

Newsletter - August 2009



Although many commentators (especially those within the real estate sector) are saying that a recovery is here, the reality is that many businesses have suffered a reduction in sales of 15-20%. If this reduction in revenue has not been matched with a reduction in costs, businesses will be feeling the effects of reduced cashflow. On page 2 I have listed some of the things to consider if your business is facing reduced cashflow, and the actions you can take to improve the situation.

Sage 50 v2007 / v13

Previously I have written about the availability of an update for Sage 50 v13. If you do not load this upgrade, it is very likely that you will CORRUPT YOUR DATA! This statement is based on the fact that another of our v13 users has corrupted their data, and they had not loaded the software updates.

The update is available and can be downloaded via the link below:

<http://www.adeptcom.co.uk/updates.htm>

Go to the Sage Line 50 2007 v13.03 section and select option 2, update7.exe. The download window will be presented, select "Save", and note the folder that the file is being saved in. When the download has completed, click "Run" and accept the defaults given. Make sure you install the update on all workstations in a network environment.

The issue of updates not being loaded has now been addressed in v15, as if you have internet access your software will automatically check if updates are available and prompt you to install the updates (this is the setting we will choose if we have been involved with the upgrade). The other settings are automatically install updates, or manual update. Once one update is installed, all computers on a network must be updated. In my opinion, this is a very useful feature, and as software becomes more and more complex, the need to keep up to date with the latest version becomes essential. This is especially true if you are changing your Windows operating environment or upgrading to a later MS Office version.

Use the right Prescribed Investor Rate

Some taxpayers are using the wrong rate for PIE income. If your income is less than \$38,000 (or the PIE income when added to your income does not also exceed \$60,000) for either the 2008 tax year or the 2009 tax year, you are entitled to use a rate of 19.5%.

If you let the PIE tax you at 30%, you cannot get the overpaid tax back. Occasionally taxpayers are going the other way. They are selecting a 19.5% rate when it should be 30%. These people have to put their PIE income into their tax returns and pay the rest of the tax. If you pay a top tax rate of 33%, you could have paid only 30% in the PIE.

Watch out if you are retiring and this is your last year on a high income. A PIE can be bad news. If your income is going to be less than \$38,000, you may still have to use the PIR of 30%, so you will be over-taxed in the PIE. It could pay to avoid the PIE for that one year.

Taxpayer the loser in Use of Money Interest (UOMI) changes

The IRD has changed the way it calculates Use of Money Interest and the taxpayer is the loser. The amount we pay has been reduced just 0.8% but the amount we get for overpayments is down 2.41%, three times as much.

The new rates are as follows:

8.91% (we pay)

1.82% (IRD pays us)

Small businesses have the least sophisticated ways to manage their tax liabilities, so will be the biggest losers. It would be fairer if the \$2500 threshold at which UOMI kicks in for companies and trusts were lifted to a more realistic figure. There have been many requests to IRD to do this, but there is no indication that the threshold will be raised in the near future.

If UOMI affects you, as a minimum, keep comparing your accumulated sales this year with last year. If you can compare taxable profit, that would be better. If you expect your profit could be up, don't wait. Either increase your provisional tax payment or contact your accountant for help. You may pay more provisional tax at any time.

For March balance dates, if August and January payments look light, when you get to, for instance, March, pay more tax, promptly.

If your income is going the other way, you may estimate your tax and pay less. It would be advisable to contact your accountant first if you plan to do this.

Cash is king in tough times

In these difficult times, it's important to keep a good flow of cash coming into the business. How do you do this? Here is a checklist.

Maximise money coming in

- Give credit only when necessary.
- Get your debtors to use their credit or Eftpos cards rather than monthly accounts.
- Have a rigorous system of follow-up for slow payers. Give it top priority. Get commitments and confront customers who do not honour them.
- Be prepared to turn away bad business. Bad payers take so much time they can cost your firm money in wasted staff effort. They can also cost in lost opportunities.
- Insist on deposits, unless you know your customer well and you are confident it is OK to give credit. If the customer is difficult, get the money paid into a solicitor's trust account or compromise and at least get something up front.
- Include regular progress payments in your contract.
- Check out a new customer before giving credit.

Minimise your investment in equipment

- Sell surplus assets.
- Use hire purchase.
- Finance using a lease
- Hire short term instead of buying.
- Prolong the life of your equipment by having a programme of regular maintenance.

Use your creditors but don't abuse them

- Negotiate time, in advance of purchasing, to pay for a big order. "Can I have three months to pay this?"
- Pay your bills on time (but not early if cash is short).
- If cash flow gets very difficult and you have been a good payer, you may not have too much trouble negotiating extra time to pay your bills. Those who are up front about their difficulties can usually be trusted. Always keep your word to preserve this privilege.
- Buy only when you need to. Turn away those great offers which require you to buy more than you need.

Reduce your drawings

- Be realistic. If you are having cash problems, one solution is to take less out of the business for yourself.
- Prepare a personal budget. Do this thoroughly and honestly so it is accurate and you can stick to it.
- Reduce your investments. Can you still afford to keep a cottage in Taupo or Tekapo?

Tax

- The tax department is the worst of all possible banks. It is enormously expensive to use IRD's money.
- If tax problems loom, deal with them early. There are ways and means. Consult your accountant.
- If you get behind, you can save money by entering into an arrangement with the IRD. Consult your accountant about this.
- Never default on an IRD agreement. The department gives you just one chance. If you get into further trouble, your accountant might be able to renegotiate the arrangement for you.
- Defaulting on payments such as PAYE can lead to serious repercussions.

ACC

ACC seems to promote spread payments. Their 10% is not true interest. It is hire purchase interest getting on for double the amount. Add the extra accounting needed and it is expensive and best avoided.

Give Staff a Say

Do you consult with your staff regularly? If you want to make changes, you will get better buy-in from your staff if they are involved in the decision making process.

Contracting in Australia

If you are doing work in Australia, check the tax situation with your accountant, *because it is changing*. There are a number of complexities which include:

- Possible double taxation of income derived through a company.
- Operating in such a way as to become liable for Australian income tax.
- Exceeding 183 days in any 12-month period.

Letter of Apology

If you have to write a letter of apology, make sure you put in the following:

- How you are going to put things right.
- How you are going to change your systems so the problems will not occur again.
- Repeat your apology.

Redundancy rebate

There is a special rebate for redundancy payments of 6 cents in the dollar. If you have to make any of your staff redundant, remind them they can complete form IR524, immediately, and may get a rebate of some tax, depending on the rate of tax they pay and the total pay-out.

Student loans - 10% bonus

Early repayments of \$500 or more in any tax year off a student loan will earn a 10% bonus. In some cases it may be worth accepting the offer. However, don't overlook the time value of the interest free loan, particularly if you have a mortgage.

Don't let one customer dominate your business - it's not worth the risk!

These are the typical comments from bigger firms which are not paying their debts on time.

"We can't pay you until we get paid."

"You need to get this job done so that we can finish the our contract and pay you what we owe you."

If you let one customer dominate your business you will find yourself at their mercy. If they fail, will your business go too? Set a maximum size for any one customer, say, 20 per cent of the total business, and aim to achieve this.

What if the customer is safe, for instance, a government department or large multi-national? Your payments may be safe, but the customer is not guaranteed. They can easily change suppliers, even if you have performed well. Or rules can change, perhaps because of a decision in an overseas office, so you could find that you lose the business with little warning.

You might need to turn some work away from the big customer. If you are getting a steady flow of enquiries from elsewhere for your services, this might not be so difficult. However, if this is not the case, you will need to stimulate other new business first.

Manage the office work load

A small administrative staff, when asked to collect additional information for you, may be unable to so because they do not have time. Ask them to keep time records for a couple of weeks detailing the work they do and the time each task takes. They need to account for all their working hours. You will often find them doing some work which has little value.

A small manufacturer who was costing all the jobs after they were completed never did anything with the information. You might find work being done which could be handled more efficiently or even eliminated.

Analyse the information you get from time records, and, hopefully, make changes to reduce the office work load. Then you will be able to gather the information that you want.

Suggestions

Please let me know if you would like a particular topic covered in our newsletter, or if you have any other suggestions that may make it better and more relevant for you.

Our contact details are:

Bean Counters Ltd
P O Box 13-605
Wellington
Ph. 04 477 4411

Best regards,
Shane Durrant

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August 28

1st instalment of 2010 Provisional tax
if you pay three times a year
(March balance dates)

September 28

2nd instalment 2010 Provisional tax
(December balance dates)

October 28

1st instalment of 2010 Provisional tax
for those who pay GST twice a year.
GST due for those who pay
six monthly.
(All March balance dates)

November 30

1st instalment of 2009 Provisional tax
(June balance dates)

Hotels and Motels

One of our clients travels a great deal. He says that the welcome you get when you walk in to a hotel or motel determines whether you will go back to it.

He commented that forgetting the customer's name is nowhere near as bad as failing to make him feel welcome.

Personalise Correspondence

A client told us that he had found that by using Word's mail merge facility with Outlook's contacts, he was able to improve his response rate.

He was sending out notices of a meeting which required a response, but the first time the notices went out he got a response rate of about 25%. He then tried mail merging and personalising the letters - the response rate more than doubled. You can improve responses to direct mail advertising by personalising it.