

# *BC'S BUSINESS BRIEFS*

## **BUSINESS FITNESS**

Many of the economic headlines in recent times have centred around some of the "headwinds" currently facing the NZ economy. While the worst of these focus on the short term prospects of the Dairying industry along with rampant house price inflation in Auckland (particularly), it is timely that every business asks itself the question "are we ready for the inevitable economic slowdown?".

It seems likely that the flow on effects of the Dairy price reductions coupled with net migration peaking and starting to fall back, and Government action to reign in Auckland house prices, will have the effect of slowing down the economy, including the Auckland market. While we have seen a divergence of the Auckland economic performance from the rest of the country over the last few years it is probable that we will see unemployment rising along with greater numbers of business failures in the next 2-3 years, than we have seen recently.

Here are a few questions that we should all be asking ourselves in our business right now. None of them are rocket science, but nevertheless remain important to every successful business.

- 1 Can we sustain our cost base in the event of falling sales & margins? It is surprisingly easy to identify costs savings in most business' when it is coming out of a growth phase and looking to ensure it is stable in slightly less buoyant economic times. Can you find 10-20% cost savings?
- 2 Is our marketing program effective in producing sufficient qualified leads? Can we do our marketing differently? Are we able to use Social Media better, or at all, if we aren't using it yet?
- 3 Are our sales procedures working as effectively as we can make them? Have we got the right sales staff? Are our conversion rates of leads to sales acceptable? Can they be improved with training? Will appropriate training improve our margins? Are we purchasing as effectively as we can? Can we get better terms of trade from our suppliers than we currently have?
- 4 Have we checked our credit procedures recently? If customers cash flows are likely to be strained, are we doing everything we can to ensure our debtors ledger is current. What procedures are in place for delinquent debtors?
- 5 Have our staff got "buy in" to the techniques we are using to manage our business? It is always good to get more than one view on a problem and our staff will always have views on how we can manage the business better. Have we asked them their opinions?

The list of questions above is by no means exhaustive, but focusing on two or three areas where improvements can be made will often produce surprising financial results.

## **TAX POOLING**

Tax pooling is a technique sanctioned by the Income Tax Act (2007), which allows tax payers to utilise other taxpayers tax previously paid and not required by that taxpayer, to settle a tax liability. While Tax pooling has been around for a considerable time period, most people know very little or nothing about it and how it might be relevant to them.

Tax Pooling can be very useful where a taxpayer has tax arrears that are owing and they are up for significant interest and late payment penalty charges. It can be possible to totally eliminate late payment penalties and reduce interest charges significantly.

Put simply, Tax Pooling works like this. A limited number of companies have been approved by IRD as registered Tax Pooling agents. Those tax pooling agents have had a number of (generally) large taxpayers (Banks & Insurance companies particularly) pay their income Tax through the Tax Pools they have set up and where they have overpaid their tax, extra tax funds have become available for the Tax pooling company to on-sell to other tax payers. The interest rate that the Tax pooling company charges for the use of those is less than the IRD interest rate, but inevitably is significantly higher than a depositor can get from a term deposit or other form of Debt instrument.

The reason that Banks & Insurance companies have been large users of tax pools is that generally they have large reserves of cash that they are looking to earn a return on and the rate of return they can earn in the tax pool is significantly greater than other avenues and it is essentially a low risk investment. If the purchaser of the tax fails to pay for it, the credit is not passed over.

We have had experience in dealing with two of the largest tax pools currently operating on behalf of clients, with good results. In addition to purchasing of tax credits for past periods (it is possible to still purchase tax for periods as far back as 2009) the Tax pools also offer a Tax Finance service to allow financing of current tax liabilities. The benefits are of a similar nature to that explained above with savings on the interest rate being charged and avoidance of Late Payment penalties.

If you would like more information on tax pooling, please give us a call. We should be able to provide you with the answers you need.

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