

## Editorial

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Hi,

It is time for the quarterly newsletter from the team at Taylor Associates.

If you have any queries or comments to make, then please don't hesitate to contact us.

It's almost summer, even for Wellington – well let's hope.

Let's also hope that the economic picture starts getting better, but what has happened in Samoa, the Philippines and other parts of the world, puts a lot into perspective. There are many worse off than us. Our thoughts are with those affected at this time.

To that end Taylor Associates has again decided to support Ronald McDonald house this Christmas. They do a fantastic job of helping families in times of need and if you are looking for someone to support, then I can't speak more highly of an organisation than the Ronald McDonald House charity.

Clients phoning or coming into the office, may recognise a new voice or see a new face – our new receptionist Sarah Everitt – we are delighted she has joined us and she has made a strong impression since she started.

That's it from me for now.

Cheers,

Todrick

## Trust deed - issues clarified

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ONE of our readers has commented on our article on page 4 of the last Newsletter. We said "The **only** formula to determine who gets what in a trust is the trust deed..."

Each time you use an absolute like "only", you exclude other possibilities. That is what the article did, and it's not exactly right.

A court can also intervene in a property dispute. It can order compensation if property is transferred to a trust during a relationship and this has the effect of defeating the claim or rights of one of the spouses or partners. Thus, from the time you enter into a relationship, any transfers of property to a trust can be questioned.

One in three relationships breaks down. If you have had this experience, look at putting your assets in a family trust before you form another relationship. Be careful about using any subsequent relationship money for the trust. Keep good trust records to show where money originated.

## Increase your database

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A BIG list of contacts – a database – is a great asset for any business. The more contacts you have, the more chances you have to promote your business. One good web site we have found illustrating how this can be done is [www.winstonmarsh.com.au](http://www.winstonmarsh.com.au) On the left side of the home page is a box inviting you to subscribe to a newsletter entitled 21 great rules for successfully marketing yourself. All you have to do is to put in your name and email address and click. An Aladdin's cave of great marketing ideas opens up.

Lessons to be learnt:

- When you subscribe you hand over your email address – another addition to the firm's database.
- To receive you have to give something of value. In this case it is lots of marketing ideas.

## Surplus cash - loan repayment generally wise

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CLIENTS often wonder if they should use surplus cash to repay a bank loan. The alternative is often to invest the money back with the bank.

A client recently sold one of his rental properties and had \$100,000 left over. The bank was paying him 4%. He had two other properties with mortgages on them. He was paying 8.5% interest on these.

Generally, you are better off to use the savings to reduce your mortgage. The interest income is taxable and the interest expense is tax deductible so, from a tax point of view, you have a neutral situation. It is true the rental property may well make a profit as a result of repaying the debt. However, if you do the arithmetic you will find you are better off repaying a debt, even though your taxable income rises.

There is one time when you should always repay a mortgage. Unless it is just a security for a business loan, it is the one you have over your own home. This is not tax neutral. You pay tax on the interest you earn, but you do not get a claim for tax on the interest you pay.

It can pay to hang onto the cash, if you are going to want the money for another project. If the project is personal, such as buying a boat or a holiday home, use your own money rather than borrow, because the interest you will pay is not a tax-deductible cost.

You might also want to conserve your cash if you think you will have difficulty persuading the bank to lend to you and you have plans to borrow more. However, beware of getting over-extended with your borrowing. The bank's lending criteria can change without warning. You could be in trouble when it comes to the time for refinancing.

## Improve business letters

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HERE'S your checklist for improving business letters:

- Plan what you want to say and write notes for framework.
- Draft your letter.
- Shorten your sentences. Split big ones into two. Aim for clarity.
- Cut unnecessary words – most likely adjectives.
- Don't use big words when small ones will do.
- Don't be too formal – consider your reader.
- Tell your readers what you want them to do.
- State your conclusion.
- Proof read – tidy up the letter.
- Proof read again, and if possible, get someone else to check it as well.

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You are advised to consult professionals before acting upon this information.

## Give staff a say

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DO YOU consult your staff regularly? If you want to make changes, you will get better buy-in from your staff if they are involved in the decision making.

## Redundancy rebate

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THERE is a special rebate for redundancy payments of 6 cents in the dollar. If you have to make any of your staff redundant, remind them they can complete form IR524, immediately, and may get a rebate of some tax, depending on the rate of tax they pay and the total payout.

## Cash is king in tough times

IN THESE difficult times, it's important to keep a good flow of cash coming into the business. How do you do this? Here is a checklist.

### Maximise money coming in

- Give credit only when necessary.
- Get your debtors to use their credit or Eftpos cards rather than monthly accounts.
- Have a rigorous system of follow-up for slow payers.
- Give it top priority. Get commitments and confront customers who do not honour them.
- Be prepared to turn away bad business. Bad payers take so much time they can cost your firm money in wasted staff effort. They can also cost in lost opportunities.
- Insist on deposits, unless you know your customer well and you are confident it is OK to give credit. If the customer is difficult, get the money paid into a solicitor's trust account or compromise and at least get something up front.
- Include regular progress payments in your contract.
- Check out a new customer before giving credit.

### Minimise your investment in equipment

- Sell surplus assets.
- Use hire purchase.
- Finance using a lease
- Hire short term instead of buying.
- Prolong the life of your equipment by having a programme of regular maintenance.

### Use your creditors but don't abuse them

- Negotiate time, in advance of purchasing, to pay for a big order. "Can I have three months to pay this?"
- Pay your bills on time (but not early if cash is short).

- If cash flow gets very difficult and you have been a good payer, you may not have too much trouble negotiating extra time to pay your bills. Those who are up front about their difficulties can usually be trusted. Always keep your word to preserve this privilege.
- Buy only when you need to. Turn away those great offers which require you to buy more than you need.

### Reduce your drawings

- Be realistic. If you are having cash problems, one solution is to take less out of the business for yourself.
- Prepare a personal budget. Do this thoroughly and honestly so it is accurate and you can stick to it.
- Reduce your investments. Can you still afford to keep a cottage in Taupo or Tekapo?

### Tax

- The tax department is the worst of all possible banks. It is enormously expensive to use IRD's money.
- If tax problems loom, deal with them early. There are ways and means. Consult us.
- If you get behind, you can save money by entering into an arrangement with the IRD. Consult us.
- Never default on an IRD agreement. The department gives you just one chance. If you get into further trouble, we might be able to renegotiate the arrangement for you.
- Defaulting on payments such as PAYE can lead to serious repercussions.

### ACC

- ACC seems to promote spread payments. Their 10% is not true interest. It is hire purchase interest – getting on for double the amount. Add the extra accounting needed and it is expensive.

## Taxpayer the loser in UOMI changes

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THE IRD has changed the way it calculates Use of Money Interest and the taxpayer is the loser.

The amount we pay has been reduced just 0.8% but the amount we get for overpayments is down 2.41%, three times as much. The new rates are 8.91% (we pay) and 1.82% (IRD pays us).

Small businesses have the least sophisticated ways to manage their tax liabilities, so will be the biggest losers. The \$2500 threshold at which UOMI kicks in for companies and trusts needs to be lifted to a reasonable figure. You can be sure there have been many calls on IRD to do this.

If UOMI affects you, as a minimum, keep comparing your accumulated sales this year with last year. If you can compare taxable profit, that would be better. If you expect your profit could be up, don't wait. Either increase your provisional tax payment or contact us for help. You may pay more provisional tax at any time. For March balance dates, if August and January payments look light, when you get to say March, pay more tax, promptly.

If your income is going the other way, you may estimate your tax and pay less. Please consult us first if you plan to do this.

## Contracting in Australia

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IF YOU are doing work in Australia, check the tax situation with us, because it is changing. There are a number of complexities which include:

- Possible double taxation of income derived through a company.
- Operating in such a way as to become liable for Australian income tax.
- Exceeding 183 days in any 12-month period.

## Letter of apology

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IF YOU have to write a letter of apology, make sure you put in the following:

- How you are going to put things right.
- How you are going to change your systems so the problems will not occur again.
- Repeat your apology.

## Student loans - 10% bonus

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EARLY repayments of \$500 or more in any tax year off a student loan will earn a 10% bonus. In some cases it may be worth accepting the offer. However, don't overlook the time value of the interest free loan, particularly if you have a mortgage.

## Use the Right Prescribed Investor Rate

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SOME of our clients are using the wrong rate for PIE income.

If your income is less than \$38,000 (or the PIE income when added to your income does not also exceed \$60,000) for either the 2008 tax year or the 2009 tax year, you are entitled to use a rate of 19.5%. If you let the PIE tax you at 30%, you cannot get the overpaid tax back.

Occasionally clients are going the other way. They are selecting a 19.5% rate when it should be 30%. These people have to put their PIE income into their tax returns and pay the rest of the tax. If you pay a top tax rate of 33%, you could have paid only 30% in the PIE.

Watch out if you are retiring and this is your last year on a high income. A PIE can be bad news. If your income is going to be less than \$38,000, you may still have to use the PIR of 30%, so you will be over-taxed in the PIE. It could pay to avoid the PIE for that one year.

## Tax Calendar

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### October 28

1st instalment of 2010 Provisional tax for those who pay GST twice a year.

GST due for those who pay six monthly.

(All March balance dates)

### November 30

1st instalment of 2009 Provisional tax

(June balance dates)

### *Contact Us*

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

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