

Editorial

Welcome to our third newsletter.

This issue contains a lot of interesting articles and information. If there are any articles you want to discuss further then please contact me, or any of the team at Taylor Associates.

Let me also take the opportunity to once again welcome on board any new clients to Taylor Associates.

At the beginning of the year I wrote to you letting you know what we hope to achieve as a business and to refresh your memory, this was to provide our clients with accurate and timely information and communicate effectively with our clients and referrers of work.

We implemented a system called 'Accountants Tool Box' to smooth out workflows and get a quicker turnaround on work.

It's fair to say that it hasn't all gone according to plan.

Amongst other things, we had 3 senior staff members resign and Terry Yee became ill. With all these changes, it has been hard to achieve what we set out to achieve at the beginning of the year, so please let me take the opportunity to apologise to anyone affected by these changes.

We are in the process of trying to recruit a senior accountant, but the current market is not very fluid and I am not going to jump at the first person who comes along. They have to be right for you and us.

I am more than aware that a lot of you have been pushed from pillar to post in recent months in terms of who within Taylor Associates is handling your affairs. In the last ten months we have destroyed a Brazilian rain forest telling you all about the changes in Taylor Associates, so in the interest of preserving the environment, you will not receive a letter from us advising you of who will be handling your affairs as a result of Brendon Lines resigning. Basically in the first instance, please contact either me or Ray Wilson if you have any issues you would like to discuss, otherwise you will hear from a member of the team in due course.

We value each and every one of you as clients and are looking forward to continuing our business relationship.

On a positive note I am happy to report that Terry is back at the office and almost fully recovered.

As a way of thanking you for your continued support of Taylor Associates we would like to offer you a free double pass to the movies at the Paramount Theatre in Courtenay place during the months of October and November. Please contact our receptionist, Cheryl, who will organise for tickets to be sent to you.

Cheers

Todrick

All information in this newsletter is, to the best of the author's knowledge, true and accurate. No liability is assumed by the author or the publisher for any losses suffered by any person relying directly or indirectly upon this newsletter.

Don't be too quick to sign your lease

MANY people do not take enough care when signing a lease. If you are about to sign a lease, consider the following:

- Who pays the rates and insurance? If you pay the insurance, what does it cover? Fire, loss of rents, flood, indemnity or replacement? The cost will rise the more cover the landlord wants, so ensure this is defined.
- How long will it be until the landlord can increase the rent? Could your business be easily moved if necessary? If not, then you should go for a long lease, with the right to get out if you need to. A lease for three years with the right for you to renew for three more years gives you the opportunity to stay for six years, but the ability to cancel at the end of three. Your lease should contain some control on the amount the rent can be increased, when you exercise your right to renew. There is no control over the rent when you have to negotiate a fresh lease. Therefore, consider now going for as many rights to renew as you can get.
- Landlords commonly require tenants to pay the cost of preparing the lease. Why not seek a 50:50 split?
- How about the right to put up signs, restrictions against competing tenants or troublesome tenants noise or smell?
- Some leases state the landlord does not warrant the premises are suitable for your needs. Cross out a clause which says this. Watch out for a demolition clause. This is one which gives the landlord the right to demolish the building at any time without compensating you.
- If you cannot avoid a personal guarantee, can you impose a limit? Say, a maximum of 12 months' rent if you have to move out or sell and assign the lease. If you cannot pay the rent, there may be a default interest rate. Now is the time to set that figure as low as possible.

- Finally, there is likely to be an arbitration clause. Arguing the case before an arbitrator is expensive. Try a pendulum clause instead. It is excellent when renewing a lease. The landlord and tenant each state the amount they think the rent should be. The arbitrator determines a fair rent. The rent to pay is the figure closest to the arbitrator's. Landlord and tenant have a big incentive to be fair and thus costly arbitration is often avoided.

How to improve your cash flow - Part 1

WOULD you like to be able to take more money out of your business? Here are some ways to improve the money supply when you need new equipment. Do not fund everything yourself. Consider borrowing for your business and having the interest tax deductible. Before buying equipment look at these alternatives:

- A finance lease means you pay no deposit but may have to pay a balloon (lump sum) payment at the end of your contract.
- An operating lease means you can never own the equipment. You pay to hire it.
- Hire purchase means you pay a lump sum at the start and spread the balance of the debt.
- Could you just borrow from the bank?
- Do you need the equipment at all? Have you considered contracting the work out, using someone else's equipment?

We will tell you other ways to improve your cash flow in our next newsletter.

Covey's second group of three habits

IN our April edition we talked about four of Stephen Covey's habits from his book "Seven Habits of Highly Effective People". They were all about habits you must cultivate in yourself. The other three habits concern your relationship with others. They are:

1. Think win/win.
2. Seek first to understand and then to be understood.
3. Synergise.

Think win/win

Win/win is so widely used it has become a cliché. Covey explains that an "I win and you lose" deal might work once but it is no basis for an on-going business relationship.

A timber merchant offered a builder an excellent price for weatherboard. The customer asked if the timber had knots in it. "No," said the supplier. "This is excellent wood. Send us your cheque and we will deliver it." The experienced builder somewhat naively sent the cheque and the wood was delivered. You might have guessed, it was full of knots. The builder lost on the deal.

That builder buys at least \$500,000 of timber every year. How much of that \$500,000 do you think the supplier will be offered in the future? Had he admitted to the knots and reduced the price accordingly both parties would have been winners. The dispute was settled. The timber merchant had to give back more than half the money and also destroyed his goodwill with the builder.

Sometimes win/lose or lose/win can really be win/win. Win/win is all about relationships; please refer back to our discussion of the emotional bank account in our last newsletter.

Seek first to understand and then to be understood

Covey starts by explaining why it is important to first understand where the other party is coming from. He gives a number of interesting illustrations. Few people really work at trying to understand the other person's point of view.

Have you ever caught yourself working out what you are going to say next? You are not actively listening when you are doing this. The book talks about empathic listening: listening with empathy. In a sense, this habit is a pre-requisite for win/win.

Synergise

The translation of this word from its Greek origin is Syn = Together and Erg = Energy. Hence the word means working (putting in energy) together. It implies the result will be to create far more than by working separately, ie $1+1 = \text{more than } 2$. Synergy depends on trust and co-operation.

If trust is high there can be greater working together. Both parties benefit. A bonanza occurs with great trust and co-operation. The parties feed off each other's ideas and advance to high levels where $1+1$ can be quite a large number.

Concluding remarks

We cannot do justice to the concepts in this great work with a few short articles. You need to read the book to get a feel for the points the author is making and fully understand the power of these seven habits. They will not only help you in business, but also assist your personal life.

Estate duty by stealth?

THE Government intends to treat rental property as being sold when the owner dies. This will give rise to depreciation recovered and hence tax. Is this a form of estate duty? Maybe, but most commentators support the law change.

Safeguards will be built in. For example, if one partner of a relationship wills their interest to the other partner, there will be no deemed sale for tax purposes. Also, your home will be safe from the tax. However, if the dead spouse has left his investments to a family trust or his children, the tax will apply.

The new laws will affect all assets and liabilities used to derive taxable income. The assets will be considered to be sold at market value on the day of death. It will apply to your business, unless you are operating through a company or trust.

What should you do, if anything?

The law will apply to every income-earning asset you own when you die. If you intend to leave everything to your spouse and do not mind the tax if you are the second to die, the answer is to do nothing. To avoid the tax, do not own anything yourself. You can achieve this by having your income-earning assets owned by a company or trust.

More on Holidays Act

WORK on public holidays: all employees who work for you on these days must be paid time-and-a-half for the time worked. They will also get an extra paid day off if the public holiday would otherwise have been a working day for them. Employees who only work for you on public holidays do not get the extra paid day off.

Involve all trustees

A TRUST has not made a decision unless all trustees have been involved. Minute the decision and have it signed before acting on it. If your solicitor is an independent trustee, you must involve him/her at the time the decision is being made. Trustees should minute the receipt of any loans you advance to your trust and the withdrawal of any money from it. To avoid gift duty, the receipt of loans to the trust should be stated to be "interest free and repayable on demand". When withdrawing money, state the nature of the payment in the minute. It could be:

- Distribution of trust taxable income or total income.
- Reduction of indebtedness of the trust to you.
- A loan to you.
- A distribution of the capital of the trust.

A trust is not like a company. It requires greater formality in the decision-making process or transactions could be deemed to be personal and the trust void.

Outstanding bills

CONSIDER printing reminders on red paper. Red sends the message of fear, urgency etc. Fire engines are usually red. Letterboxes used to be red. They are cleared much less often these days and have changed colour!

Beware the tax inspectors club

DID you know about the international club for tax inspectors? Auckland was the host for the international tax inspectors meeting of the OECD in May. The 27 countries aim to increase exchange of information. Swaps between Australia and New Zealand are well advanced. Be sure to include your world-wide income in your tax return.

Bad experience - delighted customer

A client had taken her car in for servicing. Not long afterwards, she was travelling home and noticed the temperature gauge shot off the end of the dial. She stopped and called the AA. The core in the radiator had rusted away.

When the repaired car was returned, she rang the service department to ask if they had not noticed the state of the radiator when servicing her car. The service manager said it would be usual for the mechanic to record a potential fault like this, so it could be drawn to the attention of the customer. He agreed to ring her back.

The service manager was true to his word. He had checked worksheets and discovered the omission. The customer agreed the cost of the repair would have been necessary anyway and therefore she did not hold the firm responsible for the expense. However, the service manager said:

“You have been put to some inconvenience, which would not have occurred if we had told you about the state of your radiator. Therefore, I will send you something in the mail.”

A few days later a voucher arrived for 10 percent off the next service.

The woman was delighted with this generosity and is telling her friends. She will also have to return to the garage to use the discount, so she is unlikely to become a lost customer.

If your firm gives a customer a bad experience, look for an opportunity to turn this around. You will often be able to convert it into an occasion to delight the customer.

Use positive language

PEOPLE are affected by your choice of words. Try putting up a sign “Do not switch off this computer”. Many a person will itch to push the switch up. A sign reading “Please leave the computer switched on” does not have such an effect.

Always use positive language.

You will be familiar with the people who can see the downside to every suggestion made. They will search for a reason why your idea will not work. Have you ever heard anyone say: “The problem is”? This is negative talk. It would be better to find a positive way of expressing the thought. The person could have said: “We will need to overcome the....”

Similarly, greetings can be positive or negative. Try greeting the people you work with each day and see how they respond. Greet them with a smile and you will promote positive feelings and as a result a better attitude towards work. If someone tells you they are not feeling too good this morning or they grunt in response to you, does this make you bright and cheerful?

By contrast, how about the person who always sparkles whenever you say hello to them? Now how do you feel? Did you know a caller on the telephone can detect if the person on the other end is smiling? Their voice gives them away.

Contact Us

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

Email enquiries@taylorassoc.co.nz
Web www.taylorassoc.co.nz
Phone 04 384 4161
Fax 04 384 4171