



# TAX EXPERTS LIMITED

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

NEWSLETTER - FOURTH EDITION

## MUST READ

- **DRESS FOR THE PERCEPTION OF SUCCESS**
- **NZ SUPER LEADS TO OVER-TAXING**
- **TAX ON LUMP SUM PAYMENTS**
- **SURPRISE FOR PROPERTY DEVELOPERS**
- **CHANGES TO HOMESTART**
- **NETWORK FOR BUSINESS**
- **SHAREHOLDER'S AGREEMENT**

## DRESS FOR THE PERCEPTION OF SUCCESS

IF YOU think your attire is not important in business, think again.

Perception, as they say, is everything. It's also said that first impressions count.

So what's the perception your clients — and potential clients — get from your dress sense, and what first impressions do you convey?

What you wear, as much as what you say, will convey your business as trustworthy, efficient and friendly, or dodgy, sloppy and surly? If you're a plumber, your clients are not going to expect you to arrive for work in a suit and tie. But they will expect you to be clean and tidy. That means you might need a second (or third) set of clean overalls if you've just finished a

particularly messy job.

If you're in the customer service business, such as sales or running a cafe, attire is even more important. Perceptions of your product and service will be determined as soon as a customer sets eyes on you. Take a look in the mirror and ask yourself what

impression your clothes

convey. Expect the same standards from your staff and those who represent you. A friend once employed a sales representative who seemed fine in the interview. Later, clients complained that he always wore a crumpled suit and simply smelled bad. He didn't last long with the firm because he was affecting not only sales, but also the image of the company.

Dress also for different situations and audiences.

Consider the Greek Prime Minister, Alexis Tsipras who might sometimes wear a suit and tie, but he went to the do-or-die meeting about the Greek bailout wearing no tie. This was an important meeting, surely, and he was a head of state representing his country. But he was also negotiating the economic future of his country, which he knew would bring even more austerity measures for an already stressed population. He was not out to impress the other European leaders — he was making a statement to Greece. The state-



ment was that he was also feeling the pain, and he wasn't going to be so callous as to wear a flash suit and tie.

Remember also that fashions change, and people's expectations change.

A suit and tie or conservative business skirt and blouse for professional business people might have been appropriate 10-15 years ago, but not necessarily now.

People are more accepting of casual attire, but they will still take note of untidy, dirty or inappropriate attire. If it's casual, clean and tidy it will win the day.

If you're in the trades or customer service, branded clothing is important, too. Firstly, it's another form of marketing, rather like sign writing on the company car or van. Secondly, it can resolve issues of staff dress.

One local cafe owner was having difficulty getting staff to wear appropriate clothing to work. They had branded T-shirts, but would often arrive at work in torn jeans and/or jandals. The cafe solved the problem by providing trousers and skirts to match their tops, and implemented a dress code for footwear. If you're not sure what you should be wearing, ask a well-dressed friend or colleague for

## NZ SUPER LEADS TO OVER-TAXING

People often continue working after receiving superannuation. By doing so, they make it legally their secondary job.

When they retire there's no one to advise them it's time to change National Superannuation to a primary tax code. Result – they are over-taxed and never know it has happened because they don't need to put in a tax return. Typical cost is about \$1000 a year.

You might like to mention this risk to anyone you know who might be affected. Incidentally, there's no law which says you can't make National Super the primary source of income and switch the primary job to secondary. Do the arithmetic to see if it matters.

Remember, you can go back four years to get refunds (see also article "Keep tax details" at right).



## TAX ON LUMP SUM PAYMENTS

There are fewer tricky tax calculations than calculating tax on lump sum payments.

Overtime is not a lump sum. It just adds to the wages for that period.

The steps are:

1. Take gross wages for past four weeks and multiply by 13.
2. Add the lump sum.
3. Determine the annual tax rate. For example, if the total is \$49,000 the tax rate is 30% (being over the \$48,000 threshold). If the employee is using a secondary tax code, use that + ACC (see 4 below).
4. Add ACC, currently 1.45% for primary income up to salary limit of \$120,070.
5. Apply the resulting tax rate. In the example above it is  $30\% + 1.45\% = 31.45\%$
6. Calculate student loan and Kiwi Saver adjustments.

You may notice, using the example above, if the bonus were say \$5000, \$4000 of this falls below the \$48,000 threshold. This indicates, depending on what else happens during the remainder of the year, tax may have been overpaid and the employee would qualify for a refund.

It pays for employees, who get bonuses, to check their tax situation at the end of each year.

## SURPRISE FOR PROPERTY DEVELOPERS

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Spare a thought for Mr X who borrowed a large sum of money for a development project, which came unstuck.

Five houses were built and all of them were sold to pay back the mortgage. Shortly afterwards, the company was put into liquidation. The liquidator argued that the sole company director had to pay GST, personally, to the IRD.

He pointed to the Companies Act. You are not allowed to incur a debt when you know you can't pay it back. In this case, by selling the properties he incurred a debt to the IRD he knew he couldn't pay.

He was therefore liable to pay it out of his own pocket.

What's the solution? When borrowing money for a development project, you would need an agreement that if there was a mortgagee sale the IRD would be paid first out of the proceeds.

It might be hard to find anyone who would lend you money on this basis, but that's what you need.

## CHANGES TO HOMESTART

There have been some changes to HomeStart:

- The HomeStart grant has been doubled for first home buyers purchasing a new home – overall maximum \$20,000.
- House price caps are now 550,000 for Auckland; \$450,000 for high-cost areas such as Wellington and Christchurch and some others; and \$350,000 for the rest of the country.
- Welcome Home Loans (underwritten by Housing New Zealand) require 10% deposit. House price caps are the same as above. Withdrawals from KiwiSaver can be used for an initial deposit

## CASH BACK

Most people get their air points on personal purchases. However, some of us are in business and we like to slip in a business purchase when we can because we know IRD does not tax air points. What about the new “cash back” scheme? It's great news for those who don't want to fly. You can use it to repay your mortgage or how you like. However, if you're in business, we think “cash back” is taxable income where it results from business purchases



## NETWORK FOR NEW BUSINESS

Some people don't like networking, because it can take them out of their comfort zone. But business is all about relationships, and networking is an important way of building those relationships to bring you a regular supply of new business.

It's not just about attending meetings and exchanging business cards. Cards will most likely end up in a drawer and do no good for your business unless you build a relationship with the card holder.

Here are a few tips for effective networking:

- Be pro-active and focused. That means seeking out and talking to people who you believe are important for your business.
- Attend meetings and get to know the people who make things happen. They might not be the ones who directly provide new business, but they most likely know someone who can. Find out if there are meetings of people in your line of business.
- Offer to join the committees of business groups. Speak at network meetings about your business. You don't have to be a public speaker, just be passionate about your work.
- Follow up. If someone says "Give me a call", make sure you do. Call anyone who shows interest in your business.
- Learn from the best. Talk to the best people in your line of business. They'll most likely be flattered if you offer to take them for a coffee to ask them for advice.



## SHAREHOLDER'S AGREEMENT

If you're working in a company in which you own shares, do you have an agreement with your co-shareholders? These are called shareholders' agreements.

A and B worked together in a panel-beating business. A died suddenly, leaving everything to his wife, so she became the new shareholder. B didn't like Mrs A and wanted to buy her out but they couldn't agree on a price. Mrs A took advice and became difficult to deal with.

Your shareholders' agreement should provide a way for shareholders to sell their shares if they want to get out of the business. Your solicitor will be able to list other things you should consider.

## **BRIEFLY**

### **Calculating KiwiSaver**

KiwiSaver is calculated on all gross wages. This includes taxable allowances, bonuses, commission, extra salary, gratuity, overtime and final pays.

### **Fishing “goods”**

You may not claim GST on fishing quotas, coastal permits and certificates of compliance. They are not considered to be “goods”.

### **What will they lose?**

BNZ economist Tony Alexander recently observed too many small business owners were reluctant to attend courses. He suggested the promoters should focus less on the “how to’s” and more on what they’ll lose by not attending. You can apply that principle to your marketing. Focus on the fear of failure or missing out. Fear is a powerful marketing tool. Don’t hesitate to use it. And, by the way, the colour red denotes danger, so use that, too.

### **Asking for referrals**

Don’t hesitate to ask for referrals for your business. How do you like this ONE from Flight Centre? "The highest compliment you can give us is the referral of a new client. Thank you in advance for your thoughtful recommendation."

### **Ultra fast broadband**

Are you surprised when your ultra fast broadband service is not ultra fast? It might be because you have a low-cost computer. These computers can be slow to process modern programs and operating systems. You might also have insufficient ram. Check processing and ram capacity when you buy.

## **POINTERS FOR QUOTING**

There are five basic mistakes you can make when putting in your price for work or products. Some of the material for this article was found in business.co.nz. A couple of additional ideas have been added.

1. Spend your time quoting for only those jobs you have a reasonable chance of getting. Many clients of ours look at every job and then don’t bother putting in a price for many of them. Why waste time going there, if you’re not going to price the job?
2. Read the brief carefully. Do exactly what you’re asked, otherwise don’t quote.
3. Study your buyer. Their website is a good start. If you don’t know them, they may be desperate to get your quote because they can’t pay their bills. Check their credit rating.
4. Sell your firm's attributes. What can you do which is so special your firm should be chosen? Don’t forget to send in references from customers who were delighted with your work. Blow your own trumpet. If you’re great at what you do, tell them, but be specific. Generalised statements are useless.
5. Double-check your figures. Then proof read your quote. Is it clear and obvious what you are quoting for? You don’t want an argument later. Make sure your terms and conditions are included. Every time you strike an argument with a customer, go back and rewrite your terms so that particular problem can't arise again. You should probably read through the quote three or four times before letting it go.

You’ll find more hints for successful tendering on the Ministry of Business, Innovation and Employment’s Procurement website. It includes videos of buyers talking about what they look for in tenders.



## CHECK ROUTER FOR DATA BLOWOUT PROBLEMS

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WE'RE ON THE WEB

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A blowout in your consumption of uploading and downloading data on the internet could be because of several factors.

If you don't usually send or receive large quantities of data, consider checking the router.

One small businessman upgraded to ultra-fast broadband in October last year and while he was on holiday the following May there was a sudden surge in his uploading. Since he was not using the computer, this was a little odd.

A tech checked everything before blaming the supplier. Eventually, he connected the computer directly to the cable modem and shut down the router. The uploading problem immediately vanished.

It appears the quality of the router supplied was highly suspect. The broadband supplier agreed to replace it. But in the meantime, a lot of money had been spent on sorting out the problem.

It was unrealistic to claim this back from the broadband supplier, who caused the problem, for some fairly obvious reasons. A month after starting to use the new router, usage has dwindled.

#### Our recommendation

If you strike this problem, try and isolate it to one device. Your router might be faulty and that's your internet service provider's responsibility. It's all too easy for large ISPs to supply cheap, poor quality routers. You pay. They don't. A review of the last six months usage in our example showed the fault had been there probably from the beginning.



Merry Christmas  
and  
Happy New Year

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