Taylor associates
CHARTERED ACCOUNTANTS

Newsletter
January 2010

Editorial

Hi,

Happy New Year and welcome to our first newsletter for 2010.

We are back into it after a great summer break. There has been a recent amount of media coverage over the last couple of weeks, regarding prospective changes to the tax system.

At the moment, we do not know exactly how it will pan out and there is a lot of conjecture out there as to what direction will be taken. As soon as we do know what direction is going to be taken, we will ensure that you are kept abreast of the changes and how they might impact you.

Also, we are moving offices on the 5th of February. We love our current premises, but have outgrown them and are heading to level 5 56 Victoria Street. The building is next to Chews Lane and opposite the library. Our telephone numbers and PO Box address remain unchanged.

I am also proud to announce that two of our team, Hayden Burgess and Tom Naylor, recently passed their professional exams and are now entitled to become fully qualified members of the Institute of Chartered Accountants. This is a great achievement, as the pass mark is set at a very high standard.

That is it from me for now – enjoy the newsletter.

Cheers,
Todrick

Our New Premises

As from Monday 8th February 2010 we will be situated at Level 5, 56 Victoria Street Wellington. Our telephone numbers will remain the same and so will our postal address.

Consultants - use engagement letters to state terms

A CONSULTANT asked what he should do about a client who didn't turn up for an appointment. It was away from our client's office and caused him to lose an hour's income plus travel.

Should he charge? Would this upset the customer? Unfortunately, he was trying to close the stable door after the horse had bolted. These issues need to be sorted out in advance. If you consult for a living, tell your clients your terms by using what we call an engagement letter. Write to your clients and set out those terms.

Include some of these:

- Don't be too formal – consider your reader.
- Tell your readers what you want them to do.
- State your conclusion

Then, if the client doesn't show up, you can refer to your engagement letter and send a bill. You could, of course, soften the blow by reducing the charge – some money is better than none. If the customer is a big one, you could write and refer to your terms, explain you lose money when someone doesn't appear, and request appointments be kept in future.

Update and improve your engagement letter whenever you find a gap in it. Get new ones signed, regularly – say every two or three years.

Don't blame people – fix the system

AN EMPLOYEE omitted a $10,000 subcontractor from a quote. The quote had been accepted. He went to his boss and confessed.

"What can you do in future to ensure you never make this mistake again?" said the boss.

They worked out a system to follow.

"I thought you would be furious with me," said the staff member. "There's a loss on this job because of me." The boss responded. "I'd have been much more concerned if you had tried to hide the error. Now I feel I can trust you."

This is a small/medium size business. The story is true and illustrates these points:

Employers should never look for someone to blame. What does it achieve? A resentful employee?
Put the system right. The employee should be making the suggestions about how this should be done.

Record important discussions

KEEP a record of important business discussions. For example, a builder had a dispute with his electrician. The argument ended in court. The builder took careful notes of discussions and used them as evidence. Make a record of what the other party said. If you can remember the actual words, record you have quoted actual words. Write your notes as quickly as possible after the event.

State the date and time of the discussion and the date and time you wrote them. The closer the time of recording to the actual event, the more likely it is you have kept an accurate record.

Learn from others to improve your business

NO magic potion has been invented to make businesses successful. Luck is seldom a factor.

If you want to make your business more profitable, learn from others. Here are some things you can do:

1. Start by getting the reading habit. Pick interesting books and magazines. Years ago I read *Hello, Michael Hill Jeweller*. It is an autobiography. It tells the reader what Michael Hill did to become successful. You can use some of his ideas. The one I remember is his message to write all your good ideas down immediately; a small idea which makes a big difference.

2. Get business CDs you can play in your car or digital files for your MP3 player.

3. Go to seminars and courses. Chambers of Commerce are great places for these. Be wary of the big-hype seminars out to enrol you in an expensive course. They are unlikely to reveal the number of people who have done their courses, without a significant improvement in their business.

4. Buy DVDs or download digital files to play at home.

You are likely to have already learned the skill on which your business is based. Now do the other half. Put as much work into learning about business.

Warning: Formal business courses can take up a lot of your time. They are often not well targeted at small businesses. Before enrolling, check out the detail of the course. Could you get more value for your time by doing the four things listed above?

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Cheap rental for family

IF YOU supply cheap rental to a member of your family, don't claim any tax losses. It could be seen by IRD as tax avoidance.   Sometimes the family member may earn the cheaper rental by agreeing to maintain the property, mow the lawns etc, in which case a loss can be claimed so long as the net effect is still to achieve a market rental.

Bills from ACC

ALWAYS check your ACC bills. You can be overcharged because:

- ACC is classifying your type of work wrongly.
- Your earned income, in total, takes you over the upper limit and ACC has not recognised this. This error is quite common. One way it happens is when a person is drawing PAYE wages and getting a non PAYE salary from their company.
- ACC has been supplied with, or picked up, the wrong income figure.

Pay from business account

MAKE life simple. Always pay business bills out of your business account. If you are short of money, make a loan to your business so it can pay the bills. Bank the loan separately. Tell us which lodgements are your loans so we do not accidentally include them as income.

If all expenses are paid through the business account, it helps us to get your accounts right and we can expect you have claimed your full entitlement of GST.

Company vehicle, private use and FBT

An employer can require a work-related vehicle to be taken home by an employee, but this doesn't confer any right to use it for private running, apart from travelling home and back to work. Again, this doesn't apply to cars. If they go home, FBT applies.

If you own the business and want to restrict your private use, we recommend a directors' minute approving the arrangement. If your spouse is also a director, he/she should sign the letter authorising the partial use, rather than you authorising it for yourself.

Constitution for your company worth considering

CLUBS have constitutions setting out the objects of the organisation and its rules. Companies can do the same.

One-person companies have nothing to gain from having one. However, where a company has two or more shareholders a constitution could be useful. It could have several uses, including:

- Restrict share transfers. You would not like your business partner to sell to someone you couldn't work with.
- Protect a minority shareholder. A company owned a commercial property and had about 10 shareholders. As each died or wanted to get their money out, the tenant bought the shares. Once the tenant got more than 50% of the shares, it had control over setting the rent, paying dividends etc. That is not an enviable situation for a minority shareholder.

A company can also have a shareholders' agreement, which can achieve a similar result.

False economy in do-it-yourself

SOMETIMES it is tempting to take informal advice or trust your own knowledge when it comes to tax – usually to save money. It is often false economy, as the following examples illustrate.

The first involves a widow, who with her deceased husband had owned two properties – a rental and their home. Both properties had mortgages over them. Since there was some cash arising from her husband's estate, the bank recommended this be used to pay off the mortgage over the rental property. It is the wrong tax choice.

The woman's solicitor accepted the client's instructions without raising a question. She now pays non tax deductible interest on her home whereas she could have been paying tax deductible interest on the rental property.

The second example is with share transfers. Three things can go wrong with tax when putting through a share transfer:

1. You can lose the right to carry forward company losses.

2. You can lose the right to attach tax credits to company dividends. These tax credits are known as imputation credits. Losing them is very serious because the shareholders will have to pay the tax a second time on the same income when they receive the dividends from the company.

3. You can lose qualifying company status if you fail to notify Inland Revenue correctly within 63 days of the share transfer. This can make a difference if you want to retain the right to distribute company losses to shareholders.

Recently, a client who owned half the shares in a company acquired the other 50% to take over 100% ownership. Disaster! Fortunately he had not done the job correctly and we were able to recover the situation for him.

Changing shareholding is not a task for do-it-yourselfers. The lesson is, if tax issues arise, please consult us. first, before a mistake becomes costly.

Proposal allows Aussie super fund transfers

IF YOU have spent time working in Australia, this article should interest you.

A memorandum of understanding has been signed between the Australian and New Zealand governments. It allows for a transfer of certain Australian superannuation fund contributions back to New Zealand.

Previously, New Zealanders working in Australia and making compulsory contributions to a superannuation scheme could not get their money back. The proposal is for these super contributions to be paid into a Kiwisaver fund. The change is expected to be made by mid 2010.

Similarly, Kiwisaver funds will be transferable to Australia. If you migrate to Australia, you will no longer be able to withdraw your Kiwisaver funds in cash. However, you will keep the government's contribution. Previously, it would have been lost.

Tax Calendar

January 15 2010

2nd instalment of 2010 Provisional Tax
(March Balance date except for those who pay provisional tax twice a year)
Pay GST for period ended 30 November 2009

April 7 2010

Terminal Tax for 2009
(March April, May and June Balance dates)

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