



TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

Newsletter

Autumn 2012

Time to get financial records in order

THE financial year end is approaching. Now is a good time to get your financial records in order, and to prepare plans and budgets for the ensuing year.

Preparing for annual accounts

Avoid the temptation to implement your own accounting system without first consulting us. Client-created accounting data are often more expensive to process than starting from scratch. This includes proprietary brands. Spreadsheets are mostly a disaster.

Please answer all the questions in our questionnaires. They help us to make sure we don't overlook anything. Sorry, but we have to ask you the same questions every year in case there have been changes. Please repeat your answers rather than refer us to last year's file as it saves us time.

Rental properties

For those owning rental properties, there will be no depreciation claim on buildings this financial year. Those who pay annual tax of more than \$50,000 may need to top up their 2012 provisional tax to allow for this. If in doubt, discuss the matter with us.

IRD has also revised what it considers is a separate depreciable asset. For example, fitted furniture now forms part of the building and, therefore, there is no depreciation.

Look-Through Companies

Those with Look-Through Companies who are paying the owners a salary, must have an employment contract with the company which:

- specifies the terms and conditions of the services to be performed by the working owner; and
- specifies the amount payable to the working owner for the performance of the services; and
- is in writing.

Shareholder remuneration

If you are new in business and operate through a limited liability company, make sure the working directors have authorised income for themselves for the 2012 year.

This means written authority to comply with the Companies Act 1993. If you fail to authorise shareholder salaries in the proper way (see us for details) and your company fails, your drawings are repayable to the company.

There could also be an argument with the IRD as to whether your current year's salary is tax deductible.

Putting yourself on a PAYE salary does not get around the need for written authorisation. This is because PAYE relates only to tax law.

No-shows should be no goes

DO CLIENTS or patients create a loss for you by not keeping appointments or cancelling at the last minute?

If the answer question is yes, get your secretary/nurse/receptionist to methodically contact all patients/customers a day or two in advance of their appointment.

Easy ways to do this are email (and get a read receipt) or text, but the more effective way is the

telephone.

Keep a black book of those who missed their appointments.

First offence – send out a letter explaining why it is bad to miss the appointment.

Second offence – bill them. Do you really want them as customers or patients, anyway?

Take care of your bank account

HERE are some simple tips for making sure your bank account is looked after.

- It's unsafe to throw out bank account details – your own or those of the people you pay.
- Check, regularly, your on-line bank account details are the same as those shown on the creditors' invoices. Businesses change hands.
- Does your business insurance protect you from fraud?
- If staff are paying the bills using internet banking, have two people authorised to make each payment. Police this rigorously. An authoriser should not be allowed to give their access token to the other authoriser when they go on holiday. Provide for the absence of an authoriser.
- Set authorisation limits for those who have access to the business bank account.

Letters to the editor

READERS sent us the following letters after our last newsletter. They add interesting information about the topics we covered.

Charities

I personally refer people to the Charities Commission website to register at: <http://www.register.charities.govt.nz/charitiesRegister>

You can search here for any charity by name. If it's there, you will get:

(a) its registration number (which is what IRD wants for the donation deduction – it should be on the receipt but sometimes with small and voluntary bodies it's missing); and

(b) you can download a PDF of their latest accounts and see what the charity is actually doing with your money (can be interesting)!

If it's a registered charity, IRD will allow the claim.

Sandwiches

I was recently in a café up north which, like the one you describe, had a cabinet with very few sandwiches in it, but it also had a sign. I can't recall the exact words now but they were to the effect that

(a) the ones in the cabinet were for those in a hurry;

(b) they prefer to make your sandwiches to order to give you exactly what you want;

(c) they would do it within X minutes (two, I think) of your order or it would be free.

They seemed to be doing OK.

LTCs, wages

and cars

PROFITS in a Look-Through Company (LTC) are automatically shared by the shareholders in proportion to their ownership.

Unfortunately, this does not mean a couple with one working partner can simply share the company income equally. If they were to do this, and there was a tax saving it likely to be tax avoidance. The sole working owner should generally be paid a market salary.

Working shareholders must also enter into an employment contract with the company (see *Time to get financial records in order*, page 1) If you fail to have a signed employment contract which complies with the LTC law, you are not an employee for tax purposes and the wages paid become non deductible for tax purposes.

Further, as you are not an employee, fringe benefit tax does not apply. Therefore if you use a business vehicle partly for private purposes, you would have to keep a log book. Costs would need to be apportioned between business and private.

Make sure you have employment contracts if your company is going to pay wages to its working owners. Last September the IRD proposed to do away with FBT on cars used for private running by owners. They would have to keep a log book and apportion running costs, regardless of whether they were on PAYE. This change has not yet become law.

It was incorporated in the last tax Bill and may yet get dumped, hopefully.

What if your LTC is an investment company?

You are not permitted to pay one of the owners a salary even if this could be justified. Assuming your investment is a rental property, if you need to use a car, you could only claim a share of the costs, based on mileage disclosed by a log book, or you could claim kilometres run

Don't get caught with capital gains tax

PART of Labour's capital gains proposals during the last election included taxing transfers of assets into trusts.

The idea of a capital gains tax has been bubbling away for years. Most of our big trading partners seem to have it. If you are considering forming a family trust, don't get caught with a capital gains tax because you have delayed your decision for too long.

Currently, trust law is being reviewed and is likely to change. Your lawyer will be able to tell you the extent to which these changes are likely to affect a family trust.

How to negotiate - and get nowhere

ON 14 JANUARY the *Dominion Post* published a photograph showing representatives of the Myanmar Government and representatives of the Guerrilla Army of the Karen People.

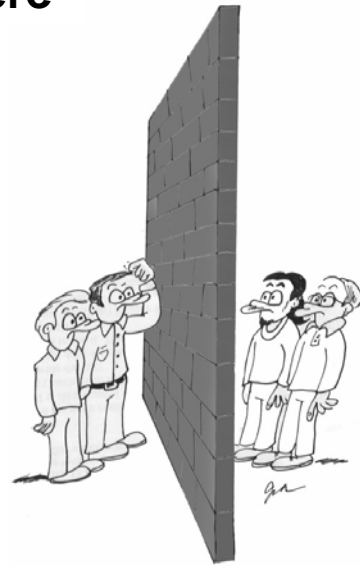
Separating them was a 2 metre wide table. Presumably the table was nice and wide to prevent anyone stretching over and throttling someone on the other side. The article stated that the parties had been involved in the world's longest running war.

We're not surprised if this is how they negotiate.

The photo shows how not to negotiate. If you want to reach an agreement, surely sitting opposite each other as adversaries is not going to help.

When negotiating, mix the parties so they sit next to each other. Take away the adversarial atmosphere and promote a working together feeling.

A similar situation exists when interviewing. When job hunting, if you can carefully move your chair so it is at the side of the desk instead of opposite the interviewer, you could improve your chances of success.



The UOMI monster

UOMI is such a monster we make no apologies for repeating advice we have given in an earlier newsletter.

We meet many of you just once a year. By now you should have a fair idea of how well you have done for the year.

If we see you so infrequently, we cannot monitor your income and potential tax liability. In most cases this does not matter. However, if your business is a company which does not distribute all the profit to shareholders, or you have a trust, be careful. If you anticipate either of them is going to have a much bigger profit than in the previous year, you should check your tax situation.

You may be exposed to the Use of Money Interest penalty for success.

Unless your business is short of funds, it is better to pay some more tax now than to wait until we see you later in the year. The current interest rate is 8.89% and it may have been accumulating, on a small scale, since you paid your first provisional tax payment for the year. For March balance dates this is 28 August 2011.

UOMI also applies to individuals whose income generates \$50,000 or more annual tax to pay. For most people this cuts in at a taxable income of \$179,030.

Call us if you need any help.

Tax laws tricky for work in Australia

IF YOU, or anyone you know, work in Australia, be careful. The tax laws are tricky.

Travel costs

Double tax

For example, while you're there on an assignment you look for follow-up jobs and successfully negotiate new deals. The income would probably be taxable both in Australia and New Zealand.

"No problem," I hear you say. "Isn't there a double tax agreement which prevents me being over-taxed?"

Yes, but the top tax rates in Australia are higher than here, so could cost you money if your income is high. Also, if you are trading through an ordinary company, the tax the company pays overseas doesn't count when it comes to paying company dividends. In the long run, you will be likely to be double taxed. Best to seek advice before you start.

Travel costs

You can often justify travel costs between the two countries. However, if you decide you are not going to use your company when working in Australia, you could find travel costs are not tax deductible. This is because, if you then start up as a sole trader, you have a **new** business. The new business requires you to go from your home to Australia to start work. Travel between home and work is not tax deductible. On the other hand, if you have an on-going business (through your company for example) the travel is part of your ongoing business operation and is likely to be tax deductible as the travel is between work places while you are on work.

Which costs are deductible? Now there's another problem, which is too complex to discuss here.

There are ways around these difficulties – getting which country you are in right, when you negotiate, is a good start. Talk to us and we'll put you on the right track.

Brief plans often the best

DO NOT make a meal of business planning. Many businesses have succeeded with minimal plans.

Mike and Doug Tamaki created Tamaki Maori Village in Rotorua. In their book, *Successful New Zealand Ventures*, Alan Cameron and Claire Massey say: "Mike went to see his brother Doug with a concept sketched out on half an A4 page."

There are no rules about what you should put in a business plan. Books will help guide you, but they may also put you off, because they are often written for far bigger enterprises than yours. Business plans often include desirable material, but for small business is unnecessary. You could make a case, for example, to do some "competitor analysis". Ask yourself, before starting, how useful it will be for your business.

Start by deciding, as precisely as possible, what you are going to sell. If you are a builder, are you going to do repair work or new work? If both, why? Are you going to join the rat-race of quoting for any job that comes your way or are you going to specialise? One builder I know does only architects' work. Sure, he quotes, but his chance of selection is high because architects always want builders they know and can trust. The builder can therefore charge accordingly.

The second and probably more important step is to define who you want as customers. Do you want businesses or house owners? If the latter, what area do you want to cover? City or suburbs? Rich or poor or in between?

Once you have the answer to these two questions (what are the products and who are the customers) you can develop a strategy for growing your business. You will have made a good start on your business plan.

One last word. Advertising is a blunt instrument for promoting a business. There are usually far better ways to develop sales. Learning marketing can pay huge dividends. You can do this by reading, listening to CDs, watching videos or going to seminars.

Database a valuable asset

THE most valuable asset on your computer should be your database of customers and prospective customers.

This assumes you wish to have a real business you run as opposed to being a self-employed person. A real business is one you can walk away from and it will run itself while you sneak off for a quick six months holiday to explore Europe.

You should be constantly growing your database. Use it to keep in touch with customers, clients and prospects. One of our clients, a consultant, sends newsletters religiously every quarter. He generates a steady flow of new business. His problem is how to handle it all. He's on the road to owning a business as opposed to being self-employed. He told me about a famous salesman, who is so paranoid about preserving his database, he uses three different methods, each day, to back it up. He's a car salesman.

Grow your database through networking and other means available to you and look after this most valuable asset.



TAX CALENDAR

April 7

**2011 Terminal Tax
(March balance date)**

May 7

**3rd Instalment 2012
Provisional Tax
(March balance date)
GST for March 2012**

May 28

**1st Instalment 2012
Provisional Tax
(December balance date)
GST for April 2012**

Accounts chaos - paying bills with wrong chequebook

OUR client has an interest in a couple of companies and a family trust.

Sometimes, when it is convenient to do so, she grabs whatever cheque book she can lay her hands on to pay the bill in front of her. Thus personal bills get paid by the trust and trust bills get paid out of the company.

We have to correct the situation manually. It takes a lot of time. Surprise! The accounting fees go up.

Recently we struck an extreme case of this. Paying bills out of the wrong account is a nightmare. Never do it.

As we've said before, make a loan if needed to the entity which has to pay the bills. By the way, loans from one company to another can also be a headache unless the two have identical shareholdings.