TAX EXPERTS LIMITED

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

NEWSLETTER - SIXTH EDITION

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GST on the way for offshore web purchases

You'll soon be paying GST on purchases you make online from overseas companies.

Many overseas companies have agreed to cooperate with the New Zealand Government and charge their customers GST, provided the system is kept simple. These companies will collect GST and remit to our IRD. Australia is also looking at creating a register of offshore sellers.

Offshore sellers will be able to recognise their New Zealand customers in various ways such as their IP addresses, credit card BINs and phone numbers.

Tax collection will start from 1 October 2016.

If the overseas supplier is selling only to New Zealand businesses, (which are registered for GST), there will be no need to register for GST. Overseas suppliers will not need to issue tax invoices. If a New Zealand business is charged GST by mistake and the amount is less than $1000, the supplier may issue a tax invoice so the New Zealand customer can claim the GST. If the amount is greater than $1000 or the New Zealand business can't get the supplier to send a tax invoice, the New Zealand business will have to get the GST refunded by the supplier.

Businesses will, of course, be caught in the net but they'll be able to claim back their input tax.

The big unsolved question is how to collect GST on parcels coming in from overseas. Currently, there's no GST on articles costing less than $400. This is because it is uneconomic to collect the tax. If digital transactions such as downloaded music are to be taxed regardless of the cost, how will the Government find a way to tax small items coming in by post?

Boost income by offering more every time

The following story is a great example of a business adding value to their service.

Jane rang an Italian restaurant to book a table for lunch on Sunday.

"Would you like us to put some antipasta and mineral water on the table so your guests have something to nibble while they wait for their main course?" the restaurant asked. Jane said she would have the mineral water.

Before the customers even arrived, the restaurant had made a sale!

While Jane's guests were deciding what they would like to eat, they were, of course, offered drinks and most of them bought some coffee.

When they had finished their main course, the waiter returned with the menus and put a copy in front of each person and disappeared. He didn't ask if they would like to see the menu as this might invite a "no" answer. When he came back, to the table he was ready to take orders for a dessert.

There were no sales but one of the guests suggested the waiter would return and offer more coffee.

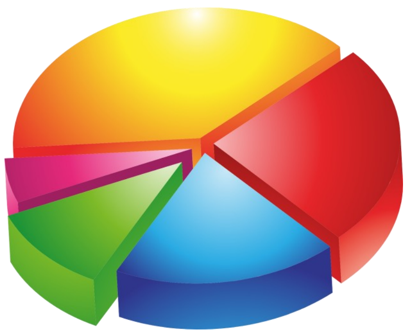
The guest was close – the waiter offered more mineral water!

This restaurant also offers Italian food to take away and, as you might guess, several of the guests did not leave empty-handed.

It would be interesting to know the average sale for this business!

Up-sell whenever you can and make sure all your staff do the same. Remember what they say at McDonald's: "Would you like fries with that?"

Getting your PIE tax right



If you're investing in a PIE, be sure to get the right tax rate (PIR).

You should check with us when we do your tax return each year as it can change from year to year and there are no refunds of overpaid tax.

If your income is less than $48,000, use a rate of 17.5% unless you have so much PIE ***income*** that it exceeds $22,000. If husband and wife have PIE income in their joint names but their taxable incomes are taxed at different rates, it's better to split the PIE investment into two halves and invest separately, so one can be taxed at the lower rate. Otherwise, the whole of the investment has to be taxed at the rate applying to the higher taxpayer.

Tax on holiday pay

Use the extra pay tables to get holiday pay correct:

If the employee is leaving unless the holiday forms part of the 8% of gross earnings – see below.

If you are paying a lump sum holiday pay payment in advance.

For cashed-up annual leave.

Use ordinary tables and spread out the income when:

Holiday pay is in substitution of salary for annual paid holiday.

Holiday pay forms part of the 8% of gross earnings.

Let staff take risks

The staff you should want are those willing to use judgement and take the risk of getting things wrong, occasionally. By taking risks, they will also get things right and this will be the case, hopefully, in the majority of circumstances. Avoid discouraging someone who has made a mistake. On the contrary, congratulate them for trying and encourage them to continue. These are the people with enthusiasm; the ones who will be capable of taking the load off you. Their sin would be repeating the mistake.

Travel in comfort

To make a comparison of possible aeroplanes and the comfort they offer try seatguru.com.

Got a bad debt looming?

Be quick and be persistent applies particularly to debt collection.

If you're offered a cheque and you don't like to suggest it might bounce, see if you can get two cheques for half each. Your debtor might have the funds to let $500 through but not $1000.

Checklist for annual accounts

Make a checklist of the things you need to do to streamline your annual accounts. Here are some suggestions to start you off:

- Answer all questions in our questionnaire.
- Make sure you have everything asked for in the questionnaire.
- Sign the completed questionnaire.
- Arrange for a stock take if needed.
- Count cash in the tills and petty cash at the end of the last working day.
- Work out money you have **earned** and not been paid as at the end of the financial year. If it's earned but not invoiced, it must still be counted.
- Work out money you owe your creditors at balance date.

If you have a high income (more than $179,030 after deducting expenses) make sure you've paid enough tax. To download our Questionnaire please visit the Resources page of our website www.taxexperts.co.nz

Tax changes afoot for student loans

Did you know proposed changes to tax laws regarding student loans mean:

- The income of those owing student loans will be adjusted on a similar basis to the adjustments required for Working for Families Tax Credit – for example, money you get from a trust, which is not usually included as income.
- The Australian Tax Office will be helping New Zealand's Inland Revenue to get addresses of New Zealand borrowers resident in Australia.

Volunteers overseas will find it easier to get their write-offs. These changes will come into force when the law is enacted.

Advertising for profit

Do you measure your responses from advertisements?

How many of those responses turn into sales? Don't know? Then ask your new customers, every time, why they came to you.

Further, have a look at the quality of customers you're attracting, in other words, whether they're serious about what you offer. There's no point in advertising for poor quality business.

Above all, keep figures to see if the advertising is earning its keep. The revenue you derive from your advertising is not just what you get from the first sale. It's the earnings over the lifetime of that customer. So if the average customer stays for five years, measure the expected sales you're going to make over this time. The profit on those sales needs to exceed the cost of the advertising.

Advertising is expensive. Some people advertise, get responses but never follow up. Perhaps they have more business than they can handle! If this is you, why advertise?

The early quote is likely to get the worm

There are the quick and the dead.

Although the phrase was originally seen in *The Bible* and "the quick" meant the living, its more modern meaning is apt in business. Act quickly, or your business will die.

An example is Geoff, who rang Michael the tiler. Would he be interested in quoting for a job? Michael was keen and asked for contact details to be emailed, which Geoff did.

Then the phone rang.

"How about 3.30 this afternoon to look at the job?" Michael asked.

When Michael had finished inspecting the site, he asked about Geoff's requirements and told Geoff what he needed to do before he started, then he sat in his vehicle for a while writing notes.

The next morning the quote arrived. Michael worked out how much time he would probably need and the number of visits to do the job. The cost appeared to be fair. It was about $1400 and fully detailed, so Geoff accepted.

Why would Geoff bother getting another quote? He might get a slightly lower price and he might get a lousy job. Michael had already proved his efficiency.

Our message to you: Be very quick with your quotes and give the appearance of efficiency. Not everyone gets multiple quotes and even when they do, half the time they never hear again from the tradesman. Yours could be the only quote, but if it's not, you might be the only one who follows up on it. Money loves speed.

The story of a smart typist

I work from home," said Mary-Jane when spoken to.

"I'm a typist and my clients are all in England. While they sleep I do the typing for them. When they've had their breakfast, it's all ready. What's more, they pay me in sterling at the same rate as the Poms get!"

Another New Zealander, who lived in Wales, had a job proof-reading from home. He moved to Hong Kong, but it was six months before his clients knew he had moved. It made no difference to them because the job still got done.

Mary-Jane lives in a small provincial town, but she could be living anywhere.

We think you will agree she demonstrates what lateral thinking can achieve.

Why a newsletter?

Have you ever wondered who that plumber, lawyer etc was you dealt with 18 months ago? Next time you want a plumber, what do you instinctively do? You try to remember who you dealt with last time and if you have forgotten you look elsewhere.

That's one reason why you should send regular newsletters to your customers or clients. Another is to encourage referrals from them and from other contacts. These include friends and suppliers. Compile as big a mailing list as you can.

The best way to ensure customers or clients read newsletters is to keep the articles short and to the point. Each article should have a benefit to the reader.

Personal Property Security could save your bacon

If your business is a company, you've probably had to give a personal guarantee to your bank and may be to some suppliers, too.

If your business runs into trouble, you're going to have to find personal money to pay off those debts.

Often our clients are owed money by their companies from loans they have made and salaries they have not fully drawn out. These debts are treated as unsecured creditors when a company goes broke. The debt is added to the other debts owing and our client will only get his/her share of any cash left over.

You can be paid ahead of these other creditors by registering a Personal Property Security for the debt owing to you. Alternatively, you could let a supplier (to whom you are giving a personal guarantee) have a Personal Property Security. The Personal Property Security would be taken into account in any adjustment made between you and the supplier. Once the security is in place, it has to be renewed every five years. The registrar charges a small fee – about $20 – for renewal.

Trustees and Inland Revenue

Inland Revenue will hold a trustee personally responsible for all taxes until it has been notified he/she has resigned. Therefore, if you resign, make sure Inland Revenue knows, and keep evidence of this.

Website not always the right answer

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If you're in business, you've got to have a website, right?

TECH UPDATE

Well, maybe. While websites are certainly important marketing tools, it's better to have no website than a bad one.

Too many small businesses are drawn into the idea that they must have a website at all cost. But what cost? Let's look at four of the issues that can lead to poor websites.

Time: If you don't have the time to update your website regularly, don't have one. Likewise if you don't have the time to set it up with the content you really need (and not what a web designer thinks you need). Regularly updated websites rank highly on search engines and give visitors a reason to return. But some researchers say about 65% of small business owners find updating their website a problem. If that's you, allocate the time each week, get help from someone who can write content, or minimise the website to a home page with only contact details and something about your business.

False economy: Websites can nowadays cost very little in monetary terms, but even when they're free, they'll cost you in the long run if they're not maintained. You'll look unprofessional and you could lose business, or fail to attract business you really should be attracting. It's also false economy to spend big money on a fantastic website that no one visits. You'll need to look at how to drive people to the site.

Poor content: You know your business, so get it right first time. Ask around so you get the best advice. Make your site engaging and have impact. Use photographs whenever possible. Ensure spelling and grammar are correct.

Management: If you have to rely on a web agency to manage your site, be prepared to pay (as you should, they're in business, too). It's best if you can manage your site content yourself so you have control. Choose your website manager carefully – if the web company closes down or the manager in your own business leaves, how will you maintain the site?

WE'RE ON THE WEB

WWW.TAXEXPERTS.CO.NZ

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