

Editorial

Welcome to our newsletter for the quarter beginning July 2005. It has been a busy three months for us here at Taylor Associates.

We have been interpreting the budget of 2005 and like most of you, are wondering why they even bothered to give any form of tax break. However, one issue that has come out of the budget is the focus the IRD is going to give to Fringe Benefit Tax, in particular FBT on motor vehicles and the use of 9 to 5 leases as an example. We are tracking this closely and will liaise with those clients potentially affected when we have a full understanding of how the IRD is going to approach this issue.

We have shifted and settled into our new premises, which are great – you are welcome to pop and see us at anytime. There is pay and display parking in Alpha Street (just off Cambridge Terrace and opposite our offices) for \$1 per hour. We do realise that we may be a bit off the beaten track for some of our central city clients. With this in mind we have retained a meeting room at our old location and are more than happy to meet with you there if that is more convenient for you.

We are also very busy working on 2005 tax returns and you will be contacted in the month your work has been scheduled, so that you can arrange to bring your information in and meet with us.

Please enjoy the newsletter and if you wish to discuss anything in the newsletter then please don't hesitate to call any one in the team at Taylor Associates.

Cheers,
Todrick Taylor

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Why don't you take the risk?

ONE thing which makes for a reluctant buyer is the fear of loss. If you can take this risk instead of the customer, you will increase your chance of making a sale. You can make buying less risky by:

1. Providing a free sample

Try before you buy.

2. Guarantee

A money-back guarantee says "I'll take the risk". You will find there are very few occasions you are called upon to honour this. The gain in additional sales can be expected to outweigh the costs of the guarantee many times over. Some stores even offer double your money back! If you want to use a money-back guarantee, make sure your offer is convincing. A customer was in Starbucks. She wanted to take home a sample of a coffee she had not tasted previously. She happened to mention she did not like the last lot of coffee she had bought. Immediately, the Starbucks assistant told her there would be no charge for this 100gm pack. Here is a genuine money-back guarantee. A customer bought some computer software and asked for a six-month guarantee. The supplier cut the time back to three months. Why? Didn't he have any confidence in his product? Did he want to send a message "We're a mean firm?" He succeeded.

3. If you can buy cheaper elsewhere, tell us and we'll match the price.

The customer is guaranteed the best price.

Contact Us

Please use the following information to get in touch, should you have any enquiries:

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Why compete on price?

A CLIENT tells this story.

"I was at a party. I happened to be sitting next to a neighbour who is a builder. He knew I had just bought a section and was drawing up house plans. He wanted an opportunity to tender for the contract.

"I told him I thought it was important to have a good plumber and asked him which firm he used. His response was as follows:

'I use XYZ. Their price is high but I cannot run a contract using an unreliable plumber. He has four people in his firm, all of whom are qualified tradesmen. In any event, everything is pressure-tested these days.'

"I shall be calling for three tenders to build the house. My builder neighbour uses some sophisticated modern technology, so he is likely to be one of them. Will I choose the lowest price? Bearing in mind the size of my investment, I am certainly going to be choosy about who I ask to tender. This automatically eliminates the lowest price. After that, it is going to be price, reputation and an ability to convince me about quality. This investment is far too important to decide on the basis of price alone."

Keep your personal bank records

TAX inspectors are entitled to investigate your personal transactions. You have no obligation to keep any records but you do have to prove you are innocent of any wrong-doing if called upon to do so.

We recommend people keep good records of personal income and expenditure so these could be produced if your business is ever subjected to a tax audit. If you do not keep this information, the IRD can get it from your bank **at your expense**. Bank services of this nature do not usually come cheaply.

Losing interest deductibility

A LAWYER borrowed \$100,000 to lend to his partnership practice and claimed the interest paid as a tax deduction against the interest received from the practice. He sold his home, repaid the \$100,000 loan and rented until his new house was built. He then borrowed to pay for the new house. None of the interest was tax deductible because it was incurred to buy his personal residence. The lawyer needed to avoid repaying the \$100,000 he had borrowed, to maintain interest deductibility.

A similar situation often arises when a client wants to buy a new home and retain the old one for renting. Interest on money borrowed for the new home is not tax deductible, even though the loan enables the renter to retain the first residence. Always look **directly** at how the money has been used.

Some clients will sell their old home to a family trust and raise a loan for the trust to buy the house. If this is done to get a tax deduction for interest, it could be seen as tax avoidance. The interest claim would then not be acceptable to Inland Revenue. However, the transfer of personal assets to a family trust is usually acceptable because the main reason for the transfer is asset protection, rather than tax avoidance.

If you consider transferring a property, in these circumstances to a company, be sure you have a good non-tax reason for your decision.

Referral card

Have you ever seen a business card which is also a referral card? The referrer writes the prospective customer's name, address and contact details on the back of the card, together with the referrer's name, and sends it to the supplier. The supplier gives a reward for each successful referral.

Company savings accounts

IF you keep your savings in your company, you risk losing them if your company fails.

The prime reason for having a company is to protect your wealth. So if the company has surplus cash, try to find a reason to transfer it to yourself. One common way is to repay debt to you. The amount the company owes you at year end is shown in your company's Balance Sheet (Statement of Financial Position). If the company does not owe you much money, consult with us before withdrawing the funds.

What is a work-related vehicle?

WE thought it would be useful to remind clients what a work-related vehicle is. A vehicle qualifies for a work-related vehicle exemption so long as:

1. It is not designed for carrying passengers, unless it is a taxi.
2. The employer's business identification must be permanently and prominently displayed on the exterior of the vehicle. Removable signs are not sufficient and neither is sign-writing on a removable part of a vehicle (such as a spare wheel cover).
3. The employer notifies the employee **in writing** that the private use of the vehicle is limited to travel between home and work. You can find a form in the FBT booklet IRD 409 or call us.
4. The employer records checks carried out at least quarterly on each vehicle to ensure the restriction is being adhered to.

Partial exemption

If a work-related vehicle meets these four conditions, is not available for private use most of the week, but some private use is allowed on certain days, such as weekends, you can have a partial exemption. You have to pay FBT for those days the vehicle is available for private use.

Stop and Ask

DON'T rush into new projects without checking the tax implications. A client and his friend discovered a valuable property which was under-priced and bought it. The property has been registered in their names as partners. The client now wishes he had thought of putting it in a family trust.

A client bought a new home. He could have arranged for his company to borrow money, repay its debt to him, personally, and thus make the interest tax deductible. The cost of the oversight is several thousand dollars a year.

It pays to check with us before making major financial decisions.

New businesses to get early payment discount

IF you know anyone about to start in business, they might be glad to know the Government is prepared to reward them for paying their tax early. From 1 April 2005, new businesses will be able to claim a 6.7 percent discount for paying their tax early.

Here are the rules:

1. The discount applies only to sole traders or partnerships.
2. The discount will not be taxable income.
3. The tax has to be paid by the last day of the taxpayer's financial year.
4. The income must be predominantly from business.
5. The maximum amount on which the interest is paid is 105% of the final tax (known as Residual Income Tax).
6. Anyone restarting in business will not get the discount for a second time, unless there has been a gap of four years after the last year for which an interest payment was received.
7. Existing businesses can get the discount if they have never had to pay provisional tax.

Why trust a trust?

HERE is a list of reasons why you might want a family trust.

- To protect your personal wealth.
- To protect your partner if you need long-term care. Your assets could be sold to pay for this.
- To protect your children from the financial consequences of their forming a bad relationship.
- In case a government reintroduces estate duty.
- To allocate income to family members who are on low tax rates.

Paid parental leave

JUST a reminder you can claim paid parental leave provided you have worked for the same employer for the immediately preceding six months before the **expected** date of delivery of a child and have worked an average of 10 hours per week (including at least one hour in every week or at least 40 hours in every month). Paid parental leave has been increased to 13 weeks from 1 December 2004 and will become 14 weeks from 1 December 2005.

Teachers and doctors are able to treat multiple employers as one.

IRD cheques - there's a sting in the tale

IRD will penalise you with Use of Money Interest calculated at about 13 percent a year if you bank a cheque you are not entitled to. So if you receive a refund, check you are entitled to it before you bank it. A client recently received two refund cheques instead of one. Wisely, he tore up the second cheque. If the refund is paid into your bank account when it should not have been, be sure to check it out and refund the money as soon as possible after you discover the error.