

Newsletter

Winter 2017

Low rates not so good

Don't be taken in by very low interest rates for hire purchase, or even those offering zero percent.

Many retailers occasionally offer "special deals" of 0% percent interest on hire purchases. Does it mean you pay only the ticket price over the term of the loan?

The answer is no, and in fact the total price can be very expensive.

If you add up establishment fees, annual fees and any other cost the vendors may add, you will get some idea of the cost of the borrowing.

For example, an appliance costing \$700 could be financed by one of the leading dealers at 0% finance. The deal included an establishment fee of \$55 and what appeared to be an annual account fee of \$52. The salesperson was a bit vague.

That would make a total of \$211 ($\$55 + 3 \text{ times } \52) for a 30-month agreement.

If you take the average between the debt at the start of the contract and the debt at the end of the contract, you get an average debt of \$350. You can now see why the \$211 is such an enormous figure to be paying.

Divide it by 30 months and multiply by 12 months and you have the cost per year of about \$84. That's an interest rate of 24% ($\$84$ divided by the amount borrowed being $\$350$).

Even if these figures are not entirely accurate, do your homework and determine the true cost of borrowing. You might be a lot better off with a bank overdraft.

Does your cash register always balance?

People make mistakes. Every so often there'll be less in the till than you expect.

It's easy to give the wrong change and customers are unlikely to complain if they receive too much.

If your cash register always balances, it could be someone is manipulating the figures.

You can get more in the till than receipts show if staff don't ring up every sale. Also, if the customer can't see what's being rung up, it could be a smaller figure than the price of the goods.

These are two ways the till can have too much in it and an unscrupulous employee can keep the excess cash. Modest till shortages are a good sign. The till always balancing is a bad sign. It may indicate there's a thief in your business.

FBT on work-related vehicles

You must pay FBT on a work-related vehicle, if it's available for private use. It doesn't matter that the vehicle is a commercial vehicle and not a car, nor that it's been sign-written to comply with Inland Revenue requirements.

What matters is whether the travel to and from home is necessary in, and a condition of, employment. A plumber usually goes to different jobs every day. It would be impractical to return to the employer's premises. The employee's home becomes a place of work. The employer should give a written instruction to the employee about taking the vehicle home and state it is not to be used for private purposes. We recommend getting the employee to sign confirming he/she understands the instruction. If you comply with this, no fringe benefit tax has to be paid.

If the employee doesn't deviate significantly from the route home and stops off at, say, the supermarket, that's not counted as being available for private use.

The work-related vehicle exclusion is applied on a daily basis. If the employee has unrestricted private use on work days but is not allowed to use the vehicle on days he isn't working, the fringe benefit tax liability can be reduced proportionately.

PAYE salaries for company owners

The law has just been changed. Provisional taxpayers will be permitted to take a PAYE salary and still remain provisional taxpayers.

Some people have been doing this already, but it has never been entirely correct.

If you are a shareholder employee of your company and want to get some of your tax paid as you go, you can be an employee of your company and come into the PAYE system. Any profits left over at the end of the year can still be credited to you in the usual way.

However, the profits will be much smaller and although you will still have to pay provisional tax and year-end tax, the amounts will be much less daunting.

You should note if you do put yourself on PAYE, you must continue with a PAYE salary for the life of your company. You cannot change your mind and be a full provisional taxpayer again.

This doesn't mean you have to continue with the same amount of salary. If the company is not performing too well, it's logical to reduce your pay.

You should also note you will have to guess your provisional income in the year you make the change to a PAYE salary. If you underpay the provisional tax, Inland Revenue will require use of money interest at a rate more than 8% a year.

If the company makes a loss as a result of your PAYE salary, you will not be able to reduce your income by the amount of the loss unless your company happens to be a look through company. The loss will be locked into the company until it can be set off against profits in future years.

There has been no provision for allowing a self-employed person to have a PAYE salary. If you are one of these, the best thing you can do is make monthly payments in advance into your account at Inland Revenue, which is not entirely satisfactory.

Never make judgements about potential customers



Carl and Carole were buying a new kitchen. They needed new appliances so they went to one of the large retail stores.

While they were talking to the salesman, he was called over by his manager. The couple only found out why later.

In due course the salesman pulled off a pretty useful sale, but then confided in them what had happened. He said the manager had told him not to waste time on them because the manager considered them tyre-kickers. This was in spite of the store being relatively empty.

Another couple, Barry and Betty, had a similar experience when buying a car. They sent a list of questions to a dealer in new cars and instead of getting the answers they needed, they were supplied with three or four paragraphs of standard car information.

The couple like driving cars but didn't want to know how they're made and other technical details. They found it very hard to interpret what they received and decided to send a letter of thanks to the company but stating they were no longer going to buy a car. About a month later, they still had not found the car they wanted so they made further enquiries at the dealership.

While out walking, they received a cell phone call from the manager. He wanted to know whether they were really serious.

In due course they bought the most expensive new car in the dealer's fleet.

These are both true stories although the names have been changed.

Our message is, never prejudge your potential customers by their looks or their actions, and never assume they're not going to buy from you.

Many people who look like hoboes are quite rich. They don't have to dress up to be a big spender.

Danger in cashing up when company



sells

If your business is in a company, you need to understand tax on capital gains.

Tax law dictates you must not take any capital gains out of the company except when winding up.

Here is the big danger. You sell your business for a nice profit of, say, \$200,000. Naturally, the first thing you think of is how you can use this. So you take the money out of the company and, whoops, you've "broken the law".

What should you have done?

If you're going to wind up the company, you should first have passed a special resolution of shareholders to this effect. Not until then are you entitled to have that money. If you want to continue using the company, you must leave the money in it.

We can repair the damage by treating the withdrawal as a loan to you but this can be expensive. You would have to be charged interest at Inland Revenue rates, which are currently a little under 6%, if you have been working for the company and been paid a salary.

So often we see clients who have sold their businesses and not been aware of the rules. This can occur a year or more after the transaction and the interest bill referred to above can be quite significant. When it comes time for you to sell, please remember to talk to us before you take out any of the money.

A few of our clients are look through companies. This rule does not apply to them because, from a tax perspective, they are partnerships.

Nothing beats asking the customer

A couple were having lunch in a cafe. "If you owned this cafe, how would you improve it," Bert asked. They discussed decor and menu.

"Ask the customers what they would like," Betty said. "Why not put a notepad and pencil on each table asking for suggestions?"

She also suggested writing at the bottom of the page: "If there is sufficient interest from others, we will put your request on the menu and get in touch with you. We'll also tell you when we change our menu. Please leave us your email address."

This idea is a great way of interacting with customers, showing them their opinion matters, and getting their email address so you can keep in touch. An email database can be gold.

If you want to know what to sell, nothing beats asking the customers what they would like, whatever industry you're in.

How to win the email war

We all know we can clear our inbox and then another email swarm arrives. How do we avoid spending too much time on emails? Prioritise and don't be afraid to delete. Discipline yourself to accept you can't read them all and prioritise your reading. You may have to forgo opportunities by pressing the delete button so you have enough time to deal with the important emails.

Money laundering hits accountants

From 1 October next year accountants are going to have to start behaving like banks. If you want us to create a company for you or you want to send more than \$1000 overseas, we are going to need identification. We will have to save this in our computer. We'll have to keep a record of your name, birthdate and address. That's not too difficult. But we will also probably have to take a copy of your driver licence or passport and evidence of who you are acting for, in case you are setting up the company for someone else. Similar rules are going to apply to lawyers from 1 July 2018, if they create a company or trust for you. We're sorry if you find these requirements irritating.

Student loan interest

Many students studying overseas, full-time or doing an internship and receiving a government funded scholarship, are to be entitled to an exemption from interest on their student loan.

Sell what people want

If you're selling pills to help prevent winter colds and they also have a nice flavour, sell the flavour. Although the main benefit is preventing the cold, the customer wants a tablet that tastes nice, the secondary benefit. A *Peanuts* cartoon once showed Lucy advertising a kick in the butt for \$2. She made no sales all day. She is explaining to Charlie Brown lots of people *need* a kick in the butt but no one seems to want one. When selling, offer what the customer wants. Don't try to sell a need.

Try a password manager



If you're not lucky enough to have a photographic memory, keeping track of passwords can be a nightmare. Every time we want to enter a subscription website or do internet banking, we need a password to verify we are who we say we are. Some of us write passwords in a book or in a text document on our desktop, others just use the same one everywhere because they can't remember passwords for every site. Neither method is safe.

The answer could be a password app. There are many now available to download, and some are even free. These apps manage passwords as a browser plug-in. You need to remember only one master password – the one that opens the app.

Most products include a built-in password generator for the secure sites you want to visit, which means you don't have to wrack your brain thinking up a password. These passwords are at least 16 characters long, usually too long for you to remember.

The apps are not for everyone. Some users are wary of any cloud-based program that might be able to access your password. However, the app hosts say their encryption means even they have no idea what your password might be.

In the end, it's your choice. Do the research by looking up 'password managers' in Google.

Keeping a log book made easy

Keeping a vehicle log book is a bind.

Inland Revenue requires you to note your opening odometer reading and closing odometer reading over a three-month period. It will allow you to record your business trips only, over that period. Unfortunately, if you overlook a business trip, it will become a private trip by default.

Apps are now coming onto the market to solve the problem. They will keep a track of all your trips and help you to analyse them.

We obtained a quote for using LogbookMe. A 12-week license costs \$248 + GST and a 52-week license costs \$480 + GST. There will be other logbook apps on the Internet. You may be able to put the log book app to other uses to get the best value out of it.

The brilliance of F1

Go for the shortcuts - F1 is brilliant. Do you dream of being able to get much more out of your computer? Do you believe really getting to grips with a computer is for geeks and eight-year-olds? The good news is you will learn a huge amount by just pressing F1 on your computer keyboard.

Do you get frustrated with the wrong font coming up every time you want to type something? Go to F1 and you'll find the answer. Press the button and you will see "change or set the default font". You will then be directed on how to do this, but in typical computer fashion they'll forget to tell you where to find "set as default". There is a tiny arrow pointing downwards in the bottom right hand corner. You will need to click on that.

Have you ever wondered how you could leave a trail of the changes you have made to a document? F1 is your answer. There is a whole load of information in F1. It is worth your while browsing it.

Windows 10 tips and tricks

Find a file by clicking on the magnifying glass symbol on the toolbar. Type in the name of the missing and if it exists, it will be located for you.

Press Alt + Tab and it will show you all the open programs so you can choose which one you want to go

This is a great shortcut for switching between programs. It also shows you what programs are running and draining your memory resources.

TAX CALENDAR

May 29

1st Instalment of 2018

Provisional Tax

(December balance date)

May 31

Last day to put in final FBT return for 2017

June 30

Last day to apply for annual FBT returns for those who qualify

July 28

3rd instalment 2017

Provisional Tax

(June balance date)

August 28

1st instalment 2018

Provisional Tax

(March balance date)

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