

TAX TALK



Undercharging a recipe for disaster

We all know most businesses fail within their first five years.

There are many reasons, but one of the most consistent issues, especially for new business owners, is pricing. It's a tricky area, with the huge temptation to underprice the market to get new business.

That strategy is a recipe for disaster. Undercharging is universally recognised as the biggest, most common and most dangerous mistake in business. One business adviser says very few people overcharge, but he estimates 90 percent undercharge.

The forces that push businesses into liquidation work both ways. The business owner might be producing a great product but doesn't appreciate how good it is, so it's sold cheaply. Chances are the customer also doesn't appreciate its value because it's cheap. Often, the higher your price the more you will be perceived as good at your job!

A Wellington entrepreneur once said: "Set your price to the point of resistance." In other words, your customers will tell you if they think you've overshot your pricing. But more often than not, you'll not be charging enough.

If you raise your prices by 10 percent, your income might even double because the extra charge is all profit. For example, sales of \$500 provide a profit of \$50, but the profit on sales of \$550 is \$100.

Law change for family boost – people receiving schedular payments

The FamilyBoost scheme has run into a snag. Some people receive income in the form of schedular payments. The gross income is being used by Inland Revenue for assessing entitlement to FamilyBoost and the department realises this is wrong because no expenses are deducted from the income. For the six months from 1 October 2024 to 31 March 2025, the Commissioner proposes to treat income subject to schedular payments as exempt income for the purposes of FamilyBoost. The law is to be amended to cater for schedular payments.

Summer 2024/2025

In this issue:

- Trust a key element of brand loyalty
- Common courtesy wins a plumber
- Worst tax offending of its kind
- Failure to declare income
- IRD rules on salary sacrifice
- Think twice when looking at DIY fixes
- Get creative with AI

Trust a key element of brand loyalty

Brand loyalty is often misunderstood by small business owners. They think that because they have loyal customers, their brand is valuable.

Not quite, because customer loyalty and brand loyalty are a bit different.

Loyal customers buy from you regularly, probably out of habit, because it's convenient, or because the price suits them. When any of these factors changes, you risk losing them.

Brand loyalty, however, is when a customer has an emotional connection with a brand. It means they consistently choose your product or service over competitors. They stick with you even if your price is higher than a competitor, or if you move your business farther away.

Brand loyalty arises from reliability and consistency. People stay with a brand because they trust it. They know what they are getting. Think brands of shoes, for example.

Here is a real-life example of a small-time builder. Peter had Bob build his house 10 years ago. A leak developed so he called Bob. Not only was the leak fixed without charge, but Peter and Bob both agreed it wasn't caused by the building work.

On the strength of this story, a third person, Jack, called Bob who agreed to build Jack's house. In the process, Jack noticed how skilled Bob's workers were and the high quality of everything done. The whole experience was professional.

Ten years later, Jack wanted an extension to his house. He called Bob. He didn't call anyone else and he didn't get any quotes. Why?

It was not loyalty to Bob. It was not because he liked Bob or because his price was good.

It was actually because of the reliability and consistency of his work. It was because the quality of his work could be trusted. It was Bob's brand.



Good customer service is the cornerstone of a successful business



Think of a well-maintained client database as the nerve centre for all things customer-related.



Common courtesy wins a plumber

A client recently needed some plumbing work done. Her usual plumber said he was "too busy" and wouldn't say when he'd be available. Since the job was fairly urgent, she called another plumber, a young guy eager to grow his business. They exchanged a few texts, figured out what needed to be done, and set up a

time that worked for her. He got delayed on the way, but what he did next pretty much guaranteed him a lifelong customer. He called to let her know he'd be a bit late but would be there soon, and he arrived less than 10 minutes later. The client wasn't bothered by the delay at all. In fact, she told the plumber

she was impressed he took the time to call. He seemed a bit puzzled and said, "That's just common courtesy, isn't it?" It is common courtesy, but it's often overlooked these days. Courtesy won this plumber a new client, while a lack of it cost the other plumber valuable business.

WE CARE ABOUT YOUR BUSINESS

COURT CASES for your interest ..

Worst tax offending of its kind sends Christchurch woman to prison

The director of an asbestos removal and labour hire company has been jailed for three years in what a judge has called serious offending and the worst of its kind to come before the Christchurch District Court in the last 20 years.

The woman was sentenced in the Christchurch District Court on October 30 and jailed for three years for what the Judge described as a case involving the wilful diversion of funds rather than business insolvency.

The woman ran a company, employing around 60 people. Between April 2019 and September 2022, the company was required to deduct PAYE from workers' wages and pay it to Inland Revenue. On 63 occasions between August 2019

and September 2022 the company failed to pay the full amounts of \$1,602,864.17.

As a result, the woman was charged with 63 counts of aiding and abetting the company to knowingly take PAYE from workers' wages and not pay it on to Inland Revenue.

An analysis of the company's bank accounts showed that more than \$800,000 had been diverted for the women's personal use. Further significant funds had been diverted to the woman's personal bank account and the woman's daughter's bank account which she was also using at the time.

Between April and May 2022 the company also received over \$2.2 million in COVID-19 wage subsidies along with

\$107,500.00 in governmental resurgence support payments. The woman was the sole director of the company at the time of the offending, was the signatory on the bank accounts and dealt with Inland Revenue in relation to PAYE debt.

The woman was given several warnings, but the non-payment continued and in May 2021 she was told the company was under investigation for failure to pay PAYE.

In his sentencing, District Court Judge agreed with Inland Revenue that there was a lack of remorse shown by the woman and pointed to the need for his sentence to denounce and deter behaviour of this kind. He also noted that if everyone had done what this woman did, we would be in state of chaos.

Failure to declare income results in home detention

An Auckland man who failed to declare income from building work has been sentenced to a year's home detention.

The man was sentenced in the Manukau District Court on October 4 after pleading guilty to 35 charges including evading or attempting to evade the assessment or payment of personal income tax, GST as well as income tax and GST of his company. He worked in the construction sector for more than a decade.

Inland Revenue began investigating his tax affairs after it became known in a related investigation that he was receiving large sums of cash from clients in the building industry but wasn't declaring that money in tax returns. The investigation was extended to include the tax affairs of his company.

The man used a tax agent for all his

personal and business tax returns and in 2009, 2010 and 2013 declared nil income. Income declared for 2011 and 2012 was only PAYE based salary and in 2014 and 2015 the returns show only shareholder salary received from the company.

He claimed he provided his tax agent with the bank account to include the income in tax returns and also claimed he had provided the tax agent with all supplier invoices. Both claims turned out to be false.

He only provided his agent with his bank account statements for the completion of all tax returns, when in fact the majority of income was being deposited into a personal bank account. This resulted in false income tax and GST returns being filed, as well as false personal income tax returns.

He also did not file any personal GST

returns despite collecting a substantial amount of GST through his building contracts.

The total taxes the man evaded was:

- Personal income tax = \$212,581.70
 - Personal GST = \$78,404.23
 - Company income tax = \$30,022.95
 - Company GST = \$27,538.08
- TOTAL = \$348,546.96

In 2019 the man was adjudged bankrupt and in 2023 the Official Assignee paid Inland Revenue \$210,000 of the debt. After accounting for some minor amounts received in 2017, the remaining unrecovered tax shortfall was \$135,073, which the man paid in full a week before sentencing.

As well as home detention, he was also sentenced to 200 hours community work.

IRD rules on salary sacrifice for low-cost commute

A company called WorkRide provides self-powered or low-powered commuting vehicles like scooters, e-scooters and e-bikes.

It has obtained a ruling from Inland Revenue, which relates to the employee accepting a salary sacrifice so that he/she gets ownership of the vehicle at the end of the contract.

The department has ruled:

- The arrangement will not be a fringe benefit.
- The amount of the salary sacrifice is not a PAYE income payment.
- The scheme will not be tax avoidance.
- The employer can claim the GST charged on the supply of the services by WorkRide being the facilitation of the arrangement.
- The salary sacrifice is consideration for a taxable supply by the employer to the employee. The value of the supply is the amount of the salary sacrifice.

“Stress is the trash of modern life -we all generate it, but if you don’t dispose of it properly, it will pile up and overtake your life.”

Danzae Pace



Get creative with AI

One of the most used AI tools for small businesses is creative writing. That’s because business people don’t necessarily make great writers.

So how is AI being used? Think about what writing you do through the day. Maybe as a builder, for example, you don’t think you do a lot of writing. But:

- You have to write emails to prospective clients, saying how good you are.
- You will occasionally have to reply to an unhappy client.
- You will need to write the words for an advertisement or flyer.
- You will need to keep your website or social media page up to date.

Once you start using AI writing tools, you’ll find all sorts of other uses. But always remember, AI is not you. If the words AI spits out don’t reflect your true personality or faithfully reflect your business brand, people who know you will be wary. Check everything before you press ‘Send’.

How can AI help – just ask it

AI is here for good, but most small and medium businesses (SMEs) in New Zealand are still reluctant to adopt it.

The reasons: not understanding how it can be used, and little appreciation of its value to a business. However, some business pundits are suggesting those who adopt AI now will gain the most in years to come.

The reality is that AI can make a valuable contribution to your productivity. So how else can it help your business?

There’s a simple answer – ask AI. Be as detailed as you can about your business in your questioning. You might be a retailer, but you sell imported giftware in the city. You might be a plumber, but your specialty is drain laying in rural areas.

There are lots of AI programs to choose from, so just search online: “Ask AI a question”. You might be surprised at the answers.

Think twice when looking at DIY fixes

We’ve all been there. The window is cracked or the tap is leaking. You think you’re handy so you try to fix it yourself.

You get a new pane of glass or a washer for the tap. Two hours later, you’ve broken the new pane and the tap is leaking worse than before.

The tales in small business are similar, but actually more important.

That’s because time is money. Your money.

If you need help in your business, whether it’s an IT issue or financial management, think first about whether you or any of your staff are actually the best people to do the job. How much time will it take, and how much will it divert your focus from the most important parts of your business? Could a DIY approach burn you out?

Most importantly, will you get the right results?

When you hire someone else to do the job, you’re expecting expertise, results, and a cost you can afford. Plus you’ll be helping the money-go-round by paying another business. They might even become a customer of yours!

Put simply, if your time can be sold for \$80 an hour and you spend four hours fixing a problem an IT expert could do in one hour (costing you say \$150), you are out of pocket.

Income you could have earned: $4 \times \$80 = \320 . Less cost of \$150 = \$170 wasted. This assumes you are running a successful business and there is a good demand for your time.

Important: This is not advice. Clients should not act solely on the basis of the material contained in the Tax Talk Newsletter. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Tax Talk Newsletter is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.



Stephen Larsen and Co

RENTAL PROPERTY AND BUSINESS ACCOUNTANTS

www.stephenlarsenandco.co.nz

Ph: 06 357 7011 PO Box 5161, 108 Albert Street, Palmerston North 4441

Ph: 04 232 4122 11 Collins Avenue, Tawa, Wellington 5028