

# How to reduce bad debts

## Prevention is better than cure when reducing the number of bad debts.

- Avoid giving credit to a stranger, without undertaking a credit check.
- If you have to give credit without doing a proper check, be sparing.
- Giving credit can help you gain customer loyalty, but be careful.
- There is no obligation to give credit to anyone. Try to make it a habit, if your type of business will permit, to assume you will be paid on the spot.
- If it can't prevent bad debts then:
  - Jump on new customers who start to abuse your credit arrangement.
  - Make notes of every conversation you have with a debtor.
  - If you have to make follow up calls, quote back to the customer what he/she undertook to do.
  - Immediately after you have made a call, make a note in your diary of the day on which you will next call if the money has not been received and keep a record of what was said.
- Discontinue giving credit to the chronically bad payers. The time you put into them will destroy your profitability. You could be doing better things with the same time.

## What about the big customer who will not pay on time?

Small businesses often find their biggest customer is their worst payer. You feel you can't afford to be too demanding, in spite of the fact you're entitled to your money. What should you do?

The answer is not to have one major customer that dominates your business. You will always be vulnerable while you let this continue.

Set a maximum percentage of total sales from any customer and do your utmost to see this is not exceeded. If your big customer goes broke it could take your business with it.

## Not feeling so great?

Through the PSA crisis and the recent dairy downturn there has been quite a focus on farmers and orchardists suffering from depression. This is something that is very hard to talk about but is something that we all need to be aware of.

We have all no doubt heard of John Kirwin's journey through depression. You may also be aware of the web site that he has helped set up which has some fantastic resources.

There is now a section on the web site that is specifically aimed at the rural sector – you can check it out at [www.depression.org.nz/get-better/your-identity/rural](http://www.depression.org.nz/get-better/your-identity/rural). This has some stories from farmers and their support people that have been through this and are willing to share their journey.

## Christmas Hours

We will be shutting the office at midday on Friday 23rd December. Officially we will be re-opening on Monday 9th January – although there may be a few of us around during the previous week.

We would like to take this opportunity to thank you for being clients of BRG during 2016 – we look forward to working with you again through 2017 and beyond! In the meantime, we hope you all have great Christmas and New Year.

All information in this newsletter is, to the best of the author's knowledge, true and accurate. No liability is assumed by the author or the publisher for any losses suffered by any person relying directly or indirectly upon this newsletter. You are advised to consult professionals before acting upon this information.

# TAX CALENDAR

## Jan 16 2017

2nd instalment of 2017 provisional tax

(March balance date except for those who pay provisional tax twice a year).

Pay GST for period ended 30 November 2016.

## Feb 28 2017

2nd instalment of 2017 provisional tax

(May balance date except for those who pay provisional tax twice a year).

Pay GST for period ended 31 January 2017.

## April 7 2017

Terminal tax for 2016

(March April, May and June balance dates).

**DON'T BE LATE**

# Newsletter

Summer 2016

# Team update

We have a few new faces around the office now. You may know that Charlotte O'Grady left us in October. Prior to Charlotte leaving we had decided we needed to look for another person anyway – so with Charlotte's resignation we were now looking for two new people.

As we went through the interviewing process we came across three people that we thought fitted the culture here at BRG really well – so we decided to take on all three:

• **Nicholas Tomsett** is the newbie in the Ledge Bookkeeping team. Nicholas has an accounting degree and has previously worked for Simple As Tax Refunds. Lesley Dodunski has now moved out of the Ledge team into the accounting team.

• **Rebecca Goldingham** started with us in October. Rebecca has previously worked in Chartered Accounting but has more recently been in the education sector. She holds a Bachelor in Business degree

• **Dale Spong** started in November. Some of you may know Dale from when he worked at PGG Wrightsons in Te Puke. Dale has a Horticulture and an Accounting degree.

It is great to have some new faces around the office. Please do introduce yourselves to the new people if you get the opportunity.

## Go for the shortcuts

It's true – most of us only scratch the surface of what's possible when we use our computers.

Underlying all the usual stuff we do daily, are a multitude of smart tricks that can make life easier, improve productivity and ease the pain of OOS.

For the next few newsletters, we're going to give you a few 1-Click shortcuts to help avoid the laborious use of the mouse and having to click several times. Do try these shortcuts and get in the habit of using them regularly. It'll save you time.

These suggestions are for PCs only. Also, they may not work in older versions of Windows.

If you press the function key, F9, at the top of your keyboard, it will automatically magnify the document you are looking at. Press it again to return to normal size.

If you're looking for a keyword, you can find it by holding down the control key and pressing F. You then type in the word you are looking for. Each time you press "enter", the cursor will take you to the next place where this word appears in the document. Press the function key F2 and you will find this is a shortcut for renaming a selected item.

## What can I claim?

A pensioner got remarried and decided to rent out her former home. It was one of a group of houses.

A tradesman made an offer to a group of house owners, including hers, to clean all their windows for \$100 each.

"I gave a neighbour \$100 to pass on to the tradesman, but since I didn't get a receipt I assume I can't claim it," she said.

Tax law does not say anything about the need for a receipt. Claiming expenditure is perfectly simple. Generally speaking you can claim any expense which relates directly to deriving income. That's the end of it.

If the IRD ever asks you to prove you spent the money, you need to be ready to do so. So it's always advisable to get some form of written acknowledgement, such as an invoice, to support your expenditure. It's a convenient way to provide proof to satisfy the IRD.

In our example, the house owner could probably get confirmation from the window cleaner or even from her neighbour, if needed. The trouble is they might not be around when the proof is requested.

Incidentally, if you are in business and are registered for GST then you do have to have a "Tax invoice" for any payment you make of \$50 or more, to claim the GST.

# Christmas Gifts to Clients



If you are thinking of buying moreish Christmas treats, the obligatory Christmas ham or bottles of champers for your clients this year then be sure you are aware of the change in IRD policy regarding the tax treatment of such gifts.

Historically the IRD position was that you may be able to claim tax deductions for your Christmas gifts if provided to people

such as clients, suppliers or prospective clients and suppliers. IRD policy was that a business could claim 100% of the costs incurred on providing gifts to clients and suppliers that contain food or beverages. This was clarified in February 2012 in a Business Tax Update, where IRD stated that you could claim the cost of a food and wine gift basket given to a supplier to thank them for their service. The cost of the basket was considered fully tax deductible as long as it wasn't provided or consumed at a party, reception, celebration meal, or other similar social function.

IRD's latest policy however is a complete u-turn! In August 2016 IRD stated that food and drink provided in the form of a gift will be subject to the limitation rule. Therefore,

only 50% of such costs incurred will be tax deductible. The IRD considers that where gifts (such as gift baskets) also contain non-food/beverage items, costs must be apportioned. The rationale for this change appears to be that the entertainment rules apply to businesses where there is both a private and business benefit. Although the business does not receive a private benefit from making the gift, the recipient of the gift does and therefore the entertainment rules should be applied.

Not all accountants and commentators agree with IRD's position on this issue. No doubt there will be arguments and submissions to come – however at the moment this is the rule we need to be working under.

## Don't grab all the money

If you sell your business, which you run through a company, the money does not belong to you. It belongs to the company.

You can only take it out if you are entitled to do so. If there is money owing to you, according to the balance sheet of the company, then that money can be paid out. However, any more than this becomes a loan to you or may even be an illegal distribution.

A problem often arises when a business is sold. The seller gets paid for "goodwill". This is the value of the customers who have been built up over the years. It is a payment for the potential to get a higher income.

The sale of goodwill in excess of what was paid for it (if anything) is usually a capital gain. This capital belongs to the company.

You can get it out if your company happens to be a Look-through company or one of those old qualifying companies. Otherwise, it must stay there until the company is wound up. If you take the cash out prematurely it has to be treated as a loan from the company to you. There are tax consequences as a result. If you want the capital gain paid out to you, without tax consequences, you must first have a signed special resolution of shareholders resolving to wind up the company.

## Some contractors to choose their own tax rate

From 1 April 2017, the Government is proposing to allow contractors whose income is subject to withholding tax deductions, to choose their own tax rates.

Those who have typically been over-taxed might want to choose a lower rate. The minimum for New Zealand residents has been set at 10%. Others, who have a lot of year-end tax, might be more comfortable having higher deductions.

The maximum number of times you will be entitled to change your rate during the year is twice. After that, the payer will have to agree to your request to make the change.

If you haven't been complying with your tax obligations, you might not be allowed to choose your own tax rate.

## Kiwifruit Contractor Payments

Over the last few months there have been a number of clients that have received letters from IRD in relation to payments made to labour only contractors in the kiwifruit industry. This is mainly in relation to summer and winter pruning. Generally, these letters have come about because IRD are investigating a particular contractor that is possibly not doing things correctly in relation to withholding tax.

In gathering information our clients have received letters from IRD asking for details of payments made to contractors they have used. IRD are being pretty pragmatic about their approach to these issues and in general are treating their investigations as an education process.

Close attention needs to be paid to payments to labour only contractors and I thought it would be useful to remind you of things to think about when paying labour only contractors.

1. 15% Withholding tax needs to be deducted off anyone providing labour in the kiwifruit industry – this is applicable to contractors that operate as sole traders, partnerships, companies and trusts.
2. Some contractors will hold a Certificate of Exemption that either takes away the need to deduct withholding tax completely or reduces the percentage of withholding tax.
3. The Certificate of Exemption should be sighted with each payment that is made. Ideally you should take a copy of the certificate each time (a photo on your phone would be acceptable). There have been some cases in the area recently where Certificates of Exemption were revoked part way through the year. The contractor was supposed to let all clients know this – but failed to do so. Consequently, clients that relied on his previous valid exemption certificate ran afoul of the law.
4. Pay close attention to invoices provided by contractors and make sure you are returning the withholding tax through the PAYE system in the correct months.
5. Watch out for the odd contractor out there that isn't registered for GST. When coding these payments make sure GST is not triggered on the payment – or advise us of this fact. If you have a few non-GST registered contractors, we can set up a new code for them which does not trigger GST automatically.

**If you have any questions about this or any other matter in the payment of contractors, please do give us a call to discuss.**

## Trustees need to minute their decisions

**If you have a family trust, be fussy about recording trustees' decisions.**

One problem that arises is taking money out of the trust for your own use. This can be:

1. a reduction of money owing to you
2. a distribution of some of the trust income
3. a payment out of the capital of the trust
4. reimbursement for trust expenses paid by you
5. a beneficiary loan

It's important to clarify these withdrawals. This is done by means of a trustee minute.

If there could be any doubt about the reason for a transaction, be sure to prepare a trustee minute and make sure all trustees sign it before it is actioned.

## Contractors to Labour hire firms

If you contract to a firm hiring labour, from 1 April 2017, the withholding tax deducted from your income will be at the rate of 20%.

This will mess up your provisional tax payments from 28 August 2017 and the next two payments. Even if you are trading as a company, you will still have withholding tax deductions from income.

You will be allowed to choose your own rate so long as it's not less than 10% – see article on page 2 in this newsletter entitled "Some contractors to choose their own tax rate".

## Kiwifruit Licences

Zespri has now been granted a PVR (Plant Variety Right) date for their most recent kiwifruit varieties – G3, G9 and G14. The PVR date expires on 6 September 2039.

This means we can now start "amortising" the value of any purchased kiwifruit licences – essentially this means we claim a portion of the kiwifruit licence value each year for tax purposes – until by 6/9/2039 the value in the books is nil.

## Computer backups

Here's a checklist to help you keep your data safe.

- Are you backing up your computer at least daily?
- Are you sending data off-site to protect against fire?
- How do you know you could retrieve information from your backup? Do you test your backups regularly?
- Are the files you keep in your email system also being backed up?