Stephen Larsen and Co

RENTAL PROPERTY AND BUSINESS ACCOUNTANTS

TAX TALK

Don't be tempted to join 'the race to the bottom'

In the world of commerce, there's a dangerous trap known as "the race to the bottom".
When a small business tries to win customers solely by being the cheapest option, they aren't just cutting prices – they're often cutting their own throat.
Large corporations have the "economies of scale" necessary to survive on razor-thin margins. As a small business, your overhead per unit is naturally higher. Trying to underprice a giant is a game you aren't built to win.

Why low prices can backfire

- ***Devalued brand***: Constant discounting trains customers to wait for a sale rather than valuing your craft.
- ***Attracting "price loyalists":*** These customers leave the second a competitor drops their price.
- ***Sustainability:*** Without a healthy margin, you lack the cash flow to reinvest in your team, your equipment, or your growth.

Better ways to win

If you aren't the cheapest, you have to be the best. Here are three powerful levers to pull:

1. ***Hyper-personalised service***
   While big-box stores treat customers like numbers, you can treat them like neighbours.
   The strategy: Use your agility to provide "concierge-level" support. Handwritten notes, remembering a client's preferences, or offering a direct line to the owner creates an emotional bond that a discount code can't touch.
2. ***Specialised expertise***:
   Don't be a generalist. Be the absolute authority in one specific area.
   The strategy: If you run a coffee shop, don't just sell "coffee". Sell "sustainably sourced, single-origin beans roasted for low acidity." People will pay a premium for specialised knowledge and curated quality.
3. ***Convenience and speed***:
   In the modern economy,time is more valuable than money.
   The strategy: Can you deliver faster? Is your booking process seamless? Do you offer a "done-for-you" service that removes all friction for the customer? If you save a customer an hour of frustration, they won't care if you cost 20 percent more.

The golden rule: Price is what a customer pays; value is what they get. Focus on the "get," and the "pay" becomes secondary.

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Making it right

When you make a business mistake act quickly.

Don’t assume it won’t be noticed. Avoid excuses; honesty and a straightforward apology demonstrate professionalism and preserve your credibility.

Communicate with care
Explain what happened in clear, simple terms. Transparency builds trust when a client understands the cause and the remedy. However, be mindful of your lanuage – focus on the fact that a standard wasn’t met and how you will fix it, rather than making broad legal admissions of negligence that could complicate insurance or indemnity claims.

Offer a meaningful solution
When a mistake occurs, your priority should be to make it right, even if the cost of the remedy is high.
Suggest a practical solution. Listen to the client’s needs and be prepared to go the extra mile to ensure they are not disadvantaged by your mistake. Putting things right, even when it hurts the bottom line, is an investment in your integrity and the goodwill of your business.

Close the loop
Once a solution is agreed, confirm it in writing. A brief email outlining the agreed fix “closes the loop” and prevents future misunderstandings about whether the issue was fully resolved.

Fix the process not just the problem
Identify gaps in your systems or communication. Improve the process rather than blaming personnel.
A mistake is an opportunity to strengthen a relationship. Customers remember the quality of your recovery more than the original problem.

Check subscriptions to contain costs

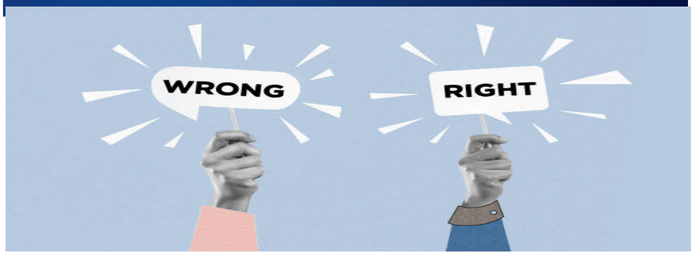
Rising costs are prompting many businesses to take a closer look at their online subscriptions – and the savings can be significant.

From software platforms to media services, monthly charges can quietly add up, especially when tools are no longer being fully used. A quick audit of subscriptions is a simple way to cut unnecessary spending and improve cashflow.

Start by listing all active subscriptions and their monthly costs. Identify which ones are essential, which are underused, and which can be cancelled or downgraded. It’s also worth checking for duplicate tools that perform similar functions, and even multiple subscriptions for the same service!

Setting calendar reminders before renewal dates can help avoid unwanted charges, while switching to annual plans might offer discounts for services you rely on.

Regularly reviewing subscriptions – ideally every three to six months – keeps spending aligned with business needs. In a tight economic climate, small savings across multiple services can make a meaningful difference to the bottom line, and support long-term financial stability and smarter budgeting decisions.



Quote accurately, quote quickly

The need for speed and precision
When someone asks for a price, don’t delay. They have already decided they want the work done, so help them choose you by being prompt. Remember the slogan “money loves speed”. However, never rush complex jobs; give yourself time to assess labour, materials, and potential risks. While a quick response wins the job, an accurate one ensures you remain profitable.

Defining the scope and terms
A professional quote must include client details, a clear description of work, the total price and whether GST is included and a validity period to protect against rising costs. It is vital to outline your assumptions, exclusions and any required deposits. Using professional software helps ensure the layout is clear and the breakdown of stages or materials matches the complexity of the project. Clear, detailed quotes build trust, reduce the likelihood of disputes and make it easier to manage profitability.

Managing changes and acceptance
A quote is a firm price for a clearly defined job, not an estimate. To make it legally binding, always require a formal sign-off or digital acceptance before starting. Ensure the client understands that any changes to the original plan are “variations” that will require a written price adjustment. This prevents “scope creep” and protects your margins.

Choosing quotes vs estimates
Use a quote when costs are predictable and well-known. Use an estimate - an approximate cost based on available info - when hidden issues might arise, such as in renovations. Being clear about which one you are providing manages expectations and builds trust.
Ultimately, a detailed well-documented price reduces disputes and proves you stand behind your professional standards.

The legal weight of an estimate
Under the Fair Trading Act and the Consumer Guarantees Act, an estimate is not a “blank cheque”. While it isn’t a fixed price, New Zealand law requires it to be based on reasonable grounds. If the final cost exceeds the estimate by more than a typical margin - often cited around 10-15% - it may be challenged as “unreasonable” unless the client explicitly agreed to a change in scope. You have a duty to inform the client as soon as you realise costs are escalating. Continuing the work without a written variation for a significant price increase leaves you legally vulnerable.

WE CARE ABOUT YOUR BUSINESS

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Preventable death triggers call for action on industrial machine safety

WorkSafe New Zealand is renewing its call for businesses to act on machine safety, as a court case concludes over the preventable death of a Gisborne worker.

A 47-year-old man became entangled in an industrial waste shredder while working at a compoany in Gisborne in April 2022. The company was found guilty in December 2025 and has now been sentenced by the Gisborne District Court.

The court found the company should have installed a perimeter guard with an interlocked gate. This type of guard automatically shuts the machine down when the gate is opened. Installing it would have cost under $20,000. "The non-installation of the relatively low-cost engineering step… constituted a serious and elementary breach," said Judge Warren Cathcart.

WorkSafe says the case represents a watershed for machine safety.

"The man was not found to have done anything wrong, but the court did find that the company failed him. The law places the primary duty of care on the business to manage risk. That means putting systems in place that protect people regardless of what is happening around them," says WorkSafe's central regional manager, Nigel Formosa.

"When workers are operating dangerous machinery, businesses cannot rely on training and procedures alone to keep them safe. In this case, the court found that automatically stopping the machine when a worker got too close was a straightforward, affordable fix. There was no good reason not to do it."

Mr Formosa says the incident should prompt every business operating industrial machinery to take a hard look at their own sites.

"If your machinery can still run while workers can reach dangerous parts, that needs to change."

If you're unsure where to start, take a few minutes to walk the floor and look at each machine from a worker's point of view – then fix what you find as soon as possible:

Background

The company was sentenced in a reserved decision of the Gisborne District Court.

Judge Cathcart imposed a fine of $420,000, alongside reparations of $140,000.

The company was charged under sections 36(1)(a) and 48 of the Health and Safety at Work Act 2015.

Being a PCBU having a duty to ensure, so far as is reasonably practicable, the health and safety of workers who work for the PCBU, while the workers are at work in the business or undertaking, namely while working as an observer on the Granutech-Saturn shredder model 44-28HT (waste shredder), did fail to comply with that duty, and that failure exposed the workers to a risk of death or serious injury.

Ignoring WorkSafe has consequences

WorkSafe New Zealand is reminding property owners, and those carrying out building work, that inspectors' notices are legally binding - and ignoring them puts safety at risk.

It follows the sentencing of Palmerston North property owner, who defied inspectors and continued refurbishing a building confirmed to contain asbestos, despite a prohibition notice ordering the refurbishment work to stop.

WorkSafe began issuing notices in May 2022 after becoming concerned asbestos was present. What followed was a sustained pattern of non-compliance. The man repeatedly ignored statutory requests to provide documents and information. Inspectors observed work continuing in breach of the prohibition notice, and he was seen removing notices affixed to the building's entrances.

WorkSafe's area manager, Carl Baker, says the defiance was repeated, deliberate, and ultimately unsuccessful.

"This was not a one-off lapse. There were multiple chances to engage and put things right. Ignoring our notices did not avoid accountability – it led to a conviction and a fine. When we issue a prohibition notice, work must stop immediately. That notice exists because there is a risk of serious harm. It is a legal requirement, not a suggestion."

The risk was real. Soffit linings were being removed from a canopy directly above a public footpath. When asbestos-containing materials are disturbed without proper controls, fibres can become airborne – putting workers and passers-by in danger.

Asbestos is the leading cause of work-related death in New Zealand, killing around 220 people every year. Because symptoms can take decades to appear, exposures today may not become visible for years.

Anyone planning work on buildings built or renovated before 2000 should treat asbestos as a live risk. If you are carrying out refurbishment or demolition work, you must:

- commission an asbestos survey from an accredited surveyor before work begins
- never disturb or remove materials that may contain asbestos without proper testing
- where removal is required, use a licensed removalist
- immediately comply with any prohibition notice
- cooperate with WorkSafe inspectors. Failing to do so is a criminal offence under the Health and Safety at Work Act 2015.

WorkSafe has recently updated its asbestos guidance which is now tailored for different users, including property owners, tradespeople, surveyors, and removalists.

Background

The property owner was sentenced in the Palmerston North District Court.

Judge Lance Rowe imposed a fine of $32,000.

The man was charged under sections of the Health and Safety at Work Act 2015:

- breached a prohibition notice
- failed to give all reasonable assistance to WorkSafe New Zealand inspectors, to enter, inspect, examine, inquire or exercise any other power under HSWA; and
- intentionally removed a prohibition notice.

Budget 2026 projects a tight short term and cautiously optimistic medium term, forecasting modest economic growth, easing inflation, rising interest rates, returning to a small surplus in 2028/29. Business confidence is shadowed by continuing geopolitical uncertainty and associated oil supply shock.

PAYE – It was never your money

Inland Revenue's recent alert (RA 26/01) clarifies a critical distinction: PAYE is not a standard business bill.

Because these funds are deducted from employee wages, the IRD views them as money held "in trust" for the Crown. Using these funds to cover other business costs is now viewe as misappropriation, not just a late payment.

Escalation to criminal charges

IRD is moving away from just use of money interest and penalties (late payment and shortfall), and toward criminal prosecution for those initially using PAYE as an interest-free loan.

- Prison time: Serious or repeated failures can lead to up to five years in prison.
- Personal liability: Directors can be held personally and criminally responsible for these decisions; the "company" shield will not protect you.

How IRD judges conduct

The department looks for patterns of behaviour rather than one-off accidents:

- Intentional deferral: Choosing to pay rent or suppliers over PAYE.
- Repeated failure: Missing multiple months while the business continues trading.
- Avoidance: Failing to communicate until the IRD initiates enforcement.

What you should do

If cash flow is tight, your window to act is small.

- Prioritise PAYE: This must be the first bill you pay, even if others go late.
- Engage early: Contact the IRD before the due date. They are far more cooperative with proactive businesses.
- Get advice: If you're tempted to use PAYE to survive the month, seek professional help immediately.

Strategies for managing emails

To improve email efficiency, focus on maintaining context, managing recipients, and optimising for scanability.

1. **Maintain thread context** Keep conversations in a single thread to preserve history and attachments. If the topic shifts, update the subject line to reflect the new focus while keeping the previous records accessible.
2. **Strategic recipient management**
   Move to BCC: When someone introduces you, reply to all but move the introducer to BCC to spare their inbox.
   Selective CC: Only include necessary parties; remove those no longer relevant to the task.
3. BLUF: Place the "Bottom Line Up Front" in the first two sentences.
   Structure: Use bullet points for multiple questions and bold deadlines or key actions to ensure they aren't missed
4. **Efficient habits**
   One-touch rule: If a reply takes less than two minutes, do it immediately; otherwise, flag it for later.
   File naming: Use descriptive filenames (e.g., 2026_Project_Summary.pdf) to make attachments searchable.
   Unsubscribe: Regularly clear out unread newsletters,.
5. **Know when to stop**
   If a thread exceeds three replies without resolution, switch to a phone or video call. Follow up with a brief summary email to document the final decision

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