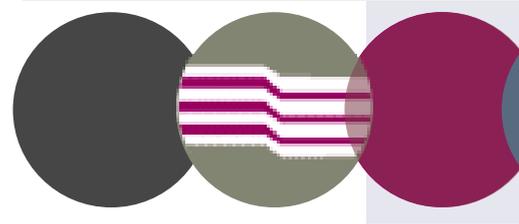




LYNCH & PARTNERS
 CHARTERED ACCOUNTANTS
 YOUR BUSINESS PARTNER

SUMMER 2017



THE Client Link

IN THIS NEWSLETTER 

HOW NOT TO DO BUSINESS

A reminder to fix problems before the customer strikes them.

THE 10 YEAR RULE FOR REAL ESTATE

A brief summary of the 10 year rule.

SAVE FRINGE BENEFIT TAX ON THE CAR

How you can save a significant amount of money.

DON'T GET CAUGHT BY PHISHERS

What to look out for and how to avoid getting caught out.

GET THE STAFF HIRING RIGHT

If your business is doing well and you can no longer do it all yourself, you need to hire staff. That's when the real work begins.

Hiring the right staff is what small businesses say is the one most difficult task – and one which can so often lead to problems. Potential staff might look good on paper and in person, and interview well, but you'll only know whether you've made the right decision when they begin to do the work.

Here are a few tips to help you get the right staff.

Do the checks. Too many companies in New Zealand don't check to see whether qualifications are genuine, or follow up with previous employers. The experience of those employers could be critical to your decisions. Three key questions to ask have to be:

1. Why did the employee leave?
2. Did you have any specific or general problems with their work, their behaviour or their attitude?
3. And perhaps most crucial, would you hire them again?

Identify the role and aim at getting the person with the right attitude (first and foremost) and skills for the job. Don't be side tracked by a good candidate who's not suited to the role you need to be filled. Consider experience, but also learning ability. Your company will always operate differently than someone else's, so a staff member's ability to learn how you do things is important. They are also more likely to use their initiative to suggest improvements in work practices. Include someone you trust in your interview team. If you can afford to hire a professional recruiter, you should do so. There are self-employed individuals, if you can find them, who would be happy to receive a fee.

As a business owner, your focus is going to be different than theirs. You will ultimately make the decision, but another person's perspective can often provide insights you might never think of. Whatever your business, if you're expanding it means a new staff member is going to be part of a team. The big companies always look for people who are able to work in a team. They also look for good written communication skills and an ability to solve problems. Whether you're hiring waiting staff for a cafe or an IT specialist, these qualities will matter.



HOW NOT TO DO BUSINESS

A business client recently had her wifi internet fail for no apparent reason. She rang her tele-communications provider and was incredulous to hear the response. "It's probably your modem." she was told. It seems this brand of modem has proved to be a problem, with several customers complaining about its reliability. Running a busy business which relies on the internet, our client was keen to get back up and running. "We'll send you a new modem by courier, which takes 2-4 working days," the provider's help desk man said. "You could try using a third-party modem in the meantime." She tried and that didn't work

The lesson here is something the provider should have considered. It now has a very unhappy customer who is close to renewing her internet contract. It's unlikely she will stay with this provider. So what should the provider have done? Knowing there's a problem with this brand of modem, it should have replaced every one of them, or at the least advised its customers a problem might occur. Bear in mind this provider supplies only businesses, not residential customers, so its response is even more unbelievable. Having reliable internet is a critical part of business in the 21st century.

If you have customers who rely on your products or services to conduct their business, ensure they get reliability. If you know there's a problem, fix it before the customer finds out. You're more likely to keep their business.

IRD PLEA: GET THE DETAILS CORRECT

Many electronic payments are being made with incorrect details. The correct methods are described on the IRD website. Use the following information for making electronic payments.

- Particulars: IRD number (if you have an 8-digit IRD number put a zero in front of the number)
- No punctuation is to appear on the IRD number Payee code: Account type and period (with a space), eg, IPS 31082017 or DED 15092017. Reference: Nothing is required.

Using correct details will stop incorrect statement of accounts or debt letters being issued in error.

PUT A SIGNATURE ON EVERY EMAIL

When you send an email, you can put a signature at the end of it. This can be set up so it always appears. Why would you want it?

- It can put in the name and address of your firm, telephone number etc.
- It can put in the URL for your website.
- It can include a mission statement or some advertising.
- It can include a logo or photograph.

When you create a new email message, you will be able to see a number of options in the header. One of them is called "signature". It is about two thirds the way along from the left. Right click on this and you should be able to set up a signature for yourself containing any of the above, plus anything else you can think of. An email signature always looks business-like and you can use it for free advertising.



Commercial buildings – splitting assets

When you buy a property, you can separate out items of commercial fit out for depreciation purposes. Along with the fitout one item often overlooked is depreciable land improvements like hardstanding areas, such as car parks, as separate assets. These hardstanding areas could just be base course. The diminishing value rate for car parking pads is 4% and the diminishing value rate for walkways, which could include curbing and channelling is 8%.

Backdated holiday pay

If you are back paying an employee or ex-employee for holiday pay, tax this as a lump sum. This includes a correction for underpaid holiday pay.

Resident Withholding Tax on interest – reminder

RWT must be deducted from interest payments when they exceed \$5,000 a year, unless the receiver has an exemption. This only applies to entities borrowing money which are carrying out a taxable activity. If a mother provides her son with a mortgage to buy a home, there is no need for the son to deduct RWT from payments to his mother. He's not using the money in a business. RWT is paid monthly. However, if the monthly payments are less than \$500 the taxpayer can register for six monthly remittances.

*IMPORTANT: This is not advice. Clients should not act solely on the basis of the material contained in **The Client Link**. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. **The Client Link** is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.*



TAX CALENDAR

Nov 28 2017

1st instalment of 2018 provisional tax
(June balance date)

January 15 2018

2nd instalment of 2018 provisional tax
(March balance date except for those who pay provisional tax twice a year).
Pay GST for period ended 30 November 2017

April 9 2016

Terminal tax for 2017
(March April, May and June balance dates)
For all clients except those who have lost their extension of time privilege

TAX IS NOT FOR THE DIYers

The following story indicates the folly of trying to prepare your own tax returns.

It involves a taxpayer who bought three properties. He paid costs for his business and his rental, plus personal costs, from personal credit cards and funds in a revolving credit account. He also put all his income into the revolving credit account. He mixed up his personal, his business and his rental income and expenditure. When it came to a claim for interest on money borrowed, he was unable to identify precisely how much had been borrowed to finance the rentals. As he couldn't prove the amount, Inland Revenue allowed none of the expense.

Believe it or not, in spite of his family trust owning one of the properties, he returned the rental income as his own income. To make things even worse he bought furniture, carpet, stove and other household items and couldn't show that these were actually bought for the rental properties. Inland Revenue had a field day. Don't let this happen to you. Let us deal with tax issues so you can claim all your entitlements and be compliant with tax laws.

SAVE FRINGE BENEFIT TAX ON THE CAR

Fringe benefit tax (FBT) is calculated at 20% of the cost of your car. There is a second choice which is 36% of its tax book value each year.

Whichever way you go, you will pay a lot of fringe benefit tax on an expensive car. However, if you're prepared to keep the car for a long time, you may switch your calculation method after five years. At this time, 36% of tax book value works out as a better proposition than 20% of the cost. You will find your FBT drops enormously. When you buy the car,

remember the more you pay for it the higher the FBT because FBT is based on cost. So when you are negotiating to buy, keep in mind you want as low a purchase price as possible. There's no sense in getting a big trade-in value and then paying more to purchase.

Similarly, if you're offered incentives, convert them to a reduction in the purchase price before you buy.

Small companies are now (from 1 April 2017) allowed to use a logbook instead of paying fringe benefit tax. See our spring 2016 newsletter.



BRIEFLY



Ceasing to let a rental property

You can claim expenses on your rental property so long as it's available for rental. If you want to sell the property or move into it yourself, the moment your tenant leaves the property it's no longer considered available for renting. Therefore, any expenses relating to the property, are no longer tax deductible. This includes major repairs caused by an unruly tenant. To be tax deductible, all repairs have to be done before the tenant leaves.



Payment of wages to spouse or partner

Inland Revenue has recently reminded accountants that employers who want to claim deductions for payments to a spouse or partner need to get approval before filing a tax return. Inland Revenue will not back-date their approval. If you are trading as a limited liability company, this does not apply.



IRD reminders

Inland Revenue has issued a reminder about student loans and Youtube. A student loan for borrowers returning from overseas becomes interest-free again after six months. If you know someone who is in this situation, get them to contact Inland Revenue. IRD also reminds people that income generated through YouTube can be taxable.



Written contracts are important

A Hamilton car dealer recently incurred fines and a liability for back-paid wages of \$65,000 for not having an employment agreement and imagining his staff were self-employed. He did two things wrong: firstly he didn't get advice about what constituted a contractor; and then he didn't have a written agreement. Don't make the same mistakes.

Smile, it's good for business

What do Winston Peters, Jacinda Ardern and Bill English (and John Key before him) have in common?

When they see a camera, they almost always smile. Smiling is most important when selling. And like all good sales people, politicians are constantly promoting their product.

Here's an example of a winning smile. Jane's father was dropping her off at school. She was nervous because today was public speaking day. She had prepared well but she needed to remember to smile. As her father wished her luck he said: "smile damn you, smile". She remembered these words as she got up to speak and a smile crossed her lips. She won.

A receptionist is said to have a nice manner on the telephone. People say it feels like she's smiling down the phone, and she probably is. Studies have shown people who smile when they're talking on the phone make a better impression.

If you're looking at changing a miserable face in your business, or elsewhere, give them a smile. Everybody in your firm should be smiling. Are you setting an example? Smiles make everybody around you comfortable.



DON'T GET CAUGHT BY PHISHERS

The dictionaries can hardly keep up with the words coming from new technology. One of them is phishing, which sounds like fun but is far from it.

Phishing is a scam that tries to trick you into providing personal online information such as passwords, bank details and payments to legitimate sources. Once the "phishers" have your details, they can steal your money, or even use your identity for their own gain – and your loss. Knowing how to spot a phishing expedition online will help ensure you're not caught.

Phishing is usually activated through a phony email. It often looks like it's coming from your bank or other trusted sources. It often suggests you need to reactivate your account, your account will be closed, or you need to claim a prize. With logos and corporate-style wording, it looks legitimate.

So how can you tell if it is?

- Firstly, don't trust emails from someone you don't know. If it's legitimate and important, they'll ring you.
- Banks rarely ask you to verify anything online.
- Many phishers don't have English as a first language, so look for poor spelling and grammar, and the quality of logos and other images.
- Look at the email address it's coming from. It might have a bank name in it, but often along with something else, for example, anzguest, or bnzinfo.
- If it's not addressed to you personally, ignore it.
- If you're asked to click to a website, beware. Look for https in the url – the 's' means it's secure. Just http is not secure, so don't go there. However, even https doesn't guarantee authenticity, so remain wary.
- If you do feel you've been caught because you've clicked through and provided details in good faith, notify the appropriate organisation, such as your bank, or shut down your browser, restart and change your relevant password immediately.



THE 10 YEAR RULE FOR REAL ESTATE

We thought it might be handy to summarise the 10 year rule. There are three classes of people involved in land type businesses for income tax purposes. They are developers, dealers in land and builders. The first two are not generally involved in building. If they buy an investment property and sit on it for at least 10 years, they can sell the property without incurring tax on the gain.

A builder is defined as someone who is in the business or **erecting** buildings. If a builder builds an investment property the 10 years runs from the date of completion. If a builder makes any reasonably significant improvements to any property owned by an associated entity then 10 years has to run from the date of completion of those improvements before it can be sold without incurring income tax.