

# Business Matters

Strategies for managing your business



## Make this year a perfect 10

**A**fter the economic roller coaster ride of 2009, businesses will be looking forward to a year that may be a little easier. With a more positive outlook for the year, now is the time to put a strategy in place to capitalise on the rising economy. Here is a list of six simple steps that are fundamental to business success in the next 12 months.

1. **Develop an annual business plan:** Set aside a few days to analyse past activities, set goals for the coming year, prioritise new efforts and most importantly, establish an action plan. An annual planning process can be the single biggest contributor to the ongoing and improved success of a business. Set goals, establish priorities and be realistic.
2. **Focus on core business:** With each new year comes the desire to expand in new directions. Entrepreneurs often get bored with their existing business and business fundamentals. When business owners allow themselves to get too distracted by exciting new projects, they often neglect their regular income stream. Remember what part of the business actually pays the bills.
3. **Increase marketing:** This is a resolution most business owners make every year, but generally fail

to follow through on. A business cannot stop marketing and plan to grow.

4. **Do not start marketing randomly:** As part of the planning process, develop a marketing plan. Once again, set priorities and goals. Choose ongoing activities that are realistic based on your budget and time.
5. **Keep things interesting:** Most entrepreneurs are always coming up with great new ideas. The need to stay planted and focus on core, 'bread-and-butter' business can make things a little boring. Choose one significant new challenge for the coming year – securing an additional distribution channel, landing a major customer, launching a new product, or improving your online presence. Make that a priority – after the basic business has been taken care of.
6. **Reward and acknowledge:** No one succeeds alone. A successful business is always the result of a team effort. Sometimes that team is composed of employees, and they deserve a "thank you" regularly and acknowledgment of their ongoing contributions. That also means keeping salaries and benefits competitive.

Even a solo business can have a 'team' of informal supporters – family, friends, business associates and other entrepreneurs. Remember to acknowledge and thank them for their ongoing assistance and support.

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### IN THIS ISSUE - 1ST QUARTER 2010

- Make this year a perfect 10
- Working with family
- New rules for relocation and meal allowances
- New industrial relations rules
- Reimbursement for motor vehicle expenses
- A great read by Daniel H. Pink

CHARTERED  
ACCOUNTANTS

# Working with family

One of the greatest complaints small employers have is how difficult it is to find good employees. But there's one place they often fail to search for new job applicants – the families and friends of their best employees. After all, current employees who have great work attitudes probably have brothers and sisters with great work attitudes too.

Before rushing headlong into hiring family or friends, consider the ups and downs.

## Advantages

Family members and close friends often come into a business with a strong commitment to the company, more so than the average employee.

Because relatives may think of the company as an extension of the family, they may be more likely to be flexible and work into the evening and over weekends when needed, anticipating that they will personally benefit from the long-term success of the company.

Often you know family and friends well and are familiar with their capabilities and shortcomings. This may enable you to place them in just the right position. Also, your familiarity may allow you to train them more quickly than other new employees.

## Disadvantages

A relative may take advantage of family status, knowing that it's hard to fire them when you're going to be sitting down at the dinner table with them that night.

Other employees may see the hiring as nepotism, especially if the family member is given preferential treatment or given a position without having the appropriate experience or training.

Family problems can be brought into the workplace. It's one thing to have a family



disagreement at night and be able to leave it when going to work in the morning. But it is entirely different when you're facing the same person at work; the strain may affect the entire business.

## Managing the mix

Hiring friends and relatives is tricky. If not handled well, it can sour the work environment.

But there can also be great benefits, as long as you proceed carefully:

**Business is not a charity.** Do not hire someone's relative just because they 'need' a job. If someone has trouble holding down a job, you don't want them either.

**Write a detailed job description.** Make it clear that if the relative or friend doesn't perform as expected, he or she will be let go. Hire on a probationary basis, establishing a two-week or month-long period to see how things work out.

**The right 'stuff.'** Ask specific, detailed questions about the relative's qualifications before you agree to interview them. People rarely see their own relatives clearly. They're likely to make comments such as "He's a

wonderful guy" or "She's so smart." That doesn't tell you if they've had relevant work experience or training. While you want to hire people with the right attitude, leave yourself an out: "I'm not sure Chris has the right computer skills we need."

**Don't have too many chiefs.** It is advisable not to have relatives reporting to one another or work too closely together. It's one thing to have siblings work for the same company in different areas, but if they work together on the same project, you're likely to see old family patterns emerge. If something goes wrong, don't be surprised if you hear: "He started it." "No, she started it."

**The trouble with spouses.** Spouses or domestic partners working together can present a number of difficulties. There are logistical issues: vacations or family emergencies may leave you doubly short-handed. And behavioural issues: a terrific, eager worker may change dramatically with a spouse around. The dynamics of a couple's relationship is stronger (and usually less comprehensible) than a boss/employee relationship. Moreover, in a small, new, or very risky company, having both breadwinners work for the same company puts a lot of stress on a family and their budget. That's a lot of extra stress on you.

**Be cruel to be kind.** Be toughest on your own relatives. It is essential to set ground-rules so that relatives are clear they are not entitled to a 'free-ride.' It is also important for other staff members to see this strategy in place. Before you hire a relative, make it clear to them that they're going to have to prove themselves, and they'll be held to the highest standards. Never supervise a relative directly.

**Don't play favourites.** Make sure all the rules apply to all employees. Everyone has to be qualified and they have to do their jobs well. Otherwise, they're not hired or they get fired. Even your mother.



# Inland Revenue warns of party plan pitfalls

Inland Revenue has issued a warning to people about entering network and direct marketing schemes simply because they think they will get tax benefits.

A Revenue alert has been issued by Inland Revenue about the schemes, which involve the use of party plans to sell a range of products, which include household items and dietary and health supplements.

Revenue alerts are used by Inland Revenue as an early warning. They highlight any significant or emerging areas of concern for Inland Revenue.

The alert was issued in response to an increasing concern by IRD that some people are getting involved solely to obtain a tax benefit, as opposed to starting a genuine business. Individuals that use this tactic could be liable for penalties and interest, or could even be prosecuted for filing false returns.

Promoters of some of these schemes are suggesting that people join because of the tax benefits they say they will receive. Some

promoters have suggested that people register for GST in order to claim back GST on items purchased. A problem occurs when these items are purchased exclusively for their own personal use.

In addition, promoters are advising people to claim business-related expenses such as a room in their home, used as an office or their phone line used for business purposes.

IRD is concerned that people are not actually

carrying on a business and therefore should not be claiming what are essentially personal expenses. Similarly, if they only engage in selling items occasionally at a fairly low price it is not appropriate to register for GST.

Anyone who is uncertain about whether or not they are starting up a genuine business should immediately seek advice in relation to their own circumstances.



# Reimbursements for motor vehicle expenses

IRD has issued an exposure draft (ED) clarifying issues in relation to reimbursing a shareholder-employee for private motor vehicle expenses when used for business purposes.

The draft seeks to provide a IRD interpretation in relation to two questions:

1. To what extent does a shareholder employee satisfy the employee criteria?
2. What is the basis for the calculation when determining reimbursement of

vehicle expenses when used for business purposes by shareholder employees?

## Employee Criteria

Tax legislation defines an employee as a person who receives a PAYE income payment. In addition, shareholders of closely held companies not receiving regular salary or wages, or receiving regular payments that total less than 66 percent of their annual gross income are also considered employees under the Act.

The effect of the above definition is that shareholder-employees may be considered an employee for the purposes of receiving tax free reimbursements, regardless of whether or not they receive a PAYE income payment.

Shareholder-employees that satisfy the criteria are entitled to the same tax free reimbursements as an ordinary employee.

## Mileage Rate

Employers may calculate the amount of the reimbursement that is exempt from tax when employees use their own vehicles for work related purposes. They may reimburse an employee based on actual expenditure incurred by the employee, or by making a reasonable estimate of likely expenditure to be incurred subject to a 5,000km limit per year.

Employers may use the rate issue by the Commissioner to calculate a reimbursing expense for an employee. Where an employer elects to use the Commissioner's mileage rate, the 5,000km limitation may not apply.

However, employers need to ensure that any reimbursement still reflects a reasonable estimate of the expenditure actually incurred by the employee.



# New rules for relocation and meal allowances

**T**he IRD has issued new rules in relation to relocation payments and overtime meal allowances.

The rules state that amounts paid on behalf of an employee by an employer will be considered exempt income in the hands of the employee in specific instances. These include when allowances are paid:

- in connection with the employee's expenses in a work-related relocation, or
- for a meal for the employee when the

employee is working overtime.

A work related relocation is considered a relocation of an employee's place of living that is required as a result of the employee's workplace not being within reasonable travelling distance of their residence. As a result, the employee either:

- takes up new employment with a new employer; or
- takes up new duties at a new location with their existing employer

- continues in their current position but at a new location.

The payment for the meal will only be exempt in the hands of the employee if the employee has worked at least 2 hours overtime on the day of the meal. That is where the employee's work agreement provides for the payment of overtime hours worked or the employer has an established policy or practice of paying for overtime meals.



## WEB WATCH

### ESSENTIAL SITES FOR BUSINESS OWNERS

[www.tradenz.govt.nz](http://www.tradenz.govt.nz)

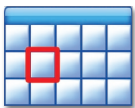
Trade New Zealand

Trade New Zealand fosters the development and expansion of Foreign Exchange earnings by developing export culture in New Zealand

[www.strategy-business.com](http://www.strategy-business.com)

Strategy + Business

This provides executives with commentary, research, and practical ideas that bridge the gap between theory and practice in contemporary global business.



## REMINDERS FOR YOUR DIARY

### March

- 1 GST return and payment due
- 22 Employer deductions (IR 345) form and payment due and Employer monthly schedule (IR 348) due
- 29 GST return and payment due

### April

- 5 PAYE employer monthly schedule (IRD 348) due for large employers
- 7 FBT return (IR421) and payment due for employers (with tax agent) with balance dates between 1 March and 30 September (if payable on income year)

### May

- 5 PAYE - Employer monthly schedule (IR 348) due for large employers  
Employer deductions (IR 345) or (IR 346) form and payment due for large employers for period 16 April to 30 April
- 31 FBT return (IR420) and payment due for employers for the quarter ending 31 March (if completed on a quarterly basis)  
FBT return (IR422) and payment due for employers for the year ended 31 March (if completed on an annual basis).

## A Great Read

Drive: The Surprising Truth About What Motivates Us

Author: Daniel H. Pink

Riverhead 2009

The secret to high performance and satisfaction in today's world is the deep human need to direct our own lives, to learn and create new things, and to do better by ourselves and our world. That is the message from Pink who provides some interesting insight about how to motivate people - at work, at school and at home.

Drawing on four decades of scientific research on human motivation, Pink exposes the mismatch between what science knows and what business does - and how that affects every aspect of our lives. He demonstrates that while the old-fashioned carrot-and-stick approach worked successfully in the 20th century, it's precisely the wrong way to motivate people for today's challenges. In Drive, he reveals the three elements of true motivation:

- Autonomy- desire for self direction
- Mastery- urge to get better at something that matters
- Purpose- yearning be part of something larger than ourselves

Along the way, Pinks reviews companies that are using new approaches to motivation and introduces us to the scientists and entrepreneurs who are pointing a bold way forward.

Drive is bursting with big ideas-- the rare book that will change how you think and transform how you live.

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.