagement. A strong social media strategy will help brands increase their social subscribers while encouraging customers to purchase. Consider enticing customers to subscribe with special offers such as free shipping or percentage discounts.

## Reuse, recycle

As marketing efforts can be relatively expensive, consider reusing past marketing campaigns that were successful. Past campaigns may be recycled if they are still relevant or only need a few minor amendments. When developing a seasonal marketing campaign avoid time-specific references so the content can be used again.

## Include a call-to-action

Seasonal campaigns will often have a deadline due to the nature of the campaign and therefore require a call-to-action. Encourage customers to contact your business via email, telephone or social media in your campaign and include deadlines for any special offers to create a sense of urgency. If uptake on promotions is not as expected you may extend offers for additional time.

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# Tax-effective charitable giving

Giving to charity this Christmas is a way to give to those less fortunate and receive some extra tax perks on the side.

Charitable donations are tax deductible which only adds to the incentive to be generous this holiday season.

A tax credit can be claimed for donations of $5 or more to an approved donee organisation where there is no identifiable direct benefit to either you or your family. To claim a tax credit, your total donations cannot exceed your taxable income for the year.

An individual is entitled to a tax credit equal to one third of the total donation or a third of their taxable income. Receipts must be kept for donations of $5 dollars or more to:

- approved donee organisations
- approved New Zealand religious organisations
- medical research schools and universities
- approved overseas aid funds
- kindergarten associations (excludes private kindergartens or other early childcare fees)
- state and state integrated schools, or their board of trustees (the payments can either be "donations" or payment of "school fees" if they go to the school's general fund.
- other schools who have been approved as donee organisations (the payments must be "donations")
- parent-teacher associations (the payments must be "donations")

The donation receipt must contain the name of the donor(s), the amount and date of the donation, a clear statement that it is a donation, a clear statement at the top of the page if the donation is a payroll giving donation, the signature of an authorised person and an official stamp with the name of the approved donee organisation.


# A case for workplace policies

Workplace policies are not reserved for the big corporations; small businesses are increasingly subject to unjustified dismissal and adverse action claims that could be minimised by implementing workplace policies.

With the lead-up to Christmas, now is a ideal time for employers to set or review workplace policies. Workplace policies set the framework for expected employee behaviour and performance; and the consequences of not complying with their responsibilities.

Well-enforced policies can provide employers with a basis for defending potential liabilities if a legal dispute arises between an employee and employer. A workplace policy not only clarifies functions and employee responsibilities but ensures uniformity and consistency across all operational procedures.


Although, not all workplace issues require a policy; employers should have policies for fundamental issues, such as anti-discrimination and equal opportunity, code of conduct, anti-bullying, sexual harassment, privacy, drug and alcohol use, and workplace health and safety.

For a workplace policy to be effective, it must be publicised and provided to both new and existing staff members. A policy should set out the aim of the policy, why it was developed and who it applies to. It should clearly outline acceptable and prohibited behaviour, as well as disciplinary action for breaching the policy.

Employers must include a date for when the policy was developed and be sure to regularly review and update policies where necessary. Any changes to employment law and/or your industry's award or agreement may require a review of your policies and procedures.

Policies must be explained in full and employees should sign off on documents to acknowledge their awareness and understanding of policies. For policies to work effectively, a breach of policy should be implemented and objectively followed by all levels of management, according to the procedures set out in the policy.

# Annual leave over the Christmas closedown

Businesses often take the opportunity to shut down over the traditionally slow Christmas and New Year period.

During this time, employers need to be aware of their obligations, particularly in regards to annual leave.

Employees can be required to take annual holidays over the closedown, providing employers give 14 days' notice and the closedown only occurs once a year.

Those employees who are entitled annual holidays (e.g working for 12 months or more) are paid their annual holidays as usual. For employees that do not have enough annual holidays to cover the entire closedown, they must stop work and take all of their available annual holidays. Employers may allow employees to take annual holidays in advance.

For employees who are not entitled to any annual holidays (i.e. those employed for less than 12 months), they must be paid eight per cent of their gross earnings as at the close down date (less any amount paid as eight per cent already or taken as annual holidays in advance).

Alternatively, they may agree to take annual holidays in advance and be paid, although they are not entitled.

# Preparing for your business exit

Preparing a business for sale is a complex and often long-term process, which requires a lot of preparation and planning. Yet few business owners are prepared when the time comes to be sale-ready.

Exit planning involves careful preparation and consideration of the business, tax and legal implications. Here are five tips to help business owners prepare for a successful business sale:

### ✓ Prepare early

Business owners should start preparing early to minimise the risk of a failed transaction and optimise the value of their business. Anticipation of internal and external factors, including market conditions must be anticipated and managed prior to sale.

A seller must provide key factual information for a potential buyer through the due diligence process. Due diligence is a time-consuming process requiring a lot of documentation. A business' failure to keep adequate and accurate financial records can severely damage their sale price and slow down the sales process.

### ✓ Reduce risk for buyers

Sellers must be very careful to ensure that information provided and statements made in the lead up to the sale are accurate and not open to interpretation. Be sure to provide a clear business forecast and realistic ongoing business model.

All verbal conversations with the buyer should be followed up in writing, such as email, as informal conversations can be relied upon for Court proceedings after the sale. Ensure the contract of sale is well-drafted and states in plain English what you understand to be the agreement.

### ✓ Evaluate different exit options

It is not necessary to sell 100 per cent of the business immediately. A gradual exit can benefit both parties. For purchasers, it retains customer goodwill and gives new owners time to adjust to the business' operations. For sellers, there is the advantage of keeping an interest in the business and demonstrating its worth to the new owners.

If you are passing the business on to family members, the transition may take place over a number of years. A formal succession plan can help guide the business through a smooth transfer of control.

### ✓ Understand tax implications

GST is a factor that needs to be considered when selling your business. If assets are sold as part of the sale of a going concern the transaction may be zero rated for GST purposes. To be zero rated the business must be sold as a going concern to a person or

company registered for GST at the date the agreement for sale and purchase is signed, if the sale is conditional, or by the date the agreement is declared unconditional.

If the sale is not zero rated and GST is payable, sellers should check when the GST is payable as it may occur before receiving the sale payment.

### ✓ Address legal issues

Ensure all legal disputes are resolved, intellectual property is protected and you own all assets on the balance sheet before you put your business up for sale. Intellectual property can form a significant part of your business' value so it is essential to protect and register all of your IP assets, such as trademarks, copyrights, designs, patents or trade secrets.

# Avoiding a HR holiday hangover

With the Christmas season just around the corner, employers would be wise to take precautions when planning their work Christmas party to avoid any legal repercussions.

The festive season brings with it an increase in the likelihood of a workplace claim arising from inappropriate conduct such as sexual harassment, drug and alcohol use, as well as health and safety issues.

Employers must be wary of these implications when hosting end-of-year celebrations since they are considered an employer-sponsored event. Consequently, employers may be held liable for any misconduct, injury, discrimination or harassment that an employee is subject to at a work-related event.

Before the event, it is important for employers to communicate their business's code of conduct. Consider sending an email to all employees prior to the event to remind them of their responsibilities and that normal disciplinary procedures will apply.

Employers must ensure they provide a duty of care by occupational health and safety (OHS) standards to all employees. Employers would be best advised to have a discussion with the venue about their OHS policies and evacuation plans.

To ensure employees travel home safely, organise travel arrangements to and from the event, such as a mini bus or taxi. Assigning a responsible person to act as supervisor for the event can help protect the safety and wellbeing of all employees. It is advisable to set a specific start and finish time and to clarify that any 'after-party' events are not employer-endorsed.

Employers may be held responsible for alcohol fuelled behaviour; a responsible service of alcohol should be provided by qualified personnel. Be sure to supply food and include low alcohol and non-alcoholic drink options and ensure minors are not supplied with alcohol.

# Restrictions on loans to property investors

Loan to value ratio restrictions on bank lending were introduced from 1 October 2016 to limit the amount of low-deposit mortgage lending.

The Reserve Bank has introduced tighter restrictions in a bid to counterbalance the rising housing market risks and to sustain the long-term health of the banking system and economy.

The new restrictions will generally require residential property investors to deposit 40 per cent for a mortgage loan and owner-occupiers will generally need a 20 per cent deposit.

Banks will still be allowed to make a small number of loans to borrowers with smaller deposits; 10 per cent of a bank's total lending can be to owner-occupiers with a deposit less than 20 per cent, and 5 per cent of a bank's total lending can be to residential property investors with a deposit less than 40 per cent.

For borrowers who include an owner-occupied residence in a portfolio of mortgaged houses, they are allowed to borrow up to 80 per cent of the value of their owner-occupier home and 60 per cent of the value of their investment properties.

Some of the existing exemptions to loan to value ratio restrictions will continue to apply and there has been some extensions:

### New building exemption

Loans to people building a new residence are exempt. The loan must be for a residence that has been completed within the previous six months from the developer or the borrower must commit to the purchase at an early stage of construction. This exemption applies to both residential property investors and owner-occupiers. The loan to value ratio rules do not prescribe the size of a deposit for new residences.

### Remediation exemption

Loans are exempt if used for remediation after a fire or earthquake, to bring a residence up to new building codes, or to comply with new rental property standards, i.e. insulation. Both owner-occupiers and residential property investors can access this exemption.

### Welcome Home Loans

Low-deposit borrowers using the Housing New Zealand Welcome Home Loan scheme to buy their first-home will continue to be exempt from the loan to value ratio rules.

### Bridging loans

Short-term bridging loans where an owner-occupier is purchasing a new property to live in before the sale of their current residence are exempt from the loan to value ratio rules.

### Refinancing

As long as the loan balance does not increase, refinancing of existing residential mortgage loans (switching banks) is exempt from high loan to value ratio restrictions.

# A guide to GST registration

From 1 October 2016, non-resident businesses meeting the GST (Goods and Services Tax) registration criteria are expected to charge and return GST on any remote (including online) services they supply to customers who reside in New Zealand.

Non-resident businesses are expected to register for GST when:

- they exceed or expect to exceed the GST threshold (that is their sales exceed NZD $60,000 in the last 12 months or are expected to be more than NZD $60,000 in the next 12 months)


- their customer is a resident in New Zealand
- they supply a qualifying remote service

A qualifying remote service is where, at the time of the performance of the service, there is no necessary connection between the physical location of the customer and the place where the services are performed.

Examples of qualifying remote services include supplies to digital content such as e-books, movies, TV shows and music; website design or publishing services; gambling or insurance services; and webinars or distance learning courses.

Two pieces of evidence are required to determine whether a business supplies services to a customer who is a New Zealand resident. These pieces of evidence must not contradict each other and may include:

- the customer's billing address
- the internet protocol (IP) address of the customer's device
- details of the bank account the customer uses for payment
- where the customer's fixed land line is supplied
- other relevant information

# Important tax dates

## 21 November

Employer deductions (EDF/IR345) form and payment due, and Employer monthly schedule (EMS/IR348) due for employers who deduct less than $500,000 PAYE and ESCT per year

## 21

Employer deductions (EDF/IR345) form and payment, and Employer monthly schedule (EMS/IR348) due for employers who deduct $500,000 PAYE and ESCT or more per year

## 30

GST return and payment due

## 29 December

Employer deductions (EDF/IR345) form and payment due, and Employer monthly schedule (EMS/IR348) due for employers who deduct less than $500,000 PAYE and ESCT per year