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THE Client Link

IN THIS NEWSLETTER 

DRESS FOR SUCCESS

If you think your attire is not important in business, think again.

POINTERS FOR QUOTING

There are five basic mistakes you can make when putting in your price for work or products..

NZ SUPER LEADS TO OVER TAXING

Are you receiving superannuation? If so you might be being over-taxed.

PROPERTY DEVELOPMENT

What you need to ensure when borrowing money for a development project.

BETTER SAFE THAN SORRY... ARE YOU PREPARED?

You may have noticed that Inland Revenue has been featuring in the media quite a bit lately. Reported to have received additional funding the IRD have recently employed another 100 auditors, which has resulted in a sharp increase in audit activity and now, more than ever before, individuals and businesses are at risk of being selected for a random audit, enquiry, investigation or review.

If your business or individual return is subjected to a random audit, enquiry, investigation or review you are responsible for the professional fees involved in us providing the required information. Even the simplest enquiry can require hours of work. In some cases, when there are complex environments, unusual circumstances, multiple years or multiple companies and trusts, thousands of dollars in accounting and legal fees can be incurred.

We have responded to this growing threat by finding you the most comprehensive tax audit insurance available and are pleased to offer to you and your business our Audit Shield Master Policy. The Audit Shield Master Policy is fully tax deductible for businesses and self-employed providing you with peace of mind in relation to audit, enquiry, investigation and review associated costs. The features of this are:

- Our accounting fees in responding to audits, enquiries, investigations and reviews of your lodged returns, including those from previous years are covered.
- Specialist's professional fees if we need to engage a tax expert or lawyer for an opinion or defence are covered.
- Cover commences from as little as \$255 pa (inc GST) for a sole trader or partnership.

Audit Shield Insurance is now becoming more commonplace and an accepted form of insurance along with other types of business insurance. It is not good timing to be making clients aware of this form of insurance with the current downturn in farming incomes nationally but you should be aware of its availability and consider it if not now, in the near future.

Recently speaking to an Accountant in a rural town, they advised that they recently had a client pay approximately \$40,000 in costs to them in respect of accounting fees arguing with the IRD. Often tax specialist assistance is sought, which is expensive.

IRD will often start with a 'Risk Review' of a taxpayers Financial Statements. Often IRD staff are inexperienced and have little, or no, knowledge of a client's business. One such IRD Risk Review of a dairy farming client included questions such as:

- Are there any closing milk solid stocks in anticipation of receiving any higher payouts/kg?
- I note National average market value was used to value closing stock in the Financial Accounts for 2012. If this was the average market value of the categories of stock why were the sales value per head of stock very much less than NAMV of the respective stocks?



Credit card etc 'Cash Backs'

We often see clients making business purchases on credit cards (including personal cards) to get points or cash back. These 'cash backs' can be taxable if they relate to businesses. They will not be taxable if they are, for instance, non-cash rewards (eg air travel) and non-transferable.

Shareholders Agreements

If you're working in a company in which you own shares, do you have an agreement with your co-shareholders? These are called shareholders' agreements.

A and B worked together in a panel-beating business. A died suddenly, leaving everything to his wife, so she became the new shareholder. B didn't like Mrs A and wanted to buy her out but they couldn't agree on a price. Mrs A took advice and became difficult to deal with.

Your shareholders' agreement should provide a way for shareholders to sell their shares if they want to get out of the business. Your solicitor will be able to list other things you should consider.

DRESS FOR THE PERCEPTION OF SUCCESS

If you think your attire is not important in business, think again. Perception, as they say, is everything. It's also said that first impressions count. So what's the perception your clients — and potential clients — get from your dress sense, and what first impressions do you convey?

What you wear, as much as what you say, will convey your business as trustworthy, efficient and friendly, or dodgy, sloppy and surly.

If you're a plumber, your clients are not going to expect you to arrive for work in a suit and tie. But they will expect you to be clean and tidy. That means you might need a second (or third) set of clean overalls if you've just finished a particularly messy job. If you're in the customer service business, such as sales or running a cafe, attire is even more important. Perceptions of your product and service will be determined as soon as a customer sets eyes on you. Take a look in the mirror and ask yourself what impression your clothes convey.

Expect the same standards from your staff and those who represent you.

A friend once employed a sales representative who seemed fine in the interview. Later, clients complained that he always wore a crumpled suit and simply smelled bad. He didn't last long with the firm because he was affecting not only sales, but also the image of the company.

Dress also for different situations and audiences.

Consider the Greek Prime Minister, Alexis Tsipras (above), who might sometimes wear a suit and tie, but he went to the do-or-die meeting about the Greek bailout wearing no tie. This was an important meeting, surely, and he was a head of state representing his country. But he was also negotiating the economic future of his country, which he knew would bring even more austerity measures for an already stressed population. He was not out to impress the other European leaders — he was making a statement to Greece. The statement was that he was also feeling the pain, and he wasn't going to be so callous as to wear a flash suit and tie.

Remember also that fashions change, and people's expectations change.

A suit and tie or conservative business skirt and blouse for professional business people might have been appropriate 10-15 years ago, but not necessarily now. People are more accepting of casual attire, but they will still take note of untidy, dirty or inappropriate attire. If it's casual, clean and tidy it will win the day.

If you're in the trades or customer service, branded clothing is important, too.

Firstly, it's another form of marketing, rather like sign writing on the company car or van. Secondly, it can resolve issues of staff dress. One local cafe owner was having difficulty getting staff to wear appropriate clothing to work. They had branded T-shirts, but would often arrive at work in torn jeans and/or jandals. The cafe solved the problem by providing trousers and skirts to match their tops, and implemented a dress code for footwear.

If you're not sure what you should be wearing, ask a well-dressed friend or colleague for advice. Consider also going to a reputable clothing store and simply asking the sales staff. Look for someone experienced who might be close to your age. Staff in the good stores are usually more than happy to help out.



TAX CALENDAR

August 28

1st instalment of 2016 Provisional tax if you pay three times a year (March balance dates)

September 28

2nd instalment 2016 Provisional tax (December balance dates)

October 28

1st instalment of 2016 Provisional tax for those who pay GST twice a year

November 30

1st instalment of 2016 Provisional tax (June balance dates)

SURPRISE FOR PROPERTY DEVELOPER

Spare a thought for Mr X who borrowed a large sum of money for a development project, which came unstuck. Five houses were built and all of them were sold to pay back the mortgage. Shortly afterwards, the company was put into liquidation. The liquidator argued that the sole company director had to pay GST, personally, to the IRD. He pointed to the Companies Act. You are not allowed to incur a debt when you know you can't pay it back. In this case, by selling the properties he incurred a debt to the IRD he knew he couldn't pay. He was therefore liable to pay it out of his own pocket.

What's the solution? When borrowing money for a development project, you would need an agreement that if there was a mortgagee sale the IRD would be paid first out of the proceeds. It might be hard to find anyone who would lend you money on this basis, but that's what you need.

NZ SUPER LEADS TO OVER-TAXING

People often continue working after receiving superannuation. By doing so, they make it legally their secondary job. When they retire there's no one to advise them it's time to change National Superannuation to a primary tax code. Result – they are over-taxed and never know it has happened because they don't need to put in a tax return. Typical cost is about \$1000 a year.

You might like to mention this risk to anyone you know who might be affected. Incidentally, there's no law which says you can't make National Super the primary source of income and switch the primary job to secondary. Do the arithmetic to see if it matters. Remember, you can go back four years to get refunds.



BRIEFLY

 **Ultra fast broadband**
Are you surprised when your ultra fast broadband service is not ultra fast? It might be because you have a low-cost computer. These computers can be slow to process modern programs and operating systems. You might also have insufficient ram. Check processing and ram capacity when you buy.

 **Calculating KiwiSaver**
KiwiSaver is calculated on all gross wages. This includes taxable allowances, bonuses, commission, extra salary, gratuity, overtime and final pays.

 **Fishing "goods"**
You may not claim GST on fishing quotas, coastal permits and certificates of compliance. They are not considered to be "goods".

 **What will they lose?**
BNZ economist Tony Alexander recently observed too many small business owners were reluctant to attend courses. He suggested the promoters should focus less on the "how to's" and more on what they'll lose by not attending. You can apply that principle to your marketing. Focus on the fear of failure or missing out. Fear is a powerful marketing tool. Don't hesitate to use it. And, by the way, the colour red denotes danger, so use that, too.

 **Asking for referrals**
Don't hesitate to ask for referrals for your business. How do you like this one from Flight Centre? "The highest compliment you can give us is the referral of a new client. Thank you in advance for your thoughtful recommendation."

TAX ON LUMP SUM PAYMENTS

There are fewer tricky tax calculations than calculating tax on lump sum payments. Overtime is not a lump sum. It just adds to the wages for that period.

The steps are:

- 1 Take gross wages for past four weeks and multiply by 13.
- 2 Add the lump sum.
- 3 Determine the annual tax rate. For example, if the total is \$49,000 the tax rate is 30% (being over the \$48,000 threshold). If the employee is using a secondary tax code, use that + ACC (see 4 below).
- 4 Add ACC, currently 1.45% for primary income up to salary limit of \$120,070.
- 5 Apply the resulting tax rate. In the example above it is 30% + 1.45% = 31.45%
- 6 Calculate student loan and KiwiSaver adjustments.

You may notice, using the example above, if the bonus were say \$5000, \$4000 of this falls below the \$48,000 threshold. This indicates, depending on what else happens during the remainder of the year, tax may have been overpaid and the employee would qualify for a refund. It pays for employees, who get bonuses, to check their tax situation at the end of each year.



POINTERS FOR QUOTING

There are five basic mistakes you can make when putting in your price for work or products. Some of the material for this article was found in business.co.nz. A couple of additional ideas have been added.

- 1 Spend your time quoting for only those jobs you have a reasonable chance of getting. Many clients of ours look at every job and then don't bother putting in a price for many of them. Why waste time going there, if you're not going to price the job?
- 2 Read the brief carefully. Do exactly what you're asked, otherwise don't quote.
- 3 Study your buyer. Their website is a good start. If you don't know them, they may be desperate to get your quote because they can't pay their bills. Check their credit rating.
- 4 Sell your firm's attributes. What can you do which is so special your firm should be chosen? Don't forget to send in references from customers who were delighted with your work. Blow your own trumpet. If you're great at what you do, tell them, but be specific. Generalised statements are useless.
- 5 Double-check your figures. Then proof read your quote. Is it clear and obvious what you are quoting for? You don't want an argument later. Make sure your terms and conditions are included. Every time you strike an argument with a customer, go back and rewrite your terms so that particular problem can't arise again. You should probably read through the quote three or four times before letting it go.

You'll find more hints for successful tendering on the Ministry of Business, Innovation and Employment's Procurement website. It includes videos of buyers talking about what they look for in tenders.