

Financial Planning

With bank interest rates lower than I can remember and Finance Companies no longer a place to invest, it is more important than ever to get sound financial advice.

We at Simpsons, have been associated with Barry Kloogh Financial Planning for the last four years, and as a result he has helped a number of our clients re-organise their insurance to something more appropriate to their circumstances. Barry has recently been joined in business by his brother, Geoff, who is offering a free insurance review to all of our clients.

Please phone us if you are interested.

Ron Sasse



Risk and Reward

Getting paid 101

Produce, sell, invoice, collect. What a simple process business trading can be. Many businesses have excellent systems in place for the first three aspects of trading, but fall down badly when it comes to getting paid by their debtors. Here are some helpful hints for getting debtors' money into your bank account.

Prior to making the sale:

- Engage your customers and ensure they are familiar with and sign your terms of trade, which for larger transactions should include a personal guarantee and an authorisation for credit checking
- Ensure your quotes are detailed and accurate and allow for any extras to be authorised
- Develop quality control systems which prevent poor product or service delivery
- Clarify with customers how and when payment is expected

After delivery of your product or service:

- Send accurately detailed invoices promptly, restating the due date for payment
- Promptly follow up any customer issues, avoiding the likelihood of a dispute
- Contact customers immediately if payment is not received on due date

What next if you have a satisfied customer who just refuses to pay? We put this to an experienced fellow of the Credit Institute of New Zealand. Here's what he had to say:

1. If phone or email contact has been unsuccessful, write to the debtor advising that if the invoice is not paid within 7 days the account will be referred to a debt collector.
2. Be true to your word and don't pussy foot around. Take a strong stance and refer the debt for collection by a reputable agency.
3. The debt collector will take you through the process, which may include a number of legal remedies depending upon the debtor's legal structure and the nature of the goods or services supplied.

Often the threat of legal action will frighten the debtor into paying up, so don't be shy in demanding payment in this way. Remember also that great debt collectors are very experienced at getting blood out of a stone. Unless you or your staff have the experience and passion for collecting money, it's unlikely you'll get the same result.

The abolition of gift duty

Legislation has now passed to abolish gift duty from 1 October 2011. Government officials and Inland Revenue officers have made it clear that current NZ legislation will be used in future to prevent individuals from divesting themselves of assets overnight to defeat creditors,

relationship partners and Government agencies providing social assistance (rest home fee subsidies, student loans etc).

Gifts defined as 'extraordinary', i.e. they exceed \$27,000, may be subject to claw back at any time and legislation such as the Insolvency Act, the Property Law Act and Social Security regulations will be used in future to police this area.

The message is clear - with the abolition of gift duty, current legislation will increasingly be used along with organisational changes to police this area by the likes of WINZ, IRD, the Official Assignee and other agencies. Long story short - substantial gifts should not be undertaken without seeking professional advice.

'Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidise it.'

Ronald Reagan

Tax Talk

Income tax - removing the uncertainty

'There are only two certainties in life - death and taxes!'. Although it is difficult to tamper with the sand flowing through the hour-glass of life, good habits can slow its pace. Good taxation planning can ensure that taxes can be managed so there are no nasty surprises resulting in urgent phone calls to the bank manager a few days before due date!

What processes should self employed business people adopt to plan their regular income tax commitments? Here's some direction.

1. Prepare annual budgets, forecasts and a tax plan. 'If you fail to plan, you plan to fail.'

Prior to the start of each year prepare budgets and forecasts to map the business' financial performance over the next twelve months. The operational budget will project the taxable profit from which the business' tax liability can be calculated and inserted in the cash flow forecast for the ensuing year.

2. Use a suitable computerised accounting system. 'What you can measure you can manage.'

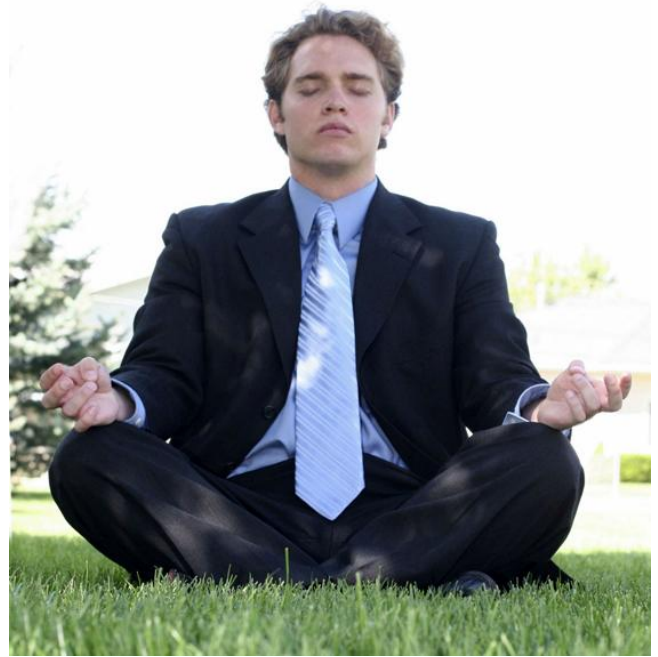
The business' financial life needs to be accurately captured with regular reports produced to indicate the company's profitability, cash flow and performance in critical operational areas. Don't just run the monthly reports and file them, analyse them to ensure the business is performing in all facets and compare actual results to budget. Talk to us about your accounting system. Our team supports a number of options, including web based solutions such as Xero.

3. Update your tax plan. 'If nothing changes, nothing changes.'

Businesses are dynamic. So too are the economy and the planet we all squat on. World, national and local events can significantly change business profits, so the tax plan must evolve with the business' financial performance. Re-evaluate the tax plan at least three times a year (around provisional tax due dates) to either increase or decrease your provision. This can reduce or even eliminate use-of-money interest charged in certain instances by Inland Revenue for short paid provisional tax and, conversely, reduce bank interest on tax you didn't need to pay.

4. Seek Advice. 'A problem shared is a problem halved.'

We can help you with your budgets, forecasts and tax plans or prepare them for you. If you are considering a new business initiative come and talk to us so we can ensure you are using the right structure and allowing for the diverse range of taxes we can be encumbered with. Remember, taxes can be legally minimised and it's our job to assist you to do so!



Tax planning checklist

It's important you talk to us if you believe your income is going to be significantly higher or lower this income year. The first provisional tax instalment date for March balance dates has passed, but there is plenty of tax planning opportunity left in the year. Consider the following circumstances when talking to us:

Revenue up or down?	Yes	No	
Margins increased or decreased?	Yes	No	
Expenses up or down?	Yes	No	
Affected by removal of depreciation on buildings?	Yes	No	
Fixed interest loans maturing at lower rates?	Yes	No	
Unable to utilise company losses due to recent LAQC reforms?	Yes	No	
Any other anticipated events likely to affect income?	Yes	No	

'The hardest thing to understand in the world is the income tax.' **Albert Einstein**

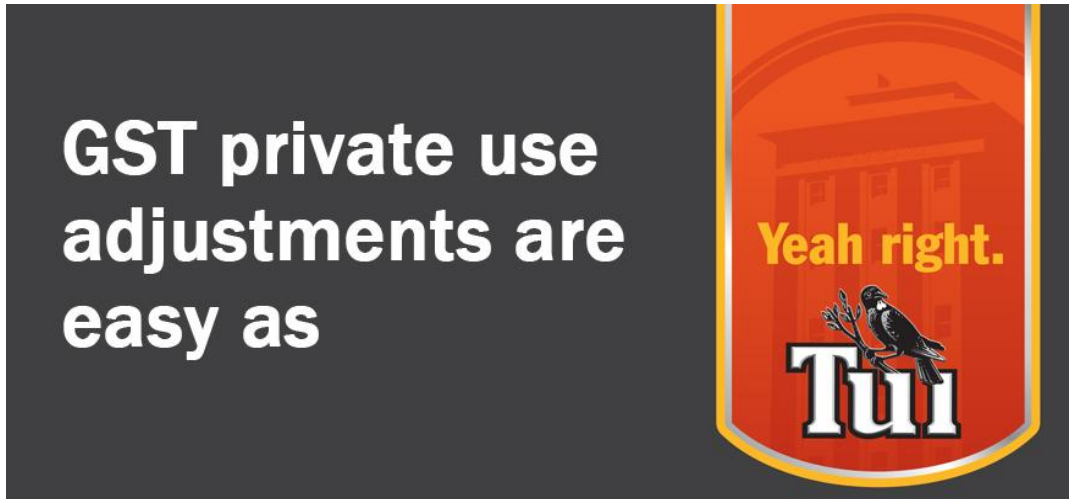
LTC elections (Look Through Companies)

We've worked very hard and very proactively to ensure our LAQC clients transition to the right entity, whether that be electing to become an LTC, reverting to a standard qualifying company, exiting the QC regime altogether or restructuring to a fresh entity such as sole trader or partnership. Most of our clients have accepted our recommendations and their transitional work is by and large complete.

We do have a small number of clients who, despite our best nagging efforts, have not responded to our suggestions. If you're affected, please get in touch and we'll take care of everything.

GST private use adjustments

On 1 April this year, rules for calculating GST private use adjustments were simplified. Sounds great! Problem is that the new rules aren't very... simple. Private use adjustments are calculated at the time of purchase, each year if usage changes, and when sold. If you complete your own GST returns and need assistance working out how much GST you can claim or have to pay when you have an asset with private use such as a car, give us a call or drop us an email along with the facts. We'll do the calculations and send you a detailed work sheet with the calculations explained. That way if you ever have to explain your calculations to IRD, you're covered.



Business Perspective

On your bike - for the Central Otago 'Bold' Rush

Next year is the 150th anniversary of the discovery of gold in Central Otago. While the gold has long gone, the region now has a more sustainable resource in the thousands of tourists drawn to it by its dramatic scenery and reputation as the country's action holiday capital. We interviewed Neville Grubb, managing director of Trail Journeys, an innovative tourism business that started in 2000. It offers a cycling experience on the Otago Rail Trail between Middlemarch and Clyde, including bikes, accessories, accommodation, off trail activities and secure vehicle storage. Their story is uplifting in a tough economic climate.

From humble beginnings out the back of a cycle shop Neville and his then business partner Ritchie Bailey set up with 10 bikes

and one van and now operate 550 bikes, three 21 seater buses, 3 mini vans and shuttle trailers, and employ 30 staff during peak season.

When Ritchie retired in 2007 Neville sold down 40% of the business to three local business people with expertise to enhance business development and created a formal board of directors. Neville has a refreshing attitude to financing a rapidly expanding business. Being debt adverse, he pumped profits back in to fund expansion, a decision that paid off when business got tougher during the recession. He admits that at the start planning was 'seat of the pants' stuff but, as the business grew formal planning has become an integral feature in their success.

Staff are fundamental to success and Trail Journeys draws on the wealth of passionate semi-retired people who are happy to work part of the year. The company ensures they are an employer of choice, generously rewarding employees, incentivising them when annual objectives are met and upskilling them with both technical and personal development courses.

Up until two years ago 97% of Trail Journeys' customers were Kiwis. This dropped to 85% on the back of a marketing plan targeting Australians and focused on attendance at the 'Round the Bays' cycle event in Melbourne. The trail journey attracts corporates, sports teams (e.g. the Silver Ferns), and secondary schools for team building and personal development.

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On your bike - for the Central Otago 'Bold' Rush (cont.)

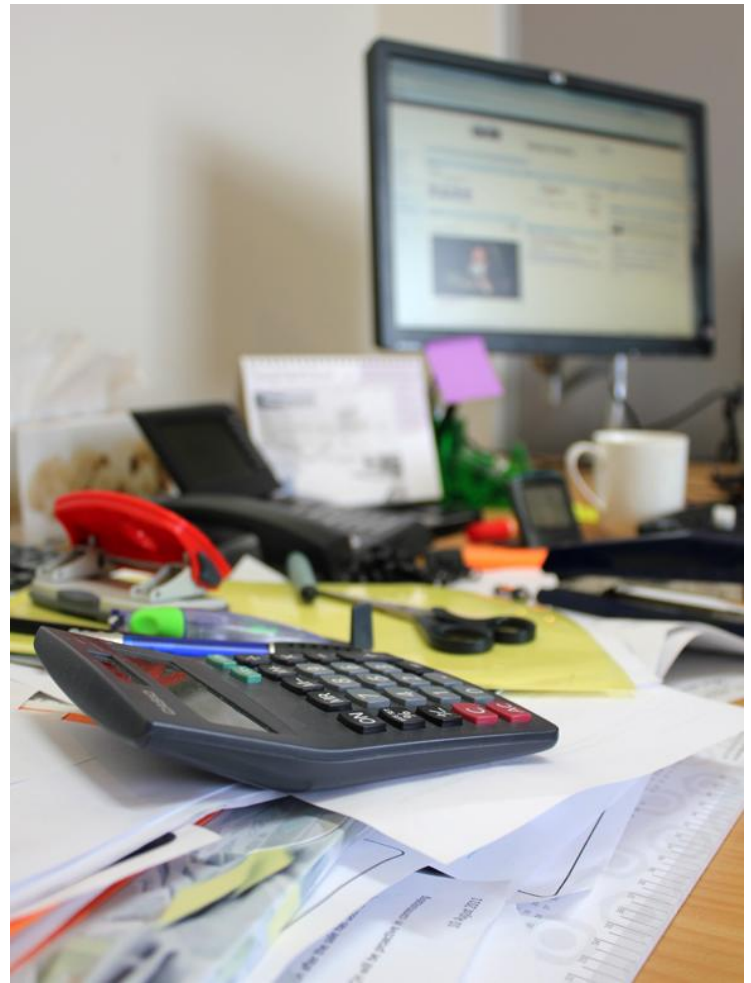
Key operational decisions Neville made to enhance business performance:

- Upgrading the Clyde rail head to improve servicing and storage of bikes, and provide workshop, office and reception facilities. Leasing and refurbishing the old garage at Middlemarch to provide bike storage and customer amenities
- Installing a web based management system to handle itineraries, accommodation and operations
- Designing with Avanti specific bikes that are robust and comfortable
- Purchasing Catch-a-bus in 2009 to enhance transport to the trail from Dunedin
- Encouraging other tourist operators to develop complementary services

The Trail Journeys story is inspirational - an iconic Kiwi business in a truly beautiful part of this magnificent country.

Spring clean your business

1. **Get rid of the clutter:** Not just the physical clutter in work spaces, but also the clutter within business activities themselves. If products or services no longer suit the market, clear them out or give them a makeover.
2. **Tidy the front yard:** Your business entrance, foyer or reception area says much about your business attitude, culture and likely service standards. Have a good look from a customer's perspective. What's the experience when they visit the business, phone your team, or order a product from your website? First impressions count.
3. **Fix the fence:** Review business insurances, document management and disaster recovery systems. Create an 'Important documents' folder and store insurance policies and vital business contracts, both in electronic and physical format.
4. **Throw some paint around:** When's the last time you refreshed your brand? Is it consistent with your culture and values? Maybe you are serving new markets now, or you've extended your products and services. Make sure your brand is applied consistently across all collateral, including your web presence.
5. **Sharpen any blunt edges:** Now's the time to learn new skills or develop simple training programmes to increase your team's productivity, or sales effectiveness. Internal training does not need to cost a lot of money. What it does need is your time, attention and commitment.
6. **Get the duster out:** Revisit old business plans, mission and vision statements. How relevant are they to today's world and markets? Plan a three-monthly goal check-in to review progress on your 2011 goals.
7. **Sow some seeds:** It's amazing the number of small businesses that don't have a marketing plan. Some of the most effective marketing plans are simply a list of activities, identifying the 'what' (the activity itself), the 'who' (who's the person driving the idea?) and the 'when' (when are we aiming to get this to market?). A marketing plan creates marketing gravity.



Disclaimer

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.