



## TAXATION & FINANCIAL SPECIALISTS

*Where the client comes first...*

# Newsletter

AUTUMN 2014

## Can't pay tax? Options are available

Some people who can't pay their tax let the problem fester. Our advice: Don't! We can help you to do the following:

- Make a sensible, manageable arrangement with IRD; one you should be able to maintain. This will stop penalties accumulating.
- Buy someone else's over paid tax and so reduce penalties and interest charges.
- Budget your personal expenses to provide funds to catch up.
- If you're in deep trouble, persuade IRD you are a suitable candidate to have some of the tax written off.

If you ignore the problem:

- Penalties compound while you sleep.
- High interest charges do the same.
- You get further and further behind.

Getting behind with your tax is a recipe for a disaster. Don't let this happen.

It's usually very light in your first year in business. Then there's a catch-up. You might suddenly be horrified by the amount of tax you have to pay. Plan for this.

## Plan now for year-end tax

With a bit of planning, you can reduce your tax and your year-end accounts can be hassle-free. Here are a few tips.

### **Bad debts**

Look through all the debts owing to you. Could any of them be considered "bad", in other words, is it likely you won't get paid? To classify them as bad debts, you must have taken reasonable steps to get paid. If yes, write them off now. If in doubt, call us. If you procrastinate and don't get around to identifying your bad debts until after balance date, you won't be able to claim them as expenses against your 2014 income.

### **Questionnaire**

We will be sending you a list of questions. They help us to ensure you comply with all statutory requirements, so please answer all the questions. You can put N/A if the question doesn't apply to you. Please don't leave blanks. If you have any doubts about how to answer any of the questions, put a little cross by each of the questions and then either call us or make a note to discuss the questions with us when you see us next. Please sign the questionnaire.

### **PIR**

Do you have investments in your own name which require you to provide a tax rate (called a PIR) for the investment company to use for the coming year 2015? If yes, use the right rate. If you have a 31 March balance date, work out the highest rate of tax you paid for the years to 31 March 2013 and 2014. Choose the **lower** of the two years. If you've not yet had your accounts done for 2014, use the rate for 2013, until your 2014 tax return has been completed.

For example, your taxable income for 2013 was \$50,104. You pay tax at 30% on the last \$2104. Your PIR based on 2013 is 28%. For the 2014 tax year, you find out your income is \$37,111. The top tax rate on this income is 17.5%. Your PIR for the coming year (2015) is based on 2014 and is 17.5%. If you have previously told the investment fund to use 28% for 2015, get this corrected to 17.5%.

If you have an amount invested, yielding an income of more than \$22,000, call us as this could push you on to a higher PIR.

### **Shareholder salaries**

If you're a company, we need to know how much salary to pay you (on paper, of course). Life gets complicated. You used to be able to

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## Plan for year-end tax

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get into trouble if you paid yourself too much salary from your own company. You still can. Some years ago, a pharmacist paid himself about \$15,000 from his rental company. A court found that this was too much for the work he had done and treated part of the income as belonging to the company. You can also pay too little. Make sure you set your salary at a rate which is realistic for what you do. Want a guide? How much would you pay someone else to do the same job, including the management you undertake? If needed, we'll discuss this with you.

If you're working full time for your company, you can argue – if you had been working for yourself and not through the company – all the profit would have been yours. IRD will generally accept this and you can pay all the profit to yourself, if you wish. Note the important thing is working full time. If your company is primarily investing it is most unlikely you'll be working full time in it.

### Accounting systems

Do-it-yourself, without first conferring with us, is a sure way to increase the cost of our services. Please, find out from us how we want accounting data presented, if you don't already know.

### Use of Money Interest

UOMI is a huge money spinner for Inland Revenue. Pay as little of it as you can. If you, as an individual, pay more than \$50,000 of tax (after taking off tax deducted at source), you're in the UOMI net. If any of the three provisional tax instalments have been too low, IRD will claim UOMI on the shortfall. What can you do about it? Make a reasonable estimate of your taxable income for the year. If it's up compared with last year, calculate the tax you would expect to pay. Take two-thirds of this and compare with the two provisional tax payments you've paid so far. Top up if needed and round up your payment as interest might already have accrued.

### Stock

If your sales are less than \$1.3 million, you don't have to count your stock if it's worth less than \$10,000. You can use the same figure as last year. What do you do if this applies to you? Either nothing or, if you think your stock is down, you may count and value it to set a new low figure and save some tax. For those who have to count stock, unless you can prove the market value of any item is lower than you paid for it, you must value your stock at what it cost you, including costs incurred to get it on to your shelves. The way to prove a stock item is worth less than you paid for it is to compare it with the amount your competitors are selling it for. If you can't do this, you probably can't **prove** the item is worth less than cost.

### Plant

If you're no longer using some pieces of equipment and it would cost you more than they are worth to throw them out, you can write them off. If the amount is significant, give us a list when you see us. If it's small it might not be worth the cost of our time to do the write-offs.

### Travelling soon?

Advance payments for travel are fully tax deductible. Pay before balance date to reduce this year's tax.

## Five marketing mistakes within an hour

Our storyteller needed a plumber.

He was just going out for the evening when he saw a trickle of water coming out of the cupboard. As a newcomer to the area he looked for a plumber on the internet. There he was, the plumber available 24/7!

"I rang him. Yes, he would come within the hour."

Phil turned out to be a very likeable fellow. He said he got fed up working for the boss and decided to set up his own business. However, the business wasn't working very well. He said it was hard to get customers.

"Being a bit of a marketing enthusiast, I worked out later how many mistakes this plumber had made when he fixed the leak."

Our storyteller had taken the screws out of the panel hiding the hot water cylinder which was presenting the problem. He had left them on the bench. When the plumber had done his job, he didn't put the screws back in. He just fitted the panel in place and left it. It would have been a small matter for him to have finished the job. Little things can be quite big to a customer.

He said the reason little hot water was available was that the cylinder was too small. However, he never offered to source or price a bigger one. He missed a potential sale.

He didn't inquire about any other jobs, such as cleaning the guttering of autumn leaves.

He didn't get contact details so he could keep in touch.

He didn't leave business cards.

Good business is not about being good at your job. All you need is to be thought of as being good. Perception is reality. A basic need to grow your business is good marketing. When you see or hear good tips, write them into your computer. Read through your list from time to time for inspiration. Plan your marketing. Now is a good time to do so, ready for your next financial year.

## Tough in retailing

The pressure on retailing has never been as intense as in the past five years. The challenges have been not only the global financial crisis, which has meant people are paying off debt rather than spending, but also online retailing. People can't be blamed for buying online when prices can be significantly cheaper. So what can retailers do?

According to one expert in the retail field, the keys are in the acronym PALOS – product, agility, lean, online and service.

**Product** – are you really trying to sell what people want to buy? Retailing is a dynamic business changing rapidly. No one retails horseshoes or video recorders any more. You might be passionate about your product, but is anyone else? If you don't know, ask the visitors to your store.

People buy to satisfy wants NOT needs.

**Agility** – are you nimble enough to adapt to the changing environment? Can you change your product line or marketing strategy easily and quickly? Do you have flexible supply lines?

**Lean** – do you have too much stock or too many staff? As a store owner you might just have to do the hours yourself to stay in business. Review your costs regularly, especially at lease-review time when it might be better to move to cheaper premises.

**Online** – like it or not, online retailing is here to stay. Consider whether you can be part of it. Can any of your products or services be marketed and sold online, as well as in a physical store?

**Service** – when times are tough, you'll get left out in the cold if your service doesn't measure up. Great service usually costs nothing and can make you stand out in the crowd.

### Unclaimed money

We're told 71,026 people have not claimed money owing to them. The list is held at the IRD and can be accessed through the IRD website. Go to [www.ird.govt.nz/unclaimed-money/](http://www.ird.govt.nz/unclaimed-money/) and see if your name is on the list. If it is, prove your identity to the IRD and get your money.

### Freshbooks

For those who are looking for a system for time recording, you might like to try Freshbooks.com. It keeps a running record of the time you put into each job and it enables you to generate invoices etc. The software is free.

## BRIEFLY

### Expensive ACC

ACC is a special purpose tax. It's very late arriving as it can't be calculated until after the business tax return has been completed. The amount might take your breath away. Avoid the instalment offer. Pay in full. The ACC service fee of 10% is not a true 10% – it's more like 18% because of the way it's charged. Assuming the bank is going to charge you only interest and no additional fees, borrowing from it will be a lot cheaper.

### Staff business cards

All staff who deal with customers should have business cards, particularly your receptionist. A car owner dropped his vehicle off to a franchise dealer to get a warrant of fitness. The receptionist greeted him and at the appropriate time handed him one of her cards with the comment: "If there's anything you want, call me". The customer felt cared for and the receptionist felt she was an important member of her firm, which she was.

### Conditional contracts

Be careful what you sign. Some folk think there's an easy out to a contract, if they need it. Put a condition into it. It's not that easy. Consult your solicitor first.

## Turn a complainer into a powerful advocate

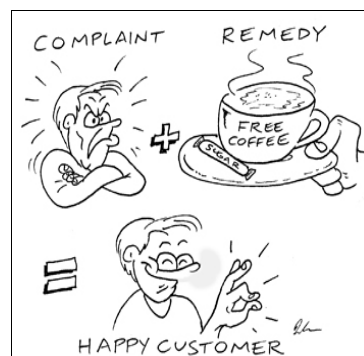
It's always better to hang on to your existing customers, than to seek new ones. Getting new customers is expensive and time-consuming.

Listen carefully to customers who complain. They are your friends because they will tell you things others might not. It's tempting to justify your actions in the face of a complaint. Don't. Assume the customer has

cause for the grievance and act generously to put it right. Then follow up to ensure the customer is not merely satisfied, but pleased with what you've done.

Delighted complainers often become your best advocates! They tell others how well they were treated.

If you reflect on what occurred you'll often be surprised to find you agree with the complaint.





## CryptoLocker a nasty one

CryptoLocker is a ransomware virus. It's created havoc around the world and is one you hope you never get.

Essentially it infects your PC's files and will delete them permanently unless you pay a ransom within three days. The ransom - about \$500 - is paid through Bitcoin or MoneyPak, which are private fund exchange networks. It's almost impossible to track the perpetrators.

The infection occurs via email, usually suggesting you should track a parcel to be delivered. Click on the attachment, open the Zip file and the virus goes to work gathering data on all your files. It then shows you a "ransom note". While you might be wary of opening any strange attachments, it can still happen, especially around Christmas time when you could be expecting a delivery.

The attachment usually has a double extension name, for example .pdf.exe. The pdf extension adds some credibility; the exe does the nasty stuff. Beware of any double-extension attachments.

Unfortunately, there's not much you can do once you're infected. One large New Zealand



firm recently paid the ransom as it couldn't fix it and couldn't afford to lose the data.

As with all viruses, protection is easier than cure. Make sure you have a robust anti-virus package running on ALL your computers. (The New Zealand firm had good anti-virus protection, but one employee connected a personal laptop to the company network and was not properly protected.)

As a rule, free anti-virus software is not good enough. Pay for it and be better protected. One useful tool - but not a silver bullet - is CryptoPrevent, which stops your computer from downloading double-extension files.

So far the virus seems to infect PCs running Windows 7, Vista and XP, but Windows 8 and Macs could be vulnerable, too.

If you're unsure about your protection, call your local computer service company for advice.



### TAX CALENDAR

#### April 7 2014

2013 Terminal Tax  
(March balance date)

#### May 7

3rd instalment of 2014  
Provisional Tax  
(March balance date)  
GST for March 2014

#### May 28

1st Instalment 2014  
Provisional Tax  
(December balance date)  
GST for April 2014

### Big bill for little error

A bank customer owed about \$4500 on his credit card. When he paid, he was mistakenly short by \$68. The bank charged about \$32 in interest, a 47% fee for being about three weeks late. The customer protested, using his frostiest voice to make it clear he was unhappy. The bank cancelled the charge. He told the person on the other end of the phone to calculate the annual rate, which he estimated to be about 800%. Another customer in a similar situation merely threatened to cancel the card and go elsewhere. His charge was also cancelled.

## When a customer is in a buying mood, keep selling

Online store i-Tunes provides a superb example of capitalising on a customer's buying mood.

A friend commented recently: "I wanted to try the music of Karl Jenkins. I clicked on his album and soon found music which really appealed to me. I bought the item for \$2.39. On the left of the screen was a message which said I could buy **the rest of**

**the album** for \$9.50. Thinking I had already missed a discount, I bought another tune and the same frame told me I could buy **the rest of the album** for a lesser price. I-Tunes was giving me a discount to entice me to buy the rest." When a customer is in a buying mood, it pays to offer a generous discount to get another sale.

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