

Business Matters

Property Investment – It Can Be Heaven or It Can Be Hell



Looking at dabbling in real estate? The evidence shows there can be tremendous rewards...but also be wary of possible risks.

For example, the Inland Revenue Department has recently announced their intention to increase their resources by 30% with the specific objective of cornering property speculators who 'evade' tax.

Typically, taxable transactions involve entities that operate as property developers or builders.

You may not think you rate this title if you're operating on a 'small scale' – but the IRD net can be extended to 'ordinary' folk who wittingly, or unwittingly, do one of the following:

- Acquire a house to be renovated and on-sold
- Invest in sites that have been purchased, subdivided and on sold.

Also, if work of more than a minor nature is carried out on a property, and the property is sold within 10 years from the date of purchase, then this can be deemed to be a taxable activity regardless of whether you're in the developing, dealing, or building business or not.

If you are associated with dealers, builders or land developers then you can also be caught in the tax net for any private property transactions entered into – even if it doesn't meet the taxable activity criteria above.

For the majority of people the sale of the family home in most cases has no tax implications, however, if this activity happens on a regular basis the IRD can deem this to be taxable.

Note: that with any property purchase it is worthwhile documenting the purpose or intention behind the transaction – even including related meetings with the bank. In the event of any IRD investigation this information can prove to be useful evidence.

If you are unsure of your obligations please call our office before acting. The tax rules surrounding land transactions are highly detailed and the IRD has harsh penalties for non-disclosure of property income.

Be on the lookout

Is Travel Taxing?

So, you thought getting the mail was a tax deductible exercise. As far as the general rule goes, travel from home to work is personal in nature. If you are self employed this is not a tax deductible expense. If you are employed, travel is subject to Fringe Benefit Tax.

For such expenditure to be deductible the travel must be work related. In other words your home must be a "work place" (required because of the nature of the work, not because of convenience/choice) and the travel must be in the course of performing work.

In addition, travel between home & work will be regarded as work related if:

- A vehicle is essential for the transport of goods or equipment necessary for the performance of employment duties at the home and elsewhere;
- The taxpayer does not work from a fixed workplace and the home is the taxpayers base of operations;
- The taxpayer is required to be accessible at the home for employment duties and is required to undertake travel in response to emergency calls; and
- The travel is "on work" between two workplaces, one of which is the taxpayer's home.



The fact that work is performed at home is not sufficient to make the travel work related. Nor is the need to take the vehicle home for security reasons.

The travel must be in the course of performing work, not travel in order to commence work.

The performance of incidental tasks such as picking up mail or newspapers or making a business call on the way to work (when travel between home and work is not business travel) would not, in themselves, make the trip business travel.

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Reality Bites V

The On-going Challenges Assaulting Everest Aluminium



Was it the weather, was it the economy and general buoyancy, or was it the results of steps taken in his business development? Arthur couldn't be sure but he had a hard time remembering when times seemed so good.

He was receiving positive feedback – both anecdotally and in a more structured way – from both staff and suppliers as to the brand product and service offering. The time taken in assessing the company's strengths, and market opportunities, were now starting to pay more and more dividend.

He was also being acknowledged for a more open and inclusive management style. Taking the time to:

- Encourage teamwork and provide resources for the team to think about, and try, new ways of doing things
- Reward good ideas and suggestions
- Communicate clearly changes or developments

With all the change and development taking place, and the perceived positive results, Arthur was now mindful of the need to both manage and capture information about his business.

"It used to be that I kept everything to myself...and even in my head. I'd write something down, pass it onto someone, and expect it to then be actioned. Generally this happened, but if I forgot to record something and pass it on the problem would simply continue. I began to see that what I was doing instinctively needed, like other parts of the business, better management and systems."

Like everything to date, Arthur began the process by asking himself some questions:

- Do I really understand the information and management needs of this business? If not, who does or who should I turn to?
- Do I manage my information well? Well enough, but that is not good enough, he concluded.
- In terms of information, do I have enough to be able to measure performance in a balanced, objective way?
- Are there systems in place to compare us to our competitors?
- Is our information safe, secure but also easily accessible? Like anything, useful information has a 'use by' date. Timely information helps or creates an advantage, whereas old information is more than likely yesterday's news.

Arthur was happy with the questions but soon realised getting the answers would need specialist help.

He contacted his business advisor and accountant to get the ball rolling.

During discussions, Arthur honed in on the meaning behind 'the power of information and information is power.' This opened his eyes even further to designing a management approach to effectively harness this competitive advantage.

His ideal now was to have information that:

- Was easily identified as helping vs hindering his business. He recognised that overload was a danger so having a screening

mechanism was important.

- Again, to keep the system lean, mean and justifiable, he wanted to be able to see the costs and benefits from collecting, maintaining and assessing information.
- As a further screening discipline, he only wanted information that was aligned to helping to achieve business goals.
- In term of performance measurements – both internally and in comparison to competition – he wanted to categorise this in terms of:
 - Financial and cost
 - Customers and market
 - Staff
 - Process and innovation
 - What represents and defines 'best practice'

"I originally thought that this whole information management area was akin to navel gazing but now my attitude has changed. Like any other resource or process – staff, sales, production or other areas of management – information needs structure and discipline to make it work and, in turn, return reward."

Marketing

Brand You

It may sound far fetched but in an ever competitive world one of the most important brands, and brand representatives, is in fact YOU.

Brand proponents, such as Nike and Starbucks brand developer and now writer Scott Bedbury, attest that the actions of one person will either enhance, or destroy, millions of dollars worth of work done in creating and managing the right impression.

Given this, knowing what helps to build equity in a personal brand is important.

- Remember that people are always making "buying decisions" about you.
- What have you got to offer?
- How do you present yourself?
- Do you have exceptional skills

and talents?

- Do you use those skills and talents?
- Can you deliver what you promise?
- Does the "brand" - "you" answer the customers' requirements?
- If the package - "you" - measures up they will buy. If not - no money.
- Helping people to choose the "product" - "you" is what marketing is all about.
- You need to know yourself very well - the good and bad points.
- What sort of "brand" are you?

Wearing Our Hearts on our Sleeves

TGIF (Thank God It's Friday) has taken on a whole new meaning at HWI with the implementation of our HWI CASUAL DAYS.

There is, however, a price we pay for the privilege of wearing more relaxed attire. Each of us contributes \$1 to World Vision in return for having these Casual Days.

These contributions currently sponsor two children, and in addition enabled us to contribute \$1,000 to the Red Cross Manawatu Flood Relief fund last year.

If you want to drop by on a Friday in your casual wear, any donation will be gratefully accepted.

In Today's Labour Market, Who's Really The Judge?

By Dr Mike Ashby



Imagine you're at a beauty contest several decades ago. Young women are preening down the catwalk, smiling furiously and talking with boundless irrelevant energy when being questioned.

The judges sit impassively, ranging from an obese middle-aged male television network director to a somewhat sun-dried woman who is head of a talent agency.

Together they sit in judgment, bestowing fame and obscurity in unequal measure.

Now flash forward: Imagine it is the judges who waddle down the catwalk and it is the young women who sit in judgment, ready to hold up the cards giving a score out of 10.

Rather than the former, this is now the complexion of today's labour market.

The traditional model of employers being able to pick and choose among candidates is over. For now at least, the contestants do the judging and the judges do the parading.

Good economic times mean good people are in short supply. Businesses can't find staff, let alone the quality people they need to

Further Tales from the Coal Face

More Ways We've Helped Others & May Be Able To Help You

HWI's mandate is: Helping With Your Business Is Our Business. Here is another recent project we've been involved in that demonstrates this commitment.

Small Company Taking On The Big Wide World

Having developed a unique product/service, and successfully taking it to market in New Zealand, the inevitable 'next step' is to look at the viability of going international. HWI has a great deal of experience in this area and is currently working as project manager in assessing whether an off shore move should happen now, or even a little further down the business life cycle path. Again, if the thought to take on the world has ever crossed your mind – even briefly – we recommend talking to us to make sure you're on course to achieve your goals.

be able to grow. When they do find staff, they have to spend a lot of time, effort and money to keep them.

It's the same for all employers, but small businesses struggle with additional problems:

- They can't match the packages and conditions offered by large employers
- They have much less margin for error in deciding whether there is enough work to justify a new position
- They also have less margin for error in terms of performance – you can hide a couple of 75% performers in a large team, but not when they are the person with sole responsibility for a particular function
- Training usually means the owner spending time with the new employee, increasing their workload or forcing other things to be deferred. Overcoming these problems requires a change in the way you think about recruitment. Here are some suggestions to help you do this.

Develop a competitive point-of-difference for staff in the same way you do for your products or services. Take care of staff with the same attention you do for "A Class" customers. That means:

- Systems and processes that exercise staff members' skills, not their patience
- Treating staff with the same respect you show your customers
- Creating a culture people want to be part of
- Creating an equal exchange of value – fair pay and conditions for the job they do
- Recognising loyalty and performance

You probably have a written marketing plan. But do you have a written recruitment and retention plan? A simple plan would have the following headings:

- My point of difference: why somebody chooses to work for me rather than a competitor
- What's my "go to market" strategy – referrals from existing staff? Referral bonus scheme? Agencies? A "nurture" programme for those who don't want to come aboard yet?
- Retention strategy – why do staff stay? This could cover culture initiatives, regular performance feedback, career development and recognition programmes.

Dr Mike Ashby is the director of the Entrepreneurs' Success Programme (www.espccoach.com), a business and personal development programme for established business owners who want to move to the next level of achievement. He is a former partner at Ernst & Young Consulting and Chief Operating Officer at Southern Cross Healthcare.

Reversal of Fortune

GST reverse charge on imported services - Don't panic!

Do you make exempt supplies – i.e. life insurance, financial services, residential rental?

If not – you do not need to read any further!

Please note – zero-rated supplies

(i.e. Exported goods & services) are not exempt supplies.

If >95% of your supplies are exempt and you receive imported services, then the new amendments will apply.

Please contact Chris Henderson for further information:

Chenderson@hwi.co.nz

The Trust 'Train Wreck'

A recent Sunday Star Times headline made interesting reading:

Family trusts train wreck heads our way

Provocative, yes? Accurate, perhaps in some cases? We wondered exactly what the writer was suggesting in comparing trusts to train wrecks. Most likely the analogy was made for those rushing head-long seeking to set up trusts without any of disciplines, or structures, in place.

As many of you know, the directors of HWI act as trustees in many of your trusts. Similarly, we do the accounting on an annual basis for your trusts.

In this capacity, we insist on the preparation of accounts, preparation of annual minutes, signing of accounts by the trustees and retention of those records together with other major transaction records in the minute book of the trust.

We do this fundamentally to protect you. For example, in setting up a property trust it is essential that this is seen as trust property and dealt with as trust property.

Many people simply don't understand that when they set up a trust the property no longer belongs to them but to the trust.

In worst case scenarios, challenge to these trusts is less likely to come from creditors than from marital partners, beneficiaries etc. Should a case go to Court, and the appropriate records, minutes and annual accounts can't be produced, the trust may be regarded as a sham and overturned.

Given the importance of a trust, we'll be contacting those clients who have trusts to discuss these issues with you personally.

Talking the Talk

HWI's Building Better Businesses Seminar Series 2005 Initiative

Some say talk is cheap, but when it relates to building your business we'd suggest the messages may be invaluable.

In that regard, we're launching a new – and we believe unique – informal forum we've called Building Better Businesses to educate, inform and encourage you and your staff.

Go online to our website to check out our seminar calendar and decide which topics are relevant to you, your staff, and your business. You are welcome to attend as many as you want.....
BUT SEATS ARE LIMITED.

Similarly, contact Mark Aldridge of our office to find out what's on offer & book your seat.

The seminars are also a great platform to introduce HWI to your business associates who are looking for proactive Advisers & Accountants, to help them build their businesses.

Cheers!!

"If you have a grateful heart, show it by directing the bearer to the best wine in town....and go about it with all due deliberation and care." -- *Earl of Rochester, British Courtier, 1647-1680*



The sentiment is ageless, but starting this year HWI is introducing what we're calling our Nice Drop Policy.

It works like this. We recognise that taking the time and trouble to recommend our products/services to a colleague or friend is a wonderful gesture that is always appreciated.

Rather than just words, if your referral results in business for us we'll be rewarding you with a 'nice drop' of quality wine as a sign of gratitude.

People News



Yet again this picture shows what a great team we have here at HWI, the Directors would like to thank all the team for their efforts in helping to move.

We are now situated in our new building Level

3-139 Carlton Gore Rd Newmarket, Client carpark entrance is via Kingdon St & up the ramp.

HWI Welcome Sarah Baldwin as our new Office Administrator & Congratulate Jeni Rowney on her promotion to Tax Administrator.



Watch this space

Coming up in our next issue:

- Property Vs Shares
- Financially Speaking
- More true tales of how we help businesses

All information in Business Matters is of a general nature and does not constitute advice. Readers are cautioned not to act or rely on it without first seeking professional advice.

HWI Limited, Level 3, 139 Calton Gore Road, Newmarket, PO Box 99858, Auckland, New Zealand