



CHARTERED ACCOUNTANTS

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Newsletter

MAY/JUNE 2005

Why Don't YOU Take The Risk?

ONE thing which makes for a reluctant buyer is the fear of loss. If you can take this risk instead of the customer, you will increase your chance of making a sale. You can make buying less risky by:

1. Providing a free sample

Try before you buy.

2. Guarantee

A money-back guarantee says "I'll take the risk". You will find there are very few occasions you are called upon to honour this. The gain in additional sales can be expected to outweigh the costs of the guarantee many times over. Some stores even offer double your money back! If you want to use a money-back guarantee, make sure your offer is convincing.

A customer was in Starbucks. She wanted to take home a sample of a coffee she had not tasted previously. She happened to mention she did not like the last lot of coffee she had bought. Immediately, the Starbucks assistant told her there would be no charge for this 100gm pack. Here is a genuine money-back guarantee.

A customer bought some computer software and asked for a six-month guarantee. The supplier cut the time back to three months. Why? Didn't he have any confidence in his product? Did he want to send a message "We're a mean firm?" He succeeded.

3. If you can buy cheaper elsewhere, tell us and we'll match the price.

The customer is guaranteed the best price.

New Businesses to get Early Payment Discount

IF you know anyone about to start in business, they might be glad to know the Government is prepared to reward them for paying their tax early. From 1 April 2005, new businesses will be able to claim a 6.7 percent discount for paying their tax early. Here are the rules:

1. The discount applies only to sole traders or partnerships.
2. The discount will not be taxable income.
3. The tax has to be paid by the last day of the taxpayer's financial year.
4. The income must be predominantly from business.
5. The maximum amount on which the interest is paid is 105% of the final tax (known as Residual Income Tax).
6. Anyone restarting in business will not get the discount for a second time, unless there has been a gap of four years after the last year for which an interest payment was received.
7. Existing businesses can get the discount if they have never had to pay provisional tax.

How to Lose Customers

A CLIENT told this story.

"As you know, I am always very busy. Recently I wanted a CD writer. I looked up the Yellow Pages and rang a likely supplier. I had my credit card in front of me. I asked to buy the CD writer and the assistant told me to go to their website. I explained I had a credit card in front of me and would prefer to settle the transaction now. I was told the company worked only through its website.

"I rang a second company and received a similar reception. I explained, if I put this telephone down, I would be unlikely to go to the website. The assistant said 'This is the only way we do business. It is the way we keep our costs down.' I tried a third company and this time they were happy to take my credit card and supply the goods. Incidentally, theirs was the cheapest price."

Lesson: Always, always make it as easy as possible for the customer to buy. You will not be keeping costs down if you are losing sales. This client has an excellent understanding of the internet, but it was much easier for him to supply a credit card number over the phone and get the deal settled.

Finding a Niche

HOW about the person who specialises in installing cat doors? He has created a business solely for this purpose.

Wendy in Wonderland

"I AM not going near my lawyer," Wendy said when she rang me recently. "Every time I come up with a good idea she finds something in the Employment Relations Act to shoot it down. On the other hand, you seem to like some of my ideas. How about this one?"

"I thought I might make my two employees self-employed and get rid of PAYE, ACC and all the other hassles. They could invoice me monthly. Can you see any tax problems?"

Wendy had hit on one of the more difficult areas of tax law. IRD wants its PAYE if the worker is providing services like an employee. Getting workers to invoice for their services does not make them self-employed.

I said IRD had a useful pamphlet on this subject, IR 336, and I would send her a copy.

"You will have to show the former employees can work when they choose, provide their own equipment and pay the cost if they make mistakes," I said. "They will usually be paid for what they do rather than an hourly rate. Professional hair-dressers already operate this way.

"It is not enough to take the pamphlet and count up the number of answers to which you can reply yes. More than 50 percent is not a pass. You must look at the whole picture and ask if this really describes someone who is self-employed.

"Getting it wrong could be expensive. Self-employed people can claim expenses. If IRD later says they are employees, the expenses will be disallowed and the worker will have tax to pay plus interest at about 1 percent a month, back-dated to when the tax should have been paid. You may also have some problems for not deducting the PAYE.

"If we can make any of your staff self-employed, you should get a new contract drawn up and describe it as a Contract for Service. Give me a call when you have studied the IR 336 and I'll help you determine whether you can

switch any of your staff. And remember, you had better have a good non-tax reason for the change. IRD can be upset if you make changes primarily to avoid tax.

"Finally, remember the legal test to determine if a person is an employee or an independent



Why Compete on Price?

A CLIENT tells this story.

"I was at a party. I happened to be sitting next to a neighbour who is a builder. He knew I had just bought a section and was drawing up house plans. He wanted an opportunity to tender for the contract.

"I told him I thought it was important to have a good plumber and asked him which firm he used. His response was as follows:

'I use XYZ. Their price is high but I cannot run a contract using an unreliable plumber. He has four people in his firm, all of whom are qualified tradesmen. In any event, everything is pressure-tested these days.'

"I shall be calling for three tenders to build the house. My builder neighbour uses some sophisticated modern technology, so he is likely to be one of them. Will I choose the lowest price? Bearing in mind the size of my investment, I am certainly going to be choosy about who I ask to tender. This automatically eliminates the lowest price. After that, it is going to be price, reputation and an ability to convince me about quality. This investment is far too important to decide on the basis of price alone."

Keep your Personal Bank Records

TAX inspectors are entitled to investigate your personal transactions. You have no obligation to keep any records but you do have to prove you are innocent of any wrong-doing if called upon to do so.

We recommend people keep good records of personal income and expenditure so these could be produced if your business is ever subjected to a tax audit. If you do not keep this information, the IRD can get it from your bank **at your expense**. Bank services of this nature do not usually come cheaply.



TAX TRAPS

Losing interest deductibility

A LAWYER borrowed \$100,000 to lend to his partnership practice and claimed the interest paid as a tax deduction against the interest received from the practice. He sold his home, repaid the \$100,000 loan and rented until his new house was built. He then borrowed to pay for the new house. None of the interest was tax deductible because it was incurred to buy his personal residence. The lawyer needed to avoid repaying the \$100,000 he had borrowed, to maintain interest deductibility.

A similar situation often arises when a client wants to buy a new home and retain the old one for renting. Interest on money borrowed for the new home is not tax deductible, even though the loan enables the renter to retain the first residence. Always look **directly** at how the money has been used.

Some clients will sell their old home to a family trust and raise a loan for the trust to buy the house. If this is done to get a tax deduction for interest, it could be seen as tax avoidance. The interest claim would then not be acceptable to Inland Revenue. However, the transfer of personal assets to a family trust is usually acceptable because the main reason for the transfer is asset protection, rather than tax avoidance.

If you consider transferring a property, in these circumstances to a

Stop and Ask

DON'T rush into new projects without checking the tax implications. A client and his friend discovered a valuable property which was under-priced and bought it. The property has been registered in their names as partners. The client now wishes he had thought of putting it in a family trust.

A client bought a new home. He could have arranged for his company to borrow money, repay its debt to him, personally, and thus make the interest tax deductible. The cost of the oversight is several thousand dollars a year.

It pays to check with us before making major financial

Company Savings accounts

IF you keep your savings in your company, you risk losing them if your company fails.

The prime reason for having a company is to protect your wealth. So if the company has surplus cash, try to find a reason to transfer it to yourself. One common way is to repay debt to you. The amount the company owes you at year end is shown in your company's Balance Sheet (Statement of Financial Position). If the company does not owe you much money, consult with us before withdrawing the funds.

● IN BRIEF

Receiving Journals through Internet

It is often easier and more relaxing to hold a magazine and turn the pages than to look at it on a computer screen. However, consider the advantage of an electronic copy. If, at some later date, you want to find an article, you can search for key words and find it much more easily.

Referral Card

Have you ever seen a business card which is also a referral card? The referrer writes the prospective customer's name, address and contact details on the back of the card, together with the referrer's name, and sends it to the supplier. The supplier gives a reward for each successful referral.

Signing Cheques

Be sure to have a way of accessing your bank account if you become incapacitated and unable to sign your name. Two old men were running a business. When we discussed their annual accounts, we asked about cheque signing authority. As expected, both had to sign every cheque. We suggested they get a third person able to sign with one of the partners in case the other became ill. This could be their lawyer or accountant. Within 12 months the inevitable happened. Our advice had not been taken and the surviving partner could not use the bank account.

We understand if you are using internet banking you can now arrange passwords so that they

IRD Cheques - there's a Sting in the Tale

IRD will penalise you with Use of Money Interest calculated at about 13 percent a year if you bank a cheque you are not entitled to. So if you receive a refund, check you are entitled to it before you bank it. A client recently received two refund cheques

instead of one. Wisely, he tore up the second cheque. If the refund is paid into your bank account when it should not have been, be sure to check it out and refund the money as soon as possible after you discover the error.

What is a Work-Related Vehicle?

WE thought it would be useful to remind clients what a work-related vehicle is. A vehicle qualifies for a work-related vehicle exemption so long as:

- 1 It is not designed for carrying passengers, unless it is a taxi.
- 2 The employer's business identification must be permanently and prominently displayed on the exterior of the vehicle. Removable signs are not sufficient and neither is sign-writing on a removable part of a vehicle (such as a spare wheel cover).
- 3 The employer notifies the employee **in writing** that the private use of the vehicle is limited to travel between home and work. You can find a form in the FBT booklet IRD 409 or call us.

The employer records checks carried out at least quarterly on each vehicle to ensure the restriction is being adhered to.

Partial Exemption

If a work-related vehicle meets these four conditions, is not available for private use most of the week, but some private use is allowed on certain days, such as weekends, you can have a partial exemption. You have to pay FBT for those days the vehicle is available for private use.



TAX CALENDAR

May 31

Deadline for
Fringe Benefit Tax Return
normally due 20 April

June 7

3rd Instalment 2005
Provisional Tax
(June Balance Date)

July 7

1st Instalment 2006
Provisional Tax
(March Balance Date)

August 7

2nd Instalment of 2006
Provisional Tax
(December Balance Date)

Why Trust a Trust?

HERE is a list of reasons why you might want a family trust.

- To protect your personal wealth.
- To protect your partner if you need long-term care. Your assets could be sold to pay for this.
- To protect your children from the financial consequences of their forming a bad relationship.
- In case a government reintroduces estate duty.
- To allocate income to family members who are on low tax rates.