

BC'S BUSINESS BRIEFS

CHRISTMAS GREETINGS

Welcome to the final edition of BC's Business Briefs for 2009. Being as close to Christmas as it is, perhaps it is timely to reflect on the year as it has been.

Obviously the overriding happening of the last 12 months from a business perspective has been the worldwide economic recession. In this writers experience in business, there are a couple of things that stand out. Past economic recessions have often been, if not triggered, at least accompanied by very large one off events that have really alerted the media in this country to the fact that something pretty serious is happening which is likely to impact on all of us. An example of this is the "Black Monday" share market crash which happened on October 19th 1987 all around the world and lead in New Zealand to our share market shedding in excess of 60% of it's value from the 1987 peak value. It is often considered that this occurred as a result of computer programmed portfolio management systems automatically triggering sell instructions based on downward market movements exceeding thresholds set to minimize losses of the holders. Of course the opposite actually happened with huge amounts of wealth being destroyed.

What is perceived as the trigger for the current situation by many experts was the demise of the Lehmann Brothers financial institution actually alerting the world to the size of the Sub Prime mortgage crisis in the USA. It's very easy to look back now and see this was a ticking time bomb (A well known NZ economist described a Sub Prime mortgage as being a loan to someone who "not only had no income, but had no proof of no income"), but as they say, looking back our vision is always 20/20. While this trigger was seen in New Zealand the impact was not immediate – it took time for the lack of credit availability to start feeding through to New Zealanders looking to borrow money and hence the decline was far more gradual and for many New Zealanders they didn't see any major difference except that they were hearing on the TV news every night that we were in recession.

We are now being told by the same news sources that we are out of recession. While I have no doubt that the numbers back this up, many businesses that I deal with have really only started to notice the difficult trading conditions in the last 4-5 months and my feeling is that the first part of next year is likely to be just as difficult for many businesses as has been the last part of 2009. Of course there are good numbers of businesses who have come through these difficult times in relatively good shape and these organizations should have a good 2010 as we get a slow and hopefully steady improvement in overall trading conditions the further the year goes.



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One of the outcomes of the most recent recession is that the world as we know it economically will never be the same. Never again will the USA have such a dominant position in the world's economy. Unquestionably China is the largest growth area in the world and will assume increasing importance to our economic wellbeing and accordingly the free trade agreement that we have in place is a very important part of our economic fabric going forward. As an illustration of this point, who would have thought just 5 years ago that China would have surpassed the USA as the largest motor vehicle market in the world which has happened this year.

Governments around the world have gone to unprecedented lengths to insulate their economies as much as they can from the downturn with the effect that over the next 10 years as they repay the debt incurred, pressure will come on interest rates through most of the western world.

IMPUTATION CREDIT ACCOUNTS

Imputation Credit Accounts are the mechanism by which double taxing of company profits is avoided. With the change in the company tax rate from 33% to 30% from the 2009 income year onwards, transitional arrangements were put in place which finish on 31 March 2010, by which time all profits earned in companies and taxed at 33% must be distributed to shareholders by way of dividend to be credited with the 33% tax credit. Any profits not paid out by this time will only have credits available at the 30% rate. Accordingly we are currently reviewing all our company clients to ensure that the maximum benefit is obtained and if you have a company with retained profits on which tax has been paid at 33%, you can expect to hear from us before the end of January.

OFFICE HOURS OVER THE XMAS BREAK

The office will be closed from 5pm Wednesday the 23rd December to Monday the 18th January with the exception of the days between Christmas and New Year when we will be open if required.

On behalf of Grace, Penny and myself we wish you all a Merry Christmas and a Happy New Year. We appreciate your business over the last year and we look forward to being of service to you in the new year.

Ross Baigent

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