

Summer 2012 Newsletter

Clearly defined terms of trade save arguments

REDUCE risk by informing customers and clients of your terms of trade. Make sure they are aware of them **before** they accept your contract.

Sure, you can usually trust those you have dealt with for years, but what about new business? Anyway, why not make your terms of trade clear to all? It saves any argument and it looks smart.

Listed below are several things you might consider. Once you've done that, get your lawyer to develop a proper contract.

We're not trying to cover everything; just to start you thinking.

We get our clients to sign an engagement letter. It's our version of our terms of trade.

Here's a list of things to think about for inclusion in your contract:

- What are you going to do if, part the way through the job, the customer wants to vary the agreement? It's usual to sign a variation of agreement document when this happens. What should be included in it?
- When are you going to be paid?
- Do you require progress payments or a deposit?
- What are your rules about retentions?
- What if your customer is a company, a limited liability partnership or a trust? In these circumstances, can you get the guarantee of the directors or trustees? Consider the sesqui-centennial celebration in 1990 developed by Wellington City Council in a time of recession. The project was operated by a trust, not the council. It was a disaster. Many local tradesmen who did work on the project were never paid. By having the trust run the event, the council was not responsible for the debts.
- Think about the options if a customer refuses to pay you a deposit. We can make suggestions. Try to avoid turning good business away.
- Include the following in your agreement:
 - Interest for late payment and debt collection costs
 - Adjustment for materials price increases. There are signs high inflation may return so this could become a major issue.
 - Put in a deadline for accepting your quote and so create urgency
 - What if some other tradesman's delay causes your work to be late?
 - Your warranties and the extent to which they will be limited.



Baches come under scrutiny of IRD watchdogs

IRD is proposing a new law to reduce claims for losses on renting a bach.

These new rules are to be effective for the year ending 31 March 2014 or equivalent balance date.

Roughly, if gross rental does exceed 2% of the rateable value of the property then any loss can't be set off against other income. It has to be carried forward and set off against future profits (if any) from the same source.

If rental income is less than \$1000 you may be permitted to put the money in your pocket and forget about tax

The plan is to compare the days rented with the days used by you. Thus if you use the bach for 30 days and rent it for 60 days then your tax claim for expenses is two thirds.

Set SMART goals

SMART is an acronym. A client, new in business, has set himself a goal to achieve a sales total of \$500,000 within five years. If this target is to be workable, it should conform with the SMART acronym which is:

Specific

You know exactly what the goal is – \$500,000 of sales.

Measurable

The goal is not vague. It can be measured and therefore achieved.

Achievable

Is \$500,000 of sales realistic? It should be reasonably hard to get but not impossible.

Results orientated

Is it aimed at producing results? The object is to increase income and by achieving the sales, this client who provides services, will achieve an increased income.

Time framed

It's no good setting a goal of \$500,000 of sales, which you might achieve at any time. The target is five years. This helps focus the mind regularly on making changes to get there on time.

Whenever we meet this client, we find out how he is going towards his target. Since he is providing services, he has run out of personal working hours. If he could produce 2000 chargeable hours per year using his own efforts, (a near impossibility when you have to allow for marketing and admin time) at \$150 per hour, he would hit a ceiling at \$300,000 income per annum. He must now employ staff or contractors.

We monitor the profitability of the business to ensure these people are adding to the bottom line, not taking away from it.

Build on relationships with regular information

PEOPLE come to you because they know, trust and like you. So if you're trying to increase the number of your customers or clients, you need to build up this relationship.

You can use the internet to help. Offer a free subscription to a newsletter, tip sheet or similar and use this to build the relationship. Send regular emails with links to articles on your website. These must, of course, be informative and interesting. They need to benefit the reader.

If you do this, make sure you can maintain the regular flow of information. You want your potential customers constantly visiting your website. Be disciplined. Give priority to this important part of your business. Use your diary and set target dates, which must be achieved. We send you newsletters, not occasionally but regularly.

Eight sure ways of wrecking a business

HERE'S eight simple things you can do to wreck a new business:

1. Put too much trust in your market research.

The purpose of market research is to find out what people would like to buy. Often, if you ask your friends, they'll give you the answer they think you want to hear. Even if you do your market research properly you can get the wrong answer. Dick Hubbard, the maker of breakfast cereals, found that people thought they wanted healthy food but discovered later they really wanted tasty food.

2. Find out what people *need* and try to provide it.

Supply wants, not needs. Many small businesses *need* a lot of business education but very few of the proprietors really *want* it. People buy to satisfy their *wants* not their *needs*.

3. Buy a nice new car you can't afford.

The usual excuse for sinking money into a car when you can't afford it is "I can't turn up to make sales in an old dunger". This is not really true in most cases. The car is frequently parked where it can't be seen anyway. If the customer did see your car it would be unlikely to make much impression so long as it was reasonably tidy. Someone like a sharebroker might be an exception. Who'd want to deal with a sharebroker who couldn't even make him/herself rich?

4. Run out of cash.

Business is about cash flow. Some business owners must have difficulty sleeping at night. They chronically have too much borrowed money. A retailer owned a mere 10% of his business and decided to open another shop. The disaster was inevitable. If you lean on your creditors by being a chronic slow payer, a puff of bad

economic wind can blow away your business. Focus on good cash flow. Collect your debts and control stock levels.

5. Forget the figures.

Few small business owners keep enough information about how their business is progressing during the year. There are usually only a few key factors which need your attention. We could discuss these with you. Often, a downward trend starts in a business and the owners become aware of the full extent of the losses only when their financial statements are prepared; often half way through next year. By that time the drift has gone on a further six months beyond balance date so the situation is worse than the figures indicate.

6. Split up.

The split of a marriage or personal partnership can have devastating effects on the business. We have no suggestions for a solution – just be aware of the effects!

7. Talk too much.

It's hard to control those telephone calls. Some people just like to talk too much. You learn more from listening. You earn more by working on your business. Some people are utterly ruthless about avoiding telephone calls, which could otherwise take a large part of the day.

8. Spend too much time on the figures.

The object of going into business is to make money otherwise, why bother. Paper work is a necessity but unless you are an accountant it should not be an end in itself. Get yourself efficient systems. Minimise the time needed to operate them. Maximise the important information they supply for you. Again, we can help you minimise your administration time.

Disappearing inheritance

If your aunt leaves you a large sum of money or valuable asset, it could become matrimonial property. If your relationship breaks down, you could lose half of your inheritance. If you want to avoid this, take a few minutes of your solicitor's time and find out exactly what needs to be done. For example, it could be handy to pay off the mortgage on your home. Do it the right way and you can preserve your inheritance. Do it the wrong way and you may lose half your money

New charges

The Registrar of Companies is now charging \$45 (from 1 August) for filing your annual return.

Save tax penalties and interest

You can buy overpaid tax from a tax intermediary. If you have a tax problem, consider this opportunity for reducing Use of Money Interest and possible penalties.

Some firms pay too much tax and have a surplus credit with the IRD. You may be able to purchase this extra tax, depending on your circumstances. Talk to us for more details.

Interest deductibility when business ceases

When a business ceases, generally, deductions cease as well. They may be available for a reasonable period based on the time needed to wind up and finish everything. If there is borrowed money, an interest deduction may be claimable if the review of the loan is not too far in to the future.

Capital gains tax is alive and well

THERE is no formula for determining when you have bought and sold enough properties to have reached a point where profits on those sales have become taxable.

The following is a rough guide as to when the sale of land and buildings could be taxed:

- The property is bought with the intention of sale. Compare this with buying a property with the intention of deriving rental income.
- You subdivide the property within 10 years of buying it and the work involved is more than minor. These rules do not apply to residential homes or building premises.
- You do a major subdivision on the property 10 years after buying it and the work is significant

- The purchaser or an associated entity to the purchaser is in the building business and buying to carry out building improvements. Rental properties he owns can also get caught in the tax net if building improvements are carried out and the property is sold within 10 years of the improvements being completed.
- You are closely related to someone involved in property development and you sell property (including rentals) within 10 years of acquisition. The relationship is specifically defined in the law.
- You are making windfall profits as a result of a rezoning, which has taken place within the past 10 years.

The law relating to taxation of profits on sale of property is tricky. If in doubt, consult us. Sale of your home is not generally taxable so long as you do not make a habit of doing this. If you are a developer and you regularly change homes, be careful.

Origin of writing

DID you know accounting was a major reason for the discovery of writing? Look at the Roman numerals. The numbers one, two, three and four were originally I, II, III, IIII. That's the clue to how writing evolved. So if it was not for the need for accounting, writing might never have happened!

When to mend the roof

DON'T wait until you haven't much work to do, to start promoting your business. Plan your marketing. The best time to carry out those plans is when you have plenty to do. Hopefully, your marketing will help maintain a continuity of work. Would you wait until it rains to mend the roof?

Say 'thanks' for references

RECENTLY, a tax consultant wanted to expand her business so she asked her customers for references.

She said she was planning to do a mail-out within the next week or so. This put an element of urgency into the request. It stimulated prompt responses. Many people have good intentions and they never get round to doing anything about them.

An accountant who supplied a reference received a package a week or so later. It contained some chocolate-coated caramel macadamia nut biscuits. There was also a little hand-written note on a thank you card: "Enjoy these biscuits with your next cup of coffee," it said.

"I couldn't wait to put on the jug, they looked so tempting," said the accountant.

Want to expand your business? Get your website running, get some powerful testimonials **and say thank you** for them.

Think before signing up for ad promotions

A SALESMAN from the local newspaper rings and invites you to take an advertisement "in our special XXX supplement". Should you pay for an ad?

If this promotion fits within your marketing plan (and you should most certainly have one if you're trying to promote your business), yes.

If taking part will promote your image as someone who cares about your community, such as being seen to support a charity, maybe.

Otherwise, think hard about it. It might be a waste of your money. One-off promotions are often effective ways for media companies to boost revenue.

Repetition enhances your chances of success. A one-off promotion doesn't provide repetition.



TAX CALENDAR

January 15 2013

2nd instalment of 2013 Provisional Tax

(March Balance date except for those who pay provisional tax twice a year)

Pay GST for period ended 30 November 2012

April 7 2013

Terminal Tax for 2012

(March April, May and June Balance dates)