

## Inside this edition



<b>Remaining Robust in Times of Uncertainty</b> .....	1
<b>Charities – The Ongoing Saga</b> ....	2
<b>Managing Staffing Levels in Tough Times</b> .....	3
<b>Structuring For a New Investor</b> ...	3
<b>Snippets</b> .....	4
<i>Family Tax Credit Increase</i> .....	4
<i>FBT Interest Rate for Low-interest Loans</i> .....	4
<i>New Secondary Tax Rate</i> .....	4

## Remaining Robust in Times of Uncertainty

Global economic crisis, credit crunch, financial meltdown – all terms that have been echoing around the world in recent months. What has been happening around the world will inevitably affect New Zealand businesses. The state of the world economy is such that New Zealand cannot ignore what is happening – after all, given the relative size of the New Zealand economy, it is not able to influence the outcome of the current crisis.



From a New Zealand perspective, the question is whether businesses do nothing and hope for the best, or take appropriate measures to strengthen themselves for the storm to come and emerge on the other side in a relatively healthy state.

The majority of New Zealand businesses are small to medium sized enterprises (SMEs). Given the uncertainty for businesses at present, they need to make every attempt to safeguard themselves against the downturn in the economy. The mantra for businesses, to ensure survival in difficult times, must be “Cash is King!” Cash is the life blood of businesses.

What follows are some reminders for businesses of sensible and good business practice in uncertain times. They are by no means anything extraordinary that businesses must do; they are merely reinforcements of how to maintain a strong and healthy business.

### Cash Position

Businesses will need to take a more focussed approach to what their cash requirements are. What are the business cycles for the business? If cash resources are inadequate, it will need to talk to the bank to make appropriate arrangements. The business will need to review its overdraft facilities for adequacy.

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For a large number of businesses in New Zealand, their stakeholders' lifestyles are funded by the business. In the current economic climate, businesses should be prudent about how much funds are being extracted by stakeholders by way of drawings or otherwise.

### **Stock**

Businesses must determine the levels of stock required for operating the business at an optimal or efficient level. Too little stock means the business could be caught short; however, too much stock means cash is tied up unnecessarily. To get stock levels at as optimal a level as possible, the management should review turnover levels of the business, which will in turn provide information about when stock should be re-ordered. As part of the stock review process, any obsolete or slow moving stock should be cleared as soon as possible – they could become sale or discounted items. To move stock quickly, the business should also review its sales and distribution strategies.

### **Debtors**

The first thing to remember about debtors is that they represent money belonging to the business – money that is sitting in someone else's bank account. This is the time to ensure that the business

has robust credit control policies. To encourage prompt or early payment, discounts could be given. Debtors, who may have been lax in the past with payment, may need reminders to prompt them for payment.

### **Cost Management**

Businesses must also review their cost structure and, where possible, savings should be made. Wherever feasible, businesses should concentrate on their core functions and costs. Where there is "dead wood" within the business, consideration should be given to pruning that part of the business. The business should identify which parts are operating efficiently, and which parts are not. Can efficiencies be improved upon? Where there are inefficiencies, management should isolate the reasons for the inefficiencies, and work on improving those parts of the business.

These are a few areas that businesses can focus on. There are many more areas and strategies that businesses can look at to ensure a robust future in difficult economic times. Businesses that have a strategy now are more likely to come out at the other end of economic unrest unscathed.

## **Charities – The Ongoing Saga**

The deadline for registration of charities came and went on 1 July 2008. Dire warnings had previously been issued that any existing organisations with tax exempt status that were not registered by that date could be taxed on income received from that date to the date they became approved by the Charities Commission ("the Commission").

Inevitably, there have been applications received after 1 July 2008 from organisations that had tax exempt status. The Commission has the discretion, within the Charities Act 2005, to allow it to backdate the registration of those organisations to 1 July 2008. This was to allow for the time it would take the Commission to process all the applications received close to the 1 July 2008 deadline.

To help matters along, the Income Tax Act 2007 has been amended to accommodate late registrations. The effect of the amendment is that the IRD can use its discretion to allow the tax exempt status of the organisations to continue where they had been tax exempt before 1 July 2008 – provided they can show that they had taken "reasonable steps" to register by the deadline, and that they intended to complete the registration process.

The key to being able to take advantage of the IRD discretions is, of course, the ability to show that "reasonable steps" have been taken to start

and complete the process. What would constitute "reasonable steps"? Examples would be:

- A documented plan of action of steps being taken towards registration by 1 July 2008.
- Evidence of assistance being sought from professional advisers to advise on the registration process, and
- Trustee or Board minutes to show that formal decisions had been made to have the organisation registered by 1 July 2008.



If the organisation is able to show such reasonable steps were taken, the IRD should exercise its discretion to allow backdating of tax exempt status to 1 July 2008.

Another issue that may be currently overlooked is the difference between tax exempt status and donee status. Obtaining tax exempt status under the Charities Act does not automatically mean the organisation has donee status. Donee status is granted by the IRD. An organisation does not need to be a registered charity to obtain donee status. Organisations that had donee status before 1 July 2008 retain that status after that date, regardless of whether they have registered with the Commission as charities.