

Newsletter - July 2012



It is nearly four years since we stopped sourcing our Sage product from Passage Software in Auckland. We have been very pleased with the support we have received from Adept and Usage, now the sole Sage distributor in New Zealand / Australia, during this time (Passage no longer sells or supports Sage software).

In association with Sage Pastel International from South Africa, Usage and Adept will be running a seminar covering Sage products in our region.

For those who have not yet upgraded to v2012, there will be a chance to see the new features, along with a sneak preview of Sage 50 v2013. Sage Mobile will also be on display - this is the mobile app which allows Sage to run on Apple and Android mobile devices. Please register using the link below, or email me.

Where: Hotel Mecure, 355 Willis Street, Wellington
When: 2-5pm, 31 July 2012.
Register: http://www.usagebusiness.com/content_common/pg-registration.seo

While there will be general coverage of Sage products, I think there could be some good insights into the Sage 50 software range, and this should make it worthwhile (along with a chance to win an iPad). I look forward to seeing you there.

The UOMI Monster

Use of Money Interest can become a monster, so it is perhaps worthwhile to consider some items relating to UOMI.

We encourage all of our clients to produce monthly business accounts - at a minimum, Profit and Loss and Balance Sheet reports, so that they can monitor the performance of their business. It is too late if you just contact your accountant at the end of the financial year (or a month or two later), as seeing you this infrequently they cannot monitor your income and potential tax liability. If your sales improve over last year, you may discover a shortfall in the provisional tax paid.

In most cases this does not matter. However, if your business is a company which does not distribute all the profit to shareholders, or you have a trust, be careful. If you anticipate either of them is going to have a much bigger profit than in the previous year, you should check your tax situation. You may be exposed to the Use of Money Interest penalty for your success.

Unless your business is short of funds, it is better to pay some more tax now than to wait until you see your accountant later in the year. The current interest rate is 8.89% and it may have been accumulating, on a small scale, since you paid your first provisional tax payment for the year. For March balance dates this is 28 August 2011.

UOMI also applies to individuals whose income generates \$50,000 or more annual tax to pay. For most people this cuts in at a taxable income of \$179,030.

Keep in mind that it is you, not your accountant, that must pay the UOMI if you under-estimate the tax payable. Keep him/her informed of how the business is going if you want accurate advice.

How to check your Sage 50 Software Version

In our last newsletter we mentioned how to check the version of your software. Sage in the UK has a facility on their website to see what the latest version is for your software.

The link is:

www.sage.co.uk/accountsupdates

Click on the "Choose your software" dropdown and select Sage 50 Accounts, then input the version that you are using. This will show all updates released and the corresponding version numbers.

To check the software you have loaded on your PC:

Log on to Sage 50, go to the menu bar and click on the "Help" option, then click on the "About" option.

With version 2012 the version number is displayed within the Program Details section. Earlier versions show the version number on the "Details" tab.

It is important to load these updates as sometimes they address important issues.

Reminder about PIE benefits/ripoffs

People are still using the wrong tax rate for portfolio investment entities (PIEs). For the purposes of this article, we will assume your PIE income is less than \$22,000.

Investing money through a PIE may save you tax. If your income is more than \$48,000 you will save between two and five cents in the dollar. If you have a family trust, you can save 5 cents in the \$ tax on its income. If the trust distributes income to beneficiaries, use 0% for your PIR.

Are you putting money into a savings account? Find out if you can get the same interest rate by investing through a PIE. You may be able to save tax. Banks are unlikely to remind you, so remember to ask.

Note: For individuals on incomes below \$48,000, investing in a PIE will usually offer no advantage. The tax rate in a PIE is the same as the ordinary income tax rate for individuals. A PIE therefore is usually best avoided as you can't get ripped off in the following ways:

- If the husband and wife were to invest the sum jointly and one of them was on a higher tax rate than the other, they would have to have the whole sum taxed at the higher tax rate.
- If you supply the wrong tax rate (called PIR or prescribed investor rate) and it is too high you can't get the overpaid tax back. If the rate is too low, you have to put the income from the PIE in a tax return and pay the shortfall.

Each year check before you confirm your PIR. For the year ended 31 March 2013 look at your top tax rate for your 2011 tax return and your 2012 tax return, (if this has been completed). Take the lower one. For example, your income for the 2011 year is \$47,000 and for the 2012 year it is \$51,000. The highest tax rate on \$47,000 is 17.5% so your PIR is 17.5%. The highest tax you pay on \$51,000 is 30% but your PIR is 28%. You may choose the lower i.e. 17.5%. Note: A PIE could actually save you a massive 12.5% (30%-17.5%) in the above example. This is because if your interest income for 2013 **was** going to be taxed at 30%, you can legitimately use a PIE to get it taxed at 17.5%!

Take care of your bank account

Here are some simple tips for making sure your bank account is looked after.

- It's unsafe to throw out bank account details your own or those of the people you pay.
- Check, regularly, your on-line bank account details are the same as those shown on the creditors' invoices. Businesses change hands.
- Does your business insurance protect you from fraud?
- If staff are paying the bills using internet banking, have two people authorised to make each payment. Police this rigorously. An authoriser should not be allowed to give their access token to the other authoriser when they go on holiday. Provide for the absence of an authoriser.
- Set authorisation limits for those who have access to the business bank account.

Tax laws tricky for work in Australia

If you, or anyone you know, work in Australia, be careful. The tax laws are tricky.

Double tax

For example, while you're there on an assignment you look for follow-up jobs and successfully negotiate new deals. The income would probably be taxable both in Australia and New Zealand.

"No problem," I hear you say. "Isn't there a double tax agreement which prevents me being over-taxed?"

Yes, but the top tax rates in Australia are higher than here, so it could cost you money if your income is high. Also, if you are trading through an ordinary company, the tax the company pays overseas doesn't count when it comes to paying company dividends. In the long run, you are likely to be double taxed. It is best to seek advice before you start.

Travel costs

You can often justify travel costs between the two countries. However, if you decide you are not going to use your company when working in Australia, you could find travel costs are not tax deductible. This is because, if you then start up as a sole trader, you have a **new** business. The new business requires you to go from your home to Australia to start work. Travel between home and work is not tax deductible. On the other hand, if you have an on-going business (through your company for example) the travel is part of your ongoing business operation and is likely to be tax deductible as the travel is between work places while you are on work.

Which costs are deductible? Now there's another problem, which is too complex to discuss here.

There are ways around these difficulties getting which country you are in right, when you negotiate, is a good start. Talk to your accountant and they should be able to keep you on the right track.

No-shows should be no goes

Do clients or patients create a loss for you by not keeping appointments or cancelling at the last minute? If the answer question is yes, get your secretary/nurse/receptionist to methodically contact all patients/customers a day or two in advance of their appointment.

Easy ways to do this are email (and get a read receipt) or text. Depending on the demographic of your client base a more effective way may be by telephone. The advantage of a text is that it can be retained on a mobile phone, allowing the person to recheck the appointment time and address. Software booking systems can automate the sending of emails or texts. Keep a black book of those who missed their appointments.

First offence; send out a letter explaining why it is bad to miss the appointment.

Second offence; bill them.

Do you really want them as customers or patients, anyway?

Brief plans often the best

Do not make a meal of business planning. Many businesses have succeeded with minimal plans.

Mike and Doug Tamaki created Tamaki Maori Village in Rotorua. In their book, *Successful New Zealand Ventures*, Alan Cameron and Claire Massey say: "Mike went to see his brother Doug with a concept sketched out on half an A4 page."

There are no rules about what you should put in a business plan. Books will help guide you, but they may also put you off, because they are often written for far bigger enterprises than yours. Business plans often include desirable material, but for small business is unnecessary. You could make a case, for example, to do some "competitor analysis". Ask yourself, before starting, how useful it will be for your business.

Start by deciding, as precisely as possible, what you are going to sell. If you are a builder, are you going to do repair work or new work? If both, why? Are you going to join the rat-race of quoting for any job that comes your way or are you going to specialise? One builder I know does only architects' work. Sure, he quotes, but his chance of selection is high because architects always want builders they know and can trust. The builder can therefore charge accordingly.

Make a will and save others extra grief

From time to time we hear a sad tale about someone who has died and failed to make a will.

If there is no will, the Administration Act 1969 takes over and the result can be most unsatisfactory. Often people delay making a decision because they have a difficult situation to resolve and cannot find a solution.

What should they do?

It will cost you, but the sensible thing to do is to sort it out with a qualified, independent third person such as your solicitor. You never know. Perhaps a family trust would work. You don't have to leave your possessions and assets directly to a person. An entity such as a trust can sometimes be a good solution.

Don't procrastinate over making your will. You can always change it. If you are going to remarry or enter a de facto relationship, renew your will because your old will is revoked on starting the new relationship.

If you wish to refer to any of our earlier newsletters, these can be found here:

<http://www.beancounters.co.nz/Newsletters.htm>

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Best regards,
Shane Durrant

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28 August
1st Instalment 2012
Provisional Tax
(March balance date)
GST for July 2012

Did you know?

When you shift to a new address NZ Post provides you with 3 months of free mail redirection.

What you may not be aware of is that they also sell your new address to direct marketing companies (so all the junk mail will follow you!). Unless you pay for the redirection, there is no opt-out option to maintain your privacy.