

Health adviser

Grant Thornton 

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Don't forget the tax man this Christmas

Christmas is a time for celebration but when considering that festive spending don't forget the potential tax costs - entertainment tax or FBT provisions may apply. We have highlighted the tax treatment of some typical forms of Christmas entertainment.

Entertainment Tax or FBT?

There are numerous exemptions from the entertainment tax rules but these are unlikely to apply to most cases of Christmas entertainment. One possible exemption is for entertainment that is subject to FBT. The FBT provisions will apply to any entertainment benefit that is enjoyed outside of employment duties and at the employee's discretion.

1. Staff Christmas party - The cost of food and drink for a staff party is 50% deductible (as well as incidental expenditure relating to catering, and music or other entertainment). This applies whether the party is held on the business premises or off-site

2. Christmas meal for customers - The cost of taking customers out to a meal is generally 50% deductible.

3. Gifts of food and wine to staff - The cost of gifting food and wine to staff is fully deductible, provided FBT is payable on the gifts. If no FBT is payable, the cost of the gifts is 50% deductible.

In most cases, employees can choose when to consume the food and wine, therefore the gifts constitute fringe benefits. However, the \$75 per employee per quarter FBT exemption may apply. The exemption is non-cumulative and only applies where the total value of such benefits for all employees does not exceed \$450 per quarter.

4. Gifts of food and wine to customers - The cost of gifting food and wine to customers is generally 50% deductible.

5. Other gifts to staff - Generally, the cost of gifts (other than food and beverages) to staff does not fall within the entertainment tax provisions and is fully deductible. However, in the majority of cases, the gifts constitute fringe benefits. The \$75 per employee per quarter FBT exemption noted earlier may apply.

6. Other gifts to customers - The cost of gifts (other than food and beverages) to customers is generally fully deductible.

GST on non-deductible entertainment expenditure

Don't forget that the amount of any entertainment expenditure treated as 50% non-deductible triggers a GST output tax adjustment equal to 1/9th of the non-deductible amount. The GST adjustment should be made when you file your income tax return.

Workplace **stress** - it's a personal thing

The Health and Safety in Employment Amendment Act became law in May this year. The Act clearly defines workplace stress as a 'hazard' and extends the definition of 'harm' to include harm from work-related stress.

Employers have an obligation to take all practical steps to eliminate, isolate or minimise, any potential source of harm. As an employer you need to evaluate the potential for harm from workplace stress in your organisation. To do this you need to think about potential stressors. OSH has issued guidelines which provide some clarification around this issue. They identify four major stressors:

1. Work that is inherently stressful (i.e. police work, teaching, healthcare)

It is important to recognise the stressors inherent to certain occupations and to be proactive in managing these.

2. Organisation of work

Some individuals love being busy. For others work overload creates stress. Complete autonomy is coveted by some and feared by others. The only way you will really get to know this is by talking to your employees. Don't just assume that because the previous incumbent coped in the role that therefore everyone else will.

3. Excessive work demands

Excessive work demands can be difficult to define. Often we ask of others what we were asked ourselves. You need to recognise that employees have different stress thresholds. What will seem excessive to one employee will not be to another.

4. Personal factors (i.e. self generated stress)

Certain individuals are more susceptible to stress than others. This is not always easy to identify and may only become apparent once an employee is exposed to a certain situation or set of work demands. Once it is clear that an employee is not coping you must investigate and if work-related, put in place a plan to minimise that stress.

So how do you investigate a report of stress? The OSH guidelines outline a 6 step investigation framework.

1. Investigate the facts
2. Make a decision about the work-relatedness of the problems
3. Discuss the results of the investigation
4. Suggest solutions
5. Ask for additional solutions
6. Agree on the implementation of solutions.

OSH recognise that such a formal approach may not be necessary for all employers. Small businesses usually have the benefit of more open communication, and a series of conversations with your employee will often suffice.

The key issues to elicit are:

1. Is the problem work-related?
2. If so what is the problem? e.g. Is it the content of the work? Is it the way the work is organised? Is there a training issue?
3. Are other employees likely to be affected?

Once you have identified the cause of the problem you need to work with your employee to agree on solutions. Possible solutions may include:

1. Ensuring the employee is suitably trained to undertake their role
2. Introducing regular meetings to monitor workflow
3. Ensuring regular breaks are taken
4. Providing more/less autonomy

Remember that when identifying solutions the aim is to eliminate, isolate or minimise the hazard.

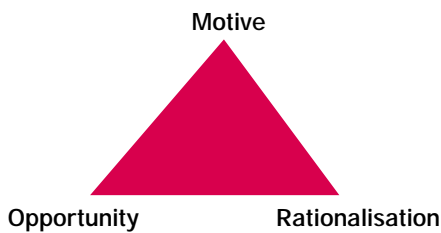
Employers have had an obligation to manage stress in the workplace for a number of years. This new legislation simply provides clarification and definition. Past prosecutions have been for very serious cases and this is likely to continue to be the case. Despite this, it is important that as part of your health and safety system you have processes in place to monitor and manage potential stressors.

Basically it comes down to good management, recognising that employees are individuals who bring to the workplace different tolerances and susceptibilities.

Fraud - are you at risk?

Fraud - perhaps you think that this is only happening in large organisations. Actually, it is more likely to occur in a smaller business.

The Fraud Triangle



What are the common **motives** causing employees to engage in fraud?

- Living beyond their means
- High personal debt
- Overwhelming desire for personal gain
- Feeling under-remunerated
- Challenge of beating the system
- Undue family or peer pressure.

The **opportunity** for an employee to commit fraud can be greater where internal controls are weak or can easily be overridden. Commonly a fraudster can **rationalise** their actions as acceptable by believing that they are only "borrowing" the money temporarily and that the organisation "owes" them something back.

Remember:

- One single incidence of fraud is extremely rare
- Employees who perceive that they will be caught, are less likely to commit fraud
- It is cheaper to prevent fraud than to detect it.

Staff can be deterred from engaging in fraud through a combination of fraud awareness training, adequate supervision, robust internal controls and random reviews. Accounting procedures should be in writing covering every

accounting function. Fraud can also be prevented by judicious employment policies and by employers setting an example. Company directors regularly taking cash from the petty cash without explanation can set a bad example to staff.

Red Flags for Fraud

- Work not up to date
- Unusual reconciling items
- Bank account unexpectedly overdrawn
- Incomplete audit trails
- Staff reluctant to take leave
- Unusual work times
- Staff displaying an extravagant lifestyle.

If you discover fraud in your organisation contact us immediately. If you would like further advice on how to prevent fraud in your organisation, contact your Grant Thornton Partner.

New Year's Resolutions

Holidays are often a time for reflection resulting in a resolve to change some things in our life. So how do you ensure these changes are worthwhile and lasting?

1. Review the current situation -

Analyse the last year - what have been the best and worst things that have happened to you in your working and personal lives? What lessons can you learn from past experiences? How would you approach things differently if you were in the same situation?

- List all of the important areas in your life - finances, your work or business, family, home, social activities, health, exercise etc and rank your satisfaction in these areas from 1-10. The lowest scoring areas are the ones you need to focus on.

- Select the three changes or improvements for you to make now that will have the biggest impact on your life for the remainder of the year.

2. Create a vision for the future -

To change your life from where you are today to something better, you must first be able to visualise the sort of life you would like to have. Once you do that and keep it in mind, you will unconsciously start moving in that direction.

- Write your vision down. If you are not sure where to start with this, begin at the end and work back
- The more specific your vision the better. You want your vision to result in daily actions to achieve the goals. If the goals are specific, the action to achieve them will be too.
- Rewrite your vision on a frequent basis. The more you do this the more you will imprint it on your mind.

3. Make the changes -

Sounds easy but if you always do things the same way, you will always get the same result. Getting started is often the hardest bit but once underway you will feel motivated to keep going to completion. Identify the obstacles in your way to achieving your goals and brainstorm some ways to overcome them.

4. Review your goals -

Don't wait until the end of the year to review your aspirations - check on your progress at regular intervals. If things are not happening the way you want them to, revisit the obstacles and adjust your actions accordingly with your end goal in mind.

To achieve lasting changes in your life, act on your dreams. Only positive action can ultimately change your life for the better. In the words of Nike - "just do it".

Holiday pay - a reminder of the legal obligations

Key Points

Annual Leave:

- Employees are entitled to three weeks paid holiday after 12 months employment.
- Two weeks is to be taken uninterrupted each year, within 6 months of the employee qualifying for the leave.
- The balance should be taken within 12 months unless by agreement.
- Calculations for permanent full-time or part-time employees is based on the average gross weekly earnings for the prior 12 months or current ordinary pay, whichever is the greater.
- For permanent employees, casual or temporary staff who have worked less than 12 months, the calculation is based on 6% of gross earnings.
- Leave dates are set by the employer after consultation with the employee.
- Holidays may be taken in advance of the actual entitlement if agreed to by the employer and employee.
- An employer can require that employees take holidays where the business closes down for a period (eg. Christmas), or after 7 days notice.
- For the purposes of calculating holiday pay, employers have the right to establish a company anniversary date, other than the employee's commencement anniversary.

Statutory Holidays:

- Employees are entitled to be paid for the 11 public holidays, if they fall on normal working days.
- Payment for the public holiday is based on ordinary pay rates and does not include extras such as overtime or shift allowances.
- When a statutory holiday falls on a weekend it is transferred to the next Monday or Tuesday ("Monday-ising") with the exception of Waitangi Day and Anzac Day which are not transferable.
- An employee who agrees to work on a public holiday, that would otherwise be a normal working day for that particular employee, is entitled to a day off in lieu.
- Depending on the terms of the employment contract, penal rates may need to be paid for work on a statutory holiday. These rates however do not exempt the provision of a day in lieu (other than Waitangi and Anzac Days).

The Holidays Bill 2003 is likely to become legislation in early 2004. The Bill increases a number of the entitlements detailed above. We will update you on these changes once they are enacted.

If you require further information on any of these topics or would like details on any other accounting matters, contact your local Grant Thornton office:

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