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Newsletter

Summer 2009

False economy in do-it-yourself

SOMETIMES it is tempting to take informal advice or trust your own knowledge when it comes to tax – usually to save money.

It is often false economy, as the following examples illustrate.

The first involves a widow, who with her deceased husband had owned two properties – a rental and their home. Both properties had mortgages over them.

Since there was some cash arising from her husband's estate, the bank recommended this be used to pay off the mortgage over the rental property.

It is the wrong tax choice.

The woman's solicitor accepted the client's instructions without raising a question. She now pays non tax deductible interest on her home whereas she could have been paying tax deductible interest on the rental property.

The second example is with share transfers.

Three things can go wrong with tax when putting through a share transfer:

- 1 You can lose the right to carry forward company losses.
- 2 You can lose the right to attach tax credits to company dividends. These tax credits are known as imputation credits. Losing them is very serious because the shareholders will have to pay the tax a second time on the same income when they receive the dividends from the company.
- 3 You can lose qualifying company status if you fail to notify Inland Revenue correctly within 63 days of the share transfer. This can make a difference if you want to retain the right to distribute company losses to shareholders.

Recently, a client who owned half the shares in a company acquired the other 50% to take over 100% ownership. Disaster! Fortunately he had not done the job correctly and we were able to recover the situation for him.

Changing shareholding is not a task for do-it-yourselfers.

The lesson is, if tax issues arise, please consult us.

Proposal allows Aussie super fund transfers

IF YOU have spent time working in Australia, this article should interest you.

A memorandum of understanding has been signed between the Australian and New Zealand governments. It allows for a transfer of certain Australian superannuation fund contributions back to New Zealand.

Previously, New Zealanders working in Australia and making compulsory contributions to a superannuation scheme could not get their money back. The proposal is for these super contributions to be paid into a Kiwisaver fund. The change is expected to be made by mid 2010.

Similarly, Kiwisaver funds will be transferable to Australia. If you migrate to Australia, you will no longer be able to withdraw your Kiwisaver funds in cash. However, you will keep the government's contribution. Previously, it would have been lost.



Barter value worth pondering

SOME companies operate barter deals in which you swap your goods or services for someone else's.

Some clients go into these schemes hoping to boost their sales. If you are considering a barter scheme, it is worth noting the following:

- 1 You can earn credits but you still have to spend them sometime. Are you going to get value when you buy or are you simply going to use up your credits?

- 2 Make sure you are getting proper value. Club members who are aware someone is trying to use up credits could put up their charges and take advantage of this.
- 3 There are accounting costs. The statements you receive have to be treated as though they are another bank account.
- 4 Look at the charges being made to your account and compare an estimated annual charge with the revenue you are getting. How much is it costing you?

Don't blame people – fix the system

AN EMPLOYEE omitted a \$10,000 subcontractor from a quote. The quote had been accepted. He went to his boss and confessed.

"What can you do in future to ensure you never make this mistake again?" said the boss.

They worked out a system to follow.

"I thought you would be furious with me," said the staff member. "There's a loss on this job because of me."

The boss responded. "I'd have been much more concerned if you had tried to hide the error. Now I feel I can trust you."

This is a small/medium size business. The story is true and illustrates these points:

- Employers should never look for someone to blame. What does it achieve? A resentful employee?
- Put the system right. The employee should be making the suggestions about how this should be done.

ALLOW TIME FOR FEEDBACK

IF YOU want honest feedback, give your customer some breathing space.

Travelling around the South Island, we visited seven hotels and homestays. We were particularly critical of one of them.

"If we are asked to sign the visitors' book, I think I will refuse," I said.

We were asked to sign the book. Did I refuse? No, of course I didn't. I didn't want to offend. I picked out something good and wrote it down. What was the value of this feedback? It was worse than nil because it told the proprietors what they wanted to hear – not what they needed to hear.

One of the seven establishments sent an email to us, which we received when we got home.

"Now that you have stayed with us we would welcome some feedback from you. You can rate our property and write a review if you like," read the email. A hyperlink was provided.

We had had a week to think about the places we had stayed in and had already discussed Hokitika Heritage Lodge and put it down as one we would like to revisit. If we had an adverse comment, the email gave us the opportunity to offer constructive feedback.

Coupon value not cut and dried

THIS email correspondence might help you to decide whether to use cut-out coupons.

"Hello Norman:

I was asked today whether adding a discount offer in an advertisement would provide a good indication about whether the publication was worth advertising in. My answer is below. Ian."

The discount offer will give you an indication – but it's certainly not an exact science. Several things count against people using a voucher. They include:
Is the discount good enough to prompt them to use it?

Does the discount stand out in the advertisement and get noticed?

Do they really want to cut up the publication, especially if they think someone else might want to read it – or if they want to pass it on?

Are they motivated to buy the product by the

advertisement, but simply not interested in the discount?

Do they simply forget to bring the ad in when they shop?

"So, yes, it's worth a go, but I think the only true way of knowing how well your advertising is working is to survey your customers, especially those you recognise as new customers."

Norman responded:

"Thanks Ian.

Placing the coupon on the bottom right corner of a right-hand page will also give you the best chance of it being cut out. Right?"

Ian replied: "Yes. You might also consider taking the same space on the reverse of the cut-out, as a kind of double-sided business card. That way people will not feel unhappy about cutting it out and losing something from the other side."



Learn from others to improve your business

NO magic potion has been invented to make businesses successful. Luck is seldom a factor.

If you want to make your business more profitable, learn from others. Here are some things you can do:

- 1 Start by getting the reading habit. Pick interesting books and magazines. Years ago I read *Hello, Michael Hill Jeweller*. It is an autobiography. It tells the reader what Michael Hill did to become successful. You can use some of his ideas. The one I remember is his message to write all your good ideas down immediately; a small idea which makes a big difference.
- 2 Get business CDs you can play in your car or digital files for your MP3 player.
- 3 Go to seminars and courses. Chambers of Commerce are great places for these. Be wary of the big-hype seminars out to enrol you in an expensive course. They are unlikely to reveal the number of people who have done their courses, without a significant improvement in their business.
- 4 Buy DVDs or download digital files to play at home.

You are likely to have already learned the skill on which your business is based. Now do the other half. Put as much work into learning about business.

Warning: Formal business courses can take up a lot of your time. They are often not well targeted at small businesses. Before enrolling, check out the detail of the course. Could you get more value for your time by doing the four things listed above?

Record important discussions

KEEP a record of important business discussions. For example, a builder had a dispute with his electrician. The argument ended in court. The builder took careful notes of discussions and used them as evidence. Make a record of what the other party said. If you can remember the actual words, record you have quoted actual words. Write your notes as quickly as possible after the event. State the date and time of the discussion and the date and time you wrote them. The closer the time of recording to the actual event, the more likely it is you have kept an accurate record.

Bank charges

BANKS have various formulae for making their charges and change them from time to time. Save money by checking to see which scheme suits you best. Don't assume you are on the most advantageous arrangement for you. You are probably not.

IN BRIEF

Earning less than \$14,000?

THOSE on a total income of less than \$14,000 per year are currently being overtaxed on savings. They should check their tax calculation at the end of this year to see if they are due for a refund. They should contact their bank (or other borrower) to get their tax reduced to 12.5% from 1 April 2010.

Cheap rental for family

IF YOU supply cheap rental to a member of your family, don't claim any tax losses. It could be seen by IRD as tax avoidance. Sometimes the family member may earn the cheaper rental by agreeing to maintain the property, mow the lawns etc, in which case a loss can be claimed so long as the net effect is still to achieve a market rental.

Bills from ACC

ALWAYS check your ACC bills. You can be overcharged because:

- ACC is classifying your type of work wrongly.
- Your earned income, in total, takes you over the upper limit and ACC has not recognised this. This error is quite common. One way it happens is when a person is drawing PAYE wages and getting a non PAYE salary from their company.
- ACC has been supplied with, or picked up, the wrong income figure.

Pay from business account

MAKE life simple. Always pay business bills out of your business account. If you are short of money, make a loan to your business so it can pay the bills. Bank the loan separately. Tell us which lodgements are your loans so we do not accidentally include them as income. If all expenses are paid through the business account, it helps us to get your accounts right and we can expect you have claimed your full entitlement of GST.

Blind copy helps when changing email address

IF YOU change your email address and want to tell everyone in your address book, use Blind Copy (Bcc) instead of the ordinary copying. Send the original to yourself and Bcc the copies. This reduces the chance of your email being treated as spam.

Consultants - use engagement letters to state terms

A CONSULTANT asked what he should do about a client who didn't turn up for an appointment. It was away from our client's office and caused him to lose an hour's income plus travel.

Should he charge? Would this upset the customer?

Unfortunately, he was trying to close the stable door after the horse had bolted. These issues need to be sorted out in advance. If you consult for a living, tell your clients your terms by using what we call an engagement letter. Write to your clients and set out those terms.

Include some of these:

- Your responsibilities and what you will do.
- Any limits on your services.
- Your customer's responsibilities.
- Terms of payment.

Then, if the client doesn't show up, you can refer to your engagement letter and send a bill. You could, of course, soften the blow by reducing the charge – some money is better than none. If the customer is a big one, you could write and refer to your terms, explain you lose money when someone doesn't appear, and request appointments be kept in future.

Update and improve your engagement letter whenever you find a gap in it. Get new ones signed, regularly – say every two or three years.



TAX CALENDAR

January 15 2010

2nd instalment of 2010
Provisional Tax
(March Balance date except
for those who pay provisional
tax twice a year)

Pay GST for period ended
30 November 2009

April 7 2010

Terminal Tax for 2009
(March, April, May and June
Balance dates)

Constitution for your company worth considering

CLUBS have constitutions setting out the objects of the organisation and its rules. Companies can do the same.

One-person companies have nothing to gain from having one. However, where a company has two or more shareholders a constitution could be useful. It could have several uses, including:

- Restrict share transfers. You would not like your business partner to sell to someone you couldn't work with.
- Protect a minority shareholder. A company owned a commercial property and had about 10 shareholders. As each died or wanted to get their money out, the tenant bought the shares. Once the tenant got more than 50% of the shares, it had control over setting the rent, paying dividends etc. That is not an enviable situation for a minority shareholder.

A company can also have a shareholders' agreement, which can achieve a similar result.

Company vehicle, private use and FBT

CAN you use your company vehicle for private running?

Yes, but you must pay Fringe Benefit Tax (FBT) regardless of how little you use the vehicle. You can restrict private use to certain days of the week and reduce FBT. Make sure you have this in writing.

Use the IRD-suggested wording in their booklet on Fringe Benefit Tax. You, the employee, should sign agreeing to the arrangement.

Some people think a van or other work-related type vehicle can be used for private running if it has sign writing on it. This is wrong unless the use is incidental to travel on business. For example, you stop on route to buy groceries. Incidentally, this relaxation of the rules does not apply to cars.

An employer can require a work-related vehicle to be taken home by an employee, but this doesn't confer any right to use it for private running, apart from travelling home and back to work. Again, this doesn't apply to cars. If they go home, FBT applies.

If you own the business and want to restrict your private use, we recommend a directors' minute approving the arrangement. If your spouse is also a director, he/she should sign the letter authorising the partial use, rather than you authorising it for yourself.

Don't make your messages lose sales

TWO quick ways to lose a possible sale are:

- 1 Ring your prospective customer and request a call back, without leaving your number. Why should the would-be customer go and look it up?
- 2 Gabble the number so fast it is not practical to write it down.

Make it as easy as possible for prospective customers to buy from you.