

If it looks and smells dishonest, it probably is

WE HEARD a story recently about someone's mother who had just gone into a rest home, but had always invested her savings in a joint account with this person.

"She pays the tax on all the income but only declares half the amount for rest home subsidy purposes," we were told.

This looks rather like fraud.

Likewise, you can't just transfer your money on paper only, to another person.

Husband, wife and partner arrangements can work differently. If you run a joint account with your spouse, with regular money paid into it such as your salary or business drawings, the money paid in changes its character. It becomes joint money. If you invest money from that account, the investment is a joint investment.

The same person said: "I reinvest my dividends so I don't get any money and therefore it's not income".

This isn't true.. There are two steps. Firstly you are credited with a dividend (income). Next the money is reinvested in the company. However, as New Zealand dividends have been fully taxed, their omission isn't going to save any tax at



present rates. There could be an issue, however, as to whether omitting income is supplying a false tax return. It has been suggested, if income is omitted, even if it made no difference to the tax, it enables the IRD to reopen your tax return long after it would normally not be entitled to do so.

If you've got an idea which has the smell of dishonesty, it probably is dishonest. If you're in doubt, check with us.

Don't be tempted to help yourself to the money

SOME clients continue to be too laid back when it comes to administering their trusts.

When you transfer money from your trust to yourself, how does anyone know what type of payment it is? Answer: It should be recorded in the minutes of a meeting and signed by all trustees before the money was taken. Was there such a minute?

If you take money out of your trust without the

approval of all trustees, you're treating the trust as though it was your own fund. Arguably, a trust might as well not exist at all.

You've set up a trust to protect assets. Why jeopardise it?

If getting all trustees to sign minutes is a hassle, reduce the number of trustees and make sure you choose trustees who are easy to reach when you want a minute signed.

Are you in quadrant 2?

STEPHEN COVEY was a management consultant famous for his book *The Seven Habits of Highly Successful People*.

The book provided some interesting advice about prioritising work and included the diagram below:

	URGENT	NOT URGENT
IMPORTANT	1	2
NOT IMPORTANT	3	4

Quadrant 4 work can wait – it's the play work, such as opening the mail and doing the banking. You may say banking is important. Maybe, but it's not an activity which will increase your profits or sales. You can make up your banking when all other business has ceased for the day. Better, you may be able to delegate this task. In this sense it's not an important job.

The valuable quadrant is number 2. If you're running your business well, you'll be putting more than half your time into quadrant 2 type work. This is working on your business rather than in it. It's planning and developing ways to expand the business.

Example: A builder was unemployed. He wrote to all the school principals in the area asking if they had work. He followed up with a phone call. This is typical quadrant 2 work. Incidentally, he succeeded in creating a good business.

By focusing on quadrant 2 you will turn your business from ordinary into extra-ordinary. This quadrant focuses on the non-urgent but important work. It's the work you should be doing but usually avoid, mostly because you're too busy.

A client is swamped with work. He has a semi-



retired mate who could do some of the work for him and so increase his profit.

"Have you contacted Rob yet?" I asked.

The answer: "No, I've been too busy."

If he's going to make progress with his business, he'll need to make time.

Most people ignore quadrant 2. That's why they never get anywhere. If your profit is much the same year to year, you are ignoring quadrant 2.

Work out the things which are important to push your business ahead. Give them priority. They include planning and implementing your plan. They include gathering business know-how by reading, attending seminars and any other means.

Keep a diary, and account for each day. If you can show you're putting at least half your time, most weeks, into that important but not urgent work and you're working hard at it, your business should grow.

Covey said it's better to set yourself a target for a week, rather than a daily target. Some days get messed up and it becomes impossible to do quadrant 2 work on that day. As a result, you lose heart and fall back to working in your business (so much easier) rather than on it.

Non taxable allowances

YOU'RE not permitted to guess the amount you pay an employee as a non-taxable allowance. If an IRD inspector visits, one of the first questions is going to be how do you justify your payments? Show us the figures and paperwork. Make sure proper figures of actual expenditure have been kept so you can justify these payments.

Loyalty cards – don't follow the pack

BE DIFFERENT when it comes to loyalty programmes. If your competitors issue 10-trip loyalty tickets and you do the same, all you're doing is keeping up with them.

Keep in touch with clients and anyone else you think might be interested in your product or service. One of our clients sends us chatty newsletters every month telling us what's coming up at their restaurant.

Get their email address. If they don't want to hear from you, they can easily unsubscribe. How do I get their email addresses? Ask for them AND do something to encourage customers to supply them. Try to be a bit more imaginative than just offering to put their names in a hat for a draw to win a prize. A voucher for "a free cup of coffee next time you come in" is inexpensive and brings the customer back.

Buying a business – warranties and tax

WE'VE written articles before about buying a business. This time we're talking about a couple of things which should not be overlooked.

Warranties

Include in your sale and purchase agreement as many assurances from the vendor as you can. Examples include:

- The business will continue to operate at the same level as it was at the time of sale. This may help cover you if the vendor knows a chunk of the business will disappear as soon as there's a change of owner.
- No suppliers will refuse to deal with the new owner. Some suppliers like to limit their outlets and might take the opportunity to stop supply.
- Have all bylaws, licences etc been complied with and are they up to date?
- All agreements can be transferred to you.
- The owner doesn't own any other business. If another business is owned, the income or expenses could be distorted, for example by sales income going into the wrong account, or some costs might have been paid by another business entity.

- There are no ACC issues.

Ask your lawyer for any more warranties to add to this list.

Tax

Split the purchase price in your agreement with the seller into:

1. Stock and partly completed work at valuation
2. Plant and equipment etc
3. Goodwill.

Now split up the plant and equipment and put a market value on each item. Get these details included in the agreement. This will reduce the risk of Inland Revenue challenging the prices you've used.

There's no tax deduction for goodwill so you should have items 1 and 2 fully valued. The vendor has an interest in making these as low as possible because the sale of goodwill is a capital gain and they might be able to claim a tax deduction for loss on sale of the equipment. You might have to negotiate.

- Check on staff issues and who pays holiday pay. Buyers can't get a tax deduction for the holiday pay owing to staff by the vendor. The vendor claims this cost.
- If the purchase includes real estate, it might pay to hold this in a separate entity from the business.

Buying and selling foreign currency

BANKS are not the only organisations which can supply foreign currency. Recently a client was moving £30,000 from the UK and obtained a quote from a bank to make the transaction and one from a dealer. By using the dealer, he saved more than \$1000.

You might say a bank is safer and it would be hard to disagree.

This client actually tested the dealer a few months earlier. He wanted to send \$100,000 to Australia. He broke the amount up into four parcels and sent each successively making sure the previous amount arrived safely before sending the next.

Warning: This is not advice. We are merely letting you know alternatives do exist.

BRIEFLY

Reduce FBT liability for car while away

IF YOU go overseas, you can't use your car for private use, because you are physically unable to do so. The car is in New Zealand and you're in another country. So for every complete day you are away, you can reduce your FBT liability. The same thing applies if your car is in a garage being repaired. Again, you physically can't use it, while it remains in the workshop. However, in this case, there has to be a specific prohibition from using the car including when you are distanced from the vehicle, in writing, to satisfy the IRD.

Websites not an alternative to selling

IF YOU'RE going to refer someone to your website for information, grab their contact details first. Websites can be great for showing customers on the phone, what your products look like. If you need to let them have a browse in their own time, call them back and try to complete a sale. If you lazily refer them to your website and never hear from them again, don't be surprised. You never really tried to sell to them.

Children's wages

IF YOU employ children you must deduct PAYE from their wages. If they're under 18 and have been enrolled in Kiwisaver, you must also deduct Kiwisaver contributions. However, you do not need to pay the employer's contributions.



1, 2, 3, 4 – we take our numbers for granted

CAN you imagine trying to multiply the Roman numerals XXXIII (33) by 100?

The answer is MMMCCC, but there's no logical way of working it out for those of us used to the modern numbering system. Imagine what business would have been like if we had never discovered the numerals 1,2,3,4 etc but were stuck with the Roman numbers. There would probably have been less tax to pay because it would have taken everyone so long to work out how much was required!

According to Jane Gleeson-White, author of a book called *Double Entry*, the Hindu-Arabic numerals (1, 2, 3, 4 ...) were slow to take on in Europe. It seems they started to be recognised from about the year 1200. However, the church was nervous of mathematics, considering it related to magic. A philosopher, Roger Bacon, tried to promote the new notation as good for science and academic learning, including theology, he was rewarded with life imprisonment.

The numbers 1, 2, 3, 4 ... and double entry bookkeeping really took off in Venice in the 15th century when it was the third biggest city in Europe and the centre for trading.

Generating repeat business

A PLUMBER in the United States has a 10-point checklist to identify potential plumbing problems, which he takes with him to every job.

He also takes a DVD outlining how a homeowner can save maintenance costs. Imagine he's been asked to unblock a drain. Before he starts he invites the owner to watch the DVD while he's doing the job. He then checks on all the points on his checklist and will usually come

back with one or two things to suggest be done. In most cases he gets instant additional work.

He's doing his customers a favour by carrying out maintenance while he's there, saving them the cost of a further callout. The DVD works similarly because the owner can often identify a job needing to be done. On top of this, he keeps in touch regularly with his customers by newsletter.

His business is run off its feet.



TAX CALENDAR

May 28

1st Instalment of 2014
Provisional Tax
(December balance date)

May 31

Deadline for
Fringe Benefit Tax return

July 29

3rd instalment 2013
Provisional Tax
(June balance date)

August 28

1st instalment 2014
Provisional Tax
(March balance date)

Sticking to the plan is the hard part

WE SUBSCRIBE to a free marketing newsletter in which the author tells us he intends to lose 20kg.

After only six weeks, he's halfway there. He says it's easy if you commit yourself to a plan.

In our view, he's overlooking another important ingredient - sustaining the plan.

Have you ever noticed how you can introduce new ideas to a business and within weeks your staff revert to the old systems? Sustaining change is the hard part.

It takes a nano-second to make a change but a lifetime to sustain it. I must drop a line to my marketing mate, in five years time, to see whether he managed to keep off that 20kg. That will be the real test.

He's very determined; I think he'll succeed.