

HEADS UP from your Business Advisors

SPRING 2017

mb milnes beatson
CHARTERED ACCOUNTANTS + BUSINESS ADVISORS

Team Talk :

What's going on around our offices

GRANTS BLOG

For various reasons we have had a challenging 14 months with a higher than average turnover of staff. It seems like we have experienced the perfect storm. Obviously we ask ourselves why and what can we do to avoid it happening again.

What is pleasing is, as an organisation, how we are managing with the situation. Five years ago, I'm not sure we would have coped quite so well. Previous investment in our organisation structure, training procedures and policies, and staff stepping up have all given me confidence that we will continue to provide good service. It won't hide the fact that it is an added burden that we would have preferred to avoid and that we are a little behind on our workflow as originally planned.

Another positive is that the new members of the team have brought in fresh energy and ideas that will only help our organisation grow.

Change can sometimes be challenging but, if you get it right, it can also be rewarding.



ALSO IN THIS ISSUE

- ◇ Understanding and Managing Debtors
- ◇ Cash and Cashflow
- ◇ How Contractors pay Tax
- ◇ Businesses run from Home

NEEDED:

NEW TAKAKA OFFICE SPACE

We are looking for another office in Takaka (having to give up our current one due to the host's expansion).

As you'll know, the usual attendance is Friday each week so a hot-desk option might be a good proposition. If you have, or know of, anything suitable, please contact our Business Manager, John Kerridge, john@mba.net.nz.

Tips from Trudy at the Xero Desk:



Before you do your GST return, make sure to do a Reconciliation Report.



If you go to the Reconciling screen, you'll see the Reconciliation Report button near the top right. Run this report to check that both Xero and your Bank account are showing the same balance.

Our usually peaceful office environment was rudely interrupted recently by concrete cutters, jack hammers and other serious boy-toy equipment, as trades arrived to dig up the pavement outside the building to install high speed fibre optic cables.

All this so that we can finally update our servers, after many, many months of frustratingly slow internet access. It will be fantastic to be able to answer client queries so much more quickly with the new service. (I have all fingers and toes crossed that I'm not jinxing us by speaking too soon).



Bits for Banklink from Lisa and Aaron:



Banklink and new PCs/laptops: there has been a bit of this going on lately, folk updating their technology. So just a reminder if this is you, before you load Banklink onto your new device, send the file to the cloud for safety. You'll need to remember the sub domain, your user name and password—and if that's all too long ago to remember, get in touch with Lisa who will access a new password for you.

If you also have Invoice Plus with your Banklink, it's important to note that you can copy from your current computer to your new one. That is, don't download it onto your new device, just copy it from the old one. As always, timing is everything, so if you're not sure, talk it through with Lisa or Aaron before you start the process.



More goings on . . .

The Search for the Most Superb Sausage Roll!

So who does make the best sausage rolls in the top of the south?? Well, we have a bit of competition around finding that elusive perfect s/roll.

Each Thursday we have a sausage roll shout and occasionally the standard supermarket specimen gets challenged by a café variety. Naturally opinions are frequently divided about which is best.



So we thought we should send out the call to all of you to help in the search. If you believe you have the perfect sausage roll, get in touch with Lisa by Wednesday each week so she can arrange to buy them for Thursday morning. We pledge to provide honest and detailed feedback, and will report results in future editions of the newsletter.

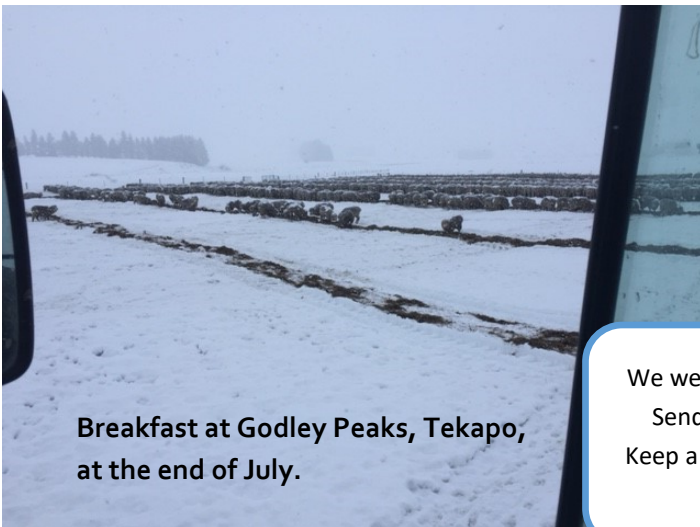
And while on the subject of food

Congratulations from the Milnes Beatson team -
Fleur Sullivan—food legend!!



Fleur Sullivan of the Moeraki restaurant "Fleur's Place", on stage at the Cuisine Good Food Awards, after being named the magazine's first "food legend" for 2017.

Yes, we know that Fleur's food is above and beyond any humble sausage roll!!



Breakfast at Godley Peaks, Tekapo, at the end of July.

We welcome your photos, be they clients at work, or the fruits of your labours. Send your photos to mary@mba.net.nz for inclusion in future newsletters. Keep a watch out for our call for calendar pics later this year - and for news on the 2018 Milnes Beatson calendar.

Tiny Tax Tip from Cath

Are you using the correct PIR, for all of your savings but, in particular, for Kiwisaver (often forgotten)??



If your selected rate is too low, the income has to be declared in your tax return.

If it's too high, you don't get to claim back any overpaid tax.

Check with us if you're unsure of which rate you should be using.

Wind forward 30 days, to a site a little further north -

Anne Devereux's fabulous host of golden daffodils.



SLOW PAYERS COST YOU REAL MONEY

You know you have to get your debtors to pay, but do you understand the true impact of slow payers? Without a realistic picture of the direct and indirect costs of slow payment, your debt management practices may hurt your business. You may:

- ◆ Reduce your cashflow.
- ◆ Create a snowball effect – if debtors think you're relaxed about payment, you encourage them to be slow.
- ◆ Build up an increasing number of debtors, leading you to let smaller debts slide.
- ◆ Chew up valuable time and resources in managing slow payers and following them up.

What you can do

- ◆ If credit reporting information shows a customer is a slow payer, you can put tighter terms in place.
- ◆ Use online tools to manage receivables.
- ◆ Be straight up about discussing alternate invoicing patterns, payment options and terms.



Here are some tips to avoid late payment:

- ◆ Make sure you have a clear and signed terms of trade agreement.
- ◆ Train your top payers to pay on time (regular calling).
- ◆ Offer a variety of payment options.
- ◆ Hire an expert or a specialist accounts receivable service to chase slow payers.
- ◆ Pay your professional service fees over a fixed term through fee funding.
- ◆ Don't take no or later for an answer.
- ◆ Offer flexible payment options.
- ◆ Adjust your existing credit terms.

- Source: Dave Birch, SmartAR

COMMUNICATION : IMPORTANT IN MANAGING DEBTORS

Like any relationship, timely communication between creditors and debtors goes a long way to avoiding trouble. One of those tools for small businesses is the financial web.

The financial web describes the growing electronic connectivity between small business, accountants and financial institutions, particularly when coupled with Cloud computing.

According to Xero, the continued expansion of the financial web will help small businesses make smarter decisions, improve cashflow, get paid faster and access capital quickly.

At the same time, traditional practices still go a long way to helping small business stay on top of debtor management.

If you don't have large reserves of cash, you may want to reduce your terms to 10 days or seven days.

You should also:

1. Be up front. Explain "how we do it here".
2. Quantify fees in advance.

3. Bill regularly.
4. Bill as near as possible to the conclusion of work segments.
5. Where practical, present the account to the customer.
6. Provide payment options.
7. Consider fixed fees.
8. Follow up debts systematically and often.
9. Explain the value of the work.
10. Build a relationship and show your value.

In the case of debt collection costs, the Fair Trading Act requires you to disclose your terms of trade to customers at the time credit is given. Your terms of trade must include provision for the recovery of collection fees. Make sure your terms of trade are clearly identified on your website, invoices and statements.

KEEP CASH CROWNED AS KING

If you want to succeed in business, understand that Cash is King. Your business can't survive without cash.

The following six takeaways are essential for business success:

1. **Protect your cash position, by knowing what it is.** Build a cashflow statement and always keep it up to date. If you foresee a shortfall, start at once to fix it.
2. **Create a cash buffer** as an insurance against unexpected difficulties.
3. **Protect your cash position** against revenue shocks, by maintaining a balance equivalent to at least two months of operating expenses.
4. **Be realistic with revenue expectations.** Take action now if it looks like sales are not going to get you to breakeven.
5. **Credit checking up front** will reduce the risk of customer non-payment. Follow up with clear payment terms agreed in writing. Communicate regularly with customers. And automate where possible.
6. **Every dollar you spend reduces cash reserves.** The best way to protect your cash is to create a budget for the spend you know you need, and stick to it.

FAIRER TAX RULES AFFECT CASHFLOW

A tax bill passed in May made changes that affect cashflow.

COMPANIES GET MORE CHOICE WITH RWT

From 2017-18, companies can choose to not deduct resident withholding tax on a fully imputed dividend paid to a corporate shareholder. A fully imputed dividend has a tax credit passed on because the company's already paid tax.

A THIRD TAX OPTION FOR SOME SHAREHOLDER-EMPLOYEES

Shareholder-employees of close companies (with five or fewer participants) who receive regular salary or wages, and variable amounts of other employment income, now have a third option as to how they pay tax. They can now split their income so the base salary is subject to PAYE and the variable amount is paid out before tax. Previously they had to choose either one or the other.

A shareholder-employee who decides to either apply provisional tax to all their earnings, or use the new split method, is committed to either choice for three years.

IT'S COMPLICATED – IMPUTATION CREDIT ANOMALY TACKLED

Companies owned in common, but not wholly owned, can now transfer imputation credits as part of what IR calls "loss grouping". Owned-in-common companies with part-owned loss-making businesses have been able to transfer losses to profit-making companies, benefiting both – except for imputation credits. The more tax paid, the more imputation credits available. However, when losses were transferred to the profit-making company, the latter's tax bill shrank, meaning there were fewer imputation credits to be passed on. The changes allow the "profit" company to pay a fully imputed dividend despite loss grouping, keeping the benefit of the loss transfer.

NOT SO COMPLICATED FOR LTCs, THOUGH

With the loss limitation rule being removed for most Look Through Companies, losses that were previously restricted and carried forward are now freed up from 2017-18 and available for offsetting against income. However, LTCs that carry on through a partnership or joint venture will still be subject to the loss limitation rule. The loss limitation rule ensures the losses an owner can claim reflect their economic loss in the LTC. The deductions an owner can use are limited to the contribution the owner has made, or is liable for.

If you would like us to go over how this may affect your business please contact us.

CONTRACTORS GET MORE TAX CHOICE

The way contractors pay tax changed on 1 April, giving greater choice, and making it easier to get tax right. The rules around schedular payments have changed to allow this, and are compulsory for all contractors hired by a recruiter — or other labour hire business — and those previously under schedular payment rules. Other contractors can opt in if their payer agrees to deduct tax on their behalf.

Contractors already under schedular payment rules

Contractors must complete the new tax rate notification form (IR330C) when starting any new job. On this form, [they pick their preferred tax deduction rate](#). New Zealand tax residents can pick any rate from 10 percent to 100 percent.

If you complete the form but don't pick a tax rate, the labour hire business will deduct tax at 20 percent. If you don't complete the IR330C, the no-notification rate of 45 percent will apply.

Self-employed contractors

If you contract directly for any business and do not have to have tax deducted by the hirer, you may choose to have tax deducted from your payments. You and the payer must agree to this approach, and a written record of the agreement should be kept. If you work for several businesses, each must agree to the request. If a payer doesn't agree, you will continue to pay tax for that work as previously.

Use-of-money interest charges for underpaying provisional tax are also changing. From the 2018 tax year, new rules mean fewer people will have to pay it.

Paying contractors

If your business hires contractors you need to follow the following steps when paying them:

- ◆ Check the accounting software includes the option to choose variable tax rates

- ◆ Brief the payroll team
- ◆ Download the new tax rate notification form (IR330C) and get contractors to complete it
- ◆ Add the contractor to your EMS and complete as for any other person receiving schedular payments — ignore additional deductions
- ◆ If you employ contractors directly, you must record the agreement with them to deduct tax.

DO YOU RUN A BUSINESS FROM HOME? THEN THIS AFFECTS YOU

The tax deductibility rules around running a business from home changed on 1 April this year.

Under the new rules, the premises for a home business have to be a separately identifiable part of the house, which is used mainly for business. This does not mean it has to be an actual, closed off room.

There will be a choice of methods for calculating a claim for use of home:

1. Continue to make your calculations in the usual way.
2. Determine the percentage of mortgage interest and rates (or rent) used for business. Inland Revenue will then provide a per square metre rate to use to cover the other costs.

If you need more detail, contact us.