



## TAXATION & FINANCIAL SPECIALISTS

*Where the client comes first...*

# Newsletter

AUTUMN 2013

# Start-ups in tough times can be achieved

**MANY of today's successful businesses began in difficult economic times.**

They had to be lean, adaptable and prepared to seize opportunities when they arose. They didn't have the luxury of boom times, when mistakes could be covered up.

The current tough times are full of opportunities. The following is a true story about Murray, who returned to New Zealand to look after his ailing mother, who had recently become a widow.

Murray had been working in a bank in Australia. He's single and in his late forties.

One day he was building a boulder retaining wall at home when a neighbour stopped to chat. This led to him being asked if he would like another job. Soon another neighbour, also a widow, needed some help and the owner of a house across the road wanted his garden maintained while he went to Europe for two years.

A retired friend designed a flier and 150 of these were put in letterboxes. Murray said the flier didn't work very well because he got only two permanent jobs from it. He then added "but I did actually get a couple of one-off jobs as well".

A 2% strike rate from a flier would be pretty good, I told him.

Murray has also picked up a couple of cleaning jobs. Within

nine months he has built up an income of about \$800 a week.

To get started, he offered a below-market rate, but this was at least better than he would have got working for wages, if he could have found a job. Gradually, he's improving his charge-out rate as his business expands.

He was lucky not to have a family to support and to be living among an aging population in a reasonably affluent area, which is precisely where his target customers could be found.

What Murray did not have was a network, but he was able to take advantage of his mother's. A network supplies you with contacts and hence referrals. He also had no special skills to offer the market, but he took advantage of the opportunities as they arose.

Why do we tell you this story? Because many people are being made redundant. One may be your friend. Why not suggest they start out on their own? This way, like Murray, they'll have lots of bosses and if one makes them redundant, it may not matter too much.

## Build business with a database

A DATABASE is arguably the most valuable tool you can use to promote your business. If you have ever wondered about the wisdom of building a database, consider this story.

A young professional has built up a database of 6000 email addresses. He sends regular newsletters to all of them. Occasionally he presents seminars. His last seminar drew 80-90 people.

You can also build a database. Invite every customer, potential customer and any other contact to be on your mailing list. Don't overlook suppliers because they might give you references.

If you are going to send out newsletters, make sure they are interesting and have some value to the reader. Many newsletters are a yawn. We trust ours is not one of these.

Some useful newsletter rules to follow are:

- Send them regularly and consistently. When you feel like it, is not good enough.
- Make each article of value to the reader.
- Use colloquialisms. Using "you" and "your" is fine.
- Make the articles easy to read. Bullet points, short words and short sentences help.

# Take a break and let ideas flow

PERHAPS the best way to get some new ideas for your business is to apply some of the Edward De Bono thinking techniques.

However, another easy way of doing it is to take a holiday. Make sure it lasts at least two weeks, preferably more.

If you spend the first week winding down, the second week will be more relaxing. Your subconscious brain will, however, keep working and without your trying, hopefully, new ideas will pop into your head. Don't let them get away. Capture them on paper, immediately and that means NOW.

You're having dinner at a restaurant, someone says something and it stimulates an idea for you. Write it down before you forget – don't rely on your memory to recapture the thought later.



Armed with new ideas you can go back to work and start implementing them. Your staff (if you have any) will probably feel more comfortable doing what they've always done (and getting the results they've always got) rather than making changes.

You can help by including them in the process.

A client went to work with a bright idea, but asked his staff for their ideas first.

"I had to confess, Anne came up with a better one. I dumped mine and we ran with hers."

## Are you charging market rates?

RECENTLY we heard a story of a professional man whose charge-out rate was way lower than the others in his profession. He bit his bottom lip and hiked the prices 33% in one go. He lost no customers.

He was lucky because big price hikes are generally asking for trouble. When did you last review your charges? Are you up with the market? Little and often is generally better than a big catch up. No-one likes a nasty surprise.

In this economic environment, it is often difficult to ask for more. For big customers, be extra careful. It might help if you were to ring first and make it clear the price increase is merely an adjustment to get back to where you were. Hopefully, you can get your customer to agree to the adjustment on the phone.

## Write well and hook your reader

WHEN you write, remember the reader asks two questions, according to Martin Cutts, in the *Plain English Guide* (Oxford, 1995):

- So what?
- How does this affect me?

How often do we read "We are now half way through the year and the days are getting colder..." Really! I hadn't noticed! Get to the point.

None of us has the time to read garbage. Cull what you write and remember each sentence is going to be questioned by the reader.

It's courtesy to be economical with your words. You're writing for the reader, not yourself.

## PIEs and PIR

**WE'RE still getting clients who are overpaying their tax when they invest in a Portfolio Investor Entity (PIE).**

**If you're in any doubt of the correct tax rate to use, called Prescribed Investor Rate (PIR) please get in touch with us.**

**It's based on the lower rate applicable for the last two years. For example, you get a request to supply your PIR in April 2013, use the years 31 March 2013 and 2012 (or equivalent balance dates).**

**If your 2013 accounts have not been done and can not be estimated sufficiently to determine the PIR, the practical solution is to use the rate based on the 2012 tax return.**

# Employee or contractor - take care

IT'S very tempting to try and make someone working for you a contractor rather than an employee.

The hope is by doing so you will bypass the obligations of the Employment Relations Act and avoid tax complications. As accountants, we don't advise you on the Employment Relations Act but we do comment on tax.

Simply signing up a contract for service between you and the "employee" will not necessarily mean the person about to work for you is an independent contractor. Particularly if the contract does not reflect the true relationship.

You need to be particularly careful when it comes to tax. If you fail to make PAYE deductions when you should have done, the IRD can make you pay the PAYE and charge you a penalty. There could also be use of money interest and ACC premiums to be paid on the wages.

IRD sets out five tests but, unfortunately, none of them is black and white and judgment is required. The five tests are:

- Do you control the "employee"?
- What is the intention of the parties?
- Is the contractor truly independent?
- Is the type of work being done near enough to the same as that being done by other staff?
- Does what the contractor is doing look like an independent business?

## Conclusion

There's no room here to discuss this subject fully. This is just an outline. If you have any doubt, please consult us.

## Using social media for business

SHOULD you use social media as part of your business marketing? We think the following letter from a journalist might help you to decide.

"It's becoming increasingly important for businesses and organisations to use social media, but for us in the Baby Boomer-plus bracket, it's often too daunting (and time-consuming).

"For Linked In and any of the other multitude of people-connection media, it's a matter of whether you use it to build your audience and keep

connected digitally to people and colleagues, or whether it becomes a nuisance. I often get requests from people to join such sites, and there's got to be a limit. In the end, everyone in business has to decide where they put their time. To operate an effective Facebook page, for example, takes about an hour a day. Do we all have someone free to do that, or do we have the time ourselves? Most of us in our age group still believe business is about exemplary service, face-to-face contact and 'doing the work'."

## Do the repairs first

A BNZ survey has found 43% of house sales don't proceed because of an adverse builder's report. If you're selling, we suggest you get a report yourself. Then do the repairs the builder says need doing before you go to the market.

## BRIEFLY

### Travel between home and work

GENERALLY, the cost of travelling between home and work is not a tax-deductible cost. Some people think if they do some work at home or have a home office set aside, it is a second place of business and therefore the cost of getting to their normal workplace is tax-deductible. To qualify, the home has to be a significant place of work so that in fact constitutes a second work place. Some of the factors making it significant include:

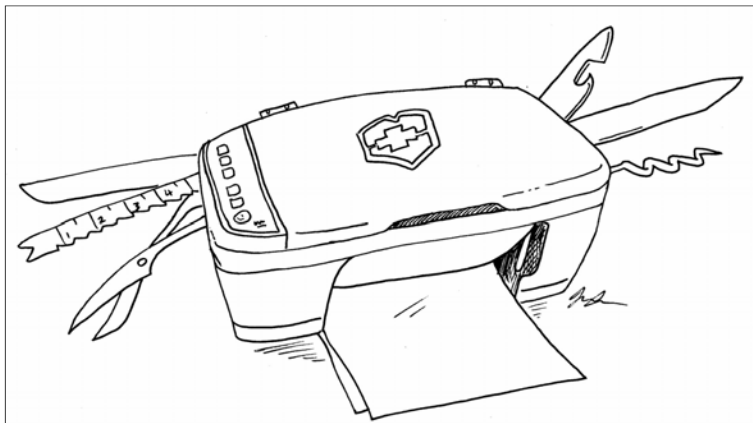
- A large percentage of the time is spent working at home, say 30-40%;
- files are kept at home;
- there's a good business reason why you would work at home;
- the work produces a significant amount of income;
- the work at home is integral to the business.

Not all factors need to be present and it will inevitably be a matter of weighing up those that are to make a judgement.

### Tax and life insurance

BEWARE of life insurance agents who claim premiums on a life insurance policy can be tax deductible to a company. While this may be true, depending on who is going to get the proceeds of the policy (it needs to be an indefeasible – unable to be overturned – right of the employee) the premiums will nevertheless be subject to fringe benefit tax. This negates the benefit of having them tax deductible.

Income protection insurance premiums paid by an employer for an employee will be deductible and not subject to FBT if the employee would be taxable on any future payout.



You might not need all the “bells and whistles” in a multi-function office device.

## Traps with multi-function office equipment

YOU can buy machines which will fax, email, photocopy, print and scan; all in one machine. It sounds wonderful, but it’s worth doing the research before you buy.

Firstly, decide what you really want from the product. If you need a quality scanner, a multi-function device might have more “bells and whistles” than you actually need.

If it’s a photocopier/printer you’re after, consider not only the purchase price, but also the cost of consumables such as ink and toner. And do you need a colour printer if most of your copies are in black-and-white?

Beware cheap printers. Manufacturers make their money from the consumables. A client bought a colour inkjet product for \$100 but it had only small cartridges and at least one of the four colours had to be replaced every month at \$26 per cartridge. He bought a monochrome laser printer/copier and found the per-copy price was much cheaper.

If you use a cartridge and toner recycling service, check with the supplier to see if they can refill for the printer you want.

Over the life of the printer, drums also need replacing so take that into account when working out your total per-copy cost.

Some suppliers push maintenance contracts. Don’t accept them without reading them first. They’re often loaded in favour of the vendor. For example, the vendor might reserve the right to change the cost of maintenance whenever it wishes. Some clauses allow both parties to cancel the maintenance contract at a month’s notice. If the vendor were to do this you’d be left high and dry.

Often people rush to buy a new machine because theirs has stopped. If this happens to you, take your time getting a replacement. Get your photocopying done by a local printer in the meantime, if need be. Spend some time making comparisons of the offers available to you. Per-copy costs vary enormously as do speed, warm-up time and copy quality. Before you commit, make sure you are getting exactly what you need.

### Installation is not a DIY job

Unless you are very technology savvy, insist the vendor installs the machine, even if it’s going to cost you more.

The client who bought the scanner paid \$100 for installation. The skilled technician ended up spending three hours working out the scanner’s compatibility with the client’s computers. How long would this job have taken our unskilled client?



### TAX CALENDAR

#### April 8 2013

2012 Terminal Tax  
(March balance date)

#### May 7

3rd instalment of 2013  
Provisional Tax  
(March balance date)  
GST for March 2013

#### May 28

1st Instalment 2013  
Provisional Tax  
(December balance date)  
GST for April 2013

## Dare to be different

A WOMAN went into an appliance shop and asked: “Please show me your Gaggenau appliances.”

“Sorry madam, you will need to make an appointment,” she was told.

She was taken aback until it was explained to her that time was needed to show just how good the appliances are. Would she please make an appointment for a full demonstration? She came again next day at noon. The salesman showed her how the Gaggenau appliances worked, including the oven. He cooked her a lunch which included a roast rack of lamb.

Was she impressed!!? Well, she placed an order worth \$40,000.

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