

Newsletter

Winter 2010

Implications for businesses as GST rate rise looms

At the time of writing this newsletter, it seems fairly sure that the Government will increase GST to 15% from 1 October.

The expected scenario is a top personal tax rate of 33%. In the year 2000 we also had a top personal tax rate of 33% but GST was 12.5%. Progress?

Start thinking about the repercussions for your business:

- If you are a retailer, you are going to have to reprice all stock.
- What about prices stated in advertisements?
- Are your accounting systems ready? Can you easily switch to the 15% rate when charging or invoicing?
- Think about the cut-off. Retail customers are going to want to be billed using the 12.5% rate where possible. This will apply particularly in the housing industry, where the amounts of money are large. How about cashflow? You are going to be paying more for your goods and the money owing to you (debtors) is going to be bigger. You are going to need to fund this.
- When the last GST increase occurred there was a rush to buy goods by 30 September and an unpleasant lull following the introduction of the new GST rate. What can you do, if anything, to combat this? Is it worth promoting your firm as holding GST at 12.5% until Christmas? You would be giving away a 2.5% discount.
- There will be some cross-over problems. For example issuing a credit note at the 12.5% rate after 30 September for goods purchased prior to 30 September. Can your system cope with two GST rates at once?
- What if you provide financial services? You are not going to be able to pass on the costs. This will affect your pricing.
- A client told us "One of the implications for us, is that we have many regular advertisers who pay regularly through automatic payments. They get



a discount for this, as it saves a lot of time chasing them for payment, and they have a commitment to advertise for a year. When the GST rise comes through, we will need to redo all the automatic payments to avoid being out of pocket 2.5%, or we might just wear the cost."

- If you are on a payments basis, you will need to make an adjustment for bills sent out before the change-over date. They will have 12.5% GST in them. You will need to be careful you don't find yourself paying 15% GST to the IRD when that money comes in. Those on an invoice basis will, generally, have no such problem.

Are you using 2011 tax tables for PAYE?

REMINDER: The rates for tax deductions changed at 1 April 2010. Inland Revenue expects you to get the new tax rates off the internet (see our autumn newsletter), or call IRD and request that new tables be sent to you.

Trade Me traders and hobby collectors

A CLIENT came to us and asked if he would have to pay tax if he sold his coin collection on Trade Me.

He had collected coins for more than 40 years and for one reason or another he decided it was time to give up. He had very rarely sold and then only to allow him to improve his collection and buy something better. As he hadn't done anything with the collection for the last 10 years, he saw no point in keeping it.

We think this is a clear case where tax would **not** apply. Compare this with another client who regularly buys and sells postage stamps. Most years he makes a small profit and he always aims to do so. We think his gains are taxable.

IRD is after people who aim to make profits out of trading on the internet. If you sell things you don't want, like the coin collector; no problem. If you buy goods, with the intention to sell at a profit, the sale will be taxable income and the cost of the goods will be deductible against it.

IN BRIEF

Another example of WOW!

OUR client's plasma TV broke down. He asked the repair company if the job could be done quickly because his infant son was unwell. The one thing which kept him happy was watching DVDs. The repair firm pulled a real surprise. They provided another plasma TV and installed it. Our client was told he could continue to use it until his own set was repaired. Was our client impressed? Let's say he can't stop telling people about this amazing experience. If you want your customers to talk about you (in a good way), do something big and impressive. That's called WOW! It builds businesses.

You don't need to complete the IR 886

DO IT YOURSELF is a great Kiwi attribute, but not when it comes to tax. If you are going overseas and need to know whether you will become a non resident, ask us not the IRD. The department will probably give you an IR 886 form to complete to help it assess your residency. Completing it is not compulsory and is best avoided. Recently a tax consultant had three cases referred to him, where the taxpayers had filled in IR 886s and were told they were tax residents. He says: "In each case fortunately we were able to get IRD's position overridden and protect the taxpayer's position (and hard earned income)."

Reduce dependence on a few customers

IF YOU have one or two major customers and your business depends on them, take steps to reduce this dependence, if at all possible.

As a contractor or supplier, you have little influence on your customers' business decisions. Unless you have a solid contract, they can cut you loose any time they like.

Reducing your dependence on them is important because:

- 1 - The customer has too much negotiating power.
- 2 - You can spend a lot of time looking after them

and possibly losing money just to keep their business.

3 - If the customer's business becomes shaky, you could become just as vulnerable.

Look at ways of getting new customers (or getting old customers back – see 'How to stay in business', page 4), or of providing a service yourself. If, for example, you have been supplying components for your customer's computers, think about building and selling computers yourself. That way, you have more control over your business.



TAX CALENDAR

August 28

1st instalment 2011
Provisional Tax

January 15

2nd instalment 2011
Provisional Tax

April 7

2010 Terminal Tax
payment due

May 7

Final instalment 2011
Provisional Tax

Annual accounts and your bank

ONE of our big frustrations is banks which wait until bank statements are full before mailing them to clients.

We need to be able to verify your bank balance for all accounts at your balance date (usually 31st March). If you do not have some bank statements, please get on to your bank now. While you are on the job, ask for bank statements to be sent to you at 31st March from now on.