

## WELCOME TO THE AUTUMN EDITION OF BETTER BUSINESS



■ STEPHEN HIGGS  
MANAGING PARTNER

**Welcome to the Autumn edition of Better Business. These are interesting times for business. In the month of April there were a record number of utility vehicles sold in New Zealand and consumer and business confidence overall remains positive. At the same time, the incoming cash flow for dairy farmers, who produce much of New Zealand's export wealth,**

**will be very low over the next few months, so the cash flowing into other parts of the economy will mirror that.**

Our currency is also all over the place – looking just at the Australian dollar, not long ago some were ready to celebrate with a parity party, but at the time of preparing this article the

NZ dollar has fallen to 94 cents Australian.

Volatility and uncertainty remain, which presents both risk and opportunity for business. The key to business success is therefore proper planning and regular monitoring against plans and appropriate key measures. Planning includes among other things overall business strategy, IT strategy, and cash flow (including tax) planning. Monitoring requires establishment of the appropriate key performance indicators to measure against, and installing the best possible systems to produce reliable and timely information.

Polson Higgs is keen and certainly has the capability to assist you with these elements of your business. This edition of Better Business includes a number of articles which outline examples of where we can help you achieve success in your business. The members of our team would be happy to hear from you.

## RESEARCH & DEVELOPMENT AND OTHER UPCOMING CHANGES

**The February tax bill currently before Parliament includes changes in relation to research and development (R&D) tax losses, designed to help grow innovation in NZ and provide economic growth.**

Under current tax laws, where a start-up company accumulates losses in the initial years, assuming they meet the continuity requirements, the losses would be carried forward to be offset against future profit. This is problematic particularly for companies involved in R&D as they invariably have a need for cash now.

The proposed rules would allow ordinary companies undertaking R&D to gain access to these losses earlier, using a "cash out" rule. Administratively this is delivered as a tax credit in the company's annual tax assessment.

The key criterion to utilise the "cash out" rule is that the company is resident in New Zealand (under domestic law and the DTA), and in a loss position. The company must have intensive R&D. A "wage intensity" calculation is used to gauge the intensity of the R&D and this essentially requires 20% of the labour cost to be in relation to R&D. What the rule does not apply to is highly structured R&D companies, nor companies not meeting their tax obligations.

Certain activities have been specifically excluded as being R&D, some of which include activities performed outside NZ, market research, routine collection of information and acquiring or disposing of land, intangible property or intellectual property, to name a few.

The cash out amount is the lesser of:

- 28% of the R&D expenditure
- 28% of the total tax loss
- 28% of \$500,000 in the 2015-2016 year, increasing by \$300,000 for five years thereafter
- 28% of 1.5 multiplied by the eligible R&D salary and wage expenditure

The loss can only be cashed out in the year it has arisen, not in subsequent years.

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The cashing out of R&D is only a timing benefit. In future years, when the company is making profits, cashed-out losses will be repaid and the losses reinstated. Furthermore this will also occur if any R&D assets are disposed or transferred, the company migrates or is liquidated, or amalgamated with another company, and where over 90% of the company is sold since the first cash-out occurred.

In addition it should be noted that imputation credits will not arise for a company with cashed out losses, until the company has repaid the amounts.

IRD have also taken the opportunity to move more people online, by requiring that the application and income tax return for the cash

out (and where repayment tax is due) is filed electronically.

The new "cash-out" rules will apply from 1 April 2015, so if you are involved in R&D and likely to be in a loss position, please contact us to discuss.



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# The Trade-off

*preserving your standard of living or preserving your capital*

If we had it our way, all investments would be able to deliver two things simultaneously:

1. Have very little chance of losing money, even over short time horizons
2. Increase considerably in value.

In reality, successful financial planning require us to balance 'the trade-off' between these. On the one hand, we want a good night's sleep. This is our desire to have only a low chance of making a loss, even over short time horizons. On the other hand, we want a nice place to sleep. This is our desire for our investments to increase considerably in value.

*However, these securities often don't keep pace with inflation, after taxes.*

decision in which both objectives are balanced against each other. Ultimately, the correct mix depends on the particular needs and attitudes of the investor.

## Having a good night's sleep

If having a good night's sleep means being exposed to very little risk of loss, then such an investor's primary objective is to 'preserve capital'. This implies an investment approach that focuses on short term Government Bonds, or fixed interest and bank deposits. They're about the safest securities available these days and there is a reduced chance of losing money on them.

However, these securities often don't keep pace with inflation, after taxes.

For example, in 2012 one-year New Zealand Government Bonds were yielding about 2.6% gross. After paying the necessary tax on that amount, let's say at a marginal rate of 30%, this left about 1.8% to take home. According the Reserve Bank's Inflation Calculator, inflation to 31 March 2012 was 1.8%.

So which is better? As advisers we've learned that neither is really better; there is no optimal solution for all. There is only an informed

So, while investors heavy in one-year Government Bonds are more than likely to sleep very well, it is equally clear that they are only standing still in terms of providing for their future.

## Having a nice place to sleep

There are other issues to be concerned with apart from a short term chance of loss. What about a long term chance of a diminished standard of living? Investors concerned about protecting their standard of living (purchasing power) in the future tend to prefer investments with higher expected returns and higher volatility. Unfortunately, these kinds of investments can, and do, experience periods of loss.

Imagine a family doctor, 15 years from retirement, who contributes to her KiwiSaver fund. The doctor doesn't need to use her retirement savings right now and she doesn't even notice it coming out of her pay each month. Now let's say that this year, 15 years before she plans to retire, her KiwiSaver account suffers from a bad market and loses 10%.

Does that really have any bearing on the doctor's life now? Has her standard of living diminished today? Not at all. Her KiwiSaver account has 15 more years to grow and it is very likely to make back that loss, and grow besides. Short term volatility is clearly not the most important issue to this investor.

Investors like the doctor in our example understand that inflation is a slow and silent killer of financial security. Such investors seek out more volatile investments in order to preserve the purchasing power of their capital into the future.

## How low volatility investments really do lose money

Most investors will find that an appropriate portfolio comprises some investments designed to preserve capital and others designed to preserve purchasing power. The most suitable mix of the two will depend upon their specific needs and attitude towards short term losses.

*...inflation is a slow and silent killer of financial security.*

Lately, those looking to invest, and a few existing clients, have questioned us about the merits of holding risky assets such as shares and property. Some have queried why they should have risky assets in their portfolios at all. Our response is consistent: we are trying to protect your purchasing power. If we were to react with fear and turn to a portfolio heavy in low yield investments, we would almost certainly harm our clients' ability to reach their financial goals.

History shows that low yield investments can lose money for long periods of time when we correctly account for the corrosive work of inflation. Table 1 below contains 111 years of financial data! It shows that short term New Zealand Government fixed interest beat inflation before tax. Note, though, that after tax this advantage was virtually nil. Over 100 years equities have delivered returns exceeding both short term fixed interest and inflation by a wide margin, even when accounting for taxes.

Annualised Nominal Returns (1900–2010)			
Country	Inflation	Short Term Fixed Interest	Shares
New Zealand	3.7%	5.5%	9.8%

However, investors in shares must accept the risk of substantial declines. For example, New Zealand share investors lost 64% of their investment between 1987 and 1990 (yikes!) Whereas the worst return for short term fixed interest was 1.5% in 1942 (not too bad).

But this is all before inflation. It's not good enough to applaud investments that merely make a positive return. Investment returns need to outpace inflation in order to provide long-term security.

As can be seen in Table 2 below, investors in shares took a total of 17 years to break even after the share market crash in 1987 when we correctly account for inflation. After inflation, an investor in short term fixed interest lost 45% from 1937 – 1982 and, in total, it took an investor 55 years to break even! Investors in Australia, Canada and the US would have found nearly identical results when investing 100% in short term fixed interest.

Worst performing periods for shares & short term fixed interest; real returns (1900–2010)					
Asset Type	Worst period	Total return	Years to trough	Years to break even	Total
Shares	1987-1990	-73%	4	13	17
Short term Fixed Interest	1937-1982	-45%	46	9	55

So how could an investment like short term fixed interest, that has never had a negative return (remember the worst period return was 1.5%), lose 45% of its purchasing power?

The answer is simple. The same year that New Zealand short term fixed interest earned 1.5%, domestic inflation was at 4.0%. So even

though the nominal return on short term fixed interest was positive, an investor was really going backwards in terms of purchasing power. This is not even to mention that the 1.5% yield was taxable.

In short, preservation of capital and the preservation of purchasing power are both important strategies which have a place in a diversified investment portfolio.

History is clear that an over-allocation to cash and fixed interest, for fear of short-term drops in asset prices, can be an extremely risky strategy and can lead to the destruction of an investor's purchasing power. It is the goal of any good financial adviser to find an appropriate trade-off that will enable you to reach your long-term goals, while not being exposed to unnecessary market ups and downs. Perhaps it's with that combination, that some peace of mind can be achieved.



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## POLSON HIGGS SUPPORTS DUNEDIN RSA WELFARE TRUST



Polson Higgs is pleased to be supporting the Veterans and their families in our community through support to the Dunedin RSA Welfare Trust.

Polson Higgs has funded a banner promoting Poppy Day, ANZAC Day and WW100 commemorations, and contributing to the provision

of personal comfort packs to veterans and their dependents that may be in hospital or in need of urgent help.

We are proud to support the Trust and the benefits it provides to those who have and continue to make sacrifices for our community.

The RSA Welfare Trust is a not-for-profit charitable Trust that provides assistance to Defence Force and NZ Police veterans and their dependents within the Dunedin Metropolitan area and the wider Otago and Central Otago region.

This year is a significant year in which we mark 100 years since the Gallipoli landings on ANZAC day and the many associated campaigns, battles and acts of bravery and sacrifice throughout WW1. Nationally this is being recognised as WW100 celebrations.

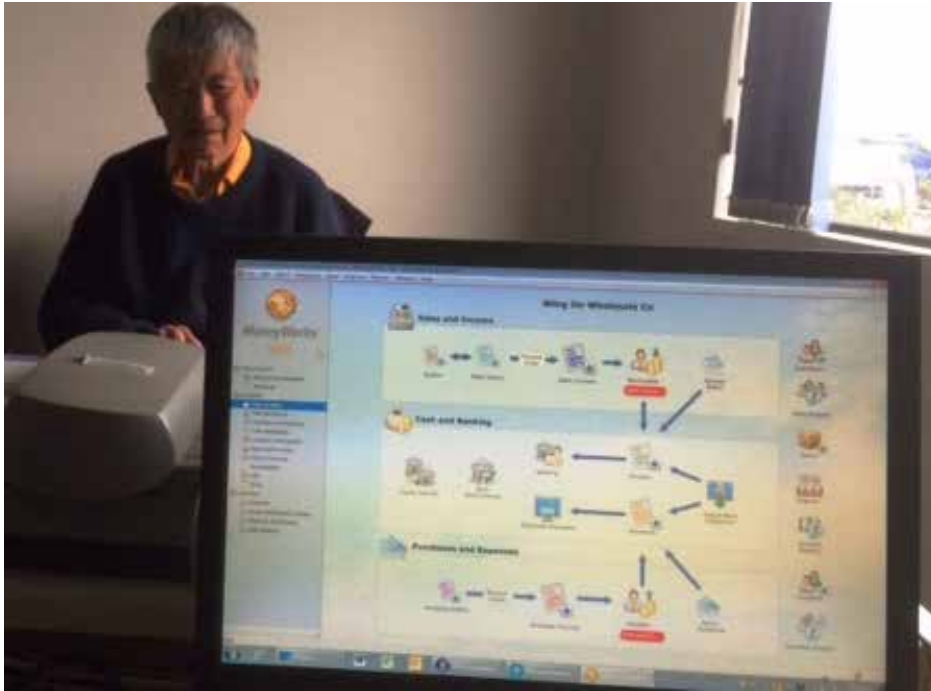
For further information regarding WW100 [www.govt.nz/](http://www.govt.nz/) or the Dunedin RSA Welfare Trust [www.dn-rsa.org.nz](http://www.dn-rsa.org.nz)





# Roger Kan interview

Wing On Wholesale - Dunedin



as poultry, fresh and frozen seafoods, prime meat cuts and other frozen foods. A purpose-built facility has large coolers and freezers where products are held in optimum temperatures and humidity. "We try to give value for money. We are not the cheapest."

Wing On Wholesale now supplies Mercy Hospital and Dunedin Public Hospital, university and school hostels, the occasional ship, and the public "if they want to come and pick it up" in Dunedin and Central Otago.

The company has been a client of Polson Higgs, which provides his practical IT support, for over 10 years. Wing On Wholesale recently implemented the new accounting and business software, MoneyWorks, with the help of Donna Hall and Shane Boyle, a Polson Higgs' Business Systems and Solutions team.

Roger moved to MoneyWorks, because his previous business software was outdated, and XERO (another choice) wasn't suitable for the company's purposes. When Shane suggested MoneyWorks, Roger listed the things he wanted MoneyWorks to do. "Donna was introduced to me, we had a few meetings, then a few workarounds." Donna then had sessions with Jackie Law, Wing On's office manager, who has a very useful IT background. "It finally looked all right, and we put it in."

Shane's role is the overview of the financial side, including costings and quotations. "Shane always responds promptly to questions. He acted as project manager for the implementation of MoneyWorks, getting it to the point where it can be signed off."

*Polson Higgs' service with MoneyWorks "is fantastic", says Roger.*

MoneyWorks went live in March. Roger uses it for information, whereas his staff use it for the operations of the business. Wing On office manager Jaqui Law: "We use the whole MoneyWorks system – not only the accounting but the inventory side of things including invoicing, statements, purchase orders." When MoneyWorks was set up, Jaqui took all the information out of Wing On's old system and emailed it to Donna, who imported it into MoneyWorks. "So all accounts, customers, inventory and the general ledger, were put through it."

Wing On Wholesale in Dunedin has been a family business since 1932 when it started as a small retail fruit and vegetable shop, owned by the present managing director's parents. In 1956, to meet a growing demand from the hospitality industry and requests from local and overseas shipping lines calling at Dunedin and Port Chalmers, a separate department was formed to cater for this sector. Three years later the department was restructured and formed into the present Wing On Wholesale Company under the control and proprietorship of the managing director Roger Kan.

Roger: "My wife Jessie and I started in partnership. Our sons Greg and Raymond joined the firm when they became old enough." Raymond soon moved on to a computer career, which was more his forte, but

*Wing On Wholesale now supplies Mercy Hospital and Dunedin Public Hospital, university and school hostels...*

"But it is still not big enough." Besides the traditional fresh fruit and vegetables, the range of Wing On Wholesale products now includes pre-prepared fruits and vegetables, fresh eggs and frozen lines such

Greg worked for the business for 20 years. Three years ago he, too, changed careers.

Wing On started off "in a wee corner in the wholesale food markets". It then moved to Fox Street, and in 2002 moved to Strathallan Street.

*Roger doesn't let being blind stop him. He still wanders around the Wing On store, inspecting the produce and freezers by feel and smell.*

without frustrations for both of us. I believe nothing is impossible, so I seldom take 'No' for an answer, which was a challenge for both Donna and perhaps Polson Higgs."

Polson Higgs had another factor to deal with. Roger is blind. "I started losing sight through glaucoma in 1985." Roger has been using JAWS (Job Access With Speech), a screen reader developed for computer users with vision loss, for 15 years. "Getting MoneyWorks up and running would have been impossible without the help of Dave Allen, who formally was with the Blind Foundation. If it wasn't for Dave I wouldn't be able to work here. Any problems with JAWS he will sort out. Donna had set up Dave with a copy of MoneyWorks and he was able to get scripting (enabling my computer to transcribe into speech what appears on the computer screen as text) by Sue Bernardo who is in the USA. Sue has the best of both worlds. She is fully sighted and has done a lot of scripting for other vision impaired people working with . We'd have a three way phone link via Skype and through a facility available in JAWS we could all see or hear what the other would be doing on their screens. I could show Sue what I was doing and then she could tell me what I was doing wrong or if the scripting needed changing. Dave would watch and listen at his end and clarify anything we could not understand. Amazing! Through trial and error

Polson Higgs' service with MoneyWorks "is fantastic", says Roger. "Donna has put her heart and soul in it. She's there when we ask something. Her responses are great. She's taken a great pride in getting MoneyWorks up and running, though it wasn't



over two months we have almost got it right." Donna answers Sue's questions about the software via David. In an ongoing process she fine tunes what Roger and his administration staff need to see.

Roger's loss of sight was progressive. "When my sight finally went, I was unliveable. But a friend whose wife works for the Blind Foundation, persuaded me to join up. They had a programme called ZoomText for screen magnification, which they installed on my computer." Then, as his sight failed further, Roger went to JAWS, which the Blind Foundation also set up for him. "I now find being blind only a nuisance. That's all. I'm always grateful to the Blind Foundation."

Roger doesn't let being blind stop him. He still wanders around the Wing On store, inspecting the produce and freezers by feel and smell. "I'm a member of the Blind Foundation's gardening club which meets once a month with a guest speaker. We learn a helluva lot." Another interest is the Dunedin Community Salmon Trust, of which he is a trustee and past president. Their purpose is to raise young salmon for release into Otago Harbour for recreational purposes.

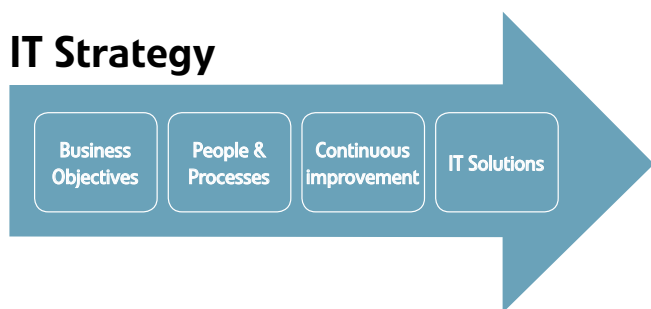
Roger, who shows no signs of retiring, sums up his excellent relationship with Polson Higgs: "I am very happy with Polson Higgs, both with MoneyWorks and all their other IT work – service, hardware and software."





# What is an IT Strategy?

## IT Strategy



I'm often asked "should I buy this new \*\*\*\* that's just come out?". You can substitute "\*\*\*\*\*" with any new technology gadget that comes to the market. I know what they want me to say: "Of course you should", but invariably they don't get that response. I

*"what is really better about the new one that your old one won't do?"*

usually give the same answer that is: "what are you going to use it for?" or "what is really better about the new one that your old one won't do?".

This scenario reminds me of a headline that came out a couple of years ago. "The PC is DEAD". At that time, the percentage of PC's sold was on the decline and the predictions were PC sales would eventually decline to zero. As technology continues to rapidly move along its ever-improving development path, slogans like that suddenly become the latest news. A journalist will report it, others publish it and then it becomes fact.

In my opinion, what is really going on behind these headlines is the technology industry itself generates this news in order to drive sales of the latest technology. This then becomes a self-fulfilling prophecy. I particularly remember when "The PC is DEAD" headline came out, as my colleagues and clients were telling me that they didn't need or want to buy PCs anymore. They had read the headlines and only wanted to buy laptops or tablet computers.

I'm an accountant as well as an IT specialist so I'm definitely not a fan of buying technology that's headline driven. There has to be a good reason to do it. For Polson Higgs, those reasons have been formulated into an IT Strategy. Our technology decisions are consistently based on our IT Strategy that incorporates an overall business care primarily

*For example, in our business the PC is definitely not dead.*

based on business objectives, value to the organisation, people and processes and continuous improvement.

For example, in our business the PC is definitely not dead. Most of our staff have a minimum of two flat

screen monitors attached to their PCs and many have three. This comes back to our overall IT strategy. Our experience shows that using extra monitors on PCs have improved efficiency for our people and reduced paper right across the business.

*...I'm definitely not a fan of buying technology that's headline driven.*

Our staff have more choices when working with our clients in our office after the introduction of a wireless network. This was also a strategic decision that has significantly improved the flexibility with which we can engage with clients when they are in our office. This network provides multiple SSIDs meaning our clients can use their personal devices on a *guest network* that connects them safely to the Internet without interfering or affecting our internal *Polson Higgs network*.

Other recent strategic investments using new emerging and innovative technologies include Dragon® voice recognition software allowing us to dictate to our computers; an Epson short-throw data projector that delivers a combined electronic whiteboard/8 foot touch screen computer and a document scanning/paperless office initiative allowing us to scan paper from our Fuji Xerox copiers directly into Microsoft SharePoint.

So, should you buy the latest Apple smart watch or the new Samsung S6 phone? Maybe, but don't buy it unless you have a very good business reason to do so. Technology purchases should be relatively simple as they must be aligned with the IT Strategy of your business.

If you need some help deciding where your IT budget should be spent or are considering developing an IT Strategy of your own, then please call or email me. I'm here to help.



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# Choosing Business Information Software

**MoneyWorks: The powerful accounting and business information software for Mac and Windows.**

As the cornerstone to your business, your accounting software needs to do so much more than just bookkeeping and compliance. As well as providing fast and timely financial and management reports, it needs to adapt to your changing workflows, operate with your other systems and grow with your business.

Why do we recommend MoneyWorks? It is easy to use, flexible, and powerful.

You need your accounting software to fit in with your business processes, not the other way around. MoneyWorks is designed for maximum flexibility and interoperability. The key is that you can structure your accounts to match the structure of your business, and if the comprehensive included reports and powerful subsummary features are still not enough, the MoneyWorks Gold report writer makes it possible to create the exact reports you need.

MoneyWorks Gold comes complete with a powerful built-in scripting system (mwScript), allowing you to extend functionality, automate repetitive tasks and refine how MoneyWorks interacts with the user. You can implement enhanced data checking, extend the importing capabilities for unstructured files, interrogate websites for other information, even talk to MoneyWorks files stored on remote Datacentres.

MoneyWorks has been designed to have low overall running costs.

This is achieved through:

- No company limits – many systems will charge you extra to create additional company files.
- Comprehensive documentations and brilliant phone support.
- Cross platform support – no repurchase if you change platforms in the future.
- Effective user interface – helps get the job done quickly

You're making an investment in purchasing software. You're also investing a significant chunk of your time (which will dwarf the software cost). You should be looking to get a return on that investment.

- MoneyWorks has the power to give you better information from your business data.
- Better information will allow you to make better strategic decisions for your company.
- Better decisions will mean a more successful business.

If you would like further information on MoneyWorks please contact Donna Hall on 03 4794810 or email her on [donna.hall@ph.co.nz](mailto:donna.hall@ph.co.nz)



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## Staff Training

Whether it's employee induction, coaching, introduction of new systems or regular staff training, the main reasons for training your staff is to inform, to improve effectiveness/productivity or meet a compliance requirement. If the training is structured and well presented the secondary effect will be a motivated, skilled and stable workforce.

### The Case for Training Your Staff

It is easy to view training as something that can be done when you have to or have the time. The erosion of skills and knowledge often only becomes apparent when something goes wrong or a staff member leaves. Reactive training has its place but cannot be your only strategy, taking the time to train your staff can save significant time, cost and disruption later.

Training is not just for new employees, skills, process and professional development training provides an excellent feedback opportunity and helps employees adjust and contribute to changes in job requirements. In-house training delivered by a manager or

supervisor is most effective because employees are familiar with the person and can more readily apply the learning to the work environment.

### External or Internal Training?

Whether you use an external provider or run training yourself is a matter of what works best for you and provides the solution you want. The wrong answer is not to train your staff.

### Internal Training

Cost saving - cost is typically less when compared to sending the same number of people on a public training course.

Customised training – training and learning can be focused on the company and specific issues using real and current examples.

*Investing in skilled individuals to be trainers means you can utilise the experts within your business to lift skill levels overall*

Extra administration burden – suitable training room, equipment, and arrange staff schedule to be available for the training session.

Training going stale – if running courses using internal resources only, then how do you keep improving it?

#### External Training

**Knowledge and expertise** – subject matter experts will provide a consistently high level of training and knowledge of best practices.

**Risk management** – engaging a provider transfers the cost and delivery risk to them.

**Generic content** – public training courses are created to appeal to the broadest possible audience. Often you cannot be sure of the value to your business until after the course.

**Cost** – fees for public courses can be high if sending multiple participants. If training is not local you need to add the cost of travel, accommodation and lost production.

Training is an investment that helps ensure the future success of your organisation. Part of maximizing the return on this investment is knowing when you can take on the training yourself, and when to seek outside expertise.

*“Training is everything.  
The peach was once  
a bitter almond;  
cauliflower is nothing  
but cabbage with a  
college education.”  
– Mark Twain*

Polson Higgs offers tailored in-house training solutions. We will assist you in defining objectives, the best method of delivery and evaluate the effectiveness after delivery. We also offer established courses in many accounting and tax topics as well as Accounting for Non-Accountants, Stress Management and Train The Trainer.

#### Training Trainers / Presentation Skills

Every business needs people who are confident and can sell its product, whether it is a presentation to clients or just talking about what the business does.

The capability to train and develop your staff is fundamental.

It maybe induction training, introduction of new processes and equipment or routine professional development. Whatever the case subject matter experts that can develop a training plan and deliver knowledge and skills using the most appropriate methods are a strategic asset.



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## FRINGE FESTIVAL

Polson Higgs sponsored the Dunedin Fringe Festival's Opening Showcase night on 11 March. The event was held at the Regent Theatre for the first time since the Fringe Festival started and this turned out to be a great venue for this showcase event. The atmosphere of the theatre together with some great acts was appreciated by all and a fantastic launch for the Fringe Festival. This is the eighth year we have been involved with this exciting artistic event.



## real people, better business

### SENIOR TEAM

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Stephen Higgs

Steve Dunbar

Tim Dunn

Henry van Dyk

Michael Turner

#### Taxation Services

#### Business Advisory

Associate

Consultant

Carole McCormack

Philip Broughton

Jim Reay

#### Accounting Solutions

Jamie Reidie

Jenni Redding

Sarah Middleton

Alison Glover

#### Business Systems Solutions

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