CARTER & ASSOCIATES
CHARTERED ACCOUNTANTS LTD

NEWSLETTER

December 2015

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Christmas Information

Our office will be closed from midday Wednesday 23rd December 2015 until Tuesday 5th January 2016.

Should you require any assistance during this time please contact either;

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From all of the team at Carter & Associates we wish you all a very Merry Christmas and Happy New Year!!

Staff News:

We would like to welcome the newest member of our team Louise Donovan.
She has taken over the role of Receptionist from Susie Lilburn.

Provisional Tax & GST

Provisional Tax and GST are due on the 15th of January 2016

GST on foreign supplies

Imposing Goods and Services Tax (GST) on the digital economy has been a hot topic this year as New Zealand retailers push for equal GST treatment between local and foreign suppliers.

At present, foreign providers of cross-border services and intangibles (including music, e-books, videos and software purchased from offshore websites) do not have to pay GST on sales to New Zealand based consumers. This puts local based providers at a substantial disadvantage because they have to charge GST, which will, at a minimum, increase their prices by 15% when compared to foreign competitors.

Currently, whether or not GST applies to a particular transaction depends on a number of factors, such as the location of the supplier or where the services are performed. Because most e-tailers are not based in New Zealand, and their services are not performed from New Zealand, GST does not apply.

This issue is not isolated to New Zealand with many countries facing similar GST/VAT non-collection issues. Given the significant revenue at stake, governments worldwide have a vested interest in reform. The Organisation for Economic Co-operation and Development (OECD) has released guidelines on GST/VAT treatment, which countries are considering adopting.

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The New Zealand Government has now released its own discussion document titled 'GST: Cross-border services, intangibles and goods' which broadly proposes to align New Zealand with the general direction of reforms undertaken by a number of countries. The key suggestions include:

- Introducing a new 'place of supply' rule so that services and intangibles supplied remotely by an offshore supplier to New Zealand-resident consumers will be treated as performed in New Zealand and therefore subject to GST.
- The new rules to apply to a wide range of 'services', which capture both digital and traditional services.
- A requirement for offshore suppliers to register and return GST when they supply services and intangibles to New Zealanders if their services exceed a given threshold in a 12 month period.
- In situations where offshore suppliers do not directly supply services to their customers, and instead use electronic market places to market and sell their services or intangibles, the electronic marketplace may be required to register for GST instead of the principal offshore provider.

While not confirmed in the discussion document, the expectation is that the proposed changes will not require offshore providers to return GST when they make supplies to New Zealand businesses (who would normally be able to claim the GST back). The new rules would focus on taxing business-to-consumer supplies.

At present, GST not collected on low-value goods imported into New Zealand is also an issue. The Government intends to align, where possible, the collection of GST on imported goods with the changes relating to cross-border services and intangibles. The New Zealand Customs Service is looking at options for simplifying the collection mechanism and reducing the threshold before GST is charged on imported goods (currently $400), while balancing the cost to collect that GST.

As e-commerce continues to grow, the volume of services and imported goods on which GST is not collected is becoming increasingly significant. It has passed the tipping point where the Government is now moving to capture that lost tax revenue.

Businesses should also be mindful of similar changes being implemented in other countries that may result in GST/VAT being required to be paid.

Doing your own Due Diligence

When purchasing a business it is important to understand its value. The value of a business will ultimately determine whether to purchase it and if so, how much to pay. A number of factors need to be considered when determining the value of a business, including; it's financial position, future forecasts, existing customer relationships, staff structure and relationships, why the current owner is selling, your future exit strategy, and the list goes on.

Ideally, advisors who specialise in completing due diligence and financial analysis should be used. However, if that isn't possible or if a 'starting point' is required before a specialist team is brought in, here are four key areas to focus on:

- the reoccurring nature of revenue,
- the quality of earnings,
- what drives business growth, and
- the business's cash flow.

Understanding business revenue is integral to understanding the value of a business. A key question is therefore how is revenue secured going forward, i.e. how does the company retain their customer base? If business sales are generated by long-term contracts this will greatly increase the value of the business when compared to unsecured business sales that are retained by customer loyalty alone.

Further, if customer loyalty is attached directly to the existing business owner this can decrease the value of the business. Understanding what drives the business revenue provides a more in-depth understanding of the reoccurring nature of the revenue and what a new business owner will need to do to retain the same level of revenue.

Secondly, the quality of earnings must be examined. The earnings you use to value a business should be earnings that are maintainable into the future. Often within company accounts there are entries that distort a business's true earnings. These can be one-off events that will not occur again in subsequent years such as a large cost or sale that is attributable to unusual circumstances. Staff and rent costs are often worth examining as it is common for these costs to not truly reflect their market price. All costs must be adjusted to market value to provide a fair reflection of profit.

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Often, earnings will be forecast to grow into the future. If this is the case understanding what drives that growth is paramount. In order to analyse this it is useful to compare the historic accounts with the forecast accounts and analyse the key assumptions and key risks to achieve the growth. Assumptions should be realistic and the risks shouldn't be understated.

Finally, the working capital requirements of a business should be examined. Every business has different cash flow requirements due to seasonal changes or supplier and customer relationships. Can future capital requirements be funded? Moreover, if the business is forecast to grow, what working capital is required to fund that growth?

Answers to the above questions will help determine whether the business is worth purchasing and might save some money when negotiating the price with the vendor.

Further cuts to ACC levies

ACC must collect sufficient funds to cover the costs of all current and past claims. In 1999 the Government realised funding was insufficient to cover on-going costs of pre-1999 claims and therefore, introduced a 'residual levy' to build up adequate funds.

The residual levy has been incorporated into the work levy whereby, at present it comprises two components; (1) a current portion and (2) a residual portion. Each year, the current portion of the work levy is adjusted to reflect the most recent injury experience within the business's specific industry. The residual portion however, has been fixed since 2005 and is based on the remaining cost of pre-1999 claims.

Following a recent valuation of ongoing claims costs, the Government has proposed to remove residual levies in 2016/2017, which could result in 75% of businesses paying a reduced levy.

Once the residual levy is removed, work levies will be fully calculated on more recent injury trends and industries with increased injury rates will pay higher levies (and vice versa), i.e. those who operate in industries with higher injury costs.

If you have any questions about the newsletter items, please contact us, we are here to help.

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