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Newsletter No. 10 October 2004

Introduction

Important: Provisional tax is due on Sunday 7 November.

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GST Due

GST for the 2-monthly or 6-monthly period ended 30 September 2004 is due at IRD by 31 October ie Sunday.

Provisional Tax

The second instalment of 2005 provisional tax is due on Sunday 7 November 2004.

It is your responsibility to make your payment on time. Otherwise IRD may impose penalties and interest.

How much provisional tax will you have to pay?

If your 2004 tax return has already been completed then I will have sent you a schedule setting out your provisional tax payments for 2004/5.

If you haven't sent in your 2004 tax return to IRD then you can calculate your provisional tax for 7 November at 1/3 of 110% of your 2003 tax.

This will be the same as the amount paid for 7 July. Refer to my last newsletter (Number 9, June 2004) if you want details about how to calculate the amount due.

Call me if you need help.

Improving profitability

There are several ways to increase your profitability, or "bottom line".

As profit is derived from income after expenses then, in simple terms, your objective would be to increase income and minimise expenses. You should also look at the relationship between income, expense and profitability after taking out your salary or drawings. Do you know what your profit is as a percentage of your gross margin (or income less direct costs)? You should also compare the results with previous years.

To increase income you need either to get new customers or derive more income from existing customer or a combination of the two. Earning more income from an existing customer has always been seen as being easier to achieve, and cheaper, than getting new customers.

Ways to earn more income from existing customers are to increase prices and increase the range of goods and services provided.

If you are providing a quality service or product, would your customers go elsewhere if you increased your prices by 10% tomorrow? Try it! If you are nervous about doing this try it on new or prospective customers. If it is really the lowest price that they are after then they will go elsewhere whenever you increase your prices. So you will never be able to increase your prices because the moment you do, your customers may go elsewhere. However, most customers or clients will buy from you because of the service you provide – if you are providing a service it is your expertise they are after, not just a service.

Even if you are selling a product, the service associated with selling the product can determine whether a customer buys from you or someone else.

The other way to increase income is to increase the range of services or products you provide. A simple example would be a landscaper designer who could expand services to include design implementation and construction and general garden maintenance work.

The other way to increase profitability (and this can be done in conjunction with any of the above) is to minimise costs. This is always much harder to do and has less scope for increasing profits than increasing income. One of the first and best ways is to ensure that you are minimising your taxes by claiming for all deductible items. With rental properties this may be by ensuring that you have had a chattel valuation done so that you can claim for all chattels not just carpets, stove and drapes or other items that may be separately listed on the sale and purchase agreement. For small businesses claiming home office costs helps defray the costs of working from home in the evenings and weekends but these costs are not always claimed.

While some people prefer to claim depreciation on a straight line basis (ie evenly over the life of the asset) because it is easier to calculate, you will save considerably more in tax by using the diminishing value method. The diminishing value rates are higher than the straight-line rates and you can claim a higher amount early on in the life of the asset. Even with inflation at low rates a dollar claimed today is worth more than a dollar claimed tomorrow.

If you have staff you may wish to take them on as casuals rather than full-timers depending on your workflow or engage them as sub-contractors.

Also you need to work out if it is worthwhile to keep track of all your motor vehicle and parking costs. The trick here is to make sure that you don't have to put too much effort into recording the costs such as parking as it may end up costing you more to keep track of the costs than the money you will save. Always bear in mind the cost/benefit of what you are claiming.

Other ways to save money may be to purchase goods that you use frequently over the internet eg laser printer ink cartridges.

Use the internet for banking and organise for clients to pay you by direct credit to your bank account. Not only will you save money, but you will also save your valuable time.

Examine your own costs to see how you can reduce them.

Interest rate management

While there is currently a price war among the banks over 2 year fixed interest rates, the general view is that interest rates are still rising.

What is the risk to you if rates rise by up to 2% and how can you manage that risk?

You may consider that those who fixed late last year for rates as low as 5.8 % for 2 years were very lucky. However if interest rates are sitting at 9% when that 2 year term ends then they may be forced to either fix at those rates or try the floating rate which inevitably will be higher still. They may then wish that they had fixed at 6% for 1 year then and at 7.2% now for two years.

The easiest way to reduce the risk is to break up your loan and vary the timings and rates. For example if you have a $300,000 mortgage you may decide to fix $100,000 for 1 year at 7.6%, fix $100,000 at 7.8% for 2 years and the remaining $100,000 at 7.9% for 3 years. Or you may decide to put some of the amount on floating rates. But be careful. If you put a large amount on floating rates, say of 8.2% then if you don't make substantial repayments during the year you would have been better off fixing that amount for a year at a lower rate.

Start up costs

Start up costs are not always deductible until you actually start your business. So all those items purchased such as a laptop and cell phone that you bought six months before your first sale may not be deductible. You may have to prove to IRD that they were expenses necessarily incurred in deriving taxable income.

One way to make it easier to justify these costs is to make sure that you set up a home office the moment you start your business. These costs will generally then be deductible.

Happy Christmas

Although Christmas seems a long way away, in fact it's only 8 weeks away.

So since this is my last newsletter of the year best wishes for a safe and enjoyable Christmas and a happy new year.

Contact details:

Please remember that the information in this newsletter is of a general nature only. For advice relevant to your situation please contact me.

You can contact me as follows:
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