

Wendy in Wonderland

WENDY was in to sign her GST return. "May I have a quick word with the boss?" she asked.

"I've been wondering if I could put myself on a wage and give myself a car as part of my salary package," she said. "At the moment I am only claiming for business use based on kilometres run every year."

"Yes you could. However, it's not that easy. I have to say it's a very good idea. Remember I suggested a company when we last spoke?"

I explained to Wendy she couldn't be an employee unless she formed a company and reminded her she couldn't form a company just to save tax but could do so to limit her business risks. The company could employ her and provide her with a car. She would have to have her business valued, another cost, and then sell it to the company, which would become liable for Fringe Benefit Tax (FBT) on the car.

Wendy explained she couldn't afford to spend much on a car and wanted a new one costing \$6000. She was delighted when I said FBT is based on the cost of the car and the annual amount she would have to pay would be about \$750. She was even more ecstatic when I told her the FBT paid is tax deductible so the true cost would be only about \$500 of tax per year (\$750 less tax deduction of 33 percent).

She then asked me: "When would I be better off not doing this company arrangement?"

I said: "It's a bit difficult to explain but, in a nutshell, if your car costs you, personally, more than \$20 a week (including depreciation) to run, at this point the company becomes the better choice."

"Since I'm so good at tax," she said, "maybe you would like to give me a job in your office. It would be far easier than standing doing people's hair all day."

Use of Money Interest Rates

These were last increased in November 2001.

IRD has just completed another review and has decided to increase them as from 8th March 2005.

Interest on underpayments of tax will now be 13.08% and on overpayments will be 5.71%.

Team Profile

Hi, I'm Barbara Dobson and have been fortunate to be working with the BRG Team for two years. I moved from Raetihi where I had been employed with an accounting firm for 19 years.

I am married to Jim and have 2 children and 5 grandchildren. In my spare time I enjoy my family, reading, gardening and crosswords.



BOP Sharemilker of the Year

We were very proud to be major local sponsors of this great competition. The awards night on Tuesday 22nd March was a really enjoyable evening.

Congratulations to the winners – Karen and Kelly Shaw from Pongakawa. They have entered this competition a number of times and were runners-up last year. A well deserved win! They will now go on to represent the Bay of Plenty region in the National Competition to be held in Hamilton in May. Good luck Karen and Kelly.

Congratulations also to Craig and Shelley Strawbridge. They were the convenors for this years competition and did a fantastic job.

We would like to encourage sharemilkers to think about entering this competition in the future. The experience gained by all entrants (winners or not) is invaluable for growing and improving your business.

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TAX CALENDAR

April 7
1st Instalment 2006
Provisional Tax
(December balance date)
Terminal Tax 2005
(March, April, May and
June balance dates)

Website: Check out
our revamped site:
www.busres.co.nz

Newsletter

MARCH 2005

Business planning basics

THE information you can put into a business plan is unlimited.

One of the benefits of writing down your plan is it clarifies your thinking. It forces you to be more specific about your rough and woolly ideas.

Visualise your business as you want it to become in, say, five years. If you can write this down clearly and can stay focused on it, you will improve your chance of success. I stress the word focus. Many people are undisciplined in business, so they never achieve real success.

Start your planning by thinking of your business under these six headings:-

1. **Products**

Can you specialise and become an expert in one aspect of your field? Pick something which others find difficult to achieve. You can charge more because you will have less competition: the greater the difficulty, the greater the reward. For example, a builder seeks out the most complex jobs from architects. He enjoys the challenge and seldom has to compete based on price. You'll find accountants specialising in liquidations and lawyers who do only workplace law.

2. **Customers**

Not everyone is a possible customer, especially for small businesses. A city plumber will service a restricted area because it will be uneconomical to travel from one end of the city to the other. Be selective. Your objective is to make a profit and a good one. Start by culling customers who are slow to pay their bills. You may have heard of the Pareto principle: 80% of your customers will provide only 20% of your income. Try to increase the 20% of big spenders. The smaller your market the more easily you can become well known in it.



3. **Equipment**

Make a list of the plant you will need. You do not need to buy all of it. See Finance, below.

4. **Premises**

Will you be working from home or have an office or factory? Will you have premises at several different locations? If you decide in five years' your business will be run from home, then plan suitable facilities, storage, etc, as part of your home. If you plan to open several shops, start thinking about their location and the best order for creating them.

5. **Staff**

Describe the staff you will need; it will help you in your selection process. Consider all the **functions** you will want carried out, group them and finally allocate the people. Do not start with the people, even if you already have a sizeable staff. Go for talent and attitude in your staff selection. Often staff are chosen on the basis of what they know - a big mistake. Anything which can be taught is less important than attitude. List the essential skills and then list those

which are desirable but not absolutely necessary. You should refer back to this part of your plan when engaging new staff.

6. **Finance**

List your finance requirements. Unless you can afford to pay for everything you need, consider all the ways you can think of to get funds. When the Body Shop started, the owner gave away a half shareholding in the business to establish her second shop - an enormous price to pay for finance! Outsourcing is often a useful way of using other people's equipment. You might also be solving an employment problem at the same time.

More money for your business

SMALL business owners are among the most lax when it comes to conserving cash. Why borrow money unless you really need to? Here are some easy ways to improve your cash flow.

Debtors (Accounts Receivable or Money owing to you)

Never give credit unless you need to. A vineyard received an order for some wine. They dispatched it with an invoice. They wrote on it "Please pay by the 20th of the month following date of invoice."

Why? They were very trusting giving credit at all. Payment by the 20th of the month following is merely a convention. Why not seven days? Why not by return mail?

Small businesses are notorious for not chasing their slow payers. No wonder they have bad debts. Get a system going for managing debtors and stick to it. Don't put off chasing bad payers. Every time you ring a customer note down the date and time. Nail down your customer to an agreement. If he says he will pay by the end of the month, check on the first of the following month and get on the phone right away if the payment has not been made. "You said..." can be the best way to shame the customer into letting you have your money.

You may lose an occasional customer by being tough on credit. Do you really want these customers anyway? Many bad payers actually cost you money because they take away valuable time which could be used to derive more income elsewhere.

- Don't give credit unless you have to.
- Do a credit check with a debt collector, if in doubt.
- Keep your credit terms as short as possible.
- Be systematic in pursuit of slow payers.
- Send your bills out as soon as you can.

Stock

Manage your stock. Getting deliveries "just in time" is cost-effective business.

Cull your stock. A client kept detailed records of her stock. In December 2004 she reviewed when everything had originally been put up for sale. Some of the stock had not moved since 2001.

If it is not moving, you should cut your losses and get rid of it. Have a sale, sell it on Trade Me. If it won't sell, why not give it away and claim the tax loss?

Some retailers pay for some of their stock when it is sold.

In furniture and appliance businesses, finance companies will fund stock using what is termed a Floor Plan. They supply money based on the value of stock on the shop floor.

Work in Progress

Contractors should always aim to get paid as the work progresses. Build progress payments into your contract and ensure the document is signed before you start. The more carefully you document what you are going to do, the less room there is for a misunderstanding. Avoid doing further work under the contract until the progress payment has been received.

Ask for a deposit. It demonstrates good faith on the part of the customer. You will be amazed how willing people are to pay a deposit.

Factoring

Bigger businesses may be able to sell their debts to a finance company and get their cash early. This is known as factoring.

Credit Card and Eftpos facility

Plastic cards are a convenient way to avoid giving credit. This service comes at a cost. If you are selling from a distance and wish to avoid this expense, like the vineyard mentioned above, why not ask for payment by internet or telephone banking?

Pity the Romans

WE take our numbers for granted but have you ever considered what the world was like before numbers?

Pity the poor Roman school kid. Imagine adding MCCCXXIV to MCCCXXIV. What's the answer? It is MMCCCCLXVIII, I think.

Now try 1234 + 1234. Unlike the Roman, you can get the answer in a flash.

Thank the Hindus for this and the Arabs for bringing these ideas back to Europe. 1,2,3,4,5,6,7,8,9 were thought up in about 500AD. The Hindus were also responsible for inventing zero.

This was an incredible concept because unlike the other numbers, which denoted things you could see, zero represented something you could not see. Zero was an amazing breakthrough. It enabled us to have the numbers 10, 100 and 1,000.

Fibonacci was the person responsible for starting the mathematical calculations we know today. In 1202 he wrote a book entitled *Liber Abaci*.

In it he explained how to use numbers to make calculations. You may also know him for his famous series of numbers derived by adding the last two numbers together. 1+1=2. 1+2=3. 2+3=5 and so on. The sequence goes 1,2,3,5,8,13,21,34,55,89...

We think we make dramatic progress in the 21st century. Can you imagine the enormous breakthroughs made circa 500AD and then in 1202?

We are indebted to Peter L Bernstein, who wrote *Against the Gods*, for this eye opener.

Quote from The Emyth Revisited

"PEOPLE who are exceptionally good in business aren't so because of what they know but because of the insatiable need to know more."

Keep learning!



TAX TRAPS

Commercial reality

DEVICES for minimising tax legally can still be upset by IRD. This is especially the case if your reason for a business decision is based primarily on tax saving. To minimise risks of a challenge from the IRD, be sure to have a good non-tax commercial reason to support your actions. Give your transaction as much commercial reality as you can.

If you want to pay yourself a low salary to avoid the 39 percent tax rate, as we suggested in our last issue, get an employment agency to evaluate your job. It could be wise to avoid selecting exactly \$60,000. If you do, don't leave the figure unchanged for years. Commercial reality normally has salaries increasing.

Rental property expenses

THE deductibility of expenditure relies on both a timing test and a relationship test to your taxable income earning activity. Clients who have rental properties typically incur expenditure on "repairs and maintenance" type expenses after a tenant has caused damage to a property or shortly before they intend to sell a property.

Be careful with your intention when the expenditure is incurred. Only expenditure incurred on a rental property **which is intended to be re-let** after the repairs have been completed, will be deductible. If you do not intend to re-let the property, your taxable income earning activity has stopped and you cannot claim any expenses.

Clients who rent their home must carry out any repairs **before the tenants move out**. It is no good claiming the tenant did the damage and trying to justify the cost as business related. If your tenant has gone you cannot comply with the timing test.

Your annual accounts

HERE is a checklist of things to do before your balance date:

Bad Debts

Write off bad debts before this deadline. Record the date so you could demonstrate to IRD when you did the write-offs.

Provisional Tax

If your taxable income (you and your company, if you have one, combined) is likely to exceed \$112,000, you may need to increase your provisional tax payment to minimise IRD interest.

If you have a company and expect to leave a profit in excess of \$7550 in it, after allowing for your wages, review your provisional tax payments for the

company now, or risk Use of Money Interest charges.

Stock on hand

If your stock is worth more than \$5000 you will have to count it at balance date. Get rid of dead stock before this time or you will need to include it at cost.

Dividends

If most of your company shares are owned by your family trust, pay a dividend before March 31 so it can be distributed to beneficiaries in their 2005 tax year.

Bonuses

You have 63 working days from balance date to **pay** staff bonuses, to claim a deduction in your 2005 accounts.

•IN BRIEF

Having difficulty finding good staff?

REMEMBER, your staff socialise and are likely to mix with people similar to themselves. Why not offer an incentive for them to attract a new person to your firm? We have heard of payments as high as \$5000. If you compare this with employment agency fees, it is a bargain. Include a condition that the employee stays with the firm for a minimum period.

Office Hours

We are currently having a new computer system installed. To minimise the disruption to our team we have decided to close the office on Thursday 24th March. We will use that day as a team building day. We usually close the office on the Tuesday following Easter (29th March). Both of these days will be used by the computer technicians to get the new hardware up and running. If you need to drop anything off to us on these two days we have arranged for Century 21 (next door) to act as a drop off point.

Other

Other ways to reduce 2005 tax are:

- Sell equipment likely to make a loss on sale, before balance date in preference to after.
- Better to buy new equipment before year end if you want to claim depreciation on it. (If you buy in the last month only one month's depreciation can be claimed.)
- Buy travel before year end.
- Do maintenance early.

Imputation Credit Account

Ensure tax credits attached to dividends have not exceeded tax paid by the company. Reduce the risk by paying year end tax due on April 7 by March 31.