

Editorial

Hi all.

Welcome to this quarter's newsletter. As always, I hope you find it to be an enjoyable and informative read. Please remember to call or email us if you have any questions that come out of the newsletter.

We now have the summer to look forward to and for many of us it will soon be time to enjoy our wonderful beaches and walkways in and around Wellington.

Since my last editorial, we have recruited another member of the team to replace Tala. His name is Michael Hollings and he comes to us from Auckland. We are lucky to get someone with Michael's skill and experience and I am sure those of you who deal with him will be impressed. To find out more about Michael please go to the section titled "Our Team" on our website.

On tax matters the IRD and government are still finalising how the foreign investment tax rules will finally work. As soon as we have final details, we will let you know what the rules are and if they affect you.

That's it from me for now... until next time.

Cheers,
Todrick

What should you do if you hold overseas shares?

You could wait and see. Even if you still hold shares in overseas companies when the new law comes into effect on 1 April 2007, you will not have done much harm by sitting on them. There is no plan to tax your paper profits made up to 31 March 2007. If your later capital gains are substantial and you have to pay some tax, you might still be better off than you would have been investing locally. We suggest you compare investing in Australasia with continuing your holding overseas. It's time for some homework. Consult us if you want full details of the proposals.

Consider switching your overseas investments by putting fixed interest investments offshore. Overseas interest rates are mostly very much lower than ours, but you can get a reasonable return on your money if you look around.

For example, British Gilts (government stock) will probably show about 5 percent, but banks will pay you 3 percent if you are lucky. Your investments will need to be valued each year in New Zealand dollars and will be subject to tax on gains and losses from fluctuations in the value of our dollar. Investing some of your money outside Australasia spreads your risks.

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IRD and ATO swap info

Expect the Inland Revenue Department to know everything about your business or investing activities in Australia. The New Zealand Inland Revenue Department and the Australian Tax Office have full access to each other's records.

FBT and motor vehicles

If you make vehicles available to your employees from time to time, for example going on holiday, the days available are calculated from midnight.

The law has been changed, effective from 1 April 2006. You may write to the Commissioner of IRD and nominate a different time for your business. For example, you might decide 5pm is better for you than midnight. Once you have chosen a time, you have to stick with it for at least two years and it applies for all vehicles. You should consult us if you need further clarification or assistance.

Should be shot

A CLIENT told us this story. She used to visit a popular coffee shop. Whenever she did, she always asked for a double shot of coffee.

Coffee shops often have loyalty cards. This one was no exception. The 10th cup of coffee was free.

"When I asked for the free cup of coffee I requested two shots. I was told the loyalty card only provided for a cup of coffee and not for the extra shot and I should pay for it. I explained I always had two shots in my coffee and the young woman had the effrontery to ask me how she would know I was telling the truth."

Another person in the conversation commented: "You have just told seven other people, only eight to go to get to the average number of people who tell others of their bad experience".

Don't let your staff give any customers a bad experience. What would one shot of coffee cost? Answer, a lot of bad will.

Negotiating with IRD

OCCASIONALLY clients who have trouble paying their tax try to negotiate their own payment arrangements with IRD instead of discussing it with us. Recently, one of them (figures are fictitious) had income of \$100,000 a year and agreed to pay \$4000 a month to clear tax arrears. IRD expected him to also maintain normal provisional tax payments, which were about \$10,000 every four months, but he did not understand this.

He stuck to his agreement and maintained the payments, while further arrears built up in the form of provisional tax. These payments were not subject to the arrangement. Penalties and interest accrued on them. When asked to relent because the taxpayer had not understood, the IRD merely extended the arrangement and agreed to reduced instalments. The penalties stood.

When negotiating an instalment arrangement, clients must reduce the amount they think they can pay, to allow for their provisional tax as it falls due plus any terminal (wash-up for last year) tax yet to be paid. IRD will cancel penalties if they accept an arrangement to pay off tax in instalments. Penalties are cancelled from the time the arrangement is accepted so penalties in arrears stand.

The department also charges interest at 13.08 percent on the outstanding balance of tax owing, including penalties. Interest continues to be calculated on the reducing balance until all arrears are fully paid.

Tax holiday for returning Kiwis and others

BEWARE the 10 year rule. Immigrants and New Zealanders who have been away from the country for more than 10 years, may be exempt from income tax on income derived from overseas. The exemption applies for four years plus the month in which they establish a permanent place of abode here. Anyone claiming this tax break is not entitled to Family Support. Check with us for full details and conditions.

Timesaving

We mentioned the sorting board in an earlier newsletter. Here are some more tips to help you save time:

Write it once

Never rewrite anything. Use the photocopier or your computer, and copy and paste.

Dictating machine

Dictating machines can save a ton of time. Let someone who can type faster than you do the writing for you. Use the machines to delegate jobs to someone whose time costs less than yours. You can send dictation by email so a typist working from home could attend to it.

You seldom make money driving

Unless you drive a taxi, you usually earn a living when you stop driving. Therefore, minimise your travel. Plan your driving and group work into geographical areas. Get people to come to you.

Get rid of pests

Some customers waste your time. An old man was talking to a shop proprietor telling her all sorts of trivia. A customer waited. He turned to the customer and said, "I hope I am not holding you up" and then continued talking. Learn to handle these time wasters.

Interruptions

You have to be accessible. However, you also need to plan your work so there are times when someone will have to take messages for you. Constant interruptions can make your work impossible.

Conclusion

Books have been written and seminars are frequently presented on this subject. It's worth learning more. Time saving is an easy way to make more profit.

Accounting for family trusts

FAMILY trusts are formed for beneficiaries. Trustees have to account to them. They should never mix their personal transactions with those of the trust.

If you sell a mortgaged family home to your trust, either lend money to it to pay the mortgage or, if you pay it yourself, increase the trust's debt to you by the amount you have paid. If you do not do this, you will be deemed to have made a gift to the trust of the amount of the mortgage you have paid on its behalf. This gift will be added to your gifting programme, if you have one, and could result in a liability for gift duty.

Most trusts need financial accounts. Accounting for a trust can be time-consuming.

Examples include:

- Transfers of money from one investment to another, perhaps through a share broker, without putting the transactions through the trust's bank account. The trail can be hard to follow.
- A client pays \$200 a fortnight into five different trusts, with different amounts apportioned to each and payments varied. The value of the investments has to be confirmed at the end of each year. Often, one of the difficulties is getting clear statements from fund managers.

In the interests of saving accounting fees:

- Keep your trust investments simple.
- At the end of each year, supply us with documents showing the movements in investments during the year and the balance at the end of the year.
- Get your bank to provide up-to-date statements of mortgages.

Capital Gains Tax on shares affects all savers

IF YOU are saving for retirement, you will be affected if the proposed changes to taxing overseas-listed company shares and local managed funds go ahead. The proposed changes would not affect those who hold overseas shares in their own name or family trust (as the law is currently proposed) up to a cost of \$50,000, or if owned before 1 April 2000 the figure is \$100,000.

The Government intends to tax the gain in value of shares held in all overseas countries. The exceptions are publicly listed shares in Australian resident companies and some overseas companies listed on the New Zealand Stock Exchange, having a high proportion of New Zealand shareholders. The plan is to tax 85 percent of the gain in the value of shares. In the USA, for example, many companies never pay dividends. This means New Zealand citizens never pay tax on profits from holding these shares. Our government wants a share of the action.

The Government is also changing Capital Gains Tax as it affects managed funds. Currently all managed funds are taxed on profits from selling shares. The Government sees this as inequitable.

The private investor is not generally subject to the tax. Those funds which conform to their new rules will be called Portfolio Investment Entities (PIEs) and will cease to be taxed on profits from sale of shares, as long as they do not become share traders. You should also note:

- Contributors to PIEs will be taxed at their own tax rate, instead of 33 percent as applies now.
- For those with incomes of \$48,000 or less, this will be 19.5 percent.
- The maximum tax payable by a PIE is 33 percent – an advantage for those on incomes exceeding \$60,000.
- Investments in PIEs will not have to be taken into account for family support and student loan purposes.

We will provide more information about Capital Gains Tax on shares once the law has crystallised. Our purpose, now, is to draw your attention to some of the possible effects of the changes.

Some of those with overseas shareholdings are selling out before the Capital Gains Tax takes effect from 1 April 2007. They will have to re-invest somewhere. If they choose Australian shares, they will not be able to use franking credits (tax credits on dividends for tax paid by the company).

Consequently, they may increase their holdings of New Zealand shares. More money is likely to be chasing a relatively fixed supply of shares. So share prices will tend upwards or may not fall as much as they might have done. This may already be happening in anticipation of the law change.

Investment money returning to New Zealand and money no longer being sent overseas might also find its way into fixed interest and the property market; in the latter case holding up or increasing the value of rental property.

CoverPlus Extra

CoverPlus Extra premiums are tax deductible for a sole trader and a partner in a partnership, provided they are incurred in deriving taxable income. However, since the premiums are a personal cost, they are not claimable in a company, nor by a shareholder, because the money from a company is a salary and no expenses can be claimed against salaries.

Welcome, welcome

Ever had a little note in your hotel room saying, "Janet and John, warm welcome to our hotel"? It is such a small thing but hey, it feels good.

It might seem corny, but it might make your enterprise just a little different. How about it?

Thank you for complaining

OUR client bought something she found to be unsatisfactory and therefore sent it back to the supplier, with an explanatory note. She was impressed when she received a letter apologising for "any inconvenience or disappointment we have caused". The supplier enclosed a gift voucher as a token of its goodwill and thanks for lodging the complaint. Clever? We think so.

- Our customer is telling everyone. The supplier has turned a complaining customer into an advocate for the business.
- She cannot resist the temptation to use the voucher, so she will buy again. When she does spend the voucher, she'll probably buy something worth much more than \$10 and the shop will get its money back out of the profit.
- The supplier has used a soft dollar; a \$10 voucher to our client probably costs the shop no more than \$5.

Rewarding complaining customers or clients is smart business. Even a letter of thanks, personally signed, is better than no recognition. ■