

## Newsletter

SPRING 2011

# Pause before you rush to gift

YOU are probably aware the \$27,000 limit for gifting is to be removed from 1 October this year.

This means, if you won Lotto for example, you would be able to gift the entire prize to whomever you liked, including a family trust, without the risk of gift duty.

Some clients are wondering whether they should gift the balance owing to them by their family trusts.

Each situation is going to be different. However, we recently had a case of husband and wife who were owed about \$80,000 by their family trust. They are retiring, so they will be depending on the family trust savings to boost their income in future years. The amount of debt to them is relatively small. In their case they might be better to forget gifting and get their debt repaid in instalments as they require the money.

### When gifting might not be the right option

If you have rental property, which was previously in

an LAQC and is now in a Look-through Company (LTC), check with us before gifting. Where guarantees are required to justify the claiming of losses from the LTC the guarantee must be backed by assets.

If clients hold all their wealth in their family trust, they don't own those assets any more. Their personal guarantees are worthless. However, if the family trust owes them money, this is a personal asset. The personal guarantee is likely to be worth at least the amount of the debt due by the trust, so, if in doubt, don't forgive it.

If the trustees have given a joint guarantee with the LTC shareholders, this may not be such a problem, as a portion of the trust assets may count towards the LTC shareholders' guarantees. However this issue is uncertain at the moment and best avoided if possible.

## Don't click, it's another scammers' trick

EVEN Revenue Minister Peter Dunne is not immune – someone tried to scam him recently.

The Minister and his staff received emails recently telling them they were entitled to tax refunds. Mr Dunne said he was not clicking on the link or filling in any form.

Just in case you are tempted, we remind you, if it's unexpected money of any sort, don't click to see what is happening. Just delete the email.

The telephone is also used to steal money. A woman who is quite bright and certainly with all her marbles got caught up in a telephone scam recently. The voice on the phone simply kept talking. At one stage she slammed down the phone but the caller rang back.

After about half an hour he got her credit card number. She was terrified. Fortunately, in spite of the fear, she had the presence of mind to ring the bank and get the card cancelled so she didn't lose any money.

Our message: If it's internet, just delete. If it's phone, just hang up. If you're not sure, ask for the name of the caller, their business name and phone number to ring them back. If they are genuine you can check the name and number in Yellow/White Pages. And, if you have a relative or friend who might be vulnerable to these tricks, show them this article.



**SCAM TARGET:** Internet scammers tried to tell Revenue Minister Peter Dunne he was due a tax refund.

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## Discount rates for early payment

RECENTLY we noticed an invoice from a lawyer. It had two columns. The first column was a special discount rate and the second column was the amount payable without the discount.

A message on the statement said if the bill was paid within seven days, the client could pay the discounted rate. We noticed two things about this bill:

- 1 It set out very clearly the price to those who do not pay promptly.
- 2 It did not allow the client to wait until the 20<sup>th</sup> of the next month to pay the bill. It required payment within seven days.

The non-discount rate was 20 percent greater than the discount rate. If the client was going to be slow paying, the additional income would go some way towards meeting the cost of chasing the bill.

Notice the very short period to pay the bill. There is no need to give extended credit. Seven days is usually ample.

Perhaps not everyone can do the same as this lawyer. However, suppose you are quoting for a job.

You could put in two prices just like the lawyer. And why not make your term for payment very short, too.

## Treat your family trust with respect

THE reason you create a family trust is to take care of your loved ones and limit the risks of losing everything you have.

When you transfer your wealth to a family trust, you no longer own it. That's the whole idea. What you don't own cannot usually be taken away from you.

If you then treat the family trust as though you do own everything in it, you run a very significant risk it could be considered what we call a sham trust.

Be sure to bank all the income of your trust into its bank account. That money does not belong to you. Likewise, the payments of the trust should come out of its bank account. If it has not got enough money, you can always make a loan. Don't pay the bills yourself.

If you want some money out, assuming you are a beneficiary of the trust, you can do it in one of these ways:

- Get the trust to repay some of the debt it owes you
- Make a distribution from the income of the trust to yourself
- Get the trust to distribute some of its capital back to you.

The decision to make a payment to you, or any of the beneficiaries, belongs to the trustees, not to you alone. Never take money out for yourself before **first** getting a minute approving the payment signed by all trustees. All trustees have to agree to financial transactions of the trust, **before** payments are made. You should also be aware there is appropriate wording for distributions to beneficiaries, which should be followed each time. If you take money before trustees approve it, it is **not** a trustee decision and possibly never can be. Getting trustees to ratify your decision later may not put the matter right.

## Child support rules to change

THE Government is looking at comprehensive rule changes for child support payments. Bearing in mind the extensive changes to the Working for Families (WFF) rules, this should not be a surprise.

Revenue Minister Peter Dunne says: "The submissions generally reflect the strongly held views in the community that the scheme can be fairer to all parties and of more direct benefit to the children it is set up to support."

Given the ability to look through family trusts for WFF, we wonder if a future government is going to do the same for aged care.

## A good case for buying locally

IF YOU are in the business of selling New Zealand-made products and have to compete with goods from overseas, here is a story from a client for you.

"Two small parts on our shower slide broke so I contacted Methven to ask if there were spare parts available. After all, the shower is now four years old. Their customer services technician e-mailed today to say they no longer have parts for my design of shower. However, he had a scratch around the warehouse and found some lying around. He has couriered them to me at no charge. That is why it is worth buying Kiwi-made products."

Contrast this with another client who couldn't use her oven for five months because parts had to come from Germany and there's no incentive for the supplier to hurry sending them.

## Tax-free allowances

IF YOU are paying tax-free allowances to your staff, make sure you can substantiate they are reasonable if IRD calls on you to do so. From 1 April 2008, you have been able to include depreciation in your calculation. For example, if your employee uses his own concrete mixer for your business, you can reimburse a share of repairs and depreciation on the mixer.

## Flowers reveal missed opportunity

AMY is a widow in her early 70s. She lost her husband about a year ago.

Four or five months ago a real estate agent contacted her and said she had a client who would very much like to see her house. She wanted to know if the owner would mind showing it to her customer.

It is a beautiful house and would appeal enormously to someone with \$1 million or more to spend. As it is on several levels and big, it is likely the owner is going to sell sooner, rather than later.

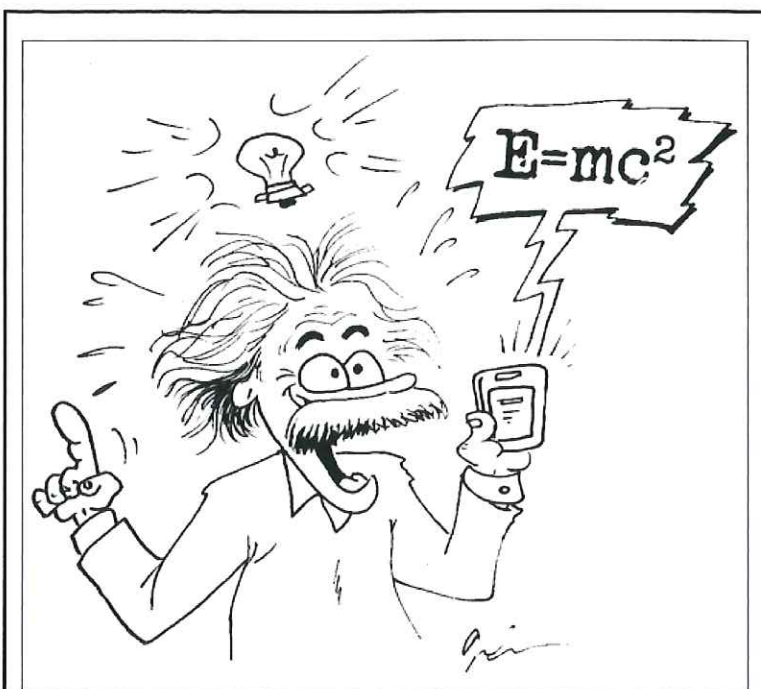
She therefore agreed to allow the real estate agent and her client to view the house. They came back two or three times and each time the owner warned the real estate agent she was not yet ready to sell.

Eventually the client gave up but sent a large

bunch of flowers and a thank you note to the widow.

I asked Amy if the flowers really came from the client or the real estate agent. Surely, a bright real estate agent would realise the time would come when Amy would be ready to sell. If the agent had sent her a present, who would get the call when Amy wanted to put your house on the market?

This is known as WOW. Never miss an opportunity to give your customers or clients a really pleasant surprise – make them say “WOW”. After all, it was the agent who had asked for favours, so some form of thank you would surely have been appropriate AND be likely to promote customer loyalty. We think the agent missed a good opportunity.



### Smart ideas with smart phones

OUR London correspondent has commented on the number of press advertisements which include a symbol you can scan with your smart phone.

The symbol – called a QR (quick response) code – is marketing genius. It can take you to the advertiser’s website, to a YouTube video of the product, show the advertiser’s phone number or a map of the advertiser’s location, prepare an email, provide details for your phone’s contact list, and probably a lot more that people haven’t yet thought about. If you’re a real estate agent, you could direct potential buyers to on-line images of the house you’re selling. You might consider putting the code on your business card so clients with smart phones can find out how good your service or product really is!

The codes haven’t caught on in New Zealand yet, but with more people using smart phones, it’s probably only a matter of time.

### KiwiSaver and Kiwi kids

HAVE you enrolled your children or grandchildren into a KiwiSaver scheme? Are they being taxed at the correct rate?

Recently we accidentally came across a KiwiSaver report for a two-year-old. He has an income of \$56 a year! He was being taxed at 17.5 cents in the dollar on his KiwiSaver income. The correct rate for anyone with an income of less than \$14,000 is 10.5% unless they have quite substantial PIE income as well.

This certainly did not apply to our two-year-old.

Check to see the children are not being over-taxed. If you don’t, the Government is going to benefit by quite a significant sum overall, assuming the over-taxation goes on for some years.

### Determined to die?

THE following advice was given to a young manager: “Choose which hill to die on. Don’t bleed on them all.” This means if you are going to stand your ground then choose your cause. Don’t try to fight every battle. Advice similar to this is: “Never go into battle unless you have at least a 50% chance of winning.” Effectively, you should know what battles you are likely to lose and avoid them.

## Take care when selecting Prescribed Investor Rate



### TAX CALENDAR

THE Government has loaded the PIE system in its favour.

If you give the firm you are investing with a tax rate (called Prescribed Investor Rate (PIR) which is too low, you will have to pay the balance of the tax due on that income. If you choose a rate too high, you can't get a refund.

So be very careful to select the right rate. There are now several to choose from.

The rules are, as usual, a bit complicated. Subject to your PIE income not being very big – say less than \$20,000 – look at your income for the years ended 2010 and 2011. Select the smaller income of those two years and calculate your PIR accordingly. If your income hasn't been calculated yet for 2011, you might have to use the 2010 income and adjust later, if needed.

We are finding our clients are often using the wrong PIR – hence the reminder in this newsletter.

A few still invest jointly in a PIE. This is not ideal if one partner could use a lower PIR than the other. Usually the low income earner is making a present of extra tax to the Government.

#### August 29

1st instalment of 2012  
Provisional tax if you pay  
three times a year  
(March balance dates)

#### September 28

2nd instalment 2012  
Provisional tax (December  
balance dates)

#### October 28

1st instalment of 2012  
Provisional tax for those who  
pay GST twice a year.  
(All March balance dates)

#### November 28

1st instalment of 2012  
Provisional tax  
(June balance dates)

### Deposits and GST – some guidelines

GST ARISES at the earlier of a payment or an invoice being issued. If you receive a deposit by way of a progress payment, you are required to pay GST on it. Those on a payment basis will not have a problem, but if you are using the invoice or hybrid basis, it will be different. Using these systems, you bring into account the total money owing to you when you do your

GST return. If you have received such a deposit and this is showing as a credit in your debtors ledger because an invoice has not been raised, you would need to add this back on to the debtors ledger balance to get the full amount of money owing to you from that progress payment. You will already have paid GST on the deposit, so don't forget to adjust back again once you have raised an invoice.

### Finding out what customers want

TWO ways to find out what customers want are:

- 1 Send them a questionnaire and ask for feedback. If you have fastidiously gathered your customers' email addresses, as you should have been, you can save money by emailing. Don't make the questionnaire too long or you will get plenty of deletes. Offer an incentive to reply and you are likely to get a greater response.
- 2 You can get a greater in-depth look at your business by using a customer advisory board. Invite a small group of your best customers, up to about a dozen, to a meeting. Don't go yourself but employ someone independent to conduct the meeting. The idea is to ask customers some carefully designed questions so you get an in-depth look at the quality of your service and products. The objective is to get some comments and feedback. The people at the meeting will have given their time for your benefit, so send each a personal thank you letter and, if appropriate, a small gift. If you do this you will probably convert some of these people into advocates for your business.

### Fill in 'To' last for emails

A BUSINESSMAN with a bit of a temper sometimes writes to people who have irritated him in rather blunt terms.

Knowing he has this fault, he puts the email aside until the next morning and usually moderates it before he sends it off.

Unfortunately, on one occasion, he accidentally pressed the send button too soon.

Another client, working from home, was visited by his two-year-old grandson. He was partly through an email and the little boy got at the computer when no one was looking.

He pressed the send button and off went the partly finished message.

Pressing "send" is so easy (it's child's play!) and is so final. Why not put in the address of the recipient last? That way, the email can't be sent until the address has been filled in.