

## TAXTALK

## Reducing Spending by Identifying 'Leakage'

With the darkening clouds on the horizon for business, discussion arises on unnecessary expenses – 'Leakage'.

This affects the farming sector with the sudden drops in the 2023/2024 dairy payout, where there has been a lot of discussion on what farmers can do to reduce their costs and avoid having to increase their overdraft limit.

If we can work with our clients to reduce costs and any unnecessary expenditure, our clients will be more profitable (or have smaller losses) and a healthier bank account balance.

Cutting spending may sound like an easy solution, but all businesses rely on continued inputs to achieve acceptable outputs.

Compared to sheep and beef farming operations that can exist on the smell of an oily rag, dairy farming requires year-round spending. Dairy cattle can't be put on survival rations and still be expected to continue to produce milk.

Cutting the inputs may reduce the outputs, making the end result worse. Instead of simply minimising expenditure, we should be encouraging the idea of rationalising spending to get the biggest possible bang for buck.

'Leakage' is expenditure which could be defined as waste. It is like paying for insurance on assets no longer owned, paying overdraft fees when an overdraft is not required, purchasing many years' requirements of farm supplies, or purchasing high-cost stock food.

'Leakage' can occur when businesses take their eyes off the overall business management and focus entirely on production.

Many businesses rightfully concentrate on maximising production. However, there is evidence that while gross farm incomes have significantly increased, net incomes have remained relatively static. The drive for increased production is not reflected in an increase in the farmers' net profits. This can effect all businesses.

### Examples of 'Leakage'

- Overdraft fees when overdraft facility is not being used.
- Are expenses like water cooler, coffee machines, laundry/cleaning all justifiable?
- Purchasing farm machinery when contractors may do the job more cost-effectively.
- Don't neglect the maintenance of assets. Ensure maintenance is done early to avoid large repair bills when assets break down.
- Buying excessive plant, machinery or vehicles.
- Can non-essential maintenance be deferred? Can you do your own basic maintenance on vehicles and plant?
- Overspending on specials – buy only what you need when you need it.
- Attending courses and seminars that do not provide value, networking or learning opportunities.
- Paying insurance on assets no longer owned, having assets over-insured or insuring assets unlikely to be stolen or destroyed.
- Reduce vehicle expenses by considering the most appropriate vehicle for the job. Claim fuel excise rebates.
- Review of personal insurances – are you over insured? Can you adjust the standdown times to reduce premiums?
- Are there any assets you aren't using that can be sold?
- Compare power and phone plans with other providers.

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# Deal with important stuff now, before balance date

You need to think about the following before your balance date, which is 31 March for most businesses.

## Bad debts

Don't forget to write off bad debts. It is illegal to backdate writing off bad debts, so go through your debtors ledger soon and determine which businesses are not likely to pay you. You must show you have taken all reasonable steps to collect the debt and also evidence it has been written off. If your business is very small, perhaps the best evidence you can show is to write on a copy of the invoice that you have written it off, sign it and put in the date.

## Stock

Cull your stock. If some of it is only fit for the tip then get rid of it. If it is still on your premises, it has to be included. Remember, stock has to be valued at its cost, including the cost of getting it into your shop, warehouse etc. You may use market value, if it is lower than cost, instead of cost for an item, but you will



need to keep evidence to show where you could have bought the item at the lower price.

## Motor vehicle

If you are going to make a claim for use of your vehicle for business on a kilometer rate basis, remember to read your odometer at the end of the day on balance date.

## Insurance premiums

If you get to the end of the financial year and you're paying off an insurance policy, make sure you have an agreed arrangement for payment with the insurance company. If you haven't and the insurance company would have a right to cancel your policy for unpaid premiums (even though it would be unlikely to do so), you might not be entitled to bring the whole of the unpaid portion into account as a sundry creditor (also known as Accounts Payable).

## Vehicle logbook

If you need to keep a vehicle logbook, this needs to be for a continuous typical three months of vehicle running. A new recording needs to be made once every three years (or more often if there is a major change – more than 20%) in the proportion of business and private running.

## Government agrees to restore interest deductions

Associate Finance Minister David Seymour has today announced that the Government has agreed to restore deductibility for mortgage interest on residential investment properties.



"Help is on the way for landlords and renters alike. The Government's restoration of interest deductibility will ease pressure on rents and simplify the tax code," says Associate Finance Minister David Seymour.

"We are phasing back in the ability to deduct interest expenses from 1 April 2024 when all affected taxpayers will be able to claim 80 percent of their interest expenses and 100 percent from 1 April 2025 onwards.

"Landlords have been hit with a double whammy of rising mortgage interest rates and increasing interest deductibility limitations during a cost-of-living crisis. These costs are inevitably passed on to tenants, one of the reasons New Zealand has all time high rental costs.

"This heaped pressure on landlords and renters alike by reducing the number of rentals, pushing rents up, and making it harder for Kiwis to save for their first home.

"Competition helps keep prices affordable. Reducing supply reduces the number of options and drives up prices. Removing the ability for landlords to claim interest expenses made residential properties less attractive and reduced the pool of properties for tenants to choose from.

"To overcome New Zealand's many challenges there needs to be an environment where investment and development is encouraged. This change is a step in the right direction." These changes are expected to be added to the Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Bill, which is currently before the select committee.

## CRM now for small businesses

**CRM – or customer relationship management – software has largely been used only by large companies as a powerful sales efficiency tool.**

But now CRM software is more cost-effective and easy to use for small businesses.

A CRM can help to improve service and sell more to existing customers, automate marketing and sales processes, better track and manage business performance, improve team communication and provide real-time information on mobile devices to your sales team.

One of the big benefits is in helping salespeople to provide quotes to potential customers more quickly. Many businesses miss out on sales because their quote is sent too late.

CRM software is mostly cloud-based, and solutions can be as complex or as simple as your business needs. Some of it is low cost or free, so search online for what suits you.



# Court Cases for your Interest ...

## Worker nearly buried alive in trench collapse

A worker had to use his hands and a spade to dig his workmate free from a torrent of dirt when a trench they were excavating collapsed in the Waikato backblocks, in what WorkSafe says was a preventable incident.

Two workers were on the job at a farm near Te Kuiti in February 2021. One was operating a digger and the other was doing measurements inside the trench, which was three metres deep and two metres wide. When one of the side walls gave way, one of the workers was engulfed – leaving only the top of his head visible. The rescuer initially used his hands to clear the dirt away so the victim could breathe, and then used a spade until he could pull him out. The victim suffered a collapsed lung, a broken rib cage, a broken sternum, and a broken collarbone. He now also lives with post-traumatic stress disorder (PTSD) because of the incident.

A WorkSafe investigation found on-site safety was of an extremely poor standard. The trench had been built with a flat floor and steep vertical sides, rather than shored up with shields or battered into a safe slope to keep the sides stable. There had also not been any geotechnical assessment of the site to check the soil stability before work began. The company did not have a safe system of work in place for the job, and did not provide enough information, training, or supervision to protect workers from the risk of a trench collapse. The company also did not notify WorkSafe, as required for any excavation deeper than 1.5 metres and when a worker is intended to be in the trench.

“There’s a right way and a wrong way to do excavations – and cutting vertical sides to three metres deep then sending a worker in is certainly not the way. This was a death trap and the victim literally had to run for his life,” says WorkSafe’s area investigation manager, Paul West.

“Anyone digging such a deep trench should be aware of the possibility of collapse and should take proper precautions. We know how to dig trenches safely – it’s not hard to take the necessary safety measures. While victims can heal from their physical injuries, the mental toll can have a long-lasting impact on individuals and whānau – as it has in this case. WorkSafe expects employers to look after both the physical and mental wellbeing of their workers in the aftermath of any workplace incident,” says Paul West.

**Background:** The company was sentenced at Hamilton District Court on 11 January 2024, and a fine of \$275,000 was imposed, and reparations of \$45,000 ordered

## Apprentice builder killed by falling framing

The death of a teenager on a Bay of Plenty building site is yet another example of why the construction sector needs to up its game, WorkSafe New Zealand says. The apprentice was killed when timber framing weighing 350 kilograms fell on him at a residential building site in Ōmokoroa in March 2022. The 19-year-old was just four months into an apprenticeship with the company at the time.

A WorkSafe investigation found the risk was heightened by the framing being manually installed around the site, and a temporary support brace being removed just prior to the fatal incident. When one frame knocked another, it fell on the teenage apprentice. The company was providing building labour for the main contractor. Both were charged for health and safety failures in relation to the death. The businesses should have consulted each other on the framing installation plan, and ensured a mechanical aid (such as a Hiab crane truck) was used.

“The death of a worker so young is an indictment on the construction sector. He was new to the job, and new to the task of manoeuvring framing. He should have been provided with what he needed to be safe,” says WorkSafe’s area investigation manager

“The safest way would have been to mechanically lift the framing into place, given its weight. This can come at little to no extra cost. In this case, the supplier delivering the framing had a Hiab and could have lifted it into place if asked. The company pleaded guilty and was sentenced in October 2022 for their involvement”.

The building company was only fined \$30,000 due to financial incapacity, and the main contractor was fined \$210,000. Reparations of \$130,000 were ordered to be paid to the teenager’s family, and \$15,072 to his co-worker – a fellow apprentice



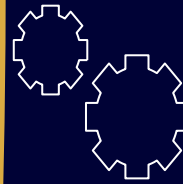
## TAX SOLUTIONS

### No FBT under scheme

Inland Revenue has approved a scheme as not being subject to Fringe Benefit Tax (FBT). WorkRide Ltd provides self-powered commuting vehicles to the employees of its customers.

The employees agree to a temporary reduction in salary in return for the temporary lease of equipment, and the opportunity at the end of the lease to own it.

IRD has approved the scheme starting 1 December 2023 and ending on 30 November 2026



## FAMILY SOLUTIONS

### Family Trust shareholder – pay dividends now?

If your company shares are owned by your family trust, consider paying the maximum possible dividend before 31 March 2024.

The income tax rate in the family trust will probably be increasing to 39% from 1 April 2024. Therefore, any dividend declared from that date onwards is going to incur an extra six cents in the dollar of tax. The law has not yet been passed, however the IRD recently released guidelines on what might constitute tax avoidance in terms of the trust rate moving to 39% so it would seem it is likely to happen.

# What marketing should I do in an economic downturn?

During an economic downturn, it's crucial to adjust your marketing strategies to align with the changing landscape. Here are some tips:

1. **Focus on Value Proposition:** Highlight the value your product or service provides, emphasizing cost-effectiveness and practicality during tough times
2. **Targeted Campaigns:** Tailor your marketing efforts to reach specific demographics most likely to continue purchasing during a downturn. Analyze data to understand shifting consumer behaviors.
3. **Digital Marketing:** Invest in digital marketing channels such as social media, email marketing, and content marketing, which often offer cost-effective ways to reach your audience.
4. **Customer Retention:** Prioritize retaining existing customers by offering loyalty programs, discounts, and exceptional customer service. Repeat business becomes even more crucial during economic downturns.
5. **Reassurance and Empathy:** Communicate openly with your audience, addressing concerns they may have about the economy and how your business is adapting. Show empathy and understanding towards their challenges.
6. **Flexible Pricing and Payment Options:** Consider offering flexible payment plans or discounts to make your products or services more accessible to customers experiencing financial strain.
7. **Strategic Partnerships:** Collaborate with other businesses to offer bundled deals or cross-promotions, expanding your reach and providing added value to customers.
8. **Monitor and Adapt:** Continuously monitor the effectiveness of your marketing strategies and be prepared to adapt quickly to changing market conditions.



By focusing on providing value, understanding your audience, and being flexible in your approach, you can navigate the challenges of an economic downturn and position your business for success.

## Quick Quote

The most important persuasion tool you have in your entire arsenal is integrity. - Zig Ziglar

## Contactless shopping on the rise as retailers embrace technology

One of the tech trends predicted for 2024 is a big acceleration in the adoption of contactless shopping.

Large retailers trying to cut costs and boost profitability are increasingly moving to mobile and social media shopping. Small businesses aren't far behind as they're finding prices for the necessary technologies are becoming more manageable.

Retailers are looking at greater use of QR codes, mobile terminals and mobile wallets, which are becoming more prevalent as shoppers use them more often to shop and pay. These technologies can be lifesavers for small businesses with limited staff. It's likely more owners of hospitality venues will

throughout this year be introducing touch screen or app customer ordering systems. These "tap and pay" systems can reduce queues and ensure payment before delivery.

The clinical approach to customer service, however, creates challenges for retailers who still value person-to-person interaction. Hybrid operations that incorporate technology and the human factor are more likely, but there will be opportunities for retailers who emphasise personal service.



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