

NEWSLETTER

FEBRUARY 2022



BUSINESS TOOLS IN THE COVID ENVIRONMENT

Covid-19 continues to wreak havoc on businesses in many sectors. With operating and capacity restrictions, supply issues, additional regulatory administration and now isolation rules, we urge you to take advantage of all of the support available to your business.

As accountants we can recommend a number of financial tools you can use to help manage your finances in these very challenging times. Goal setting, business budgets and cashflow forecasts are all invaluable tools for business owners under normal circumstances, but during times of financial crisis they can play a key role in helping your business to survive.

We can provide you with intuitive information and objective advice to help you to weather the Covid financial storm. In this newsletter we share insights on setting your 2022 business goals, using business budgets and cashflow forecasts, and a client case study that demonstrates the value we can add.

IN THIS ISSUE:

Your Business Goals For 2022

Using Business Budgets & Cashflow Forecasts

Dividing Property In A Separation

E-invoicing Protects Against Invoice Fraud

*SAVY Case Study:
123 Consulting Ltd*

Resident Withholding Income & Tax

UHY Team News



WHILE THERE ARE MANY METRICS YOU CAN USE TO TRACK BUSINESS PERFORMANCE, THESE ARE JUST A FEW IDEAS TO INSPIRE YOUR BUSINESS PLANNING FOR 2022.

WHAT ARE YOUR BUSINESS GOALS FOR 2022?

The beginning of a new calendar year is an excellent time to review the year just finished and reflect on what worked, what didn't, what you'd like to change and new things you'd like to implement.

For the second year in a row, Covid had an inescapable impact on many businesses, with some thriving, others failing, and others just getting by. So, what kind of year was 2021 for your business?

Take the time to review the year and acknowledge all that happened – good, bad or indifferent. Examining 2021 objectively, can help provide valuable insights to prepare for the next business year. Planning and goal setting will help provide a focus for your business efforts.

Your Yearly Business Review

- What were the most significant impacts on your business in 2021? How well did you meet the challenges?
- What worked well last year? What systems, technology, products or services were successful?
- What accomplishments can you celebrate?
- What situation, event or experience provided the biggest learning opportunity?
- What is the biggest challenge or frustration you face as you prepare for 2022?
- What did you most enjoy during the year? Do more of it. What did you least enjoy? Do less of it!
- Analyse your financial reports. Are you earning what you'd like to? Is the business sustainably profitable? Have you discussed your revenue and profits with your accountant?





USING BUSINESS BUDGETS & CASHFLOW FORECASTS AS TOOLS FOR SUCCESS

Business budgets and cashflow forecasts are only for the bank, right? It's just accounting jargon that doesn't really have anything to do with the day-to-day running of your business, right? Wrong!

As accountants we do like talking about business budgets and cashflow forecasts – guilty as charged. But what many small business owners may not realise is that they can (and should) be used as tools for success.

A business budget and cashflow forecast for the next 12 months can be a very valuable tool even with the unknowns of the COVID era, the lockdowns, supply shortages, shipping issues etc. Creating a budget at the beginning of a financial year can show you where reductions can be made in your business expenses, what level of revenue you require for the year to cover your outgoings and ensure you, as the business owner, have enough profit left over to compensate you for all your hard work and the stress that goes along with running a business.

Budgets and cashflow forecasts can be even more valuable in times of COVID lockdowns and restrictions, as you can track lost sales that need to be made up over the rest of the year, and easily see the breakdown of your monthly expenses to make cutbacks, if required.

This information can help you to successfully navigate unexpected challenges and play a key role in helping your business to survive.

Knowing the direction your business is headed in enables you to make informed decisions. If you are leaving on a trip, you would look at a map and plan your journey, so you know where you are going and how you are going to get there. A business budget and cashflow forecast is like a financial map of where your business is headed. There may be some detours along the way and your destination may need to change, but if you don't have a map, how can you be sure where you are going or even if you are heading in the right direction?

Knowledge is power. When you know your year-end goal and how you are tracking, only then can you be prepared to tackle the obstacles that COVID and other unexpected situations throw at you.

As experienced Chartered Accountants, we can work with you to prepare a realistic business budget and cashflow forecast for your day-to-day running activities and help you keep track of your actual results compared to your budget during the year.

KNOWING THE DIRECTION YOUR BUSINESS IS HEADED IN ENABLES YOU TO MAKE INFORMED DECISIONS



DIVIDING PROPERTY IN A SEPARATION

New Zealand's rules around dividing property after a separation aren't always well understood – know where you stand and how to protect yourself in a new relationship.

New Zealand's relationship property laws aren't always well understood – the rules can come as a surprise to Kiwis who are separating from their partners. Here are a few important things to know about what happens to your property if your relationship splits up.

Relationship property can include things in your personal name.

Relationship property is almost anything of value that you acquired during your relationship. That might include:

- Property, including your home and contents
- Your earnings and your savings
- Your business
- All of your investments – including KiwiSaver (just because your KiwiSaver account is in your name, that doesn't make it exclusively your money)
- Non-personal debts like a joint mortgage (this may sometimes include a student loan)

After three years of living together, you are likely to be considered to be in a de facto relationship, even if you're not married. That means the Family Court can make decisions about how the relationship property is divided. The same laws that apply to married couples will apply to your relationship if you break up.

Inheritances are yours unless you mingle them. If you're left something as an inheritance, that's not relationship property as long as you keep it separate from all your joint accounts and assets. But if you mingle an inheritance in with relationship property, it becomes relationship property, so think carefully before you mix them together.

Have a contracting out agreement. If you want to protect your business, your house and your KiwiSaver funds, for instance, you could choose to opt out of the Property (Relationships) Act using a 'contracting out' or 'section 21' agreement. This should be done before you and your partner have been together for three years. Talk to a family lawyer for help.

It can be tricky to put a value on a business during a separation. We can work with you to value your business.

**RELATIONSHIP
PROPERTY IS
ALMOST ANYTHING
OF VALUE THAT YOU
ACQUIRED DURING
YOUR RELATIONSHIP**





E-INVOICING PROTECTS AGAINST INVOICE FRAUD

Is your business using e-invoicing? It's a fantastic way to protect yourself and your customers from invoice scams, and it can help you get paid faster. E-invoices replace emailed PDF invoices or links to online invoices. Instead, e-invoices are delivered securely to your clients, even across different accounting systems.

Preventing Invoice Fraud

Invoice scams are surprisingly common in New Zealand, and can be quite sophisticated. For example, with intercepted invoices everything looks exactly right, but the bank account number has been altered. When it happens to you, your client thinks they've paid you, but the money has actually gone to a scammer.

Notifications from suppliers that their bank account number has changed – but it's not actually your supplier, it's fake, and your money is going to a scammer. In the event of an invoice scam, it can be very difficult to get your money back.

E-invoicing prevents these types of scams because the invoices travel directly from one accounting or payment system to another. By directly connecting suppliers with their clients, there's no opportunity for scammers to intercept the invoices.

Government-backed E-invoicing Framework

In 2019, the governments of New Zealand and Australia set up a framework for e-invoicing in both countries, designed to make it easier to trade across the Tasman. The system uses a New Zealand Business Number (NZBN) as a global ID for every business, and has been adopted by software providers including Xero. If your business uses a platform like Xero, you can e-invoice your customers or receive e-invoices from suppliers even if they don't use the same platform.

Start Sending and Receiving E-invoices

We can help you set up your accounting software to send and receive e-invoices immediately. You can learn how to set up e-invoicing in Xero, or just get in touch and we can help. You can also use e-invoicing if you don't use an online accounting platform with one of the free e-invoicing enabled software providers.

It only takes a little bit of time to learn how to use e-invoicing, and once you have the hang of it you're protected from invoice fraud – so it's well worth the effort!

**BY DIRECTLY
CONNECTING
SUPPLIERS WITH
THEIR CLIENTS
USING E-INVOICING,
THERE'S NO
OPPORTUNITY FOR
SCAMMERS TO
INTERCEPT THE
INVOICES**





SAVY CASE STUDY: 123 CONSULTING LTD

The Business

Established over 15 years ago, 123 Consulting Ltd* are financial investment advisors who provide investment advice to both private investors and corporations.

The Issues

We began working with 123 Consulting Ltd six years ago. The business was not performing to its full potential despite there being steady demand for their consultancy advice. There were large borrowings on their balance sheet and the hourly rates they charged were well below average market rates for their level of professional service. Their billable hours averaged just two to three hours per workday - again lower than industry averages and well short of an acceptable level for financial profitability. Additionally, there was an underlying lack of confidence and belief in the value of their expertise and its benefit to clients, which was hampering their culture and brand. The owner was very frustrated with the business' performance but did not know what changes needed to be made or how to go about making them.

The Solutions

We began a comprehensive management accounting process for 123 Consulting Ltd, working closely with the business monthly as a virtual CFO. This included reviewing and analysing their financial performance figures, developing forecasts and budgets, benchmarking and analysing individual productivity rates. This allowed us to implement many changes to improve business performance, such as:

- Raising charge out rates to be in line with market averages
- Increasing the average daily billable hours from 2 – 3 hours up to 5 ½ hours

- Using the business owner's work ethic and approach as an example for teaching other key staff members whose performance and productivity were below desired levels
- Addressing the lack of firm-wide confidence in valuing their expertise through benchmarking, market analysis and client satisfaction review
- Reducing debt and improving cash flow which, among other performance improvements, allowed the firm to attract (and retain) valuable staff members
- Succession planning which focused on increasing the value of the business and planning for the business owner to retire in the future

The Results

123 Consulting Ltd is now one of the region's leading financial investment advisory firms with an exemplary reputation in the marketplace. Their staff numbers have more than doubled, and staff across all levels of the business are passionate about their role and the value the firm provides to its clients.

Over the six years that we have worked with 123 Consulting Ltd, the gross profit has increased by 100% every two years: the gross profit is now 300% greater than it was six years ago. Their level of debt has reduced to just 25% of asset value, revenue has risen by 300% as has their market share. The business owner has complete confidence in being able to retire in a few years knowing that the steps have been taken to ensure the business will continue to thrive in the future.

**Names changed to protect privacy*

**STAFF NUMBERS
HAVE MORE THAN
DOUBLED, AND
STAFF ARE
PASSIONATE ABOUT
THEIR ROLE AND
THE VALUE THE
FIRM PROVIDES TO
ITS CLIENTS**

UNDERSTANDING RESIDENT WITHHOLDING INCOME & TAX



If you earn income from interest or dividends, or if you pay business interest to investors, it's a good idea to understand how RWT affects you.

Resident withholding income includes interest and dividends. Generally, resident withholding tax (RWT) must be paid on it.

If you are a New Zealand tax resident earning income from interest and dividends from New Zealand bank accounts and investments, you will be liable for RWT unless you have a certificate of exemption from RWT, or an exempt status issued by Inland Revenue. Your bank or fund manager will deduct the tax before they pay you.

If you are liable for RWT, how much you pay depends on a number of factors such as the type of resident withholding income, your overall income, and whether you have supplied your IRD number to the interest payer. From 1st October 2021, a new rate for RWT came into effect for taxpayers earning over \$180,000 per year. You may have tax to pay if this rate applies to your income for the year ending 31 March 2022.

If you pay more than \$5,000 in business-related interest per year (other than to a bank or normal lending institution or to a person who has provided you with their IRD certificate of exemption), you should register with Inland Revenue as an RWT payer. You must deduct RWT at the time you pay interest to the recipient. Inland Revenue can charge significant penalties and interest on RWT deductions not made properly.

RESIDENT WITHHOLDING INCOME INCLUDES INTEREST AND DIVIDENDS AND GENERALLY RESIDENT WITHHOLDING TAX MUST BE PAID ON IT



THE UHY TEAM

Congratulations to our Henderson Senior Accountant **Natasha Fernandes**, who married Jervis Ferreira earlier last month. The couple enjoyed an amazing day with beautiful weather – and luckily not too many disruptions from Covid! We wish them the very best for a wonderful life together.



Several of our Accountants have been studying hard and achieved excellent exam results. Congratulations to **Matthew Dawson** for passing the CAANZ Tax (NZ) paper, **Hao Huang** for passing the Audit and Risk paper, and **Meghna Gupta** for passing the Financial Accounting and Reporting paper. Juggling work and study (and in some cases family too) is not easy, and we applaud these staff members' wonderful efforts to extend their qualifications and knowledge.