

Perriam & Partners Ltd

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BEHIND THE NUMB3RS

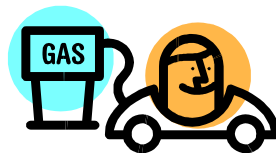


Has The Gas Tank Swallowed My Tax Cut?

One of the mistakes most of us have made is to earn a decent income and not have enough children. Unless you are a low income earner with a litter of toddlers you were not probably overly impressed with the budget.

Thanks to rising prices, mortgage rates and New Zealand's anorexic wage structure many of us won't get enough cash to breed. Most of you will know that our struggling low-income families will get a boost, but the vast majority who don't fit into that category will have probably run our finger down the tax tables pouting at the paltry sum Dr Cullen gave us. We will get \$12—\$28 a week, more depending on what we earn and how far will that go for you?

The average house hold income in have two kids as well, you can the boost from working for fami-



New Zealand is around \$72,000, so if you pick up a total of an extra \$43 a week with lies as announced.

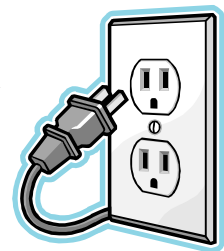
But we will all have to wait until the election to see exactly what position we'll be in. In the meantime as many of us qualify by Labors definition as "rich pricks" what do you think you'll do with the extra \$28 a week that may come your way October 1.

Actually come to think of it, there's not a lot of point plotting what you'll do with it as the car will have likely swallowed the lot.

The Power Surge

Prices are up and lake levels are down. In previous times of serious shortage, rain has saved the day and headed off any serious problems.

The threat of shortages is not the fault of businesses or dwellings using too much, it's the result of poor decisions by successive governments, agree?



The price of power has risen around 5% a year for the past five years at the retail level. So if I were you I would be budgeting for something similar for the next few years.

Are you pricing for profit?

Pricing is pivotal in any business. So how do you know if you are pricing right for the right profit.

- ◆ Charge a bit less than or the same as competitors.
- ◆ Charge a bit more than the product or service costs.
- ◆ Charge as much as you need to earn to cover your costs i.e. Break-even.
- ◆ Charge what you think it's worth.
- ◆ "Cost" the product or service and calculate a mark-up to provide an acceptable profit.

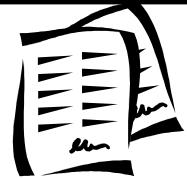
If you would like to know about the merits and pitfalls of some of the above methods then please e-mail reception@perriams for more information.

Purpose with Profit

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How to read CVs between the li(n)es



But it might be too late if you've already hired?

Everyone who has ever sat down and written a CV knows that it involves a certain amount of spin, marketing and sometimes just a tiny bit of embellishment. That is how organizing your grandma's 70th birthday barbeque at home becomes "event management experience" on your CV.

But where is the line between enhancement and an out and out lie? And what can employers do if they find out that an employee misled them about their qualifications, skills and experience during the recruitment process?

Surprisingly, once someone is on the payroll, the options for dealing with the issue can be limited and terminating employment because of a lie on a CV is difficult to justify.

Job candidates do not have to volunteer information at an interview, that might jeopardise their chances of getting the job. However, if asked a question they do have a duty not to lie. So make sure that you ask all questions at the interview and on an application form, which are important to and relevant to your decision to hire. If qualifications are important to the job, check up on them and ask to see certificates. If relevant, experience is crucial therefore check references.

Any background checks should be carried out before a job offer is made. It is too late to change your mind about about a candidate if an offer of employment has already been made and accepted.

Employer's rights

If you have already employed someone and you subsequently discover that their CV was a work of fiction and they misrepresented themselves to you at interview, what can you do?

The first step is to consider how serious the misrepresentation was. Was it an annoying exaggeration or a lie about a crucial requirement of the role?

In the case of the former, there may be little you can do. But where an employee has crossed the line and lied about a material factor, which influenced your decisions to hire them, this can sometimes justify you canceling the contract and ending the employment relationship.

These situations are rare and employers should take advice before taking any action. Including a clause in the employment agreement dealing with these situations can help you justify a subsequent dismissal. Before terminating employment a full investigation must take place and the employee should be given the opportunity to explain their actions before any decision is made.

In most cases, an employee's misrepresentation about their qualifications and skills will not be so serious as to provide grounds to cancel the contract, but could have an effect on how well they are performing in their role.

A trial period is useful in assessing a new employee's suitability for a position. If any problems arise during the trial period, these should be addressed and managed as performance concerns.

Managing this process fairly is crucial, even if the employee's poor performance is the result of them having misrepresented their skills and experience to you. A failure to follow a fair process will mean that any subsequent dismissal will be unjustified.

Prevention is better than cure. Ensure you have good recruitment processes in place.

If problems do arise after employment has started, these should be dealt with fairly and in accordance with the rules of natural justice.

Bad Customer Service

The concealed cost of a bad customer experiences:
Colmar Brunton New Zealand research shows that;

- 80% of customers will tell 13 other people
- 32% will recommend people not use the business.
- 38% will start looking for another supplier
- 24% will spend less money with the business
- 26% will take all their business elsewhere
- 25% of those who defect say they will never do business with that company again



Providing good customer experience is essential for all businesses and employees

Purpose with Profit

Why are some investors wealthier than others?

The following commentary I have taken from the NZ Property Investors – April 2008 issue.

Is there a common thread of thinking between successful investors? If so, what is it?

Over the past decade Peter Spann, CEO of Freeman Fox Financial Services has been pondering just that.

Spann, along with a colleague, has spent the past 10 years interviewing 230 wealthy individuals.

“People who are successful... usually focus on one or two very significant strategies that they get to do very, very well,” Spann explains. They put their strategies into practice over and over, until they fine-tune and hone their skills – it becomes second nature.

There’s no common asset class or business type that has made these people wealthy.

“The connection is, they are very methodical about it,” Spann says. What are some other characteristics?



Specialise

They specialise.

Establish criteria

Once you have a specialist area, you’ll start to establish a set of criteria for assessing potential opportunities.

Eliminate opportunities

What they’re actually looking to do is eliminate opportunities, which is virtually the opposite (approach) to the average investor,” he says.

He believes the average investor is always trying to find multiple opportunities, this property I think I could do this to, and that property I think I could do that to’.....”

“If it doesn’t fit their criteria they don’t know how to evaluate it,” he says. “And if they don’t know how to evaluate it, they risk making errors. And when they make errors their investment returns suffer”.

Optimise your strategy

If they do the same thing over and over they can optimise the process. They’re trying to get a better criteria for judging their investments, and they’re trying to automate it as much as possible.

Discipline

When you’ve been in the game for a while, it’s fundamental that you stick to your strategy, or strategies, with discipline.

Spann believes, “that’s what highly successful people are all about”. They possess incredible discipline to stick with their methodology, and to constantly enhance and improve their strategy.

True diversification happens later

Some investment advisers talk about the need for diversifying your portfolio for risk management reasons. This concept is worth bearing in mind as you plan your investment future.

However, Spann argues that true diversification can only really happen when you have a “significant number of properties and or investments.

Spann says the rich people he has studied made their fortunes in a specialised way and they later diversified – usually with the help of an experienced adviser.

In summary

If you’re still trying to hunt down your first, second or third property then you’re probably still establishing your criteria and your system. At this early stage it’s important to do lots of market research and consider lots of properties. Find a super system that works and stick with it!

Stick with the investments you understand and that you have some interest in. If you are interested in something, you’d take time to learn about it. Diversification is good, there’s no argument with this, but if it means buying into something that you don’t understand, then don’t buy into it.

How the company tax rate was in 1891

Company tax was introduced with income tax in 1891. It was a flat rate of 5%. In 1909 the top rate for personal income tax was increased to 5.88% - oh how it used to be!

By the time of World War II the top company rate was 70%.

Extracted from We Won, You Lost. Eat that; A political history of tax in New Zealand since 1840



Taxman's invitation can prove costly

Some tax payers are more likely than others to attract the unwelcome attention of Inland Revenue's inspectors.

The IRD's henchmen don't do dawn raids, but they can get warrants to go through a company or individuals paper files and computer records with a fine tooth comb.

But unless you're being obstructive, it's more likely you'll get an invitation in the mail to make an appointment to meet an investigator (It is at this point that we would strongly recommend you make contact with us).

About 12,000 individuals and businesses will be audited over the next year. Of those audits, about 3 per cent result in penalties being charged on outstanding tax, ranging from the 20 per cent standard penalty for lack of reasonable care, up to 150 per cent of the tax owing for evasion.

"the cost of an audit in accountants' fees varies massively, but you can usually budget around four—five times what it would cost to have a set of accounts prepared". If you go as far as court, the cost of lawyers and accountants could add up to thousands of dollars.

Not everyone is equally at risk of being audited, the IRD has limited recourses and uses them to target the areas that are most fruitful in turning up tax dodgers. They include: industries where under-the table cash payments are rife; GST fraud; aggressive tax planning; where individuals use schemes to avoid paying tax; depreciation rorts; and industries where there appears to be widespread avoidance.

The IRD's property investor crackdown has led to \$100 million a year in unpaid tax, penalties and interest being collected for the past three years. Last year's Budget gave the IRD an extra \$14.6 million to continue these auditors and the IRD has more than 100 investigators working on this one area alone.

Although New Zealand has no general capital gains tax rules on property, property traders' gains are taxed as income. Just because you bought and sold a property in quick succession doesn't necessarily mean you're a trader. Instead, what is important is what you intended to do—and what you told others such as your accountant, lawyer and lending manager at the time of buying.

Inland Revenue Investigators have been going through real estate agents' books looking for patterns that indicate investors are in fact trading property.

There is a general amnesty for tax payers who make voluntary disclosures before ever receiving audit notices. "If you fess up at the beginning of an audit before it progresses to the IRD finding anything, the penalties will reduce by 75 per cent. If the IRD does come calling, most taxpayers generally pay up. But by doing so, they could have a tainted tax profile that can count against them in future.

Be sure to get in touch with our office should you be unclear as to tax position.

Renting Versus Buying

Renting—The Pros:

- You may get a higher return on invested money.
- Greater flexibility with savings.
- Better savings diversification.
- Less responsibility.
- Can move easily and cheaply.
- It might be easier to live in the suburb you want.
- No maintenance worries.

Renting—The Cons:

- ♦ Can be booted out.
- ♦ No say over choice of decoration.
- ♦ More discipline needed in order to save money.
- ♦ Exposed to rent increases.

Buying—The pros:

- ♦ Accumulate equity in property.
- ♦ Future retirement accommodation.
- ♦ Easier to borrow for business.
- ♦ You decide when you'll leave.
- ♦ Decorate and garden as you please.
- ♦ Pride of ownership.
- ♦ Security.
- ♦ Freedom to have pets.

Buying—the cons:

- ♦ Good credit rating needed.
- ♦ Home maintenance costs.
- ♦ More difficult and expensive to move (Real Estate Agent fees for one!).
- ♦ Inflexible savings.
- ♦ Interest rates exposure!



We hope things are going well for you!

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