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Newsletter

Spring 2009

Cash is king in tough times

IN THESE difficult times, it's important to keep a good flow of cash coming into the business.

How do you do this? Here is a checklist.

Maximise money coming in

- Give credit only when necessary.
- Get your debtors to use their credit or Eftpos cards rather than monthly accounts.
- Have a rigorous system of follow-up for slow payers. Give it top priority. Get commitments and confront customers who do not honour them.
- Be prepared to turn away bad business. Bad payers take so much time they can cost your firm money in wasted staff effort. They can also cost in lost opportunities.
- Insist on deposits, unless you know your customer well and you are confident it is OK to give credit. If the customer is difficult, get the money paid into a solicitor's trust account or compromise and at least get something up front.
- Include regular progress payments in your contract.
- Check out a new customer before giving credit.

Minimise your investment in equipment

- Sell surplus assets.
- Use hire purchase.
- Finance using a lease
- Hire short term instead of buying.
- Prolong the life of your equipment by having a programme of regular maintenance.

Use your creditors but don't abuse them

- Negotiate time, in advance of purchasing, to pay for a big order. "Can I have three months to pay this?"
- Pay your bills on time (but not early if cash is

short).

- If cash flow gets very difficult and you have been a good payer, you may not have too much trouble negotiating extra time to pay your bills. Those who are up front about their difficulties can usually be trusted. Always keep your word to preserve this privilege.
- Buy only when you need to. Turn away those great offers which require you to buy more than you need.



Reduce your drawings

- Be realistic. If you are having cash problems, one solution is to take less out of the business for yourself.
- Prepare a personal budget. Do this thoroughly and honestly so it is accurate and you can stick to it.
- Reduce your investments. Can you still afford to keep a cottage in Taupo or Tekapo?

Tax

- The tax department is the worst of all possible banks. It is enormously expensive to use IRD's money.
- If tax problems loom, deal with them early. There are ways and means. Consult us.
- If you get behind, you can save money by entering into an arrangement with the IRD. Consult us.
- Never default on an IRD agreement. The department gives you just one chance. If you get into further trouble, we might be able to renegotiate the arrangement for you.
- Defaulting on payments such as PAYE can lead to serious repercussions.

ACC

ACC seems to promote spread payments. Their 10% is not true interest. It is hire purchase interest – getting on for double the amount. Add the extra accounting needed and it is expensive.

Taxpayer the loser in UOMI changes

THE IRD has changed the way it calculates Use of Money Interest and the taxpayer is the loser.

The amount we pay has been reduced just 0.8% but the amount we get for overpayments is down 2.41%, three times as much. The new rates are 8.91% (we pay) and 1.82% (IRD pays us).

Small businesses have the least sophisticated ways to manage their tax liabilities, so will be the biggest losers. The \$2500 threshold at which UOMI kicks in for companies and trusts needs to be lifted to a reasonable figure. You can be sure there have been many calls on IRD to do this.

If UOMI affects you, as a minimum, keep comparing your accumulated sales this year with last year. If you can compare taxable profit, that would be better. If you expect your profit could be up, don't wait. Either increase your provisional tax payment or contact us for help. You may pay more provisional tax at any time. For March balance dates, if August and January payments look light, when you get to say March, pay more tax, promptly.

If your income is going the other way, you may estimate your tax and pay less. Please consult us first if you plan to do this.

The importance of slogans

IN THE fickle world of advertising, it's important for your customer to remember you.

One way to do that is to use a clever slogan – but make sure it's not so clever they remember the slogan and not who it is promoting (how many slogans can you remember, but not the advertiser?).

What do you recall about Tui beer? Yeah right!

You don't have to be too fussy about using correct grammar or spelling. In fact, a deliberate error can work nicely in the memory stakes.

If your name is Bloggs and you make ice cream, here's one for you:

“Want somethink different? Eat Blogg's ice cream.”

The purists will worry for hours about that apostrophe!

PERCEIVED VALUE: People buy based on their perception. Customers of The Warehouse are told “everyone gets a bargain”. Whether this is true or not is not the issue. The perception is the reality for the purchaser.

Plan your advertising for best results

A RETAILER spent \$800 advertising his lawn mowers. He didn't make a single sale and was annoyed with the newspaper which talked him into spending the money.

Advertising in newspapers is a blunt instrument. One-off advertising is usually a waste of money. If you are not a regular advertiser, avoid the special deals offered by newspapers.

Plan your marketing. There are other ways to promote your business other than advertising.

Please refer to our Summer edition in which we talked about keeping in touch with your customers.

Advertising has its place. Some businesses need to use the local newspapers regularly. If yours is one, plan your advertising and budget your investment.

IN BRIEF

Give staff a say

DO YOU consult your staff regularly? If you want to make changes, you will get better buy-in from your staff if they are involved in the decision making.

Redundancy rebate

THERE is a special rebate for redundancy payments of 6 cents in the dollar. If you have to make any of your staff redundant, remind them they can complete form IR524, immediately, and may get a rebate of some tax, depending on the rate of tax they pay and the total pay-out.

Contracting in Australia

IF YOU are doing work in Australia, check the tax situation with us, *because it is changing*. There are a number of complexities which include:

- Possible double taxation of income derived through a company.
- Operating in such a way as to become liable for Australian income tax.
- Exceeding 183 days in any 12-month period.

Letter of apology

IF YOU have to write a letter of apology, make sure you put in the following:

- How you are going to put things right.
- How you are going to change your systems so the problems will not occur again.
- Repeat your apology.

Student loans – 10% bonus

EARLY repayments of \$500 or more in any tax year off a student loan will earn a 10% bonus. In some cases it may be worth accepting the offer. However, don't overlook the time value of the interest free loan, particularly if you have a mortgage.



Your CV is a selling document

IF YOU are in business you might not ever need a CV.

However, knowing a bit about CVs might help you if you are selling services and might also help your family.

A CV is a selling document. The product is the person who wants the job.

When putting together a CV, consider including the following:

- Find out what the employer wants from the position advertised. You could do this by ringing the firm and asking. Get as full a picture as possible.
- Get some knowledge about the company. The receptionist and the internet could help you.
- Make your CV easy to read. Bullet points are a great

help, but don't overdo it. Keep your sentences and paragraphs short.

- Get the main points down on one page, with the most important ones first.
- Look at the project from the employer's point of view only. Your one page has to make you look as though you are the only person who should be considered.
- Put the boring stuff at the back.
- Apply all the principles of marketing you can think of. For example, can you reverse the risk so you take it and not the employer? What is the employer's worst fear? Frame your offer, to take the risk for the employer, accordingly.

INCREASE YOUR DATABASE

A BIG list of contacts – a database – is a great asset for any business. The more contacts you have, the more chances you have to promote your business.

One good web site we have found illustrating how this can be done is www.winstonmarsh.com.au On the left side of the home page is a box inviting you to subscribe to a newsletter entitled *21 great rules for successfully marketing yourself*.

All you have to do is to put in your name and email address and click. An Aladdin's cave of great marketing ideas opens up.

Lessons to be learnt:

When you subscribe you hand over your email address – another addition to the firm's database.

To receive you have to give something of value. In this case it is lots of marketing ideas.

Trust deed issues clarified

ONE of our readers has commented on our article on page 4 of the Winter Newsletter. We said "The **only** formula to determine who gets what in a trust is the trust deed..."

Each time you use an absolute like "only", you exclude other possibilities. That is what the article did, and it's not exactly right.

A court can also intervene in a property dispute. It can order compensation if property is transferred to a trust during a relationship and this has the effect of defeating the claim or rights of one of the spouses or partners. Thus, from the time you enter into a relationship, any transfers of property to a trust can be questioned.

One in three relationships breaks down. If you have had this experience, look at putting your assets in a family trust **before** you form another relationship. Be careful about using any subsequent relationship money for the trust. Keep good trust records to show where money originated.

Use the right Prescribed Investor Rate

SOME of our clients are using the wrong rate for PIE income.

If your income is less than \$38,000 (or the PIE income when added to your income does not also exceed \$60,000) for either the 2008 tax year or the 2009 tax year, you are entitled to use a rate of 19.5%. If you let the PIE tax you at 30%, you cannot get the overpaid tax back.

Occasionally clients are going the other way. They are selecting a 19.5% rate when it

should be 30%. These people have to put their PIE income into their tax returns and pay the rest of the tax. If you pay a top tax rate of 33%, you could have paid only 30% in the PIE.

Watch out if you are retiring and this is your last year on a high income. A PIE can be bad news. If your income is going to be less than \$38,000, you may still have to use the PIR of 30%, so you will be over-taxed in the PIE. It could pay to avoid the PIE for that one year.



Surplus cash – loan repayment generally wise

CLIENTS often wonder if they should use surplus cash to repay a bank loan. The alternative is often to invest the money back with the bank.

A client recently sold one of his rental properties and had \$100,000 left over. The bank was paying him 4%. He had two other properties with mortgages on them. He was paying 8.5% interest on these.

Generally, you are better off to use the savings to reduce your mortgage. The interest income is taxable and the interest expense is tax deductible so, from a tax point of view, you have a neutral situation.

It is true the rental property may well make a profit as a result of repaying the debt. However, if you do the arithmetic you will find you are better off repaying a debt, even though your taxable income rises.

There is one time when you should always repay a mortgage. Unless it is just a security for a business loan, it is the one you have over your own home. This is not tax neutral. You pay tax on the interest you earn, but you do not get a claim for tax on the interest you pay.

It can pay to hang onto the cash, if you are going to want the money for another project. If the project is personal, such as buying a boat or a holiday home, use your own money rather than borrow, because the interest you will pay is not a tax-deductible cost.

You might also want to conserve your cash if you think you will have difficulty persuading the bank to lend to you and you have plans to borrow more. However, beware of getting over-extended with your borrowing. The bank's lending criteria can change without warning.

Improve business letters

HERE'S your checklist for improving business letters:

- Plan what you want to say and write notes for framework.
- Draft your letter.
- Shorten your sentences. Split big ones into two. Aim for clarity.
- Cut unnecessary words – most likely adjectives.
- Don't use big words when small ones will do.
- Don't be too formal – consider your reader.
- Tell your readers what you want them to do.
- State your conclusion.
- Proof read – tidy up the letter.
- Proof read again, and if possible, get someone else to check it as well.

The handy marketing tool called 'PS'

IN THE good old days before word processing, a person writing a letter could get to the end and then have an after thought. PS s/he would write...

Why is it you so often see a PS in an advertising letter? It is not because the writer forgot something, because it could be inserted using a word processor. On the contrary, it is deliberate.

Research has shown readers look first at who sent the letter and then look at is the PS, if there is one.

PS: Use a PS in your advertising letters. It re-emphasises the offer your advertisement is making, or adds value by offering an additional "special deal".

PPS: If your advertisement is not making an offer, think about what it is trying to do and why. It might simply be promoting your brand and services, which can sometimes be just as valid, depending on the medium.



TAX

August 28

1st instalment of 2010
Provisional tax if you pay three
times a year
(March balance dates)

September 28

2nd instalment 2010 Provisional
tax (December balance dates)

October 28

1st instalment of 2010
Provisional tax for those who
pay GST twice a year.
GST due for those who pay six
monthly.
(All March balance dates)

How to get your report read

IF YOU have to write reports, consider your readers.

They will have limited time to read reports, and would probably prefer to do anything else; even watch the ads on TV!

To help them, write a one-page executive summary – a concise synopsis of your most important points. Your audience should never have to venture beyond that first page to get your message.

If, however, your summary is well written and has caught their attention, they might well read the other pages for more detail. Help them find the detail by referring to it in your summary – "See page 7" etc.

The back pages are the appendices and are for your true disciples, so put your best effort into the summary.