



## Tax shakeup for business sales

**Proposals in the new tax Act will mean sellers of a business must notify buyers and Inland Revenue about the amounts they have allocated for various assets.**

If they don't do this there will be rules about how this is to be handled. Also, Inland Revenue will be able to interfere with the figures, if it thinks the allocation does not reflect market value. However, it won't do so where the amount involved is less than \$1 million.

When a business is bought or sold there is often an issue of how you apportion the assets.

The buyer wants to arrange the assets to get the best tax deal and the seller has the same ambition.

Think about the following situation.

A business is being sold for \$200,000. It comprises some stock, various pieces of equipment and furniture with different depreciation rates and goodwill.

As a buyer I want the goodwill figure to be as low as possible because I can't get any depreciation or tax write-off on this figure. In my books, I give it the value of \$10,000.

The seller wants to sell his stock, equipment and furniture for the smallest possible figure and places a value of \$100,000 on goodwill.

The buyer is going to make the stock, equipment and furniture as big a proportion as possible of the \$200,000 and the seller is going to do the opposite.

You can see the only one missing out is Inland Revenue, so it's going to tighten up the rules.

When you come to sell your business you might like to consider specifying in the sale and purchase agreement how the price is to be split over the various assets you are selling. When the buyer signs the contract they will be agreeing with your figures.

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# Discuss worker mistakes to avoid more mistakes

**Mistakes by employees are bad for both them and the employer.**

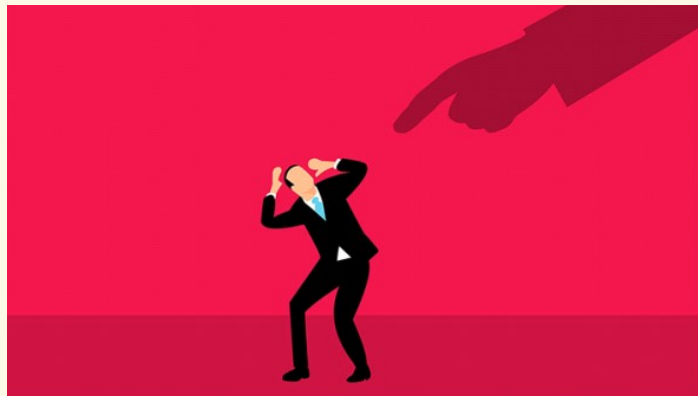
The more often the employee makes them and gets reprimanded, the less secure the person feels and the more mistakes they make.

The solution is to discuss the problem. If the staff member has the right attitude then you can do something about it. Also look at what might be causing mistakes, such as:

1. Distractions – too many interruptions.
2. Failing to follow your firm's systems. The systems need to be written down so they can be referred to (see also number 4).
3. Failing to check work or checking it the wrong way. When checking your work, start with the completed work and go back to the source. If you check from the source to the completed job you risk seeing the figures the same way as you did first time and making the same mistake. Checking should always be done in a different way from the original processing. For example some people prepare their GST returns by highlighting the GST inclusive figures on their bank statements and adding these up. They usually work

from the first bank statement downwards. To check the work, they should add the transactions on the bank statements starting with the last bank statement and work back upwards. Common sense is also important when checking. Does it look right?

4. Not being systematic. Checklists are invaluable. Perhaps you should get the employee to develop a checklist with your help. Whenever the employee is involved, they have more ownership of the end product.
5. Getting tired – the employee may not be taking sufficient breaks or holidays.



## Loan scheme extended



The original scheme for the Government to lend \$10,000 (plus \$1800 for each full-time employee) to small and medium-size businesses affected by Covid-19 has been extended.

- New businesses which started after 1 April 2020 will be eligible so long as they have remained in business for six months.
- If you have repaid the earlier loan, you can draw down another one.
- You can borrow to buy new equipment and digital infrastructure, not just for running the business.
- The number of days for which there has to have been a 30 percent decline in income has been reduced from 30 days to 14 days.
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- New businesses, instead of having to make a comparison with last year, can use the previous month.

## Plan for uncertain future

**So you've survived the 2020 lockdown, but business might still not be where it was, or where you would like it to be.**

Most businesses surviving after our lockdown have changed how they operate. They've got smarter because they had to.

Here's something worth asking yourself: What if it happens again? We know we're only one big community transmission away from another lockdown, so what plans do you have, if any?

The fact is most businesses have just been happy to have got through it, but they haven't thought about what worked for them, how they could build on that success, and how they might survive another bout of Covid-19 disruption.

Working from home has been great for a lot of businesses. Many never thought they could do it, and believed it would involve months of planning. With only days to work it out, they found it actually did work. Others, especially retailers, found they had to either start or beef up their online presence.

Taking these two examples, could working from home be expanded to include all staff, permanently? Could the online marketing be improved, for example by having a simple payment system, or a more streamlined packaging and delivery system? Planning not only helps you and your business operate more effectively, but can also make the business more attractive for investors or buyers.

What did you do, and how could you improve it – now, in case Covid strikes again?



## Man used forged documents to falsely claim GST refunds

A 25-year-old Auckland man has been sentenced to more than two years in prison for tax fraud involving more than \$200,000.

The man pleaded guilty to 16 charges of knowingly providing false GST returns to obtain GST returns he was not entitled to from 2014 to 2016 and 16 charges of knowingly using forged documents to support the false GST claims.

He was sentenced in December (18th) in the Auckland District Court and as well as the prison term was ordered to pay \$40,000 in reparations.

Inland Revenue spokesperson Tony Morris says the department started looking into the claims in November 2016.

“IR found a suspicious pattern of significantly high expense claims with nil or low reported income, resulting in consistent refunds. We asked for bank statements, expense and income invoices and written explanations of the source of funds, and expense payments.

“The man gave Inland Revenue documents but the problem for him was that original versions of the same documents, which Inland Revenue directly obtained from third parties, were materially different.

“He told investigators that his family was in difficult times and he felt the need to provide for them, but there was no evidence at all that the funds were used for that purpose”, Tony Morris says.

Defence counsel told the court the man panicked when the IR began to investigate and forged the documents, but IR pointed to the number of times he forged documents as much more planned than panicking.

Tony Morris says the judge also noted the Court of Appeal, in *James v R6*, held that an effective tax system is essential to the proper functioning of society in general.

“It also noted nothing is more corrosive of people’s trust in the tax system than the sight of people apparently earning high incomes and evading payments of tax.”

The end sentence for the man was 25.5 months imprisonment on 32 charges involving \$208,274.

Source: [www.ird.govt.nz](http://www.ird.govt.nz)

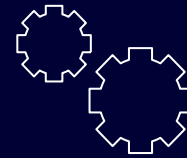


### WEB SOLUTIONS

#### Try chat line to bypass the phone

It’s difficult to communicate with some large organisations. You often have to wait through terrible music on the phone, which regularly tells you the website will have the answers you want.

That’s often not the case or the reason you’re ringing. Have you considered trying the chat line – if they have it – on their website? You will probably get your answer more quickly than you would if you pick up the telephone. Plus you can document the conversation by pasting into a file for later.



### TAX SOLUTIONS

#### Crypto Gains Taxable

Inland Revenue is trying to ensure it gets tax on any gains made from purchases of crypto assets. If you have bought Bitcoin and you sell it at a profit, Inland Revenue requires you to include the gain as taxable income.

The department has the same attitude to gold and silver. If you buy these assets, it’s unlikely there’s any other reason for the acquisition except to make a profit on the ultimate sale. Of course, it’s also likely if you made a loss it would be claimable

# Enhance your email marketing



**Emails are now the No 1 form of business communication, so one of your most effective marketing tools.**

Dull emails can put people off and get no response, especially if you're emailing to pitch for business.

There are now several email enhancers that can make a huge difference to how your email looks – on all devices – and the response rate. Picking one as an example, Black Pearl Mail ([blackpearlmail.com](http://blackpearlmail.com)) offers enhancement such as a banner message in

your email, professional-looking signatures and useful insights.

There's no coding required for signatures, which can be updated easily and managed remotely. Black Pearl claims its banners are 10 times more effective than Google ads, increasing sales and revenue, and boosting brand awareness. They even provide services to help create a banner.

The email performance insights look interesting, as they tell you who's reading your emails, clicking on to your website, or just ignoring you. You get a dashboard providing real-time notifications, email delivery status and click-through analytics.

There's a cost, of course, but worth considering. This is especially so if you're looking at a digital marketing campaign to promote new products or services, seek customer feedback, or even support a charity or sponsored event.

## Quick Quote

Accounting does not make corporate earnings or balance sheets more volatile. Accounting just increases the transparency of volatility in earnings.  
Diane Garnick

## Time to write off bad debts

**We are in the last quarter of the year for those with a 31 March balance date. Bad debts have to be written off before balance date.**

This means you must have taken all reasonable steps to get paid and conclude your chances of that are slim. You must then do whatever you can to show you have really written off the debt.

Some small businesses have simple systems. For example, they might issue an invoice but not have a debtors ledger. If you are one of these, we suggest you take a copy of the invoice and write on it something like "bad debt written off 13 January 2021".

We suggest you also put your initials or signature on this copy. You can then produce it to Inland Revenue if they ever ask for it. There is no obligation to write off your bad debts. This might be the very year you delay doing so. If you anticipate poor income for the 2021 tax year and a higher income for the 2022 tax year, you could consider writing off bad debts in the 2022 year, if this is going to save you more tax in the long run.

Once you have written off a bad debt you are still entitled to try and get the money. If you succeed, the amount you collect becomes taxable income.



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