UHY Haines Norton
Chartered Accountants

Newsletter

September 2020

Who Is The Leader You Can Rely On? It's You

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Who Is The Leader You Can Rely On? It's You

*UHY Haines Norton's Managing Director **Grant Brownlee** believes that the only leader you can rely on when the going gets tough is you.*

As our country drifts into the inevitable economic storm our political parties have the opportunity of a lifetime to show us how they will rise to the challenge and lead us through. Hello… is anybody out there? Where are the policies and where is the debate?

We are all in this together…. until the money runs out. Then you are on your own. There is only one leader you can rely on to get you through your particular circumstances…. you.

That can be confronting. A new plan may be necessary. New skills may be needed. Hard work may be required. Sacred cows may need to go. Risks may need to be taken. Unhelpful habits may need to be broken.

Fortunes are won and lost in turbulent times. Experience tells us that there are and will be plenty of opportunities for all businesses. It just requires a change of attitude.

I met with a client last week to assist with a finance application and it struck me that my client was really struggling with the reality that he needs to rethink his entire mode of selling his products. The wage subsidy has bought some time, but Government assistance has nearly run out. Banks are becoming very selective about who they lend to. They are in the business of assessing risk rather than being kind. Help is probably not on its way for this client from anyone other than himself. His traditional selling methods only work at Covid Level 1 or 0. Innovation, creativity, navel gazing, reinvention, pivoting, focus, call it what you like…. it is required… now. Now this client is a street smart survivor and I have no doubt that he will change his attitude when things get really tough.

Not everyone is struggling. In fact, some of our clients are thriving on the challenge. A crisis is a great opportunity. It has been an absolute pleasure to marvel at how some of our clients have reacted so quickly to our fast-changing environment. Kiwi ingenuity is alive and well and we have enormous talent, versatility and resilience in this country.

I believe most of our clients have what it takes to make it through the storm but I am very aware that some may need assistance to see their way forward with clarity, make a new plan and own it. If that resonates with you please reach out to us as we have the experience and the processes to help you.

Grant Brownlee ***is Managing Director at UHY Haines Norton.***

Business Finance Guarantee Scheme Now More User-Friendly For Businesses

Changes have been made to the Government's Business Finance Guarantee Scheme to make it much more user-friendly for businesses.

Finance Minister Grant Robertson has admitted that the uptake on the original scheme was much lower than expected, with $150 million lent to 780 customers as at 20th August. This has prompted an expansion and simplification of the Scheme, with key changes including:

- An increase in the maximum loan limit from $500,000 to $5 million;
- An increase in the maximum term of loan from three years to five years;
- A broader range of criteria for which the loan can be used for. Where previously the loans were to be used for liquidity support/bridging finance, businesses affected by the COVID-19 pandemic can now use the funds for general purpose borrowing, including capital investment;
- Availability to larger businesses with annual revenue of up to $200 million per annum;
- The Scheme's deadline being extended until 31st December 2020;
- The ability to use the loans to refinance up to 20% of the borrower's existing debts;
- A relaxation of the watch-list criteria;
- Clarification that no personal guarantee is required by the Crown; *and*
- Banks have been granted discretion to act outside Supported Loan Policies, Practices and Processes.

The banks participating in the Scheme are ANZ, ASB, BNZ, Heartland Bank, KiwiBank, SBS Bank, TSB, Bank of China and Westpac. Your bank will conduct its usual approval process and apply its normal lending criteria and processes – although these are modified to take into account the current economic conditions caused by COVID-19. It is possible to have both a Small Business Cashflow loan and a Business Finance Guarantee Scheme loan.

Both the New Zealand Bankers' Association and the banks themselves are applauding the changes and believe they could be a much-needed lifeline for New Zealand businesses. It is hoped that more businesses will now take advantage of the Scheme.

Is The Accounting Income Method (AIM) Right For Your Business?

*UHY Haines Norton Manager **Paul Eckford** explains why the Accounting Income Method for provisional tax could be a good option for small businesses struggling with managing cash flow.*

Provisional tax can be a real burden on cash flow. Normally due in 3 instalments during the year, most small businesses must budget for these payments which normally line up with their GST due dates of 28th August, 15th January and 7th May. This can create serious cash flow issues at these three times.

IRD have introduced a new provisional tax option called the Accounting Income Method (AIM). This new provisional tax method seems to have struggled to gain traction with the taxpayer base, with the uptake not being as strong as IRD would have hoped for. Given the current economic climate, AIM may be a very good choice if you are a small business owner who could benefit from improved cash flow management.

AIM is available to individuals and companies with a yearly turnover under $5 million. According to IRD, AIM would suit your business if:

- Your business is growing
- You are new to business
- **Your income has reduced significantly since last year and is hard to estimate**
- You have irregular or seasonal income
- It is hard to forecast your income accurately
- You have accounting software or want to start using accounting software

You will see I have highlighted the 3rd point, which I feel is very important to small businesses now. Predicting your income and managing your cash flow has become increasingly difficult as COVID has knocked the bottom out of the economy and there is continued uncertainty around lockdown measures going forward.

How Does AIM Work?

How often you pay AIM will depend on how often, or whether, you pay GST. AIM returns align with your GST cycle, so you will pay tax at the same time you pay GST. If you are not registered for GST, you will pay AIM instalments on a two-monthly cycle.

In order to use AIM, you must have software which is AIM-compliant and approved by IRD. The IRD have provided a list of the software providers on their website which can be found here.

Is The Accounting Income Method (AIM) Right For Your Business? *(continued)*

For each AIM cycle IRD expects you to do your annual tax adjustments and prepare management accounts so that your result is as close to the annual result as possible. This includes things such as private use adjustments, calculating depreciation and allocating shareholder salaries. The AIM calculation will take into consideration any taxation payable in shareholder salaries as well as net profit in the company. You pay tax every cycle on this result. If (cumulatively) you make a loss year to date, and you have already paid some tax in prior AIM returns, you are entitled to a refund of your previous tax paid. So, in times when you are not making money, you do not necessarily pay any taxes, and those periods where you are making good profits, you pay tax.

At the end of the year, a wash-up calculation takes place where your accountant will prepare the tax return and allocate any shareholder tax credits to the individuals and work out your final tax bill. With any luck (and some good accountancy), it should be very close to what you have returned to IRD in your AIM returns.

Why Should I Use AIM?

The question should be, why not? If you currently use software such as Xero to run your business and your records are tidy then it makes sense to pay as you go. No one looks forward to the email from their accountant on the provisional tax dates where they must pay a tax instalment which is based on historical profits returned to IRD plus an uplift of 5%. This very rarely reflects your true tax position - which has most likely been exacerbated by COVID-19. You can estimate your tax position, but this opens the door for use of money interest charges by IRD if you get it wrong. New legislation has been passed to allow the commissioner to write off interest and penalties charged, but this is assessed on a case-by-case basis and you must demonstrate that you have been adversely affected by COVID-19.

In my opinion, AIM forces you to focus on your business performance more regularly, if you do not already do that. Rather than just focusing on compliance, why not turn your cyclical filing for GST and AIM into a cash flow and budgeting exercise? Set goals and AIM to achieve them (see what I did there?). Here at UHY Haines Norton, we have the expertise to help you achieve those goals. So, if you think AIM is for you, and you want to improve your business performance, why not give it a go. Contact your UHY Haines Norton accountant and we can work with you.

Paul Eckford *is a Manager at UHY Haines Norton.*

Greater Peace Of Mind For Small Business Cash Flow Scheme

The IRD wants to provide greater peace of mind to businesses who have taken advantage of the Small Business Cashflow Scheme (SBCS). According to a recent update, the IRD will automatically give prior notification to SBCS borrowers of key events such as:

- When interest will begin if the loan is not repaid in full within the first 12 months;
- When regular loan instalment payments are due to begin;
- If a potential risk of defaulting arises.

Notification of these key events will occur through the myIR accounts (or via a letter for those without a myIR account).

Top 3 Ways To Improve Business Cash Flow

Every business owner understands how important it is to have healthy cash flow, and this year that has become even more essential as COVID-19 continues to impact upon businesses of all sizes. We asked UHY Haines Norton's Business Improvement Manager **Michael Jamieson** what his top three tips were for improving business cash flow.

1. Review your invoices to make sure they specify clear payment terms and conditions. Although this sounds basic, it is surprising how many business owners don't make payment terms obvious on their invoices.
2. If an invoice is not paid by the due date you have specified, do not hesitate to make contact with your customer. I would recommend establishing a system for following up overdue invoices, such as an email within the next couple of working days followed by a phone call if more than a week passes. Don't be afraid to take this step, and make sure you have the right person responsible for doing this. It's important to have the skills to approach customers in the right manner and request payment firmly but respectfully.
3. If there is a delay in payment for an ongoing project make sure you stop work immediately. Do not recommence working on that job until payment has been received. Be prepared to enforce regulations like the Contracts Act for breaches. Similarly, if you are asked to complete work outside what was originally specified and agreed to, do not commence the additional work until you have an agreement in writing. Although this will entail more paperwork in the form of a revised or additional quote (variation), it is crucial to have it in place to give you legal leverage should the customer default on paying for the additional work.

__Michael Jamieson__ is an expert in helping businesses to improve their cash flow, budgeting and profitability. For more information on improving your business' financial performance, contact Michael on 027-663-6062 or email mjamieson@uhyhn.co.nz.

Restructuring And Staff Redundancies

As the COVID-19 pandemic continues to put pressure on the economy, some of our clients are considering options such as restructuring and/or making staff redundant in order to stay afloat. As an employer, if you are in this difficult situation there are proper processes you are obligated to follow.

Restructuring is the process of changing the operational set-up of your business to improve the way it runs. There must be a genuine business reason for restructuring, such as outsourcing of tasks, adoption of new technology that has a substantial impact on processes, a change in market demand or customer behaviour or a merger. COVID-19 has wrought major changes in demand in certain industries such as travel and hospitality. Customer behaviour has changed in focus to online shopping and delivery, for example. And those businesses not financially impacted by the pandemic are in the minority. These are all reasons to cause business owners to consider restructuring and **redundancies** to remove jobs which are no longer needed, or in some cases change roles to better suit their new requirements (such as an e-commerce role to manage online sales).

Under Section 4 of the Employment Relations Act 2000, employers must act in good faith when making staff redundant. For example, it is not permitted to replace a redundant employee with a similar position and change the job title.

While restructuring should improve operational efficiency, it doesn't necessarily have to lead to staff redundancies. In many cases employees' roles can change to fit the new structure. Your staff may leap at the opportunity to retrain and develop new skills, allowing them to adapt professionally to meet the current circumstances.

Restructuring can never be used to manage individual employee performance issues. New Zealand's employment laws also protect certain groups in certain restructuring situations, such as cleaning, catering and laundry staff.

If you are seriously considering restructuring, ensure you have a genuine business reason to do so, and state these reasons clearly throughout the process. Failure to follow proper redundancy processes can result in large fines, and enable your employee to apply for re-employment, loss of salary and/or compensation to the Employment Relations Authority.

Employment New Zealand has useful resources for employers considering restructuring and redundancy. For more information on the steps to follow when making workplace changes, visit https://www.employment.govt.nz/workplace-policies/workplace-change/workplace-change-process-outline/.

Hiring An Employee Versus A Contractor

If you are planning on taking on a new staff member you can choose between hiring an employee and hiring a contractor. It's important to understand the differences between these two options because your obligations as a business owner will be substantially different.

Essentially, an employee works for you, while a contractor works for themselves. To help decide what the relationship is there are some legal tests the courts have developed:

- **Intention test** – what each party intended the relationship to be
- **Control versus independence test** – generally employers have a greater degree of control over employees than contractors
- **Integration test** – the extent to which the worker's contribution is fundamental to the business
- **Fundamental/economic reality test** – examination of the full circumstances of the work relationship to assess its economic reality

If you hire someone as a contractor when their working relationship is actually that of an employee, there could be major consequences. For example, unpaid holidays and leave, PAYE, IRD penalties, Employment Relations Authority penalties, and potentially being banned from bringing in workers from overseas. Your business' reputation can also be damaged from the negative publicity.

Employment.govt.nz has comprehensive resources to help you decision on the right working relationship, including simplified legal tests, employees' rights, and employer responsibilities.

Taxing Matters

- If you are an **employer paying wage subsidies** to your employees, these should be processed as part of the employee's normal wages. They do not have to be accounted for separately when filing your Employment Information each pay day, but should be included within total wages paid for each employee. Make deductions such as PAYE, KiwiSaver and child support just as you would normally.

- A reminder that the government has increased the **threshold for the 100% instant depreciation claim on assets** so as to encourage businesses to continue investing. The asset cost threshold for this has increased from $500 to $5,000 for assets purchased from 17 March 2020 to 16 March 2021. Businesses can immediately deduct the entire cost as depreciation on eligible assets rather than spread the asset cost as over the life of the asset. However, for assets purchased from 17 March 2021 onwards, this immediate 100% depreciation claim only applies to assets with a cost of no more than $1000. Therefore if you are thinking of acquiring an asset (say an air conditioning unit for a rental property), then you should consider doing this before 17 March 2021, particularly where the asset's cost will be between $1,000 and $5,000.

- From 1st October 2020 if you pay your tax by cash or EFTPOS at any branch of Westpac bank you will need a barcode. Barcodes can be found on IRD returns, statements and letters as well as generated and printed off the IRD website at https://www.ird.govt.nz/barcode.