

GST changeover: get it right

WHEN we prepare your annual accounts for the 2011 tax year (ending 31 March 2011 for most people), we are going to need to know which transactions have 12.5% GST in them and which ones have 15%.

If you are on a payments basis, you will be making an adjustment for debtors (money owing to you) and creditors (money owing by you). Keep **details** of your calculations and supply these to us when you bring in your annual accounts material.

To minimise the risk of confusion, it would be helpful if you stopped making payments **by cheque** a few days before 30 September. This



should ensure no payments are in the pipeline. Payments appearing on your bank statements from 1 October should be either on your adjustment list or at the 15% GST rate.

If you make a mistake

The Minister of Taxation has inserted an extra clause in the Act which increased the rate of GST. IRD is not allowed to charge penalties OR use of money interest if you have to correct your 30 September GST

return, provided you have taken reasonable care so the mistake is not bad enough to warrant them charging shortfall penalties.

If you think you have a problem with this

Cash flow problems?

TAX pooling is a great way to conserve your cash. For a reasonably modest interest payment, a tax intermediary will enable you to buy time to pay your tax. It works like this. Suppose you cannot afford the provisional tax payments, for a March balance date being 28 August, 15 January and 7 May.

A tax intermediary will arrange to pay the tax for you. All you have to do is pay interest up front and then come up with the right amount of money in the end.

A client was unable to pay his tax for the year ended 31 March 2009. He needed about \$30,000 and had not paid the first two instalments. He went to a tax intermediary and "bought" tax for the 28th August 2008, 15 January 2009 and the 7th May 2009. He paid the intermediary for the tax, which was due by 7 April 2010, a lump sum of money on the 20th April 2010.

If you have cash flow problems and can't pay your tax on time, come and talk to us about using a tax intermediary. It's cheaper than paying IRD Use

Selling property you have purchased "off the plan"

IF YOU, or a friend, sell a property you intended to invest in "off the plan", you could be facing a tax bill. This often happens, without any thought of tax consequences, when the buyer changes his/her mind before the building is complete. This is a tricky area. Consult us before proceeding.

Progress payments and GST

GST is payable at the earliest of the time a payment is due, at the time a payment is made or at the time an invoice is issued. If you are receiving progress payments and your customer is not a business registered for GST, you should make sure you issue your progress payments on time. Customers who expect to pay 12.5% GST are going to be unhappy if you have to charge 15%. You are not unreasonably entitled to bring forward your progress payments just to avoid the 15% rate. That is avoidance and IRD takes a dim view of arrangements designed to dodge tax.

Bank charge anomaly

A CLIENT was using her credit card while shopping in Melbourne. The shop assistant put through the payment in the usual way and was asked for a tax invoice. Our client wanted to claim back GST when she was at the airport.

"I can't give you a tax invoice on this machine," the shop assistant said. "It is not working properly. I will give you a credit note, then we will put the transaction through on the other machine."

This resulted in two debits to the credit card account and one credit, all for the same amount.

When our shopper got back to New Zealand she discovered two debits on her bank statement for the identical amount, but the credit was \$25 less. When she inquired at the bank, the reason became clear. In the case of the two debits, she was buying money from the bank and in the case of the credit she was selling money to the bank.

If you are shopping overseas, remember if a charge is cancelled and a credit put through, you will have to pay the currency difference.



Annual account slow coaches might miss out

Why is it so important to get your annual accounts completed within the year to 31 March?

Answer: Because the IRD is only allowed to go back and reopen an honest tax return for a limited period of time, which is about four years. Tax returns lodged by 31 March 2011 for the 2010 tax year cannot be reopened by the IRD after 31 March 2015.

Why is this so important?

Sometimes we have to use judgment about claiming expenses. Other times we have to make decisions which we believe are OK and would stand scrutiny, but in later years IRD interpretation changes and the same transactions become less acceptable.

An example is tax avoidance. A few years ago it was generally accepted that, so long as there was a commercial reason for what was happening, taxpayers were entitled to arrange their affairs in such a way as to minimise the incidence of tax. This is now debatable.

The test now is, would the Government have contemplated our doing whatever it is we are up to

KiwiSaver to be 10%

THE GOVERNMENT is extending the contribution rates allowed to KiwiSaver. Currently the rates are 2%, 4% and 8%. New rates of 6% and 10% are to be added. This is great news for those nearing retirement, who may be keen to use the 10% rate.

and approved?

An example is salaries for full-time employees of their own companies. A few years ago you could nominate as low a salary as you wanted, if you were working for your company full time. In 2001 the Government introduced a higher tax bracket of 39 cents in the dollar. This rate became effective for all salaries over \$60,000. Therefore, accountants used to limit salaries to \$60,000 and leave the rest of the profit in the company, whenever they could.

To minimise tax, they arranged for the biggest shareholder to be a family trust. Dividends would be paid by the company, mostly to the family trust, and "Hey presto"! Income over \$60,000, which would have been taxed at 39%, was now being taxed at 33%.

In recent times the IRD has been attacking the low salaries, particularly where the recipients are only supplying their own skills, such as surgeons.

Conclusion:

Make sure all your tax returns are lodged by 31 March and that you give us sufficient time to get your work completed. Don't forget to allow for the fact others might be running late and we could be swamped with work in March. Also, we might have to deal with queries and have to put your job aside while we get answers from you or someone else.

Do you really want to be noticed by IRD? It's better not to be one of those who are chronically late.

We'd much prefer to see you well before Christmas, please.

Telephone answering rates a 1!

IF YOU run an office, you should review, from time to time, how it is being managed.

Office tasks tend to be given to those who are ready and able to handle them at the time. So what happens?

The willing eventually become overloaded and they are often doing jobs which could be handled by those with less skill.

What should you do if you find you need to reorganise the office?

- 1 Start by getting your team on your side.
- 2 Aim to get a list of every task. Get your team to help you.
- 3 Classify the tasks according to their degree of difficulty. Forget about who should do what at this stage.
- 4 Be careful with your classification. Just because a job appears to be easy, it might not deserve a 1 on a scale of 1 to 4 for difficulty. Telephone answering is an excellent example. Really good telephone reception can be worth a lot of money, in spite of what the big corporations think. I give it a 4.
- 5 Having graded the jobs in consultation with your staff, you can now start allocating them.
- 6 Use your list for staff training. Allocate a back-up person for every job.
- 7 Keep a schedule of who is going to get practice doing what job every week and make sure this learning is done.
- 8 Review the schedules regularly and make sure everyone gets plenty of repeat practice. People learn from doing things. If they are shown once or twice and don't get practice, they forget.

If you implement something like this, you should manage a whole lot better when a key person is away. We suspect this list applies not only to office work.

Make money with organised follow-up?

HOW do you make sure you follow up on the things you plan to do and the replies you want from your correspondence or quotes? How can you do this most efficiently?

One of our clients uses a concertina file and puts copies of documents he wants to follow up in date sequence. He says this involves no writing at all. If you are going to use an electronic system, make sure it requires a minimum amount of your time to maintain it.

Another client is always quick off the mark with quotes and follows up meticulously. His prices are always high but he gets plenty of work.

Making life easier
ACCOUNTANT'S



WHEN filling in IRD forms, beware of situations where a figure is repeated. For example, a client working out GST declared total sales of \$15,353, but then mistakenly used the figure \$13,535 as the basis for calculating income tax because the form required the sales figure to be repeated three times. Always work off the first figure available. If it is on a worksheet, use that because you can easily transpose figures when you copy onto the IRD form.

You can negotiate with your bank

ONE of our clients was concerned about the cash handling fee he was being charged. He called on the bank manager and pointed out his staff were there to count the cash and to make an extra charge simply because his business had more cash than cheques, was double charging. The bank manager saw the point and agreed not to charge the

How not to impress customers with discounts

DISCOUNT vouchers can work well, but can also do harm.

A man went to a clothing store with a voucher for 10% off any clothes purchased. A couple of weeks later he ordered a suit for \$2500 and was told the discount had just expired. Would he like a tie in lieu? He was not impressed.

Would you pay \$250 for a tie? That was the offer made to the man buying the suit. Yes, the 10% offer had expired but the store was dealing with a customer who bought there before. Wouldn't it have been better to be generous? A comment like "We don't normally extend our deadlines but as ..." would have made the customer feel special and grateful, instead of resentful.

A big store advertised it would give away gift vouchers to customers who bought more than \$100 of specified products. A woman spent \$120 but the vouchers, worth \$30, were not offered. When she returned home, she checked the newspaper and had to go back to the store to get the vouchers. She was likewise unimpressed.

If you offer discounts, look at what you are doing through your customers' eyes.

Customers are precious, particularly at the moment. Don't upset them.

Review your insurances

OUR client had rented the same premises for 30 years.

A couple of months ago he arrived at his offices to an appalling smell. No one could tell where it came from. It smelt like something burning and after about half an hour it dawned on him it was probably a light fitting. Luckily the offices are fairly light and everyone could manage without artificial lighting. All lights were turned off and an electrician was called immediately.

“That evening I started to wonder whether I was covered by insurance, so took off down to the office to check,” he says. “I found the policy and to my relief my public liability insurance was \$2 million.

“I then started to do the arithmetic. How many square metres of building would be destroyed if there was a fire? There is a shop on the ground floor with expensive stock. What might that be worth? What if the owner had to relocate premises, was unable to do so and therefore sustained a loss of income and possibly a need to maintain staff while out of business?

“I totted it all up. Gees I said, \$5 million might not cover the bill! I immediately got on to my insurance company and lifted my public liability to \$10 million.”

When did you last review your insurance covers?

Another client had professional indemnity insurance. When he looked closely at the exclusions, he discovered one of his major risks was listed as an exclusion!

Do you check the wording of your insurance policies? When you have to make a claim, you might wish you had done this.

IN BRIEF

Do you deduct PAYE?

DON'T forget to get the new tax tables from the IRD website for salary and wages paid from 1 October. The department will not be posting them to you. All income tax rates will change.

Claiming carbon credits

OUR client is arranging her own funeral. She has asked the undertaker to plant a tree on top of her grave and is currently trying to work out how she is going to claim the carbon credits. She says she would prefer an advance payment!

Price increases

PUT prices up a little and often. A client increased his prices 16.7%. He upset some customers. It was his first increase in 10 years. Never give your customers major nasty surprises. What about a policy of reviewing prices the same time every year?

Beating competitors for scarce staff

WHEN advertising for staff, look at the job from the point of view of the potential employee. If the person you are looking for is scarce, you will need to entice applicants. This means selling the job to applicants. What does your firm offer that others don't? Is it learning new skills, an opportunity to become a shareholder, great working conditions (be specific) or what? Many advertisements are presented from the employer's point of view – these are the skills we want etc. Present the job from the employee's point of view if you want to have a more successful advertisement than your competitors.



TAX CALENDAR

August 30

1st instalment of 2011
Provisional tax if you pay
three times a year
(March balance dates)

September 28

2nd instalment 2011
Provisional tax (December
balance dates)

October 28

1st instalment of 2011
Provisional tax for those who
pay GST twice a year.
(All March balance dates)

November 29

1st instalment of 2011
Provisional tax
(June balance dates)

Do you 'own' - not just rent - your customers?

A CLIENT told us this story.

“Every time I go to lunch I choose a particular coffee shop because they look after me. They know I like tea so they get it ready as soon as they see me come into the shop.

“They put two tea bags in the pot because I like it strong. They are the only people I have known to do this.

“A posh French bakery has opened up in the town and I am sorely tempted to try it. However, I feel I have a loyalty to the original coffee shop. I am being tugged back to them.

“I sort of feel they own me.”

Customers who would go elsewhere for a better deal are rented. Those who would remain loyal to you are indeed owned.

How many of your customers do you own?