

RayneWright

accounting

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RayneWright Accounting Limited
Member Institute of CHARTERED Accountants of NZ

Newsletter

Winter 2010

Implications for businesses as GST rate rise looms

AT THE TIME of writing this newsletter, it seems fairly sure the Government will increase GST to 15% from 1 October.

The expected scenario is a top personal tax rate of 33%. In the year 2000 we also had a top personal tax rate of 33% but GST was 12.5%. Progress?

Start thinking about the repercussions for your business:

- If you are a retailer, you are going to have to reprice all stock.
- What about prices stated in advertisements?
- Are your accounting systems ready? Can you easily switch to the 15% rate when charging or invoicing?
- Think about the cut-off. Retail customers are going to want to be billed using the 12.5% rate where possible. This will apply particularly in the housing industry, where the amounts of money are large. How about cashflow? You are going to be paying more for your goods and the money owing to you (debtors) is going to be bigger. You are going to need to fund this.
- When the last GST increase occurred there was a rush to buy goods by 30 September and an unpleasant lull following the introduction of the new GST rate. What can you do, if anything, to combat this? Is it worth promoting your firm as holding GST at 12.5% until Christmas? You would be giving away a 2.5% discount.
- There will be some cross-over problems. For example issuing a credit note at the 12.5% rate after 30 September for goods purchased prior to 30 September. Can your system cope with two GST rates at once?
- What if you provide financial services? You are not going to be able to pass on the costs. This will affect your pricing.
- A client told us "One of the implications for us, is that we have many regular advertisers who pay



regularly through automatic payments. They get a discount for this, as it saves a lot of time chasing them for payment, and they have a commitment to advertise for a year. When the GST rise comes through, we will need to redo all the automatic payments to avoid being out of pocket 2.5%, or we might just wear the cost."

- If you are on a payments basis, you will need to make an adjustment for bills sent out before the change-over date. They will have 12.5% GST in them. You will need to be careful you don't find yourself paying 15% GST to the IRD when that money comes in. Those on an invoice basis will, generally, have no such problem.

Start planning now for an increase to 15% GST.

Advertising? Create FUD!

YOU CAN use fear to sell.

Think of the old Palmolive Gold advertisement – the consequences of having BO.

Create FUD Fear, Uncertainty and Doubt.

Do you have enough car insurance? What if you collided with a Rolls or Merc?

Get the idea?

Leasing premises - part two

LEASING premises is often the biggest decision a small business has to make. Getting your lease right will help save you from later regrets. Following on from our autumn issue, this article concludes the list of issues to think about when leasing premises.

Maintenance: Require the landlord to maintain the building in good repair.

Guarantees: If your business is a company, the landlord is likely to require your personal guarantee to pay the rent. If the landlord has struggled to rent the premises, you might be able to negotiate a limit on your risk to a maximum dollar amount or a maximum time.

Signs: Your lease should give you plenty of scope for putting up signs. You want to be as visible as possible. Get an undertaking to prevent other tenants putting up signs which might obscure yours.

Capitalising chattels: You could finance your set-up costs by getting the landlord to pay. The landlord would recover the cost in increased rent.

Burglary: Look around the premises and see where burglars could get in. You might want burglar alarms and a monitoring system as part of your package. Could a new, low building be attached to the one you are renting, making for easy access by burglars?

Appliances and climate control: Test everything to make sure it works, particularly air conditioning. Give them a good test over several hours. Check for health and safety risks.

Competing tenants: If you are a retailer, you might want an exclusive tenancy to prevent a competitor opening in the same building.

Default interest rate: If you can't pay the rent, you'll make the situation worse if you have agreed to a high default interest rate. Negotiate this downwards, just in case.

Demolition clause: Sometimes landlords want

the right to demolish and rebuild their premises when it suits them. They insert a "demolition clause". You could refuse the clause or require compensation. It is usually very expensive to move.

Elevators: If you are considering renting in a multi-storey building, check how long it takes to get from the ground floor to your office and vice versa, particularly at rush times.

GST: Does the rent include GST? Get a tax invoice. IRD requires everyone claiming GST to have a tax invoice to support the claim. One invoice can cover the whole lease period.

Nuisance: Look out for nuisances including noise, blocked access due to delivery trucks and bad odours within the vicinity.

Partial or total destruction of building: Avoid any obligation for rent of premises you could not use if the building is partly or fully destroyed. Should you insure for that likelihood?

Partitions, carpets: Internal fitments might not belong to the landlord. Do you have to buy these in addition to paying your rent?

Suitability: "No warranty or representation expressed or implied has been or is made by the landlord that the premises are now suitable or will remain suitable for adequate use by the tenant or that any use of the premises by the tenant will comply with the bylaws or ordinances or other requirements of any authority having jurisdiction." Is it safe to leave a clause such as this in your lease?

The Building Act 1991: Some leases make the tenant responsible for the costs of compliance with the Building Act. Is this acceptable to you?

Costs of preparing the lease document: Leases are often drawn up by the landlord's solicitors and the tenant pays. Could you ask for this cost to be shared?

Lawyer: Get your lawyer's advice before signing.

Persuading people to invest

WE WERE impressed by the following comments, which help show how some firms raising funds go about their task. We are indebted to BNZ economist Tony Alexander for these comments, which we quote:

"So what is the recipe then for getting in lots of money from relatively uninformed people with lump sums?

You need to get them to trust something about your company – front-person, logo, sponsorship etc. – and you need to convince them that not giving them your money somehow involves a "loss". In this case an opportunity cost. Oh, and one must not forget getting them to focus on the long term positive outcome rather than any thought of fluctuations along the way. So have a nice picture or video of a healthy looking couple walking along a beach with a small dog and grandchildren nearby. And use asset price graphs that extend for decades because the upward trend is what the eye sees and not the large percentage fluctuations along the way which get smaller and smaller in physical visible terms as each year brings another observation to add on."

Are you using 2011 tax tables for PAYE?

REMINDER: The rates for tax deductions changed at 1 April 2010. Inland Revenue expects you to get the new tax rates off the internet (see our autumn newsletter). You can also get the new tables by ringing the IRD and asking them to send the tables to you.

Don't let neighbours tap your network

AFTER talking about internet security with a client, we received the following article:

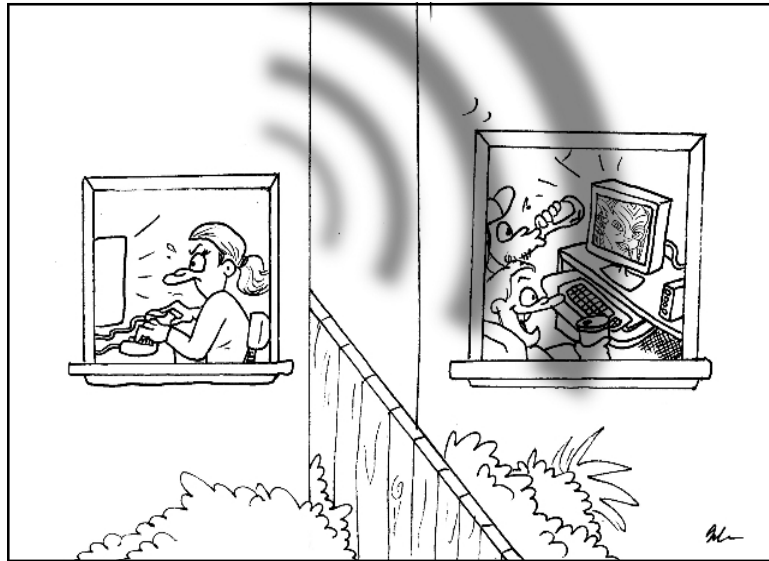
"I rebuilt my cousin's home network a couple of weeks ago. She had complained her family had used in a week more than the 5Gb cap in her contract with her internet supplier. They had never used that much before. After doubling her limit with her supplier, she then used another 7Gb in three days!

A year ago her partner had plugged in a new wireless router, which worked perfectly. It also worked perfectly for her neighbours, and had done from the start. Why? Because many routers have little security enabled.

She was providing a free internet connection for her neighbours, who were probably downloading large files, such as movies, and she was paying for the service. If they were to download illegal material, the police could track it to her, because it's her internet connection.

What did I do for her? I implemented security in depth.

- I turned WPA2 encryption on. WEP is weak -- don't use it.
- I made the password 20 characters long using UPPERCASE, lowercase, numb3rs and ch@ract3r\$. It will be changed every three months.



- Every device on a network needs an address – these can be issued either automatically (easy for any new device to connect to the network), or manually (difficult for a new device to connect). A new router goes with the easy option. By choosing the difficult option, I made it harder for her neighbours to connect.
- I set up the network so only six devices could exist on the network, cutting off any unwanted neighbourhood connections.
- I set up MAC address filtering so it would accept only 'known' devices.
- When you set your laptop or

PC to search for available networks, a list with network names, called the SSID, appears. By default they include the name of the router – a clue to hackers that other settings might be defaults and therefore an easy target. I changed the SSID to 'GoAwayNotFree' to indicate her network was going to be difficult to crack.

It will now be much harder to enter her network than the networks of her three neighbours."

We hope this article will help you understand how important it is to make a wireless network more secure. It will also help you to understand what your tech should be doing for you.

Reduce dependence on a few customers

IF YOU have one or two major customers and your business depends on them, take steps to reduce this dependence, if at all possible.

As a contractor or supplier, you have little influence on your customers' business decisions. Unless you have a solid contract, they can cut you loose any time they like.

Reducing your dependence on them is important because:

1The customer has too much negotiating power.

2You can spend a lot of time looking after

them and possibly losing money just to keep their business.

3If the customer's business becomes shaky, you could become just as vulnerable.

Look at ways of getting new customers (or getting old customers back – see 'How to stay in business', page 4), or of providing a service yourself. If, for example, you have been supplying components for your customer's computers, think about building and selling computers yourself. That way, you have more control over your business.

Trade Me traders and hobby collectors

A CLIENT came to us and asked if he would have to pay tax if he sold his coin collection on Trade Me.

He had collected coins for more than 40 years and for one reason or another he decided it was time to give up. He had very rarely sold and then only to allow him to improve his collection and buy something better. As he hadn't done anything with the collection for the last 10 years, he saw no point in keeping it.

We think this is a clear case where tax would **not** apply. Compare this with another client who regularly buys and sells postage stamps. Most years he makes a small profit and he always aims to do so. We think his gains are taxable.

IRD is after people who aim to make profits out of trading on the internet. If you sell things you don't want, like the coin collector; no problem. If you buy goods, with the intention to sell at a profit, the sale will be taxable income and the cost of the goods will be deductible against it.

IN BRIEF

Another example of WOW!

OUR client's plasma TV broke down. He asked the repair company if the job could be done quickly because his infant son was unwell. The one thing which kept him happy was watching DVDs. The repair firm pulled a real surprise. They provided another plasma TV and installed it. Our client was told he could continue to use it until his own set was repaired. Was our client impressed? Let's say he can't stop telling people about this amazing experience. If you want your customers to talk about you (in a good way), do something big and impressive. That's called WOW! It builds businesses.

You don't need to complete the IR 886

DO IT YOURSELF is a great Kiwi attribute, but not when it comes to tax. If you are going overseas and need to know whether you will become a non resident, ask us not the IRD. The department will probably give you an IR 886 form to complete to help it assess your residency. Completing it is not compulsory and is best avoided. Recently a tax consultant had three cases referred to him, where the taxpayers had filled in IR 886s and were told they were tax residents. He says: "In each case fortunately we were able to get IRD's position overridden and protect the taxpayer's position (and hard earned income)."

Print advertising checklist

IF YOU advertise in print, make a checklist of the things you should supply to the publication for your ad to be created.

It will comprise four main parts.

- Words: The things you want to say about your business, and your offer (discount etc). It should include contact details, such as phone numbers, address and email (if applicable), and web site.

- Images: A good photograph of your product, your store or even your people. Always supply a high resolution photo (don't just grab it off your

web site), even if it's for newspapers, which can't reproduce at high resolution. Newspapers can always reduce the resolution – they can't improve it.

- Logo: Ensure it is high resolution. Ask your designers for a copy if you had it created professionally.

- Branding elements: If you have corporate colours and a font you use regularly, let the publication know. In most cases, they will need to know the CMYK mix for the colours (not just PMS). Ask your designers if you're not sure.



TAX CALENDAR

May 28

1st Instalment of 2011
Provisional Tax
(December balance date)

May 31

Deadline for
Fringe Benefit Tax return

July 28

3rd instalment 2010
Provisional Tax
(June balance date)

August 28

1st instalment 2011
Provisional Tax
(March balance date)

Annual accounts and your bank

ONE of our big frustrations is banks which wait until bank statements are full before mailing them to clients.

We need to be able to verify your bank balance for all accounts at your balance date. If you do not have some bank statements, please get on to your bank now. While you are on the job, ask for bank statements to be sent to you at balance date every year from now on.