

It's all about tax

Many things have happened on the tax front since our last newsletter. You need to know about some of them.

Claim for interest deduction disallowed

A taxpayer bought a piece of equipment for his company. He arranged finance. The agreement was with him and not with his company, so the interest on the borrowed money was not tax deductible. If you have fallen into this trap, see us. There's a way out but don't delay.

Charitable Organisations

If you are involved in the administration of a charitable organisation, you should know the new rules.

If an employee is given vouchers for petrol or groceries etc, the charity can be liable for Fringe Benefits Tax. FBT has to be paid if the benefit, per employee, exceeds 5% of the salary or \$300 per quarter or \$1200 per annum, whichever is the least. This is subject to the upper limit for fringe benefits for total staff not being exceeded.

Holiday homes, boats and planes costing \$50,000 or more

If you have one of the above, which is used partly for personal use and partly for business, there's a nasty little problem if your company owns it.

Any money borrowed by the company or a related company is deemed to be first to finance

the boat, even if the money can be shown not to have been borrowed for this purpose. This means you might lose a significant tax deduction. There's a way out, which is available until 31 March 2014. See us for more information.

More on holiday homes, boats etc used for rental

The new laws are likely to add to our clients' compliance costs. One way out is to limit the time you rent your holiday home etc. If the total rent you get is less than \$4000 where you have charged at least 80% of market value, you can opt out. You keep the money tax free but cannot claim expenses. If you charge rent at less than 80% of market value, or the income is received from a close family member (ask us for a definition), the income is similarly not taxable and does not form part of the \$4000 mentioned above.

PAYE and IRD

Never hold back PAYE payments, particularly if you have a company. Recently a taxpayer knowingly failed to pay PAYE. The court held he was personally guilty of tax evasion. Now he not only faced the company PAYE debt as his personal liability but also the resulting penalties.

The value of a well-known brand

Peter and Margaret Berry were farmers. When they retired, they bought Bric-a-Brac, a well-known gift shop in Taupo. They didn't like the name because it conjured up images of a junk shop.

The name originated in Victorian times. It related to collections of ceramics and similar curios, such as Lladro figurines. Today the shop stocks gifts for those who are hard to buy for. Included is a great collection of Moorcroft and, of course, Lladro.

Mr and Mrs Berry were sorely tempted to dump the name. However, they soon realised



how well known the store was and appreciated the marketing value of the name. They would lose business if they changed it. Wisely, they kept it.

This story illustrates the value of a brand. Many people who visit Taupo know the store well. The name is easily remembered and the shop is a destination in its own right. Would you really want people to stop saying "I'll meet you at Bric-a-Brac"?

If you're buying a business, be very careful before changing its name to something you like. That name might be of enormous value to you.

Look carefully before you leap

Here are two cases for thinking before acting.

Insurance

With the big increases in insurance premiums it's tempting to get quotes.

Recently, a house owner got two quotes. A new insurance company was offering a premium for about two-thirds of the other.

He checked their Standard and Poors ratings. Very wise. He discovered the expensive company had an AA- rating and the cheap company had a BBB- rating.

Bearing in mind these ratings are not linear but geometric, BBB- is enormously inferior to AA-. He stayed with the more expensive company and reduced the premium by accepting a higher excess.

The same person had built his house about five years ago. He had calculated its replacement cost using a programme on the internet. He said he

thought it was pretty accurate.

Employment law

If you have an issue with one of your staff, be extremely careful.

The law has been rewritten in recent times to get a better balance of power between employer and employee.

Whatever you do, don't jump to any conclusions. For example, if a member of staff tells you another employee has been stealing from the firm, don't rush to the police even if you think it's true. Seek advice from your solicitor.

Another warning: If someone blows the whistle and wants to be anonymous, you have to tell them they can't be. The employee is entitled to know who is accusing them.

If ever there was a case of doing nothing until you have spoken to your solicitor, it is definitely in relation to employment law.

Beware

15 January

The date for payment of the second instalment of provisional tax for 31 March taxpayers should have been 28 December. However, as most people are on holiday at that time, it was changed to 15 January.

Annual leave was subsequently increased to four weeks but this date was never reset to 22 January as it should have been, following the original reasoning for choosing 15 January. As a consequence the IRD is collecting more penalties and interest.

If you're taking a summer holiday break and have tax to pay while you're away, don't forget to set up the payment before you go.

We notice several clients were late last year. We also notice the IRD does not send out statements but allows penalties to accumulate. So, beware **15 January**. Don't pay your tax late.

Stick to the rules for bad debt claims

If you want to claim for a bad debt, you have to obey the rules.

These are:

- 1 It must be written off by the last day of the financial year. We will explain below what "written off" means.
- 2 You must have made reasonable efforts to collect the money. A typical reasonable effort might be several follow-up calls and written threats to take action if a debt is not repaid.
- 3 You must have reasonable grounds for considering you may not be paid. A typical situation would be a failed business or a business which has ceased trading or in a dispute.

What does "write off" mean?

The answer depends on how sophisticated your record keeping is. If you have a proper debtors ledger, it is easier to write off the bad debt. You put it through a process, which gets it off your debtor's ledger. Be sure to record the date you did this. Some clients just send out their invoices and keep copies. These act like a debtor's ledger. If you're one of these people, the best thing to do is to move your copy invoice into another folder and write on it "written off as a bad debt" – put the date and then sign it.

It's perfectly permissible to continue to pursue your bad debts after they are written off. If you're fortunate and get some money later, treat it as taxable income.

Romalpa clause redundant

Many business people include a Romalpa clause in their terms of trade. This is a clause which says they still own the goods until such time as their bill has been paid. The Romalpa clause on its own no longer works. You need to register any security you have on the personal property securities register.

Volume does not equal profit

I heard a joke recently about a couple of dopey businessmen.

They were buying cabbages and selling them at the same price as they paid for them.

“We’re not making any money,” said Eric.

“Well,” said Fred. “We’d better get a bigger truck so we can sell more.”

It’s not about the volume of sales so much as profitability. Keep an eye on this.

The same applies if you’re busy. Being busy is not necessarily being profitable. A plumber friend who proudly said recently his workload was up 30 percent, was shocked to find he’d not made any more profit than a year ago. He was busy doing work that wasn’t making him money.

If you prepare two-monthly GST returns, use the figures to monitor your business. You’ll probably need to make some adjustments, particularly if you use the payments basis. Discuss this with us.

When your business gets bigger, get proper accounts done, regularly. We’ve seen too many clients discover how badly their businesses have been performing only well into the following year. Twelve or more months of losses are likely to cost much more than the extra needed for regular accounting.

Being a trustee is a risky business

We recently read a newsletter from a lawyer’s office saying the firm would be phasing out its trusteeships.

Referring to being a trustee for a client, the firm said the risks of doing so were now “too serious”.

If you’re an independent trustee, be meticulous about doing your job. If you don’t understand what that means, come and see us.

The beneficiaries of a family trust are entitled to information about the trust. It is the duty of trustees to inform the beneficiaries they have an interest in the trust.

We recommend you keep the beneficiaries fully informed so there can be no repercussions. Send them copies of the annual accounts and details of capital and income distributions. It’s a good idea to send them a copy of the trust deed as well.

Biff out the bad ones for better business

A RELATION tells us he did a lot of work for a customer which wouldn’t pay its bills.

It was a big business with plenty of money. It just had poor organisation.

One day, he got fed up and passed the outstanding bills to a debt collector.

“What am I doing working for this outfit,” he asked himself. “It’s not only wasting my time with debt collection problems, but the work I’m doing is actually not very profitable.”

He decided both these problems had to be resolved or he would stop working for the firm.

If you have customers like that, you might be better without them. Not all business is good business. To make sure you can dump the bad customers, look to your marketing to generate a continual stream of potential replacements. This is why you need to network, use newsletters, social media etc to keep reminding everyone you are still around and ready to supply.

Don’t forget those you have previously sold to. They should be an excellent source of referrals.

Clever steward service means first class for everyone

We’re telling you this story just in case you can apply the idea to your own business.

A steward on an airline was in charge of the first-class passengers. It takes about 10 minutes to serve all of them, which means those up the front get their Champagne first and those at the back become sort of second-class in the first-class section.

What the steward did was go to the back first and give those passengers bottles of Champagne and glasses.

He explained he would be serving the passengers at the front first but hoped they would look after themselves until he got to them. He repeated the same trick when it came to serving dessert, giving the back passengers some cheese and

biscuits while he served the front passengers their desserts.

One of the passengers was heard to comment: “Gee you know how to work the room!”

What was particularly interesting was that the airline didn’t even know their steward was doing this. He was using his initiative to solve a problem that could have hurt the airline’s reputation for first-class service.



Dropbox makes it simple

If you're confused when your friends' tech talk turns to the cloud, Dropbox could be a good introduction.

Put simply, Dropbox gives you a folder in which you can put files that are stored out in the internet world (often referred to as the cloud). You can share these files with other people and if your computer or your whole system crashes, you can just retrieve your files from another computer – anywhere in the world.

The beauty of it is it's free – for up to 2 gigabytes of data – and secure. As a business, you might want more space, so you can choose a pricing plan that suits.

Dropbox is a really useful tool if you're a bit concerned about losing your vital data, or your urgent project work. One example we know of is a design business that often has several people working on a project at a time. The folder they work on remains in the Dropbox, which every member of the team has access to. Whenever one person saves a file, it's automatically updated in the Dropbox, ready for the next person to pick it up. It's ideal for sales teams and others on the move.



It's also great for sending large files to clients. Instead of trying to email, put the file in the Public Folder of Dropbox, copy the link and email your client with the link. They can then grab the file from the link. If you deal with clients regularly, you can even set up a folder they have access to, so you and them can share the files. No one else has access to them.

If you want to store your photos in Dropbox, no problem. Then if your computer crashes, they're still there. Recently a friend lost three weeks of her photos on a trip through Europe when her camera and cell phone were stolen. If she'd stored them in Dropbox while she was travelling, they would have been safe. So yes, you can download apps (applications) for Dropbox on your smart phone, tablet etc.

While Dropbox is not the only cloud-based storage system, it's one of the simplest to use. To see more, go to dropbox.com



TAX CALENDAR

November 28 2013

1st instalment of 2014
Provisional tax
(June balance date)

January 15 2014

2nd instalment of 2014
Provisional Tax
(March Balance date except for those who pay provisional tax twice a year)

Pay GST for period ended 30
November 2013

April 7 2014

Terminal Tax for 2013
(March April, May and June
Balance dates)

Customer or the bank?

Notice on the door of a small-town bank: "We will be closed during the lunch break from 12.15 – 1pm. We apologise for the inconvenience."

It's the branch of one of our big four banks and usually has only two tellers at a time. They need a lunch break, but both at the same time? A part-time teller could plug the gap. We wonder what's more important – providing a service during lunchtime when many people will want to do their banking, or satisfying the convenience of the bank.

Shareholders' and partners' agreements

If you're in business with other people, including friends and relatives, you should have an agreement to cover what will happen if someone wants to get out.

If you're confident you could handle that amicably, consider what happens if a partner dies.

Are you equally confident you could handle the situation with that person's spouse?

Often people take out life insurance to provide a sum of money to buy out the other person in the event of death.

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