Taylor associates
CHARTERED ACCOUNTANTS

Newsletter
Autumn 2009

Editorial

Hi,

At the moment we are busy getting the last lot of tax returns into the IRD, but also turning our attention to the next year, as another financial year end is almost upon us.

In early April, you will get a letter from us regarding the timing of preparing your end of year returns. We are conscious that given the times we are in, cashflow is critical for a lot of people and getting money back from IRD will be a the top of their agenda. If the timing for doing your end of year returns isn't ideal for you, then please let us know and we will reschedule accordingly.

Taylor Associates recently had a practise review by the Institute of Chartered Accountants and I am pleased to say we passed with flying colours in most areas. However one area they wanted improvement in was to ensure that clients complete the annual checklists – I know they can be a pain – but they do help us when preparing your returns and we are required to hold them on your file by the Institute.

Accordingly, you will find on our website updated checklists at the end of the month for you to download and complete.

The Government recently announced changes to tax legislation in an effort to help small to medium sized businesses. We will ensure that these changes are factored into your tax planning for the next year and that you are made aware of any benefits applicable.

The voice and friendly face of Taylor Associates Cheryl Ward, our receptionist for the last five years, is leaving us to work at Capital Coast Health. We wish her all the best for the future.

As she leaves, Rowena Maravilla comes back from a sabbatical in Hawaii and we also have on board Rosamund Black, who worked with Amit at another accounting firm and has a wealth of chartered accounting experience.

Finally as I said earlier – times are tough – businesses are struggling and cashflow is tight – please call me or any member of the team if you need assistance – we are here to help.

Cheers,
Todrick

TAX CALENDAR

April 7

2008 Terminal Tax
(March balance date)

May 7

3rd Instalment 2009
Provisional Tax
(March balance date)
GST for March 2009

May 28

1st Instalment 2009
Provisional Tax
(December balance date)
GST for April 2009

Controlling your debtors

DEBTORS turnover is the number of times credit sales turn over in a year.

If your average debtors were $10,000 and your total credit sales for a year amount to $40,000, then your debtors turnover is four times a year. It is similar to stock turnover.
Since there are 365 days in a year, the "Age of Debtors" in this example is a quarter of 365 = say 91 days. Monitor your Age of Debtors and set a target.

Accountants also classify debts into one month, two months etc. We call this an Aged Debtors Analysis.
A joiner we know not only gets as big a deposit as he can on every job (he's prepared to negotiate), but also insists on payment immediately the joinery is installed. He reminds the customer a day or two in advance to have a cheque available. His business is thriving and still growing rapidly.

In another case, an auditor was checking the financial statements of a client and studied the Aged Debtors Analysis. He found a high proportion of old debts at year end. The client admitted many of these were bad and needed to be written off. A good profit suddenly became a poor result.

Do you have any bad debts? Write them off before year end so you don't pay tax on them.

Money owing to you is not money in the bank. Give priority to controlling your debtors.

If the figure is too high, do something about it, now. Controlling your debtors will become increasingly important if the economy gets worse. If a debtor is shaky, the first person to get tough usually has the best chance of being paid.

If your problem is with a company, you can threaten to get it wound up. This can be very effective. If you want this procedure clarified, call us. Measure your debtors and manage them.

When taxes let the rich get richer

THE NEW foreign investment fund tax laws affecting shares in foreign companies favours the rich.
If you, as an individual, have shares in overseas companies not subject to the special Australian exemption, you are taxed based on your gain for the year or 5 percent of the value of your portfolio at the beginning of the financial year.
There is an exception. Those who have overseas share investments (excluding the Australian-exempt shares) costing less than $50,000 (small investors) are not taxed in this way. They are taxed on the dividends they get.

For the year ended 31 March 2008, most people made a loss on their foreign shares and therefore paid no tax. However, the small investors still had to pay tax on their dividends.

But, if you are happy to, you can join the rich. The $50,000 threshold is taken at any point in the year.Therefore, if you own shares which had cost, say, $45,000 and you bought another $10,000 worth during the year, you would break through the $50,000 threshold. You would be taxed the same way as the rich.

If you sold some shares and went below $50,000 cost, you would be taxed with the rich for the current year because you would have owned shares costing more than $50,000 on at least one day of the year. However, you would start the following year back with the poor again.

One reason for buying and selling shares in the same year could be to improve your holding – in other words, quitting your poorly performing shares and buying better shares. Rearranging your portfolio just to save tax might be seen as tax avoidance, so never do that.

Traps in overseas bank accounts

IF, AS an **individual**, you have money invested in overseas loans and bank accounts, you are permitted to include only the interest **received** to balance date, provided the sum of all your investments falls below some defined limits.

One of these is calculated from a comparison of the opening cost or value of the investment and its worth now.

For example, you might have put $US100,000 into a US bank account on 31 March 2008.

At that time the exchange rate for $US was about NZ 80 cents.Your US bank account was worth about $NZ125,000.If the NZ dollar falls at 31 March 2009 to an equivalent of, say, NZ55 cents, the $US100,000 is now worth $NZ181,818.Deduct the original $125,000 and you will find you have a gain of $56,818.

You are only allowed to ignore currency fluctuations plus earned but unpaid interest, so long as the total of all "financial arrangements" (bank accounts and similar anywhere in the world) do not have gains exceeding $40,000.

In the example given, your currency profit alone would push you over the threshold.

If you could be caught by this, you might need to pay extra provisional tax now to minimise Use of Money Interest payments to IRD.

You could also be caught if you had a lot of interest, earned but not yet paid, on your New Zealand investments because these have to be added in for the purposes of deciding if the $40,000 threshold has been exceeded.

Help us to help you with annual accounts

WHEN we prepare your annual accounts, two things contribute to the cost – too little information, and too much information.

Too little information
Each time we need to ask for more information, we put the file aside while you look. This adds to the cost of the job. Ideally, we would like to work straight through your assignment and finish it in one session.
This is seldom possible. However, the fewer questions and quicker your response, the more efficiently we can complete our work.

Too much information
A few clients try giving us everything. This often means a time-consuming search through the papers for what we need.When we cannot find what we are looking for, we will often have another look, just in case, before contacting you.

What to do
Provide all the information requested in our questionnaire and no more. Reduce next year's queries by keeping a note of our requests for more information, which you can refer to.

Keep your bank on side

AS THE economy gets more difficult, banks will become more risk-averse. What can you do to keep the bank happy? You can provide the information the bank wants, on time. If your bank wants to see your financial statements early in the year, contact us now so we can allocate time for your accounts. We will work out a plan with you of what we need and when we need it.

More sales from existing customers

Keep in touch.
We've said this before. Don't let customers slip away because they think you are not interested in them. Use emails, but get your customers to agree to receive your emails. Many marketing firms send out ezines (email magazines). Customers are most likely to be happy to get your emails – and to read them – if there's a benefit for them, such as good tips. Be regular with your emails or you'll soon stop sending them.

Sell more to your existing customers by being better at getting those add-on (also called companion) sales.
Get the value of the average sale up. Be careful how you do this. A waitress who asks, "I can't tempt anyone to a dessert?" is inviting a "no" answer because it is negative. Restaurants are perhaps the worst businesses for throwing away potential sales. Never ask a question, when you are selling, which could invite a "no" answer. The first sale pays for the business overheads. The second and following sales have all the profit in them. You must get as many of them as you can. Train your staff. Find out what each team member is achieving and tell them, regularly, how they are going. As they improve, praise them. One retailer client raised his sales by a massive 20 per cent within one year by doing this.

Sell more frequently to your existing customers.
Get them into your shop more often. When you have a sale, let your good customers have the privilege of getting first look before allowing everyone in.

Get referrals from your existing customers.
It's OK to ask for referrals and using emails makes it easy – see first bullet point.

Measure all these and manage them. Let your staff know "how we're doing" regularly.

Independent Earner Rebate

A NEW tax rebate has arrived. It is for middle income earners who do not get any form of government assistance.

From 1 April 2009, the Independent Earner Rebate will be $520 per year. Anyone with an income in the range $24,000 to $48,000 will qualify so long as they are not receiving any State assistance, including New Zealand Superannuation and are not entitled to receive Working for Families (WFF).

Their relationship partner must also not be entitled to WFF, but can get the other forms of State assistance including New Zealand Superannuation.

- The rebate starts to abate from $44,000 at 13 cents in the dollar and disappears at $48,000.
- The rebate will increase to $780 from 1 April 2010.
- You might be getting State assistance or be entitled to WFF for part of the year. The rebate is available for every complete month in which you qualify for it.

A cash economy

THE Australian Tax Office has recently sent letters to taxpayers who have a high volume of cash transactions – and low cash flow. Why would a well managed business have low cash flow if most of its receipts are cash? Good reasons do exist, but this could indicate a failure to account for income.

Will the New Zealand IRD get the same idea? There are no flies on the ATO.It is also producing "benchmarks", which are a set of standard figures expected for each of a number of industries. It is posting these on its website and encouraging taxpayers to make comparisons.

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Can't pay tax on time?

IF YOU cannot pay your tax on time, you can arrange for payment in instalments.Set up these arrangements with the IRD before the due date for tax. Note the following:

- It is better to consult us before approaching the IRD. We will aim to get an arrangement we feel you can live with.
- Use of Money Interest will be charged.At the time of writing, the rate was 14.24 per cent.
- A special arrangement to pay tax is not ongoing.It is specific to the instalment you have been unable to pay.Some clients think, so long as they keep paying the instalments, everything will be OK.This is not the case.The IRD will charge you penalties if you fail to pay on time, taxes which are not subject to the arrangement.
- Never renege on your agreement.If you can't stick to it, consult us and we may be able to vary the arrangement.

For larger provisional tax debts, we can put you in touch with a firm which provides medium term loans so your tax is paid on time.
The interest you will have to pay is significantly less than you would pay IRD.

Look for the WOW! opportunities

A GROUP of accountants were having a Christmas party, but one of them was allergic to dairy products.It was a fixed menu and the choice of two desserts both had dairy products. The waitress was aware of the allergy and without being asked fixed up a fruit salad and brought it to the customer, who was delighted. Delighted is Wow! Look for the opportunity to create WOW! whenever you can.

A live wire electrician

A SMALL electrical firm is offering an online booking service so customers can book a job any time, even when the firm is shut.

Good for business? We think so.It is easier to hop onto the internet any time of the day or night than to try and catch that small business owner during working hours.

Contact Us

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