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# Newsletter

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Autumn 2008

## Are you making a real profit?

A BUSINESS profit arises when all expenses have been paid for out of sales. What are the expenses? They include:

- The materials, wages and other costs which vary according to the level of sales. Accountants call these the direct costs.
- The ongoing costs, such as rent, insurance and repairs. These tend to be the fixed costs of being in business.
- Interest on borrowed money.
- Depreciation, which is a share of the costs of equipment and vehicles spread over their useful life. For example, a computer might have a useful life of three years so a third of the costs are taken as an expense each year. For practical purposes the IRD rates of depreciation give a satisfactory result.
- A fair wage for the business owners. This should take into account skills, responsibilities of the job and the hours worked.
- Taxation on the remaining profit.

When all expenses are covered a profit remains. Relate this to the money you have put into the business plus the profits you have ploughed back – your money invested. If you are making 25% profit on this figure, you have a reasonably satisfactory business. If you are making nothing and your business has been going for several years, you do not have a business. You have a job. You are merely employing yourself.

Many of our clients, in well-established businesses, work hard to make a rather inadequate wage. You might argue being in business is not just about money – what about the freedom to take time off when you choose, to do things your way and the satisfaction you derive from what you do? We agree, but you could probably have a profit as well.

Each year contains about 2000 working hours (50 weeks at 40 hours a week). Many clients work into the evenings and weekends achieving 2500 or more hours and they take all the risks and carry all the responsibilities for the business. If you are one of these, compare the amount of money you get from the business with what you would get if you were an employee. If the result is unsatisfactory, you are using too much energy working in your business and not enough in managing your enterprise to create better results.

Look critically at the work you do and think about how to become more profitable. Perhaps you should take a holiday so you can have time to think. We have some suggestions – see article about planning on page 2.

### Reminders

#### IF you invest in a PIE (by 31 March)

Use 0% tax rate for companies, usually 0% for trusts, and choose the correct rate if investing in your own name – see our summer 2007 newsletter.

#### GST ratio

If you wish to use the GST ratio (see our summer newsletter) apply to Inland Revenue **before** your balance date. An ordinary letter will suffice.

#### Year-end tax planning

Start your year-end tax planning – see our February 2007 newsletter and article “New Company tax rates” on page 4 of this edition.

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### Internet advantages

IF you are not already using it, have you considered internet banking?

It might have some risks but most of these ought to be covered by your bank. Some banks now have sophisticated ways of minimising the possibility of anyone tapping into a customer's account.

Internet banking certainly has some advantages. When you make a payment, you control the amount being paid. The bank cannot incorrectly underpay Inland Revenue, for example. It is easier for you to control cash flow and it saves time and postage. You can set up payments so they are processed on the last due day.

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## Taking money out of a family trust

IF you want to take money out of your trust, remember it is the trustees who decide, not you. As one of the trustees, you must wear your trustee hat when dealing with trust business. Trustees need to make their intentions clear when paying money to a beneficiary of a trust. Is the money to be taken out as:

- A reduction of debt to you or a beneficiary?
- A distribution of the trust's taxable profits?
- A distribution from the capital of the trust?
- Wages, in the case of a trading trust?

The trustees clarify their intention by all signing a minute. If a trustee makes a payment without the agreement of the other trustees, it is invalid and cannot be confirmed later.

Beneficiaries can have trustees removed for not keeping proper records. Would you want one of your children (or, indirectly, your child's partner) to take control of your family trust, particularly one that owns your family home? Keep good records.



## TAX TRAPS Tax refunds

BEWARE tax refunds. Before you bank money from IRD, check you are entitled to it. Also make sure by receiving it, it will not lead to a shortfall of tax somewhere else.

A client was several years in arrears with his tax returns. He paid tax in advance to avoid penalties and Use of Money Interest.

IRD refunded what they thought was over paid tax. As he caught up with his tax returns he discovered there was no money in the IRD to cover the tax liabilities. He had to repay the tax he had been refunded and was charged substantial interest and penalties.

Some people allow the IRD to pay tax refunds straight into their bank account. If you are one of these, keep an eye on credits from the IRD appearing on your bank statements. It might be safer to get refunds paid by cheque. Taxpayers can be prosecuted if they accept a tax refund and should have known they were not entitled to it.

## Business branding

TWO elements that can build customer perception about a brand are quality and price.

People go to Starbucks for consistently good quality coffee and food at a price they find acceptable. The Warehouse started its business by selling goods to the public at a price customers felt offered value for money.

If you want your business to be known for its value and/or quality, create that first, long before you think about a logo or slogan.

Don't create a slogan and tell people your quality is great if you are still ironing out consistency issues! Never fall into the trap of thinking you should have the cheapest price so customers think you give great value for money. A BMW has a high price, but lots of people think the "ultimate driving machine" is great value.

## Faster, cheaper by fax

CONSIDER using your fax machine instead of sending a letter. The benefits include:

- It is cheaper.
- You have evidence of it having been sent.
- It is quicker.

## Now is the time to plan for a profitable year

IF you have read the article on page 1 and it has got you thinking you want to improve your business performance, you'll want a **plan**. Plans do not need to be a marathon effort. Some planning is better than none. If yours is a 31 March balance date, now is the time to set up for a more profitable year.

Good planning assumes you are prepared to change the way you do things. If you don't change, your business won't either. Set objectives and monitor your progress in achieving them.

Start by thinking about how to increase your sales and their profitability. We often give you tips in our newsletter. Why not go back and read some of them again? When considering how to increase sales, start with your existing customers. Do not make your first priority getting new ones. Experts claim it costs five or six times as much to get sales from a new customer than it does from one you already have.

- Do you keep in touch with customers or do you just let them slide away, once you have served them?
- What do you do about after-sales service? A follow-up call to check on satisfaction works wonders.
- If a customer is in a buying frame of mind, keep selling. Does your system ensure you always do this?

For example, the do-it-yourselfer who goes to buy a tin of paint. What's the chance he'll arrive home to discover he overlooked getting turpentine, sandpaper, putty, primer or even a paint brush? Do him a favour. Jog his memory and save him the frustration of having to return to your store, or even worse, someone else's.

Put together a marketing plan for this coming year. Call us if you would like some help.

## It pays to be generous

A PAINTING contractor was invited to quote for painting a new house. The owner wanted a dark colour but the painter was concerned about the paint absorbing heat. Paint can be classified on the basis of its ability to reflect heat. The painter recommended a 40% reflection but the customer wanted a colour which had only 32% reflection.

The painting contractor did as the customer wanted, painting the house a very dark green. In a couple of years gaps appeared in the paint work where the weatherboards had moved. The owner contacted the contractor and expressed his concern.

Remembering the customer is always right (well almost), the contractor repaired the damage at a cost of about \$600 to his own firm. A couple of years later the same thing happened and again the contractor made the customer happy.

The customer was delighted with this service and referred many lucrative jobs to the painter. He says "The \$1200 it has cost me is the best investment I have ever made in promoting my business."

We have a similar story. A builder went back to a house he had built 10 years previously to carry out a small repair at no charge. The owner said the fault was not the builder's. The delighted owner told a friend, who was looking for a builder, and within a few weeks the builder had a contract for a new house, even though the project could not be started for about eight months. The new customer said "I was prepared to wait for the right person and I did not seek competing prices, because I'd rather be sure I have the right person for my home than save a few dollars."

Be generous in business. It is better to have a delighted customer than one who is merely satisfied.

## Read the customers

OUR client bought a car. When it came time for servicing she took it back to the franchise holder.

She ordered two new tyres as well as the standard service. When she picked up the vehicle it was returned by one of the salesmen, who started making various offers to her, including an offer for mag wheels.

She is well into her 70s and described the sales pitch as very false. She felt the salesman should have known she would not be a mag wheels person.

She left with a pronounced negative feeling towards the dealer.

It is good to promote add-on sales, but you need to use good judgement or the result could work out worse for the business than if it had never occurred.

## Retirement

YOU need a lot of money to retire. Assuming you do not have an employer-subsidised super-annuation scheme, you will have to provide for yourself. Work out how much money you will need and how you will get it. Don't count on the Government.

You also need good health to retire in comfort. When running a business, we often neglect this. We are too busy!

Investing in your health includes talking to your doctor about regular exercise. Some of us go to a gym. Others go for a run or walk every day. Try mornings before work. You will not be alone.

Good health also means recreation and holidays. One of the remarkable things about a holiday is how often it stimulates new ideas for your business.

## ● IN BRIEF

### Wake-up water

HAVE you ever felt so tired you wonder how you will stay awake? A friend regularly fell asleep when he attended late afternoon seminars. One day, when he was feeling particularly tired, he drank three glasses of cold water before a seminar started. To his amazement he stayed wide awake through the course. Next time you are having trouble staying awake, try copious amounts of cold water. It can be as effective as strong coffee and a lot better for you. And... If you are running a long meeting, be sure to supply plenty of cold water for participants.

### I'm so busy

BE careful about telling people you are very busy. You might be saying: "Please don't send me any more work, I'm so busy." Do you really want to tell people this, when you are trying to grow a business? Make it clear, if you comment on how busy you are, that you can still handle more customers. If you wish to limit your business, improve the quality of your customers by getting rid of those you least want.

### Denny's checklist

A client found a meal evaluation slip at Denny's restaurant. He was asked to answer these questions:

- Did the waiter offer desserts?
- Did the waiter check if you needed more drinks?
- Did the waiter repeat your order back to you?

These slips check to see a system is being followed and help staff to focus on it. How many businesses give away sales just because their staff forget (or are not given) a system to follow?

Do you have system like this?

## New company tax rates

REMINDER – the company tax rate will fall from 33% to 30% at the beginning of the next tax year. If you have a 31 March balance date this means 1 April 2008.

If you leave some profit in your company, look at legitimate ways of reducing your income for the year to 31 March 2008. These might include:

- Farmers might be able to use the Income Equalisation Scheme.
- Bring your maintenance forward and get it done before the end of the financial year.
- Expenditure on consumable aids, up to \$58,000, is tax deductible in the year in which it is incurred. You do not need to count your stock of consumable aids. Be careful about what “consumable aids” means.
- Check your printing and stationery as this is likewise deductible in the year the cost is incurred. You do not have to count it as stock.
- Any wages or holiday pay relating to “the 31 March year” is tax deductible if it is paid out within 63 days of the end of the financial year.
- If you are buying equipment, particularly if it is financed by a lease or hire purchase, you might be able to bring forward some expenditure on interest and depreciation.
- If you are selling equipment, make sure you sell before balance date if there will be a loss, or after balance date if there will be a gain.
- Don’t forget to write off bad debts before year-end.

Your aim is to defer income and increase expenditure. Make sure what you do is legal. We’re here to advise you. A word of caution – don’t go overboard or you might be accused of tax avoidance.

## Donations

DONATIONS from your private company will become deductible from 1 April 2008. The limit is the company profit, so don’t make a tax loss. A potential trap exists here for LAQCs. Likewise, the limit on personal donations is the amount of tax you pay. If you give away all your income, your rebate will not be 33% unless your income is so large you average 33% tax. We calculate this income to be \$145,500 at today’s tax rates.

## Don’t waste words

“ONCE you start editing yourself the process moves into other areas of your life.” – Donald Trump.

## Email benefits

MANY small businesses still do not use emails. If you are one of them consider:

1. What sort of image does your business portray? Old-fashioned?
2. Are customers and potential customers annoyed they can’t communicate with you by email?
3. How much time would both you and your customers save if you did use emails?
4. How much money would you save on postage?
5. How much time do you lose waiting on the telephone only to find the person you want to speak to is out?

If you are not using emails, why not change, now?



## TAX

### March 7

**3rd Instalment 2008  
Provisional Tax  
(March balance date)**

### April 7

**Terminal Tax  
(March balance date)**

### May 7

**GST for March 2008**

### May 28

**1st Instalment 2008  
Provisional Tax  
(December balance date)**

**GST for April 2008**

## Keep beneficiaries informed

TRUSTEES should keep trust beneficiaries fully informed. The trust was set up for them. They are the principal reason for its existence. Trouble with trusts often comes through a beneficiary’s spouse, who thinks his/her partner is not being treated fairly. You might trust your children, but you do not select their life partners.

The Government is looking at amending the Trustee Act to force disclosure. If you are not already doing so, why not get in first and start sending a copy of your trust’s financial statements and a covering letter to the beneficiaries this year.