

Newsletter

Summer 2010

Bye-bye to LAQCs

- it's been good to know you

DON'T panic. If you operate an LAQC (loss attributing qualifying company) you will still get your tax losses provided you switch your business to another entity.

A government proposal is to allocate all profits and losses of small companies (called "close companies") to the shareholders in proportion to their shareholding. It is creating a new animal called a Look-through Company (LTC). It will still provide the protection a company offers except the profits and losses will automatically be added to (or subtracted from) the shareholders' taxable income. Close company shareholders will be able to choose if they want to become an LTC.

LAQCs will be allowed to transfer to other entities such as LTCs without adverse tax consequences.

For tax purposes only, an LTC will be very similar to being a partnership. In fact, when you sell some shares in your company, you will really be selling a share of the assets. In some cases, such as property-owning companies, this could mean being liable to pay tax on depreciation recovered. Again, don't panic. There is to be what lawyers call a de minimus rule. If the tax effect is

below a defined threshold, the share transfer will be treated just as it is today. So, if you want to give or sell a few shares in your business to your partner or one of your staff, you are likely to be under the radar.

What's wrong with LAQCs?

For a start, the rules have some nasty traps. It will be good to see them go. But, what really got the Government excited was the opportunity to pay tax at 28% in a company instead of 33% in your own name.

There was an opportunity for the rich to have all their investments in a company and pay 5% less tax than if they owned them themselves or in a family trust. In fact, all a family trust had to do to save 5 cents in the dollar tax was to hold its investments in a company it owned.

Dividends

The Government is also looking at ways to make the process of paying out dividends, from close companies, easier. In the meantime LAQCs will continue but without the right to attribute losses. You will need to choose which type of entity you want to switch to.

The new rules will start from 1 April 2011.

Income worldwide must be declared

NEW ZEALAND residents have to declare all income they receive from anywhere in the world.

"Income" now has a very strange meaning. For example, if you hold shares in a United States company which does not generate any dividends, you have income. This is because your income is calculated based on the value of those shares.

Overseas life insurance policies and superannuation funds can also be classed as a source of income, even though you might not receive any money from them. Be sure to tell us if you have one of these. If a policy is taken out in New Zealand with an overseas insurance company, there's no tax problem.

The IRD has been making agreements with a large number of overseas countries to swap information, so don't rely on not being caught.

Some people think they need to declare income only if they bring money back to New Zealand. This is not correct, even if they have paid tax overseas. New Zealand residents are taxed on their worldwide income. Usually, there is a credit for some or all of the foreign tax paid. There can be special tax rules, in regard to declaring overseas income, for people coming to live here from overseas. They last for four years. If you think you qualify, contact us.

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The GST fraction

CONVERTING a sum from GST inclusive to GST exclusive is not a mathematical nightmare.

It can be done in two ways.

1 Take the GST inclusive amount and multiply by 3 and divide by 23. This gives you the GST content of the payment.

2 Divide the amount by 7.66666666. You need 8 decimal points to get complete accuracy.



Your database is a goldmine

HOW can you get more customers?

Start by collecting your customers' (and potential customers') names and addresses, especially their email.

Remember the Privacy Act and get their written permission to send them promotional emails, and always include a note which allows them to "unsubscribe".

The hard part is getting staff to collect the information. Piles of name and address slips on a shop counter are wasted if the shop assistants never ask customers to fill one in. If you want to promote sales like this, encourage staff to ask customers to provide their addresses.

Customer incentives could be an offer to put their name in a hat to win a prize. You could offer anything of value to the customer.

One of our clients uses a free quarterly newsletter containing useful articles for managers. Now he's got too much work. A nice position to be in!

Next time you are tempted to put an advertisement in the local paper, pause and ask how much it will cost per new customer compared with collecting those names and addresses as you go. Your past customers know where you are. Surely this is a plus.

One more comment – be sure to send your mail-outs regularly. As you have ideas, write them down. Then, when it's time for the next email you've got plenty of ideas to pick from.

What cooks at the cooking school?

OUR client went on a one-day course at a cooking school. She was fascinated not only with the preparation of the food but also the remarkable attention to marketing details. Here is what she observed:

Use your customer's name

She was greeted by name by the owner. She had previously had some catering from the business so was not completely unknown. She was offered a cup of tea and nibbles on arrival.

Maximise your sales

To get between the café and the classroom, she had to walk through the shop. The tools being used by the presenter, as well as a lot of other goodies, could all be purchased at the shop.

Promote companion sales

In the classroom, the presenter told the class the company sells a large number of Christmas cakes and, at morning tea, (in the café on the other side of the shop, of course) there were samples to try.

Maximise your database

Each member of the class was given their contact details on a sheet of paper. Some of the class had come with friends, but the addresses, emails etc were only those of the person who paid for the course. The presenter asked everyone to put in their correct details and she put the forms in a hat for a prize (see article *Your database is a rich goldmine* at left).

Promote coming events

The farewell speech presented an opportunity to promote coming events.

Gift vouchers

The course notes included an order form for a gift voucher.

Reciprocity

The course notes also contained a sheet of paper promoting a local hotel and restaurant. And why not? "I must have a meal there," said our client. "I'm bursting to know if the hotel promotes the cooking school."

How about you?

The cooking school was really presenting a seminar or making a speech about its business.

Use this article to start a checklist of the things you should do next time you speak in public. Maximise the benefit you get from your hard work of preparing the talk.

You don't make speeches? If promoting your business is an issue, you probably ought to learn this skill. It's very effective.

Lotto loot dispute over family trust

A BUSINESSMAN bought a Lotto ticket and won a large sum of money.

In a dispute with his estranged wife, he claimed in court he bought it for his family trust.

Buying Lotto tickets for your family trust could be a good idea because, if you win, your new-found wealth belongs to the family trust and is therefore protected against your creditors.

However, what was revealed in court was:

- 1 The man did not have an agreement signed by all the trustees (and dated) to buy the Lotto ticket.
- 2 This agreement needed to be in place before the Lotto ticket was bought.
- 3 Two separate judges said the purchase of a Lotto ticket was not a typical trustee investment. Trustees are not there to gamble with trust money. They have to handle it responsibly. Buying Lotto tickets on a regular basis might therefore be inappropriate. You would need to refer to the trust deed to see if trustees are permitted to buy Lotto tickets.
- 4 The man regularly used personal money for trustee expenses. This could call into question whether a trust exists at all. Never mix your money with trust money. Open a trust bank account and pay all the trust's bills out of it.

ACCOUNTANT'S TIP



A CLIENT owned some rental properties in a company (an LAQC) and some other properties in her own name.

She paid for some of the company costs out of her personal bank account and for expenditure on her own properties out of the company bank account. Another client regularly paid bills for her family trust out of her own money.

These situations cause extra work for the accountant.

If you can't pay bills from the correct bank account, never pay them yourself. Instead, lend your money to the entity which is short of cash, so it can pay the bills.

If you pay small bills for your business out of your own pocket, get it to reimburse you, regularly.

Marketing an investment, not a quick fix

ONE of our clients gave up his job at Christmas last year and set out to establish his own business. We will not talk about the industry because we do not want to identify the client.

It soon became apparent it was hard to get established. He needed new customers and he needed them badly. By the time we spoke to him he had already contacted his best opportunities, some of whom said they would refer some work.

Chugging along on about half the income he needed, he was starting to get depressed.

"I am going to advertise in the local newspaper for the next month," he said.

This idea caused alarm bells to ring. Not only was it going to be costly but also it was questionable whether it would generate much income.

Marketing is a form of investment and good investments take time to turn into golden eggs.

In this case, once a customer is hooked, they are likely to stay with the business. We suggested the following:

- Networking – join the local Chamber of Commerce or some other organisation where you can get to know people and get advice.
- Raise your profile by becoming the chair of a sub committee or getting elected to the board. If you can chair the board – great.
- Offer your services as a speaker. You are an authority in your field – public speaking raises

your profile and your credibility.

- Keep in contact with customers, existing, past and potential. Use a newsletter and send it out regularly. It needs to be well written and easy to read (see Getting the writing right on the following page). The client chipped in: "I'd rather send my newsletters by post than by email. It is too easy to delete emails and there is a better chance of hard copy being read." We are not saying he is right but he has a point.

Marketing is not a quick fix. From time to time customers will come to you some years after you have first caught their attention. That's why marketing is an investment.

Always have plenty of business cards with you, particularly when you are networking or speaking in public.

KiwiSaver 10% rate dumped

IN OUR last newsletter we told you the Government was going to put up the KiwiSaver top savings rate to 10%. The proposal got in to Parliament and, for no published reason we know of, got dumped. We have no idea whether this amendment will ever be enacted, now.

How to stay in business

EVERYONE is hunting for new business when times are bad. Why join the rat race?

You need an advantage over competitors. One of the best is having done work for the customer before. Your work is known to be good.

Get your customers coming back. Stay in touch with them after your work is completed. We send you quarterly newsletters for just this reason. The better the customer, the more often you need to make contact. This is why wining and dining is important.

Other tips for staying in touch include:

- A card on the anniversary of when you completed a job with a little note like "I hope you are enjoying your"
- Christmas cards and Christmas gifts. But, perhaps make your Christmas at a different time of the year, such as June. Be different and stand out from the crowd. You could send out getting-back-to-work greetings when business starts in the New Year.
- References and testimonials, which are a fantastic way of convincing people to deal with you. We all have delighted customers, hopefully. If you can show copies of letters from your happy customers, you will get more work.

If a customer tells you they are delighted, ask if they would mind giving you a written endorsement. If nothing happens, draft something and ask if it would be OK if you were to email it for their approval and printing on their letterhead.

Spreading ACC payments

IF YOU can, pay ACC by the due date. It's very expensive to spread payments.

- The charge at 10% per month is effectively an interest rate of about 18%.
- When we prepare your annual accounts we need to get details of unpaid ACC and incorporate the debt in the books. This involves extra work and hence extra costs.

Getting the writing right

BE TIGHT with your writing. Here are some suggestions for better writing, whether for newsletters, correspondence, advertisements and other promotional material:

- Make your main point early. Readers don't have time to work out what you are trying to say if you don't tell them at the beginning.
- Avoid unnecessary words, especially adjectives which don't sound sincere.
- Use short words in preference to long ones. You will find Winston Churchill always preferred short words.
- Keep your sentences short. If a sentence gets long, have another look at it. You can usually chop it up.
- If you use a picture, "it is worth a thousand words". A story works like a picture. That is why we use stories in our newsletter.
- Write for your reader. When we write this newsletter, we focus, in each article, on some benefit for the reader.
- Identify your reader and target your stories appropriately.
- Get your grammar and spelling correct.
- Check before printing or emailing. Get someone else to check also, if possible.



TAX CALENDAR

January 15 2011

2nd instalment of 2011
Provisional Tax
(March Balance date except
for those who pay provisional
tax twice a year)
Pay GST for period ended 30
November 2010

April 7 2011

Terminal Tax for 2010
(March April, May and June
Balance dates)

New and innovative ways to promote sales

BUSINESSES are finding new ways to drum up sales. Technology is your passport to new opportunities.

Those who read the *New Zealand Herald* might have noticed an article about selling pizzas, chicken wings and pasta using i-phones. The clever idea includes:

- Using your fingers to stretch the pizza to the size you want to order.
- Drag your toppings onto the crust.
- Select the sauce and watch it being poured on to the chicken wings.
- A game to play while you wait for delivery.

Can you find a new way to promote your business? How about e-Christmas cards for starters? Don't forget to personalise them.