

# RayneWright

accounting

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taxation

RayneWright Accounting Limited  
Member Institute of CHARTERED Accountants of NZ

## Newsletter

Autumn 2010

### Get ready now for year end

IT'S time to check you have done everything possible to save tax before the year end.

#### New clients

- If you have not already done so, see us to discuss your accounting system. Clients who prepare work for us without consultation often run up unnecessarily big bills. The more compatible your accounts are with our systems, the more efficiently we can work with them.
- Did you know a 6.67% tax discount is available to sole traders and partnerships for their first year in business? It's not a wonderful present but it will probably beat anything you can get from a bank *and* it's tax free. See article *Early payment discount for new businesses* on page 3.

#### Use of Money Interest

You should have a fair idea of how your business has gone in the past year. If the answer is "up" *and* you could be liable for Use of Money Interest (UOMI), get some more money into IRD.

- The threshold for individuals to become liable to pay UOMI, unless they have estimated their tax, is \$50,000. This occurs at just over \$159,000 of income, assuming they have no pre-taxed income.
- The threshold for companies and trusts is still \$2500 of tax.

Businesses strapped for cash might prefer not to take this advice. The current UOMI rate is 8.91%. They might prefer to "borrow" from IRD right now and accept the interest. IRD now pays only 1.82% interest on overpaid tax, so significant overpayments are wasteful.

UOMI is tax deductible if it is incurred in the business. If it relates to shareholder salaries it is not tax deductible.

#### Bad debts

Write off bad debts *before year end*. Leave a trail to prove they were written off in time.

#### Company dividends

Tax credits attached to dividends fall from 33% to 30% from 1 April 2010. If you have company accumulated profits, it might be worth paying out dividends *before* 31 March 2010 to get the higher



credits, particularly if most of the shares are owned by a family trust. If we have not discussed this with you and you have sizeable accumulated profits in your company, call us.

#### Retentions

Do you have to wait for retentions to be paid to you? Any amount you have invoiced before 31 March but is not due for payment until after that date, can be held over, for income tax purposes, as income for the next year.

#### Stock

If your sales are less than \$1.3 million and your stock (inventory) holding at the end of the year cost you less than \$10,000, you do not need to count it. You can use the same stock value as last year.

You must keep records sufficient to show it was worth less than this amount. The best thing to do is to count the big items and note the rest are rats and mice. This shouldn't take much time. Keep a note of what you did.

Have a sale and dispose of dead stock now. If you don't, it must be valued at its *cost*, unless you can *prove* it has a lower market price. A guess is not acceptable. You have to find evidence to support the price. This can be difficult to find.

#### Plant and equipment

Any item you, or any related person, no longer intend to use, can be written off if the cost of disposal will exceed any amount you might get from its sale. You cannot write down equipment by any more than its depreciation rate.

Other suggestions:

- Do maintenance early and get the cost into the current year.
- Advance payments for travel are deductible when paid'
- Update your stock of stationery.

# Leasing premises

*THIS article is written with tenants in mind. If you are a landlord, you might also find it useful. This checklist is too long for one newsletter. We will therefore continue the list in our next issue. If you need an advance copy, please contact us.*

CHOOSING rental premises could be the biggest commercial decision a small business owner has to make. Getting your lease right can have a big impact on the profitability of your business.

Landlords talk of “gross rent” and “net rent”. Gross rent usually means tenants do not pay costs such as rates and insurance. Net rent means they do pay these costs.

Have a look at the following. You might think of more things to add. Write them down *now*.

## Length of lease

The longer your lease, the more control you have. Who wants to have their lease terminated, for whatever reason, once they have invested in wiring, partitioning, carpeting, painting, plumbing (in the case of a doctor or hairdresser) etc? Keep control by getting lots of rights of renewal. Then it is up to you when you want to move on. If three or six years is enough, you don't need to exercise your right of renewal. Don't be shy. One tenant insisted on a three-year lease and six rights of renewal – 21 years in total. Do not confuse this with rent reviews, where only the amount of rent gets looked at. You want to retain the right to opt out.

## Rent holiday

Landlords sometimes have to entice tenants with offers such as a rent-free period. There's no harm in asking. If you are moving premises, you're going to be in for some significant expenses.

## Arbitration clause

Most lease agreements will have an arbitration clause. Arbitration is a more formal (and therefore probably more expensive) process than an alternative called Alternative Disputes Resolution. ADR gets the parties arguing their own case before a neutral mediator. Asking for ADR might save you money later.

## Pendulum clause

You won't see many leases with pendulum clauses in them. When negotiating a rent review, a pendulum clause can promote fairness and might lead to an early agreement to the new rent, without the need for arbitration or ADR. It works like this.

If the parties go to arbitration or similar, the arbiter makes a decision on a fair rent. Then, the parties look at the rent figures being proposed by each of them. Whoever has the closer figure to that



which has been judged as fair, wins. His/her rental figure is the new rent. As you can see, if either party is greedy, they are likely to lose.

## Ratchet clause

Look for a clause saying the rent cannot go down. This is called a ratchet clause. What if the rental value falls? Put this on your list of items to be negotiated.

## Parking

A lease without car parks is more difficult to sell. If there are no car parks, the rent can be expected to be lower than for comparable premises. How safe is it for staff working late to get to their car park away from the premises?

## Insurance

You could be asked to pay insurance. If you agree to this, make sure you know what you are paying for. Is it indemnity on the building or full replacement? Will you also be required to pay for a loss of income insurance? Insurance premiums can vary considerably. If the landlord chooses the insurance company, premiums might be higher than the tenant's choice.

If there are other tenants in the building, make sure your share of the insurance premium is not paying for *their* business activity. For example, if another tenant is operating a joinery business on the premises and there is no approved fire wall between the joinery and other tenants, the whole building might be insured at the rate for joinery and this could be high.

It is normal for all tenants to pay outgoings on the basis of area occupied. This could be unfair to a low-risk tenant.

## Early payment discount for new businesses

NEW businesses can claim a 6.7% discount for paying their tax early.

1The discount applies only to sole traders or partnerships.

2The discount will *not be* taxable income.

3 The tax has to be paid by the last day of the taxpayer's financial year (for most firms this is 31 March).

4The 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).

## IRD no longer issuing tax tables

THE IRD has stopped issuing tax tables each year. You are expected to find them yourself at the department's website.

Be sure to diary each March to update PAYE deductions.

IRD says it will email you with any changes. If you don't use the internet or you don't check your emails regularly, you are going to have a problem.

Tax tables usually change on the 1<sup>st</sup> of April each year. If nothing else happens, the ACC rate goes up. In an election year you will often get a change starting from 1 October.

If you anticipate a problem because of the new IRD policy, please contact us and we will get the tables for you or tell you what deductions you should make.

### General comment:

If you don't keep up with technology your business is going to suffer. The internet is here to stay. You will increasingly be forced into using it.

## 30% of payments to IRD are botched

THE IRD says it receives 330,000 electronic payments each month and 67,000 of these are unsatisfactory. Add to this 14% of direct credits being mucked up and the department has reason to grizzle.

When making an electronic payment watch for the following:

Get the right tax period. If PAYE is paid on the 20<sup>th</sup> of March, the period end is February.

Put in the tax type.

IPS is the tax code for RWT deducted from interest. It is not RWT.

Use numbers for dates like 31/03/2010.

Maybe IRD will give us a little pat on the back for getting its message out!

## Long term care hits 7% at 65

SEVEN per cent of those aged over 65 are in long-term residential care. Most would be over 75. The odds of being one of them get higher as you get older.

Long-term care is expensive. Your assets will be used to pay for that care unless you have them in a family trust.

If you are interested in using family trusts, don't wait until it's too late. It's generally best to keep all your investments in your trust. Loss-making rental properties might be an exception.

Over time some clients get slack about who owns what. Assets pile up in their own name when they should have been owned by the trust. Then one of the couple has to go into long-term care and there is a scramble to see how much money (if any) can be rescued.

If you have a family trust, be vigilant and make sure all significant investments are put into the trust as they arise. Currently, if one of a couple has to have long-term care, the other can keep the home they live in, the car they use and \$95,000. That's not a lot is it?

## IN BRIEF

### Payroll giving

FROM 7 January 2010, employees have been able to pay tax-credit donations from their wages. These can be either on a regular basis or as one-off payments. The recipient could change every pay day. The employee receives the tax credit immediately instead of after year-end. If employees want to receive the tax credit, they are responsible for ensuring the recipient is an organisation approved to accept donations. A list of these is at [www.ird.govt.nz/donee-organisations](http://www.ird.govt.nz/donee-organisations). Employers do not have to provide a payroll giving service to their staff. Only those which file PAYE electronically are permitted to do so.

### Attracting attention

AN INSURANCE company put a bill board on the pavement outside its office. On one side it warned about tinsel on Christmas trees focusing sunlight and causing a fire. On the other side it warned the reader about leaving windows open on a hot night and risking burglary. They were giving away value and attracting attention.

## Systems - too important to ignore in business

BUSINESS is largely about systems. The more you develop your own and use them, the more money you will make. And what is wrong with wanting to make money?

We say, why be in business if this is not your aim?

Write down your systems and insist they be followed. When things go wrong, go to your written system and improve it or add to it. Get everyone ticking boxes or crossing out YES/NO for each item when checklists are being used. This should show your system is being followed.

Staff often resist change. It is uncomfortable for them. Given a chance many will slide back to doing things the way they have always done them. You might have to insist your systems be followed. The best way to achieve this is to get your staff to help in developing and changing them.

One system commonly ignored is a set script for sales staff. Many retail businesses could add to their bottom lines by using a script. Have you ever heard a McDonald's server forget to ask if you will have fries with that? That simple question undoubtedly adds to sales or profit.

By suggesting more sales, you are often doing your customer a favour. He/she goes out to buy some paint and arrives home to discover they have overlooked a paint scraper, sand paper, even a paint brush! Your staff need to follow a system to get those sales – and help your customers.

If you want to watch good selling in action, go in to Michael Hill Jewellers. Note how the sales person operates from the time a customer first looks at the stock in the shop. Observe what he/she says and does when approaching the customer.

If you want to know how the real Michael Hill magic works, read his first book *Hello – Michael Hill Jeweller*. You will find the steps at page 155. In 1994 he had a 12-step process. It has probably been updated several times since then.

Recently, I went to a really good restaurant. The waitress suggested we have some vegetables to supplement the main course (“because the portions, while not too small are likewise not big”). She made a couple of sales. When we finished eating, she handed everyone a menu, assuming we would want another course. This beats the lame “would you like to see the dessert menu”. Again, notice the system.

Many businesses, particularly in retail, could double their profits if they would only train their staff to follow a good system *and keep improving that system*.



### TAX CALENDAR

**April 7**

**2009 Terminal Tax  
(March balance date)**

**May 7**

**3rd Instalment 2010  
Provisional Tax  
(March balance date)  
GST for March 2010**

**May 28**

**1st Instalment 2010  
Provisional Tax  
(December balance date)  
GST for April 2010**

### Good business

**IT'S good business to:**

- **Be easily contactable.**
- **Having an 0800 number automatically divert calls to your cellphone is great for customers.**
- **Keep short the time it takes for customers to talk to a live person on the phone.**
- **Return calls and emails**

## Vehicle sign writing that worked

WE WERE following an electrician's vehicle in a queue of traffic and were taken by the sign-writing on it. Full marks for the following:

- His slogan is “We're on time or it's two hours free!”
- He uses an 0800 number. It's a nice one. 0800-ONTIME
- The sign-writing on their vehicle is eye-catching. The message looks like a headline in an advertisement. It is painted red on a white background and is prominently displayed.
- His services are in a bullet point list below this headline.

- The freephone number appears in big black letters at the bottom of the advertisement. This is where it should be. It is the final piece of information the customer needs.
- Right at the very top on the window you will see the company's name in the company colours. It is clear and easy to read but the marketing message comes to you first and the company name is second.

As I recorded this note into my dictating machine, the company vehicle kindly changed lanes and moved in front of me so I could read everything. Could they be any more helpful?