

Editorial

It's March already and the end of year cycle begins again. On the home page of our website you will find the various checklists that we need you to complete to the best of your ability and deliver to us with your end of year information.

If you don't have the facility to print these forms off and complete them, please contact our receptionist Cheryl and she will post them out to you.

I know a lot of you find the checklists frustrating and sometimes you feel the questions asked are not applicable to you. Please remember that these checklists are catch-all checklists. If you don't know if a certain question is relevant to you, then please just put an asterix or question mark next to it.

I also realise that these can be a bit of a bore, but they do assist us in doing our job as efficiently as we can for you, so time spent by completing these now, will hopefully help in keeping our costs to you down.

If you have any problems, then please call any member of the team at Taylor Associates.

Many thanks for your co-operation

Cheers,

Todrick

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Making better decisions

HAVE you ever said: "I'd like to sleep on that" and noticed how you get better ideas the next day? Experts tell us this is caused by resting one side of the brain and working on the other.

During the night your mind relaxes and ponders the issue troubling you. Your thinking becomes less directly focused and is open to new ideas.

If you have a tricky letter or report to write, take a break until the next morning and you may be surprised by the ideas which enter your head. Sleep on it!

Oh! When the new ideas come, write them down right away! Do not expect to remember them later.

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.

[Continued]

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.

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.

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.

Having difficulty finding good staff?

REMEMBER, your staff socialise and are likely to mix with people similar to them-selves. 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.

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. See next page and our two previous newsletters for ideas to improve your cash flow. 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.

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!

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?

Selling your business?

IF you are a limited company and not a qualifying company (or LAQC) do not take your capital gain on sale of your business out of the bank account until you have passed a resolution to wind up your company. Early withdrawal of the money will be deemed to be either a loan or a **taxable** dividend. Loans to working shareholders attract fringe benefit tax. Be sure to put your company into liquidation before you take the money out of the bank.

Contact Us

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