

## IMPLICATIONS FOR BUSINESSES AS GST RATE RISES

GST will rise to 15% on 1 October 2010. It is time to 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."

# 15% GST



- 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.

Start planning now for an increase to 15% GST.

# KEY BUDGET CHANGES

- Personal tax rates will be 10.5% (down from 12.5%), 17.5% (down from 21%), 30% (down from 33%) and 33% (down from 38%). To take effect from 1 October 2010.
- Company tax rate to be cut from 30% to 28% beginning next tax year.
- GST increase to 15%.
- \$2.1b extra for health services over the next 4 years.
- \$1.4b extra for schools and early childhood education.
- \$1.4b funding this year for infrastructure which includes broadband, schools, housing and rail, plus \$1b for roads.
- \$321m extra for research and development and science.
- Investment property tax rules to be tightened (details to be confirmed).

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## 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.

# PERSUADING PEOPLE TO INVEST

We were impressed by the following comments, which help show how some firms raising funds go about their task. We are indebted to BNZ economist Tony Alexander for these comments, which we quote:

"So what is the recipe then for getting in lots of money from relatively uninformed people with lump sums?

You need to get them to trust something about your company – front-person, logo, sponsorship etc. – and you need to convince them that not giving them your money somehow involves a "loss". In this case an opportunity cost. Oh, and one must not forget getting them to focus on the long term positive outcome rather than any thought of fluctuations along the way. So have a nice picture or video of a healthy looking couple walking along a beach with a small dog and grandchildren nearby. And use asset price graphs that extend for decades because the upward trend is what the eye sees and not the large percentage fluctuations along the way which get smaller and smaller in physical visible terms as each year brings another observation to add on."

We hope these comments will help you avoid investment pitfalls.

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## 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. You can also get the new tables by ringing the IRD and asking them to send the tables 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.

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## 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), 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.

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## ADVERTISING? CREATE FUD!

You can use fear to sell.

Think of the old Palmolive Gold advertisement – the consequences of having BO.

Create FUD – Fear, Uncertainty and Doubt.

Do you have enough car insurance? What if you collided with a Rolls or Merc?

Get the idea?

# PRINT ADVERTISING CHECKLIST

If you advertise in print, make a checklist of the things you should supply to the publication for your ad to be created.

It will comprise four main parts.

- **Words:** The things you want to say about your business, and your offer (discount etc). It should include contact details, such as phone numbers, address and email (if applicable), and web site.
- **Images:** A good photograph of your product, your store or even your people. Always supply a high resolution photo (don't just grab it off your web site), even if it's for newspapers, which can't reproduce at high resolution. Newspapers can always reduce the resolution – they can't improve it.
- **Logo:** Ensure it is high resolution. Ask your designers for a copy if you had it created professionally.
- **Branding elements:** If you have corporate colours and a font you use regularly, let the publication know. In most cases, they will need to know the CMYK mix for the colours (not just PMS). Ask your designers if you're not sure.

# CLIENT CORNER

Kerridge & Partners has won the Vero Excellence in Business Support Awards once again. They were award winners in 2009 and Peter Kerridge, Managing Partner, says their rate of improvement has only accelerated since. In the last 12 months they have become the only consultancy in their sector that had their business independently reviewed by a global CA firm. They have widened their suite of consultancy offerings, from executive search and coaching into board review and leadership team development.

Peter Kerridge also notes, “We’ve also benchmarked ourselves against the best in the world, and proven to ourselves and others that it is absolutely possible to run a world class business from New Zealand”.

“Whilst the award is wonderful recognition for the work we have done, we see it as a stepping stone on the way to bigger and better things in the future”.

## ORACLE

ō'racle *n* place at which ancient Greeks etc. were accustomed to consult their deities for advice or prophecy

There is no finality in failure, and no end to success.

If you keep looking backwards, you miss everything that's coming your way.

Wisdom is to the soul what health is to the body.

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