

Editorial

As I write this editorial I am onto my fifth double shot short black espresso – part of my efforts to keep awake whilst the budget is being read by Dr Cullen.

As I listen, admittedly in somewhat of a caffeine crazed state, my prayers for something meaningful in this Budget for the taxpayers and businesses of New Zealand -something that would stimulate this country to become a better place to live - seem to have gone unanswered. Dr Cullen and his merry band have not come to the party with tax relief for workers or businesses, or anything else that will help stimulate business when we need it the most – as the economy hits a down period. Bill Clinton's reminder to his campaign team before the 1992 election – that "it's the economy stupid" – remains as valid then as it is today, but, judging by this budget, I don't think Dr Cullen would agree. Now please don't see the above as a political statement - just an observation!

Having said the above it's not all doom and gloom - the Hurricanes have done us proud and there's summer to look forward too, and hopefully one of Wellington's better winters.

Family Assistance

I want to draw your attention to the family assistance package currently on offer. We have posted on the website under 'Useful Links,' a link to the IRD Family Assistance calculator. If you find that you qualify, then you can either get fortnightly payments from now on, or apply for it as a lump sum at the time your 2007 tax returns are prepared.

New legislation

A bill before Parliament bringing in new rules for the accounting for income on overseas investments is about to be passed into law. The shape of this bill has changed many times since it was initially introduced and at this stage we are not fully sure of how it will all eventually work. But please be assured that we will be fully researching the rules once they become clear, and we will advise those clients who may be impacted as soon as practical.

Some of you will also be aware of the new legislation eliminating 9 to 5 leases. We are also looking at viable alternatives and will likewise contact those affected as soon we can.

Staff news

Tala Staples, our accountant from the Ukraine, has decided that she is going to live in a lifestyle block at the top of the south island and left us on the 26th May. We wish her the very best of luck. We are in the process of recruiting someone to take her spot and will let you know who the lucky person is.

Please join me in welcoming Rowena Maravilla to Taylor Associates. Whilst Rowena has joined us in the role of graduate, she is in fact a very experienced accountant who recently moved to New Zealand from the Philippines. We were very impressed with Rowena when we interviewed her and hope you will be too. You can find out a bit more about Rowena under the "Our People" tab on this site.

Finding the right admin staff - How we can help

I would like to tell you about a service we provide for our clients that you may not be aware of.

I have an excellent office manager, Gail Leighton, and know the importance to any successful business of having such a person, and how hard it can be finding the right person for this vital position.

Some of our clients have faced such a dilemma and have used Gail's expertise to help recruit a new office manager.

Gail has drawn up a job description for the sort of person the business should have, looked after advertisements, gone through the CV's to pick out the best candidates for the specific business, conducted initial interviews with them, and then made a recommendation to the business owners, who conduct final assessments and make the final choice.

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Editorial continued...

Clients have found that using Gail in this way has freed them up to focus on other things, while safe in the knowledge that their recruitment needs are being looked after by a person who really knows what she is looking for on behalf of the business. If you need assistance recruiting an office manager or admin staff, or are not even sure if you need them, then please be sure to call Gail – she'll look after you.

Finally...

Just because the Budget seemed short of long term goals and vision, doesn't mean that your favourite accountants are following suit.

We have set ourselves some goals for the 2006/2007 tax year and these centre around quality of service, advice, and presentation along with timely turnaround and completion of financial statements and tax returns. If you believe we haven't performed in these areas then please don't be afraid to let us know so we can strive to improve and ensure we give you a fantastic experience when you deal with Taylor Associates.

Until next time,
Todrick

References

A SOFTWARE supplier says: "Ask for a **full** list of our customers so **you** can choose who you talk to about our products". Could anyone ask for better reassurance than this? Just make sure you ask your customers first if you can use their names! When checking out a supplier, contact customers who have used the product or service for a few years.

This is particularly relevant when buying a franchise. Pick the franchisees who have been in the business for some time. They are best qualified to report to you.

Adjusting your payments

THE provision of food or drink to staff or customers is usually an entertainment cost. Exceptions exist and they are very specific. Make sure you show these costs separately. If you disguise them by calling them General Expenses, Administration Costs, or similar, you could be charged with tax evasion.

A moving experience

A CLIENT was moving house. When the removal men arrived, they greeted the owners, shook hands and introduced themselves. They asked the owners for their names so they could use them when asking where to put the furniture. When they left they shook hands again and said goodbye. The supervisor asked: "Have the boys said goodbye to you?" The customers felt they were dealing with a team which enjoyed and was proud of its work. Surprise! They are telling all their friends.

Bank statements

MOST banks seem reluctant to send a statement until they can fill all the lines on the statement. If you have a loan we need this information up to the end of each financial year. You should tell your bank to send a statement at the end of each financial year for all loans. You also have to declare all your income, so make sure you get statements showing the interest you have earned. Beware bank printouts, which are often prepared up to the time you ask for the information and can be almost useless for us.

...and beside your bed

KEEP a pen and pad of paper beside your bed to write down those good ideas. You'll lose them if you don't. We've said this before. We heard recently that Fats Domino has a piano beside his bed! Why do you think that is?

Flu Pandemic and your business

TWO hundred million birds have died of the H5N1 virus (you wonder who might have counted them all)!

At the time of writing, about 100 people have died from this virus, which has passed from birds to humans.

H5N1 – which was discovered in 1997 – kills more than half the people who contract the disease.

Ordinary flu constantly mutates, changing its genetic structure. This keeps researchers in business as they look for its weakness and develop vaccines. It explains why the elderly need their vaccinations every year.

In 1918 there was a flu pandemic, leading to millions of deaths. Scientists and doctors fear the same is going to happen with H5N1.

How does it affect us?

The odds are the first flu pandemic will develop in the northern hemisphere. As we know, flu usually strikes in winter, so it is reassuring we've now got through the northern winter safely. However, there is no reason why it should not spread during summer.

During the flu pandemic of 1918 aircraft did not travel across the world, so the disease spread relatively slowly via people travelling by sea. A pandemic in modern times would have the potential to spread much faster because of the ease of international travel.

What might happen?

- Expect some essential services, including hospitals, food retailers and banks to be unable to provide their normal speed and level of service.
- Many staff will choose to stay away from work.
- The flu will mostly spread as a result of uninfected (healthy) people inhaling droplets from coughs and sneezes from an infected person.
- Researchers may develop a vaccine eventually. However, this would be likely to take several months. By that time, the flu will have done an enormous amount of damage.

What can small business owners do?

- Plan for office staff to work from home. Set up your computer network for this now.
- Keep a supply of surgical masks. Make sure you get the right type. Masks are likely to disappear from the market almost overnight. The world will run out of them. This happened with the SARs epidemic. So stock up early.
- Learn the correct way to put on and take off a mask.
- Keep masks in the glove box of business cars.
- Anyone travelling by public transport should always use masks.
- Stock up on tissues, and use them instead of handkerchiefs.
- Regular hand washing will be essential. The disease could be transmitted through shaking hands, touching doorknobs, picking up someone else's pen and so on. When signing a credit card chit, use your own pen. Make the change now.
- Each employee should have their own towel, or even better, use paper towels.
- Avoid meetings. Any place where people gather is going to increase the risk of transmitting the disease. When meetings are necessary, the attendees should try to keep at least a metre apart from each other.
- Think, and perhaps get proper advice, about your obligations to pay staff during an outbreak if they cannot or will not work. Can your business survive this? Is there something you need to do about it now?

Conclusion

These are some of the things owners of small businesses need to be thinking about. The odds seem high that this deadly form of flu will come.

Further information

For more detailed information send an e-mail to flu@workhealthsolutions.co.nz

Tax News

THESE changes have become law from 1 April 2006:

Depreciation

New rates, for short-lived assets, will apply for the year ended 31 March 2006. The rate of depreciation on buildings acquired from 19 May 2005 will be reduced to 2% CP or 3% DV.

Fringe Benefits Tax

The promised rate reduction from 24 percent of the GST inclusive cost of a vehicle to 20 percent now applies. You can also use 36% of book value (plus GST) for vehicles from 1 April 2006 unless the vehicle has already been subject to FBT. The same calculation method must be used for at least five years.

New Investment Rules

Legislation now before Parliament, when enacted, will have a significant impact on the way investments in New Zealand, Australian and international sharemarkets are taxed. It will change the rules for Do-It-Yourself (DIY) investors, superannuation schemes and managed funds. Broadly, the new rules will provide that:

- As from April 2007, New Zealand managed funds will no longer pay capital gains tax on profits made from trading New Zealand and Australian shares.

Therefore, in rising sharemarkets, investors in managed funds will earn a higher return than they do now. Furthermore they will have an advantage over DIY investors because a managed fund will be able to trade Australasian shares as much as it likes with no tax impact. In contrast, DIY investors who do the same will be in danger of being declared 'traders' by the IRD and taxed on dividends and capital gains at up to 39%.

- New Zealand managed funds will pay tax on behalf of unit holders at each investor's marginal tax rate. This will be a final tax (no need to declare the income in tax returns) and will be limited to 33%. This income will not be taken into account in calculation of entitlements under Working For Families.

This means that an investor with income less than \$48000 p.a. the previous year will be taxed at 19.5% by the managed fund. All others will pay 33%. In contrast, DIY investors with other income over the \$60000 threshold will continue to be taxed at 39%.

The proposed changes to the rules governing tax on offshore investments are supposedly targeted at "sophisticated" investors who invest in tax-free international shares rather than in tax-paying managed funds. This is a rather dubious argument; anyone who has employed the services of a competent financial advisor knows that avoiding capital gains tax on investments is simply the result of good planning; there is nothing particularly "sophisticated" about the techniques used.

- As from April 2007, direct investors in international shares will be treated the same as managed funds: both will pay tax on capital gains. Furthermore, the tax will apply to both realized gains and 'paper' profits. DIY investors will be required to re-value their international share holdings each year and calculate the tax payable. Smaller DIY investors – those with less than \$50000 invested in international shares (or \$100000 per couple) – will be exempt from the capital gains tax. Family trusts will not be able to make use of this limit. Wealthier DIY investors in international shares will be taxed on capital gains at their marginal tax rate – up to 39%; many will be better off in managed funds taxed at 33%.

Given the impending changes to the tax rules, investors should have their current investment arrangements reviewed. For some, managed funds will be an efficient way to access New Zealand and global sharemarkets. However, it will be important to gain access to the best funds at the best price and avoid high 'retail' fees. Taylor & Associates can be of assistance in this regard via its arrangement with Professional Investment Services Ltd, the largest independent financial planning company in Australasia.

Starting in business?

NEW business people often have stars in their eyes about what they can achieve. For many, the reality is often longer hours of work for less income than they expected. If you are starting in business, here are some points to keep in front of you:-

1. Be different from your competitors and tell the world the advantage you offer.
2. Sales come first. It is useless gearing up with the right equipment if you cannot make the sales. Resist the temptation to focus on the production side of the business at the expense of selling.
3. Immediately following sales comes cash collection. Never give credit unless you have to. Many clients think they are obliged to accept payment after the 20th of the month following the date of the invoice. No law exists to tell you when you should be paid. If you must give credit, how about seven days?
4. Identify your typical customers and find the most cost-effective way to get your messages to them. Advertising is often the worst. Many ways exist to promote your business, such as referral cards, direct mail, flyers in letterboxes and networking. A builder started his business using carefully targeted direct mail followed up by phone calls during which he asked for an appointment. It worked. Networking means getting to know people through clubs and other organisations such as the Chamber of Commerce.
5. Be miserly with your spending if you can; conserve your cash.
6. Don't pay rent if you can work from home.

Conclusion

These are just a few of the things we consider important. If you are already in business, you might like to have a look at them anyway.

Selling your business - what do buyers want?

1. When selling a business make it look attractive. If presentation is important to the sale of goods or services, it is no less important to the sale of the business.
2. Sell obsolete assets and stocks that are not essential to the running of the business. This helps keep the sale price down. The lower the asking price, the bigger your potential market. Compile a comprehensive list of plant and equipment you are selling. Tidy up your customer databases, formalise verbal agreements or contracts, and detail your systems and procedures.
3. First impressions count, so spruce up your premises before inviting buyers in.
4. Prepare a brochure to give to prospective buyers. Put in plenty of pictures and make it an easy, persuasive and enjoyable read. Commonly, business sellers think it is enough simply to hand over some financial statements. Go further. Explain what is going on in the business and show a buyer why your business is so desirable. Make sure all your claims about the business are true. If the buyer fails in the business, you may have some serious explaining to do if you cannot support all the claims you have made.
5. Your brochure should include an overview of your business accounts. Advisors usually want at least three years of financial statements so put them in. Many vendors avoid supplying a Balance Sheet (also known as a Statement of Financial Position) because it allows a buyer to find out more about the business. For example, if a business is being pressed by its creditors, the Balance Sheet will make this obvious. It may also show the amount paid for goodwill. However, if you have nothing to hide, you might like to make your Balance Sheets available.
6. Buyers usually look first at the bottom line, so make the income to the owners clearer by adding a statement to show the combined company profit and owners' salaries.
7. You might like to list your business on the internet. Try visiting www.nzbizbuysell.co.nz. It will also provide you with more information on buying and selling businesses.

Is your website up-to-date?

If your website is not up-to-date, you could be at risk of prosecution.

For many businesses the internet is an integral part of its marketing activities. There are passive and active websites. Passive (or E Profile) websites are in essence electronic versions of other printed marketing material, such as company profiles and flyers. The information usually details the product and services available and the key contacts within the organisation.

An active (or E Commerce) website may enable visitors to make purchases or bookings for services from the provider. Pricing information is often available on these sites.

Most businesses employ someone to maintain and update their website, either internally or externally. This is an ongoing cost and some businesses are often tempted to update their website less frequently than the actual changes to their business.

A recent case highlights the risk to businesses that place pricing information on their website. An Auckland restaurant posted its menu and prices on its website.

Several customers were attracted to eat there based on the information posted on the website. Upon attending the restaurant one customer was alarmed to find that many of the menu items on the website were not available and the actual price of items was significantly more expensive than advertised.

The customer complained to the restaurant owner who refused to do anything about the situation. The customer complained to the Restaurant Association of New Zealand and the Commerce Commission. The latter investigated the case and upheld the customer's complaint. It initiated a prosecution of the business owners in the District Court. They pleaded guilty to breaching the Fair Trading Act and were fined \$3000, plus \$260 for court costs.

This highlights the need for business owners who display their pricing information and other details on their website to take care to ensure this information is at all times accurate and up to date.

Turn unhappy customers into advocates for your business

A CLIENT told us this story: "I took my wife to a coffee shop. I ordered some fruit salad and she ordered a ham croissant, which was to be toasted. Our drinks and my fruit salad arrived, but there was no sign of the croissant. In due course we asked what had happened. It had been forgotten and was now burnt to a cinder. There were no more ham croissants left.

The waitress was most apologetic. She refunded the money and provided an acceptable alternative. A little later she turned up with one of the firm's loyalty cards. She had marked off nine cups of coffee as having been purchased and handed it to my wife telling her next time she came she should use it for her free cup of coffee."

This might seem trivial, but it illustrates an important point about putting it right. The firm provided the refund, the alternative and the smart idea – a free cup of coffee at the next visit. This last offer helped to ensure the customer would come back.

Even better, the customer was so impressed she has told several of her friends, thus helping to promote the business rather than run it down.

When things go wrong and you have to make up for the mistake, do it as quickly as you can, and ensure your contribution hurts you a bit. If you do, you are more likely to convert an unhappy customer into an advocate for your business.

Maybe we should all make a few more mistakes to promote more advocates – but don't take this too far!

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