Starting out in Business

Accounting & Taxation

What you need to know

Business success is not a matter of chance, it’s a matter of choice

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Introduction

Congratulation's, you have decided to go into the business. Your first year as a business owner will bring with it many new responsibilities and it will be a busy time for you.

We have written this booklet to help you understand the basics and avoid future problems. This guide only gives an overview of accounting and taxation issues and is not intended to be a comprehensive guide. We recommend that you consult with an accountant regarding your taxation and accounting matters.

Our goal is to provide you with information so that the administration of your business is simple and cost effective while providing the following benefits:

- Laying the legal and accounting foundation for your business, to enable your business go grow without having to make significant changes to your legal structure or accounting systems
- Providing you with a basic understanding of your accounting and taxation requirements
- Providing you with financial information that you can use to manage the business, monitor costs and performance and be used to assist you with setting future budgets and to make business decisions
- Avoid the more common mistakes that we see with clients new to running a business.

Good Financial Record Keeping – Why is it important?

In all areas of your business, keeping good records is very important and can save you from costly mistakes. Poor financial record keeping can lead to costly errors including disallowed tax deductions, inability to get finance, difficulty collecting cash from debtors, higher accountant's fees, and a lack of information when you look to make significant financial decisions.

There are costs involved with setting up and maintaining good records but over the medium to long term the benefits will well out-weigh the costs. Some of the advantages of good financial record keeping are:

- Allow you to take control of the accounting function in your business, and reduce your need for your accountant to be involved in the processing of transactions;

- Allow you to complete your own GST and PAYE returns;

- In the event of an audit, your records are complete and costs will not be disallowed due to missing documentation;

- You can determine whether you are running a profitable venture;
- It will assist you in navigating cash flow difficulties as you will be able to see clearly where your cash is going, and take steps to reduce/delay expenditure;
- Provide you with documentation to provide to banks to show the financing you will require and when it is likely to be repaid;
- Assist you with business and strategic planning, to grow your wealth quicker and reach your goals.

We recommend that you ask your accountant to show you how to keep proper records and assist you with setting up your accounting system. While there will be costs involved with this, it will save you added costs in future.

Establishing a good foundation to grow your business

To ensure your business is successful it is good to lay a foundation of financial literacy with the basic foundation blocks being:

- Understand basic accounting.
  The essentials of basic accounting you need to understand are:
  - Classification and analysis of transactions. If you do not analyse transactions well, the resulting reports from your accounting system will not be very useful
  - Understanding your profitability and financial position
  - Being able to read and understand your annual financial statements as well as financial reports from your accounting system

- Understand basic taxation
  The main taxes you will deal with are income tax, goods and services tax, PAYE and FBT. A basic understanding of taxation will help you meet your tax obligations, as well as determining how your business decisions that will affect your tax obligations.

- Developing systems to track your finances
  Preparation of annual budgets and monthly financial reports is essential to keeping you up to date with your current cash flow, profitability and financial position.

- Tracking and measure your progress
  Having a budget and monthly financial reports will help you to track your progress. When actual results are not in line with budget projections, you can investigate the cause and look for solutions and improvements that can be made.

- Plan for growth and profit
  With regular financial reports and budgets being produced that provide you with a clear understanding of your business, you are now in a position to plan for growth and profits. Your budgets and financial reports will provide you with information that will enable you to make longer term projections and do ‘what if’ projections where you have different opportunities to consider.

Accounting Basics

Annual financial statements are more than just a tool to assess your income tax liability.

A good understanding of your financial statements will give you knowledge of the profitability of your business, your financial position, and whether your business profits are sufficient to cover personal expenditure, business development and debt repayment.

Your annual financial statements are made up of the following reports:

- **Profit & Loss Statement** (sometimes called Statement of Financial Performance). The Profit and Loss Statement is often broken down into a trading report showing your sales, purchases and direct costs and a profit and loss report that shows your gross profit less overhead expenses to get to arrive at net profit.

  The profit and loss account shows how profitable your business is and is normally structured as follows:

Trading Account	
Sales	$XX,XXX
Less Cost of Goods Sold	$XX,XXX
Equals Gross Profit	$XX,XXX
Profit & Loss Account	
Gross Profit	$XX,XXX
Plus Other Income	$XX,XXX
Total Income	$XX,XXX
Less Overhead Costs	$XX,XXX
Surplus Before Depreciation	$XX,XXX
Depreciation Adjustments	$XX,XXX
Net Profit Before Taxation	$XX,XXX
Less Income Tax	$XX,XXX
Net Profit After Taxation	$XX,XXX

- **Statement of movements in equity**. This report shows how your business wealth has changed over the year.

- **Balance Sheet.** This report shows the assets and liabilities of the business and shows the net worth of your business.

  Assets are what you own. Assets include bank deposits, inventory, accounts receivable, tax refunds due, investments and property.

  Liabilities are what you owe, and include accounts, GST and tax payable, bank and hire purchase loans, credit cards, and loans from family.

  Your net worth (equity) is the value of your total assets, less the value of your total liabilities.

- **Schedule of Property, Plant & Equipment**. This report shows the land, buildings, vehicles and equipment that your business owns and calculates the depreciation charged on your assets for the financial year.

- **Current Accounts.** The current accounts show the funds you have advanced and withdrawn from the business for the financial year.

- **Notes to the Financial Statements**. The notes show the accounting policies that have been used to prepare the financial statements. They also provide additional information that may not be shown in the other reports including:

    - Calculation of taxable income
    - Breakdown of figures on the balance sheet, e.g. a listing of investments
    - Details of the borrowings of the business including interest rates, repayment terms and security held for the loans.
    - Listing of commitments for capital projects initiated but not completed.

Income Taxation Basics

Like death, income tax is unavoidable. If you make a profit you will be required to pay income tax. The tax rate applied will depend on your business structure and your income level. The income tax rates are:

Individual Tax Rates	
Income up to $14,000	10.5%
Income from $14,000 to $48,000	17.5%
Income from $48,000 to $70,000	30%
Income over $70,000	33%
Company Tax Rate	28%
Trust Tax Rate	33%

In your first year of business you will not be required to pay income tax as you go, with your taxable income and tax due calculated after the end of your financial year. The tax due will be payable on the terminal tax due date of 7 February of the following year (or 7 April if you have a tax agent and extension of time arrangements).

For the following income tax years, you will be required to pay provisional tax in advance if your tax due is over $2,500. The provisional tax is normally paid in three instalments and calculated based on your prior year's residual income tax.

For tax purposes the financial year is from 1 April to 31 March. If your business is seasonal, you can apply to the Inland Revenue Department for a balance date to match the seasonal nature of your business.

Provisional Tax Options

If your residual income tax payable is over $2,500, you are required to pay provisional tax for the following year. There are three options of determining your provisional tax:

- The standard method where provisional tax is calculated at 105% of last year's residual income tax.

- Estimated method. If you are expecting your current year's income to be significantly different to the previous year, you can file a provisional tax estimate with the Inland Revenue based on your expected taxable income.

- The ratio method. This method bases your provisional tax on your GST income. To use this method you are required to file an election with the Inland Revenue Department before the start of the financial year, be GST registered on a 1 or 2 monthly basis and your residual income tax is between $2,500 and $150,000. If you use this method your provisional tax is payable in 6 instalments.

Unless your provisional tax is calculated using the ratio method, your provisional tax will be payable in three instalments. If your balance date is 31 March, your provisional tax will be due on 28 August, 15 January and 7 May.

If you are GST registered on a six monthly basis, your provisional tax will be payable in two instalments on the same date that your GST is due.

What is included in your taxable income

The following is considered taxable under the Income Tax Act:

- Sale of goods purchased for resale
- Goods manufactured for sale
- Income received from providing services to customers
- Wages received
- Government Subsidies and benefits received from work and income
- Goods taken for personal use from the business
- Contracting income, and income from the hiring out of equipment
- Stock on hand at balance date
- Depreciation recovered on the sale of depreciable assets
- Investment and rental income
- Sale of trees and timber
- Any other income received

The following are not normally considered to be taxable income:

- Capital gains on the sale of property, vehicles and equipment (unless it was purchased for the purpose of resale, or you are a property developer, or caught by the rules for residential property sold within 2 years)
- Capital Receipts. This is one off items received that would not be generally part of your normal operations. An example would be a payment from Transpower for the right to put power lines over your land.
- Gambling winnings
- Drawings from your business
- Withdrawals from Kiwisaver

If you are not sure whether income is taxable please consult your accountant. They will review the facts and any documentation associated with the income and advise whether it will be taxable.

Expenses Claimable for Income Tax

To be deductible for income tax purposes the expense has to:

- Be incurred in gaining assessable income or
- In carrying on a business
- and not capital or personal in nature

This definition is fairly wide, but you still need to take care in what expenses you claim to ensure that they were incurred in gaining assessable income or to carry on a business.

Please note that until you have a business set up and able to be operate, the initial costs incurred are likely to be considered non-deductible. We recommend that you consult with an accountant regarding whether your business set up costs are deductible.

Please be aware that the following costs are not claimable for income tax purposes:

- Personal costs including travel, groceries, life insurance, childcare costs, children’s education costs
- Personal clothing (Except where it is a uniform with your business logo or protective clothing)
- The purchase of capital assets such as vehicles and machinery
- The purchase of shares
- ACC earner premium on shareholder salaries

- Private vehicle costs. Where a vehicle is used for both personal and business use and the vehicle would not be subject to Fringe Benefit Tax a vehicle log book must be kept if you wish to claim over 25% of the vehicle costs.
- Expenses related to your holiday home and boat
- Company and trust formation costs

In addition to the normal operating costs that would be considered tax deductible, you can also claim the following costs as tax deductible:

- The costs associated with your home office/workshop. If you have a home office/workshop that is 10% of the size of your house, you can claim 10% of your house power, rates, insurance, general repairs, mortgage interest, and house rent;
- Depreciation on vehicles, plant and equipment used in the business.
- 50% of your home phone rental if you conduct business from home.

Private Use Adjustments

If you have vehicles and equipment that you are using for both business and personal use you are required to only claim the % of the costs that relate to your business activities. The common situations were private use adjustments will be needed are:

- Motor vehicles
- Telephone and Internet use
- Goods taken for personal use

Motor Cars

When you start your business, a decision will need to be made as to whether your personal vehicles are brought into the business and treated as business assets or left outside the business structure.

If your vehicle has less than 100% business use, then you are required to keep a logbook to determine the business use of the vehicle. The log book is required to be kept for a minimum of three months, every three years. If you do not keep a log book your claim will be limited to 25% for income tax purposes and 0% for GST purposes.

If your car is owned by a Company and the vehicle is available for private use, and you are a closely held company you have the choice of using the rules above or having the vehicle subject to fringe benefit tax.

Where a vehicle is to be used 100% for business use, we recommend that it be owned by the business entity.

If the vehicle is 100% private it is normally best to leave it out of the business and treat it as a personal asset

Where you have a vehicle that will be used for both personal and business use, a decision will need to be made as to whether it is more advantageous to bring it into the business, or keep it outside of the business.

Your accountant can assist you with this decision as they will calculate which option is most beneficial to you.

If you leave the vehicle outside of the business, you can still claim for the business running of the vehicle, either based on the actual running costs of the vehicle, or based on vehicle mileage rates (either IRD or AA)

If you are trading as a sole trader or partnership, the vehicle will come into the business as at its depreciated value. If you are trading under a company or trust, the vehicle will be purchased by the business as its current market value.

For GST purposes, your GST claim will be limited to the lower of the GST paid when you first purchased the vehicle or its current market value. For partnerships and sole traders a private use adjustment will need to be made.

Record Keeping Requirements for Income Tax

Under the Income Tax Act, the onus is on the tax payer to prove that your tax return is correct and that the expenses claimed are deductible. You are required to keep your records for a minimum of seven years, or ten years if advised by the Inland Revenue Department of an audit or requested to by the Inland Revenue Department.

As such we recommend that you ensure you keep the following records:

- Paid invoices for all expenses claimed (preferably filed in chronological order)
- Bank statements for all your bank accounts
- Invoices/statements for all income received
- Documentation relating to business agreements including leases, share milking arrangements, employment agreements, supply agreements
- Annual stock take
- Details of inventory taken for personal use
- Loan agreements and statements for all bank loans
- Hire purchase loan and finance loan agreements
- All documents relating to any other loans

- Purchase agreements and settlement statements for properties purchased or sold
- GST workings and returns
- Wage and PAYE records
- Meeting notes regarding decisions to purchase or sell properties
- Vehicle log books
- Any other documents you believe would be useful in the event of an audit
- Trust and Company minutes (These should be keep for at least the life of the Company or Trust)
- Company share register

Taxation of Trading Stock

Your Trading Stock on hand at balance date is required to be accounted for under income tax law.

Trading Stock consists of the following:

- Goods purchased for resale
- Work in progress at balance date (This may be tangible product or services that have only been partly completed)
- Materials that will be used to make products for sale
- Livestock (Please note there are special rules for taxation of livestock which we cover in our farming booklet)
- Stock in transit at balance sheet, for which you are the legal owner.

If your annual turnover is under $1.3 million and the value of your stock on hand is less than $10,000 you are able to estimate your stock on hand at balance date.

If your turnover is under $3,000,000 you can use the following methods to calculate your trading stock:

- Cost
- Discounted selling price
- Replacement price
- Market price

Please note that where you manufacture the goods, cost includes direct and indirect material and labour, and overheads in relation to the production of those goods.

If your turnover is over $3,000,000 the valuation choices is the same as for a low turnover tax payer except that cost must be calculated in accordance with the New Zealand International Accounting Standard No 2.

GST Basics

If your sales are over $60,000 p.a. you are required to register for GST and add 15% GST to all of your taxable supplies.

Taxable supplies include:

- Sale of goods and services
- Goods taken for personal use
- Lease of land, commercial buildings, livestock vehicles and equipment
- Sale of services, excluding financial services
- Income from commercial dwellings
- Any other supply of goods or services that is not GST exempt

Income that is exempt for GST purposes include:

- Rental income received on residential dwellings
- Interest received
- Financial services income

The following items are zero rated for GST purposes (i.e. no GST is charged on the sale)

- Exported goods
- Sale of business's sold on a going concern from a GST registered person to another GST registered person.
- Sale of land between GST registered parties

You have the following options if you are required to register for GST:

- Invoice or payments basis (Invoice basis is compulsory if your turnover is over $2 million)
- 1 monthly, 2 monthly or six monthly GST returns. If your turnover is under $500,000 you are eligible for the six monthly return basis.

The following costs are not claimable for GST purposes:

- Personal expenditure
- Expenses relating to supplying housing to employees
- Wages, interest and bank fees (These do not include GST)
- Expenses relating to your house including improvement costs
- Holiday home and boat expenses
- Garages/shed's built on the curtilage around your house.

Employees

If you hire any employees including casual workers you are required to register for PAYE and deduct PAYE from their wages and pay it to the Inland Revenue Department.

For each employee you should hold the following information:

- Their full name
- Address
- IRD number
- Tax Code (Each new employee should be provided with a IR330 so that they can determine their tax code)
- Doctors name
- Next of kin including their phone number

Also under law, you are required to do the following for your employees:

- Have an employment agreement that is signed by both the employer and employee. You are required to give potential employees time to review the employment contract and seek legal advice before requiring them to sign it if they are going to begin employment with you.
- Provide them with a Kiwisaver pack on or before commencement of their employment. If they are a full time employee and they do not complete an opt-out form for Kiwisaver they will be automatically enrolled into Kiwisaver. If your employee is subject to Kiwisaver you will be required to deduct 3% off their gross taxable pay and as an employer contribute a further 3% of their gross pay to their Kiwisaver scheme
- Keep timesheets for your employees.
- Look after the health and safety of your employees. Health includes both physical and mental health. You are required to have health and safety policies and be actively seeking to minimise health and safety risks to your employees. You need to see health and safety improvement as part of the culture of your business.
- Provide your employees with protective clothing and safety equipment
- Comply with the Human Rights Act
- Act in good faith

- Pay at least the minimum pay ($15.25 per hour, increasing to $15.75 on 1 April 2017). Employers cannot calculate the minimum pay over an annual period and it must be calculated weekly if the pay period is weekly or fortnightly if the pay period is fortnightly or monthly.

If you are looking to have a 90 day trial period for your employee this must be in the employment agreement and you must explain the 90 day trial period with your employee before they sign the agreement. Please note that there are pitfalls with the 90 day trial period and the trial period will not be valid in the following situations:

- The employee has previously worked for you
- The employee begins working for you before they have signed the employment agreement
- Where dismissal is because of sexual harassment or discrimination
- Dismissal must be on notice
- For the ability to dismiss "grievance-free", there must not be any differential treatment of employees on a trial period versus those not on a trial period

If you engage people to do the following types of work who are not employees, you are required to deduct withholding tax from the amount you pay them:

- Cleaning, gardening and refuse removal
- Commission paid to sales people and insurance agents
- Directorships
- Labour only contracts in the building industry
- Modelling
- Caretaker or guard duty

For keeping your wage records there are the following options:

1. Manual wages book or Excel based wages book
2. Software package (examples are Ace Payroll, MYOB and Xero)
3. Online payroll systems (examples are Ipayroll and Smart Payroll) which will calculate the wages, deduct the wages from your bank account, pay the employees and forward the PAYE and other IRD deductions to the Inland Revenue each month.

We would recommend either option 2 or 3 as these systems will keep a record of your employees leave so that holiday pay calculations are easy to run. If you do not want the hassle of setting up the weekly pays for your employees and completing the monthly IRD returns we recommend that you use an online payroll system.

Fringe Benefit Tax/Perks for Employee's

If you provide the following to employees, you will be required to pay Fringe Benefit Tax to the Inland Revenue Department:

- Make available a vehicle to an employee for personal use (Utes are currently exempt provided the Ute is for business use only, sign written with the employers name and the only private use is travel between home and work or incidental personal use)
- Providing interest free or low interest loans
- Subsidised transport
- Insurance policies for the employee's benefit
- Goods and services provided to the employee at less than market value . There is an exemption from fringe benefit tax for these benefits if the value does not exceed $300 per quarter, per employee, and the total unclassified fringe benefits provided in the last year does not exceed $22,500
- Any other non-cash benefit provided to the employee

If you provide fringe benefits you are required to file either quarterly returns, or if you elect, annual returns for the year ended 31 March.

The fringe benefit tax rate is 49.25% on the value of the benefit. For benefits attributable to employees, you can choose to use a FBT rate based on their personal tax rates. The calculation based on individual employee tax rates is made in the return for the period ended 31 March each year.

If you are giving benefits to employees, you should discuss the benefits provided with your accountant. Your accountant will check whether the benefits are subject to fringe benefit tax, whether any of the exemptions apply and assist you with the calculations required.

A guide to Fringe Benefit Tax is available on the Inland Revenue Department website. The guide is called IR409 Fringe Benefit tax guide.

Choosing an accounting system

While you may be looking to keep your costs as low as possible, in the long run it will be more beneficial to you if you choose an accounting system that in addition to the preparation of your GST and income tax returns will assist you in the following areas:

- Helping you to understand the costs of your business and the effect that your costs have on profitability
- Budgeting for future years
- Determining the costs of business activities. This information combined with physical data will greatly assist with future decision making
- Doing 'what if' analysis if you have more than one option available
- Review of your provisional tax position and estimating future tax liabilities

For the above reasons we do recommend that you receive some training and use a computerised ledger system and not use a manual/Excel cashbook or Banklink.

There are a multitude of computerised accounting systems available, including industry specific packages. We recommend that you discuss your choice of accounting program with your accountant and they will provide you with their recommendation of an accounting system that will suit your business and how you operate.

Legal Structure of Business

Your business can trade under the following legal structures:

- Sole Trader;
- Partnership;
- Trust;
- Limited Company;
- Limited Partnership.

While trading as a Sole Trader or Partnership may initially cost less to operate, once your business begins to make significant profits it becomes less tax effective. A Sole Trader or Partnership structure makes it more difficult to undertake succession planning as any transfer of assets is deemed to be a sale for income tax and GST purposes. Having a Sole Trader and Partnership structures can result in significant tax costs when you are passing the business operation to the next generation or when you want to bring in a new business partner, as the deemed sale of assets can create considerable taxable income on the transfer of buildings and equipment.

Our recommendation is that unless clients are intending to partner with people or organisations outside their family, they form a Limited Company to undertake the business operation. If you have the resources available we recommend that you also form a family trust and have the Company shareholding arranged as follows:

Family Trust – 98% ownership

Husband – 1% ownership

Wife – 1% ownership

This structure allows the wealth generated by the business to flow to the family trust, while allowing the individuals to receive shareholder salaries from the Company. It also caps the income tax payable on income retained by the Company at 28%.

This structure makes it easier to pass on the business to the next generation as the next generation buys shares in the Company rather than the assets (i.e. there is no deemed sale of assets with taxable income generated). This structure also makes it easier to introduce new partners to the business (i.e. by having employees buy shares in your company)

Seeking Finance from your Bank

The better the preparation you do before you meet with a bank manager the more likely you are to obtain finance.

In addition to having adequate security, the bank manager will be looking for the following before they will lend you money:

- Whether you have the business skills and experience to turn your proposal into a profitable business;
- A good savings history;
- A good credit rating including low use of credit card debt;
- A good understanding of the cash flow of your business including seasonal cash deficits and overdraft facilities that will be needed;
- Good people skills, as you will need to manage employees, suppliers and liaise with professionals;
- A willingness to learn and accept advice from others.

To provide you with the best opportunity to obtain bank financing you should prepare the following when approaching a new bank manager for finance:

- A summary of the finance you are requiring and the security that you can provide for the loan;
- A monthly cash flow forecast covering the next two years;
- A listing and value of your assets and liabilities (both business and personal);

- What non-business financial resources (if any) are available to assist repaying the business debt. This may include rental income, wages from your spouse/partner, or ongoing distributions from a family trust;
- A resume showing your previous work history, experience and qualifications;
- A business plan
- References from your current employer and previous employers you have worked for;
- The details of the professionals who will work with you to assist your business to succeed;
- Details of support you will be receiving from your family (e.g. loans, labour, advisory role).

Budgets

To be successful over the long term you need to have a clear understanding of your costs and activities and how these affect revenue. As such we recommend that you prepare a monthly budget (both cash and accrual basis) for the next twelve month period.

As you progress during the year you should check your actual results to date against your budget and investigate major variances to determine what you can do to improve your performance.

If there are benchmark results available for your industry, we would recommend that you compare your actual results to these benchmarks.

Selecting professionals to support you

In business as in life it is important to remember that the support of others helps you to thrive and succeed. While you will have developed significant skills in your industry, there will be areas where your knowledge is lacking. Using specialists to look at areas that you are not skilled in allows you to focus on your strengths and grow your business and wealth faster.

We recommend that you seek out the following when starting in business:

- Accountant;
- Bank Manager;
- Insurance Agent;
- Lawyer;
- Employment Expert (this may be your lawyer);
- Mentor (preferably an older successful business person in your industry who you can lean on for advice).

When selecting professionals, in addition to their qualifications and experience you should look for people with the following traits:

- Are they approachable, easy to talk to and do you feel that they relate to you?
- Are they passionate about your business and industry?
- Will they work well with other professionals in your business?
- A good reputation? Asking people in your area should give you a good understanding of their reputation, whether they get work done on time, and whether people consider their fees are value for money;
- Will they talk to you in plain English and explain things to you in a way that you will understand?
- Have time to discuss issues with you, or are they difficult to get hold of;
- Will they pro-actively assist you and support you if your business faces problems?
- Will they drive a plan to completion, or do you have to continually chase them to get things completed;
- Seek to avoid conflicts of interest;
- Keeps your information confidential;
- Is upfront about the cost of their services. Always ask for a quote, or if they are uncertain about the costs due to the nature of the work done, provide an estimate of their costs.

How to make the best use of your accountant

In the accounting industry we often see people only seeing their accountant as a preparer of tax returns and try to minimise use of their accountant to keep their costs as low as possible. This often leads to poor decisions being made as the client has not thought about tax issues, business structures, financing requirements, all the likely costs associated with the venture and business risks.

If you keep your accountant well informed they can assist you better with:

- Minimising taxation costs, especially where you are purchasing/selling businesses or property;
- Assist you in planning major projects or changing the direction of your business;
- Taxation planning so that you are well aware of future income tax payments and do not get caught with unexpected tax bills or having to pay large use of money interest costs;
- Determining the best business structure for your business to protect your assets, allow for business growth and succession planning;
- Helping you improve your profits, and reduce your costs;
- Being a business coach for you to help you grow your business and your wealth;

- Where you have multiple options to consider, prepare financial projections of different business proposals. This will help you determine which option you should go with;
- Cash flow and deficit forecasting, so that you can go to your bank manager with a clear understanding of what lending you will require;
- Assisting you with obtaining finance from banks;
- Preparation of budgets;
- Preparation of reports that will help you focus on the key performance indicators for your business;
- Selecting accounting and payroll systems that will suit you and your business activity, and provide you with training on those systems;
- Succession Planning;
- Advising about other professionals that you should engage in your business to assist you;

To enable your accountant to provide you with the most value we recommend that you provide your accountant with:

- A good understanding of your business. Site visits to your business aid tremendously with this;
- Your complete financial position, including whether the bank or creditors are putting pressure on you;
- Your plans and goals for your future;
- Any options you are considering;
- Your likely succession plans (e.g. bring your children into the business, or sell the business on retirement);
- Your annual budget if you prepare one;
- Regular contact with your accountant to keep them updated in how things are going;
- Details of any proposed major capital expenditure or equipment purchases before you sign any agreements;
- Tidy and complete records.

Situations where you should seek your accountant's advice

If you are considering the following or these situations happen to you, you should contact your accountant:

- Purchasing/selling a business;
- Succession planning;
- Restructuring your debt or looking to change banks;
- Purchasing major vehicle and equipment items;
- Looking at undertaking major business expansion;
- A visit from an IRD auditor or IRD liaison person;
- Hiring your first employee or independent contractor;
- Subdividing property;
- Buying a car for the business;
- Buying an investment property.

When should you seek legal advice

You should seek legal advice in the following circumstances:

- Considering purchasing or selling a business;
- When looking at asset protection planning, including formation of trusts, preparation/review of wills and relationship property agreements;
- To review auction documents **before** you make a bid at an auction;
- When considering joint venture agreements;
- To review agreements for supply contracts and construction of buildings;
- Before you sign any legal agreement (including but not limited to leases, property purchase/sale documents, employment contracts);
- You have a dispute with an employee, supplier, contractor, insurance firm or other organisation/person.

As with accountants it is good to have a long term relationship with your lawyer so that they can understand your business and family situation. You need to be able to relate to your lawyer and feel comfortable sharing your problems with them.

Deciding what accounting you want to do, what your accountant will do and whether to engage a bookkeeper.

While you may want to keep your costs as low as possible, it is often better to engage professionals to undertake the administration work so that you can focus on managing the business.

Your decision as to what accounting and book work you do will be heavily impacted by the skills that you and your spouse/partner have.

For your day to day processing of transactions and preparation of wages, PAYE returns and GST returns you have the following choices:

- Completing all the day to day processing and completing the GST and PAYE returns yourself.

- Engaging a bookkeeper or employee to undertake the day to day processing and preparation of the PAYE and GST returns. The cost of a bookkeeper will range from $30 to $80 plus GST per hour.

- Using an accountant to do the day to day processing and prepare the PAYE and GST returns. This is normally the most expensive option as accountant's fees range from $80 per hour to $200 per hour for this work.

If you want to do the day to day processing of transactions and prepare the GST returns, we would recommend that you use your accountant to assist you in setting up the accounting system and training. Then have your accountant review your first few GST returns until you and they are confident that you are doing them correctly.

Where you do not want to do the accounting function or feel that your skills would be better used elsewhere you can engage an employee, book keeper or accountant to manage the day to day accounting for your business.

However, if you chose to do your day to day processing we recommend that at least every 2 months a financial report is prepared for you that shows your results to date compared to your budget. This will help you keep track of how your business is going, and investigate variances between your budget and actual results.

Other issues to consider

Accident Compensation Levies & Income Protection Insurance

When first starting in business, your initial income is likely to be low. Also there is likely to be volatility in your profits with some years with low profits and other years with high profits. As such if you have an accident you may find yourself receiving low income related compensation as your profits last year were low.

To avoid this issue we recommend that you use ACC cover plus extra to fix your level of ACC cover, and consult with an insurance broker to see what income protection insurance you need to cover you for loss of earnings due to health problems.

Life & Health Insurance

While we like to assume that we will stay healthy and fit, we need to consider what would happen if we had a serious illness or died. What would be the effect on your spouse and children? In the event of your death, or a serious long term illness, do you want your spouse and children well looked after or will your spouse have to cope with looking after children, while managing a business and large debt?

There are many insurance packages available to cover a range of circumstances, and recommend that you consult your insurance agent to find the best insurance package for you and your family.

Wills

We recommend that every client has a will (even if they are not married and have no children), as it will reduce complications and administration costs on death and make it less stressful for your family.

Interacting online with the Inland Revenue Department

We recommend that you register with the IRD to use the online services, so that you can file your GST and PAYE returns online with the Inland Revenue Department.

In addition to filing your PAYE and GST returns electronically, there are also the following online services through your online account with the Inland Revenue Department:

- Send emails to the Inland Revenue Department (due to waiting times when using the phone, this can be a more efficient way to communicate)
- Look at your tax accounts to see what you currently owe Inland Revenue, and whether payments have been processed properly by the Inland Revenue Department.
- See what tax returns are due soon
- Receive email reminders for GST and PAYE returns due

Setting up for an online account with the Inland Revenue Department can be found at the following web page:

http://www.ird.govt.nz/online-services/ir-online-services-register.html

Resources and Websites that provide useful information for people new in business

Inland Revenue Department Resources at www.ird.govt.nz

I recommend that you download and read the following guides

IR375 – GST Guide

IR335 – Employers Guide

IR409 – FBT Guide

The following page at the IRD website provides useful information if you are new to business:

http://www.ird.govt.nz/business-income-tax/tax-for-bus/

www.business.govt.worksafe Contains a wealth of resources to help you meet your health and safety requirements in the workplace.

www.employment.govt.nz For information on minimum employment conditions, leave entitlements, record keeping requirements, resolving employment disputes.

ANZ Business Start-up guide can be found at:

http://www.anz.co.nz/business/resources-insights/business-startup-guide/

www.bizhub.anz.co.nz ANZ have created a range of resources for people new to business, and also run workshops

About Virtual Business Solutions Limited

Virtual Business Solutions Limited provides a wide range of services to small and medium sized business by helping them grow and improve their enterprise, gain efficiencies and increase profitability. We also provide business valuations across any industry sector, and quantify how you can increase the value of your business.

The relationship we have with our clients is different to those of larger traditional firms. They are more personal and our independence means we can focus on doing the right thing for our clients.

Virtual business Solutions Limited is made up of three professionals with many years of experience:

<u>Gabriela Newman – Phone 021 224 5678</u>

Gabriela specialises in business valuations as well as management accounting involving business owners and managers looking at operational performance to meet future strategic and operational needs. It is based on information from processes, technologies, suppliers, customers and competitors.

She also specialises in accounting systems and software implementation and support, and is a MYOB Consultant.

<u>Matthew Whitbread-Edwards – Phone 027 447 8257</u>

Matthew is a Chartered Accountant who specializes in taxation, business structuring and financial reporting as well as implementing accounting systems to enable business owners to focus on the key performance indicators to enable them to develop and grow their business. He also has significant experience in the evaluation of business proposals including preparing budgets and financial projections. He has a wealth of experience with Rural Cash Manager, Xero and MYOB.

Steve Nickson – phone 027 2013981

Steve specialises in helping organisations improve their performance through the analysis of existing problems and development of plans for improvement.

He provides objective advice, expertise and specialist skills with the aim of creating value, maximising growth or improving the business performance of his clients.

Steve provides business valuations, succession planning, change management assistance, technology implementation, strategy development, innovation and growth strategies, mentoring and operational improvement services.