

## Newsletter

SPRING 2014

# If you can measure it, you can manage it

Most small business operators are lazy about keeping records to help them improve their business. They'd say they are too busy.

If you provide services, you need good time recording to measure your performance.

It's very onerous keeping time records, but if you're prepared to do it well, it will add thousands of dollars to your profit. You must keep a record of ALL the hours you are at work for the day – 7.30am to 5.30pm is 10 hours. Account for 10 hours.

You will find it easy to change, if you wish to. Your problem will be to keep going month after month. You'll also find, after a few months, time recording and analysing will have become a habit and it will be easier to sustain it.

Measure what you do every day and if you have staff working for you get them to do the same. Analyse this information. Calculate the amount of time you put into work you can't charge for (non productive time), like going to the bank, social calls, ducking out to get X etc. Analyse this and work out how to reduce it.

For example, use emails more, cut social chat during work hours and reduce the time you spend looking at work you never even quote for. You will get a shock when you see how much time you lose every week.

Occasionally, as a matter of interest, calculate the value of time for one week you spend doing work you can't charge. Multiply by 52 and you've got a measure of what your non-chargeable time is costing you, every year, in terms of lost opportunity to be doing work you could be paid for. Aim to halve it.

You can also analyse your chargeable (productive) work. The best way is to look at the extremes. Work out the cost (in hours) of each job. Look at the ones which have taken you far too long. Work out how you could have done them better. Maybe you did more work than quoted and could charge for extras. Learn from the mistakes. Look at the jobs which have been very successful and see if you can learn from them, too. Disregard the majority in the middle, where the time quoted and the time taken were reasonably close.

Time spent working on your business as opposed to in your business is an investment. Most of us have our heads down working hard to get the work done and find it difficult to put time aside to make the business more profitable. If you can control your business like this, you will be a winner.

## IRD and 'your cheque is in the mail'

From 1 October this year cheques must reach IRD by the due date for payment.

Posting a cheque on the last day will be too late. IRD will accept post-dated cheques but won't guarantee to not bank them early.

If there are insufficient funds to pay the tax, that's the taxpayer's problem. IRD say they will endeavour to avoid banking early and we believe them. Mistakes are made, however.

To help ensure a post-dated cheque is not banked too soon, highlight the date on the cheque in a bright colour and staple a warning to the cheque that it's post-dated.

Payment on the next working day after a weekend or holiday is still acceptable. A provincial anniversary day is a working day, NOT a public holiday for the purpose of the tax being received on time.

Westpac will accept cash or eftpos for tax payments, but not cheques.

IRD will not accept cash.

# IRD up in arms about ‘donations’

IRD is getting upset about “donations” which are really in the nature of fees for services.

In Revenue Alert 14/01 it lists the criteria for a donation. When you analyse the list it amounts to:

- The gift is made voluntarily
- Nothing is received back in return for the gift either by the giver or anyone else
- The charity doesn’t have to give anything away in return for receiving the gift.

The department is investigating arrangements where private education and child care centres charge nominal fees and then get parents to make substantial donations, for which they issue a donations receipt. They say these are payments, which would not ordinarily be donations, and are fees for services. The purported donations are used to meet running costs, which would otherwise have had to have been charged to parents.

GST is also an issue. These “donations” are really being paid for services. Therefore the education centre must charge GST.

The department says penalties and interest may be applied if it catches anyone transgressing.

What can you do? If this announcement affects you and you have been used to claiming these donations, you may need to forgo these claims, which is, of course, exactly what the IRD wants to achieve.

## Measure it, manage it

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### Sales

“If you can measure it, you can manage it” applies just as much to other aspects of your business. Sales are a good example.

Do you count up the number of enquiries you get from your advertisements? How do you know whether you are spending your money wisely, if you don’t? Do you measure the number of enquiries you convert to sales? What’s your success rate? A retailer keeps a record of each assistant’s sales, totalling them monthly. In this way, he helps his staff to improve their techniques.

Increase your profits by measuring what you do and managing yourself – and staff if you have any.

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## Rules for accounts change from 1 April 2015

The rules for preparing your accounts will change when we do your 2015 tax return.

The new rules are supplied by the tax department. The main difference between what we do now and what we will be required to do next year is to tell the IRD about “associated person transactions”.

Roughly translated, this means dealings the family, another family company or family trust have with the company. So, if you pay your daughter for sticking stamps on envelopes you’ll need to tell the IRD how much you paid her. The list of disclosures of transactions with associated persons is:

- Interest paid by the company. Mostly shareholders, lend their money interest free to their company, so this won’t affect them.
- Loans made from the company. This mostly arises when the shareholders are living beyond their means and need to borrow from the company instead of the other way around.
- Payments for services received by the company. This includes wages, salaries, management fees etc for each recipient. The name of each person and the amount is sufficient.
- Rentals and leases of land and other assets, which would include use of home.

- Expenses for acquiring intangible property, which would apply, for example, if you charged your company for the use of a patent.

### Important

Please make sure you are ready to provide this information when we require it.

### Tax conference outlines IRD thinking

On 12 and 13 June 2014 a conference in Wellington discussed tax administration for the 21<sup>st</sup> century.

You may be interested in the direction IRD may be taking us.

Issues discussed included:

- More collection of tax at source – withholding payments.
- More electronic filing.
- More emphasis on collecting data rather than on getting tax returns.
- Spread terminal tax over next year’s provisional payments.

Knowing these possible changes, might help you when planning your business systems.



## Keeping hard-earned wealth a challenge

We have seen many clients work very hard only to lose some or all of their savings. And they're not stupid people, quite the contrary.

Keeping your wealth is a challenge. You need to think about how to do this. Also, think about why the mistakes have been made. Greed? Bad advice? Putting all their eggs in one basket? Collapse of the sharemarket?

You'll be lucky to avoid making some mistakes. Let them be relatively small.

Here are a few examples of how you could have made mistakes:

- Ross Financial Management promising exceptional results.
- South Canterbury Finance Company was a safe finance company wasn't it?
- Lending to the wrong finance companies, often on the advice of a professional.
- Many tax avoidance schemes such as pine trees, kiwifruit, alpacas and films have not worked out so well.
- Bubbles bursting, such as the sharemarket in 1987.
- Over-exposure to debt when the market recedes, usually while investing in real estate or the sharemarket.
- ANZ Bank promoting Ing to its customers. Do you remember what happened?

So what should you do? It's not our job to provide financial advice and the law requires us not to do so. Besides, we don't have the specialist knowledge required. However, consider these points:

1. The higher the return on your investment, the greater the risk. Don't be greedy.

2. Keep alert. Doing what everyone else does is, at times, wrong. Recently, gold was an example of this. It was going up for ever, wasn't it! The 1987 sharemarket collapse was another.

3. Recognise your mistakes and maybe you should sell out before they get worse. Have you the courage to do this?

4. It's often a good strategy to get rid of your losers rather than cash in your winners. If your winners continue to win, you're better to stay with them. You may have heard it said "No one ever went broke taking a profit". It sounds wise advice but maybe it's those who hang on to their good investments who really make the profits.

Spread your risks. If you're tempted into a scheme which looks too good to be true, it probably is. If you really are tempted, don't go in big time. Only invest money you can afford to lose.

### BRIEFLY

#### **Beware complaints**

You must be more careful than ever to avoid complaints about your business. The internet has become very powerful and if you create a bad reputation it can spread very quickly. Once a comment is on the internet, it probably can't be removed. Try looking up reviews of Australian airlines if you want to see the negative publicity which can be generated, even if the criticisms are sometimes unfair.

#### **Mileage unchanged**

Mileage rates are unchanged. They remain at 77 cents per kilometre. This is the third year at this rate.

#### **Claiming for partner**

When can you claim the travel costs for your spouse/partner, accompanying you on a business trip? The IRD says the companion has to support the business person to a reasonably substantial degree, in the business being undertaken. It has issued a document called QB 13/05, which sets out guidelines in some detail. If you want to claim a companion's travel costs, we will be guided by this IRD pronouncement when advising you on its tax deductibility.

#### **Perception is reality**

What matters is what the customer feels about your service. If the customer is peeved, you're in the wrong in their eyes. However, if one of your customers is consistently unreasonable, you don't need to continue to do business with them. Get rid of them, preferably in a way which doesn't cause offence.

## Use email signature as a marketing tool

An email signature can be a useful marketing tool.

A signature can automatically go on the end of every email you send. It should at the very least include your contact details, company name and your designation (i.e. sales manager).

It can also include the company logo and, if relevant, your website and social media addresses (Facebook, Twitter, LinkedIn).

However, you can use the signature to market yourself, your company and or a product/service by adding special offers (make sure you change it or



delete it once the offer expires), to publicise any awards won (Plumber of the Year etc), a testimonial or even a recommendation for a partner business.

There's plenty of information on the internet about how to set up a signature in Outlook or in Mac Mail if you don't have one already. You can even set up different signatures for different recipients (i.e. sales or general).

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### No will? Make one now

Do you have a will? Fifty percent of Kiwis don't. Which 50% do you belong to? A will is important. If you haven't got one, do something about it now or you may leave behind a badly hurt loved one.

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### TAX CALENDAR

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#### August 28

1st instalment of 2015  
Provisional tax if you pay three times a year (March balance dates)

#### September 29

2nd instalment 2015  
Provisional tax (December balance dates)

#### October 28

1st instalment of 2015  
Provisional tax for those who pay GST twice a year

#### November 28

1st instalment of 2015  
Provisional tax (June balance dates)

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## Manage your time on the internet

If you want to save valuable time on the internet:

- Don't send jokes by email. Your friends will soon get tired of sending them to you.
- Keep your inbox empty. Anything you want to put aside for reading later can be transferred into a separate folder.
- Add some senders to your junk mail list. There are certain pests who won't action "unsubscribe" or will start emailing you again shortly afterwards. Flag them as junk email. Go to your junk email folder periodically and glance down the list to check no important emails have snuck through, then delete the lot.
- Work on "unsubscribe". Time invested in getting rid of unwelcome mail will save you more time in the long run.
- Niceties are nice but not necessary. Some folk respond to emails without addressing it to the recipient. And they simply finish off with their name only.
- Don't type responses unnecessarily. Use a dictating machine and get this done for you.
- Emails will usually save you time when compared with telephone calls. You don't need to wait for the phone to be answered, you don't have to leave messages and you don't have the

inquiries about the other person's health when you send emails. An email also leaves a trail of correspondence you can refer to later.

- Get used to using as few words as possible. Be concise.



**It's easy to waste time on the internet.**