



TAX TALK

Making the most of Free Trade Agreements

As a small and distant country with a population of just 4.7 million, we will not become more prosperous by merely selling to ourselves. We have to earn it. That is why trade, exporting and international connections are so important to us.

Today we have more access to overseas markets than at any other time in our history. However, we need to make sure that business is taking full advantage of the tariff reductions that are now in place and are not "leaving money on the table".

The Government is currently working on an update to its 20-year-old Trade Policy Strategy, and they have been speaking to groups around the country seeking their input. The existing strategy has served us well. It has significantly lowered the cost of imports and the barriers holding back our exports. However, things have changed in 20 years. The way we do business today and the global environment we operate in have moved on. That is why we need to adapt.

Take the ASEAN, Australia and New Zealand FTA as an example. Since coming into force in 2010, the agreement has eliminated most tariffs into key South East Asian markets, and is expected to deliver a NZ\$71 million in cost-savings for New Zealand exporters this year. However, it is not clear that all businesses are using the available discounts when exporting to the region.

While we will still pursue new markets for our goods and services, a key part of this strategy will be on ensuring that the Free Trade Agreements that have been negotiated are fully implemented.

Read the enclosed flyer from NZTE to help you Navigate Free Trade Agreements and make the most of them

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How to negotiate **personal guarantees**



If landlords or suppliers ask for your personal guarantee — a common business practice — your house or other personal assets might be on the line. Learn how you can minimise the risks.

Leveraging your home

Home loans are one of the most common ways New Zealand small business owners fund their business.

There are many perks to taking out a second mortgage — including accessible capital for new businesses, low interest rates and flexible repayment options — but also the risk of losing your home if things don't go according to plan.

But there's another common business practice that could be putting your house and other personal assets on the line — personal guarantees.

What is a personal guarantee?

Giving a personal guarantee means agreeing to personally cover one or more debts a business takes on. If the business then becomes unable to pay the debt the personal guarantor will be called upon to repay the amount which is outstanding. For small businesses, the guarantor is usually the owner.

Depending on the circumstances, banks and lending institutions might require a guarantor for a business loan.

But banks aren't the only ones requesting this form of security. It's now commonplace for landlords and suppliers to ask business owners to give them their personal guarantee.

Personal guarantees are legally binding, even if you are part of a limited liability company. This means if your business can't pay its debts, your home and personal assets might be in danger.

Ways to protect yourself

There are three options businesses should consider when asked for a personal guarantee, says Hockley.

1. Put your home and large personal assets into a family trust

Assets in your family trust can be protected from most claims, but setting one up and managing it can be costly and time-consuming. Get tips on when and how to set up family trusts from the Sorted website.

2. Show that the guarantee isn't necessary

Show the creditor your strong history of trading and credit-worthiness. Ask them to take you by your word and your previous actions.

3. Negotiate the terms

In most cases, this is your best option.

If you're taking out a loan or a lease agreement, ask that the terms of your personal guarantee be terminated or reassessed as soon as the debt is repaid or the current lease is up.

If you're dealing with suppliers, discuss limiting the timeframe of your personal guarantee to two or three years, during which you can prove your reliability.

Your personal guarantee might not have an explicit end date — many cover current loans and future debts.

This means even if you pay off your loan in full, you will still be personally liable for any future financing or credit card debt. This is standard practice, but you might be able to negotiate this upfront.

Understand your liabilities

Whether taking out a home loan or agreeing to a personal guarantee, assess what the potential pitfalls and payoffs are. If you're unsure, get advice from a lawyer or business coach.



Trustees need to **minute** their decisions

IF you have a family trust, be fussy about recording trustees' decisions.

One problem that arises is taking money out of the trust for your own use. This can be:

- a reduction of money owing to you
- a distribution of some of the trust income
- a payment out of the capital of the trust
- reimbursement for trust expenses paid by you
- a beneficiary loan

It's important to clarify these withdrawals. This is done by means of a trustee minute.

If there could be any doubt about the reason for a transaction, be sure to prepare a trustee minute and make sure all trustees sign it before it is actioned.



question time >>

Q: Is the cost of insulating rental properties non-deductible capital expenditure or is it deductible?

A: Read below to find out

Under new tenancy rules, the owners of rental properties must insulate their properties to the required standard by 1 July 2019. Therefore, the individual is required to insulate his rental properties because of the new law.

Generally, the cost of insulating a rental property will be a capital expenditure. Insulating the property is an improvement to the property rather than a repair and, therefore, is a non-deductible capital expense.

The Commissioner of Inland Revenue discusses the treatment of expenditure on insulating residential rental properties in Interpretation Statement 12/03 "Income Tax - Deductibility of Repairs and Maintenance Expenditure - General Principles". In the statement the Commissioner concludes that expenditure on replacing insulation that has deteriorated and is no longer effective is a deductible expense because the expenditure simply restores the property to its former condition. However, expenditure on installing insulation in a property that has never been insulated is non-deductible capital expenditure as the expenditure results in an improvement to the property.

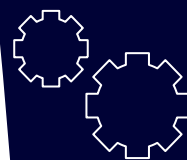
The fact that the individual owns numerous properties does not alter the treatment of the expenditure. Whether the expenditure on insulating a property is deductible or not is determined by reference to whether it restores or improves a particular property.

REFERENCE:

Income Tax Act 2007, ss DA 1, DA 2(1).

Inland Revenue Interpretation Statement IS 12/03 "Income Tax - Deductibility of Repairs and Maintenance Expenditure - General Principles", 29 June 2012.

Source: CCH/TEO Question & Answer Service



TAX SOLUTIONS

YOUR ACC account could easily be wrong. Always check it. Typical areas where the wrong premium can be charged include:

Selecting the wrong industry for your type of work. Levying ACC payments in excess of the maximum threshold. Currently, you should not be paying ACC on earnings of more than about \$120,000. Sometimes, people receive a PAYE salary and then a non-taxed salary on top of this. These are the type of people who can be overcharged.

Some activities are what is known as passive. However, the income from them sometimes sneaks into ACC files and is treated like earnings.

Rental income from a partnership is an example. If it is recorded in the tax return as partnership income, it can get through to ACC and be levied by mistake.

We read in a recent publication by another accounting practice that 30% of clients in a sample were paying too much ACC.



WEB SOLUTIONS

IT'S true – most of us only scratch the surface of what's possible when we use our computers.

Underlying all the usual stuff we do daily, are a multitude of smart tricks that can make life easier, improve productivity and ease the pain of OOS.

For the next few newsletters, we're going to give you a few 1-Click shortcuts to help avoid the laborious use of the mouse and having to click several times. Do try these shortcuts and get in the habit of using them regularly. It'll save you time. These suggestions are for PCs only. Also, they may not work in older versions of Windows.

If you press the function key, F9, at the top of your keyboard, it will automatically magnify the document you are looking at. Press it again to return to normal size.

If you're looking for a keyword, you can find it by holding down the control key and pressing F. You then type in the word you are looking for. Each time you press "enter", the cursor will take you to the next place where this word appears in the document. Press the function key F2 and you will find this is a shortcut for renaming a selected item.

Facebook for business: Tips for your page



Facebook offers huge opportunities for the country's small businesses. Most New Zealand Facebook users find brands and products on the site and more than half engage with brands to learn more about them, according to a 2015 Nielsen survey.

Some businesses use their Facebook page as a stepping stone to getting their own website. For others, the social media site more than meets their needs.

What you can do

Facebook offers key features that are ideal for small businesses. Like most business websites, you can tell customers who you are, what you do and how to get in touch.

You can also set up clickable buttons to let customers:

- ◆ book appointments
- ◆ buy your products or services
- ◆ join your loyalty programme
- ◆ talk to you via Facebook's Messenger app
- ◆ post feedback and reviews.

A new feature currently only available on Facebook's mobile app is Marketplace, which you can use to buy and sell products. It's not aimed specifically at small businesses, but you can still use it to:

- ◆ advertise jobs
- ◆ research what consumers are buying in your area.

Watch out for a desktop computer version that may be more suited to your business.

Avoid generic stock photos — use good quality images of what you do and sell, and of your team.

Add colour

Content you've created yourself is a proven winner with customers, especially videos. They're a great way to show customers who you are, what you do and how you do it.

Keep videos short and sweet. They don't have to be Oscar-worthy short movies. Many smartphones and tablets have apps that make editing a video a quick and painless exercise.

Adding new ones regularly helps build your audience.

Get the details right

There are no complicated systems to work out before you put something on your page. Write it and click — your words are online for all to see.

That can be great if you want to make a quick change, eg update your Christmas hours or showcase a special offer.

But it pays to double-check the details. One wrong digit on your contact number and your phone could stop ringing. Get someone with an eye for detail to look over important information on your page.

Common mistakes

Missed messages: If you encourage customers to engage with you on your Facebook page, make sure someone keeps an eye on it. This could be you, or a trusted staff member. People love talking directly to businesses, but expect almost instant replies to their questions. If you delay, you could end up losing customers.

Losing it: Customer complaints come through loud and clear on social media. If you overreact, you risk your reaction becoming the day's big story. Be clear, concise and polite in your replies. If the customer is wrong, social media is not the place to point that out.

Quick Quote

Say not that this or that thing came to thwart you; it only came to test you.
~ Muriel Strode Lieberman

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We care about your Business Prosperity

