NEWSLETTER

JUNE 2022

COVID STORM CONTINUES

Unfortunately, Covid continues to wreak havoc on our lives. Flexibility and adaptability is the name of the game when it comes to business. Cashflow monitoring and budgeting have never been more important as we continue to navigate staff absentees, unreliable supply chains and the impact of rising costs. Using accounting software that shows your financial picture in real time is essential for small businesses to help weather this storm and place it in the best position for long-term survival.

IN THIS ISSUE:

WHAT DOES BUDGET 2022 MEAN FOR YOU?

How will Budget 2022 impact Kiwi households, small businesses and first home buyers? We take a quick look at the highlights and what funding you might be eligible for.

Assistance with rising household prices
You get to enjoy at least some of the benefits of the latest Wellbeing Budget, particularly the extended fuel excise and road user charge reductions. Those last for another two months, as do the half-price public transport fares.

For those earning under $70,000 a year, there is a one-off $350 cost-of-living payment, which will be delivered as $27 per week for three months. Lower-income households will have access to more subsidies for insulation and heating, and in the Emissions Reduction plan, could be partly funded into a low-emission vehicle.

Child support payments should also run a little more smoothly for single parents.

First home buyers get a small boost
The house price caps for First Home Loans have been completely removed, while the price caps for First Home Grants have been increased significantly.
This should help if you, or someone you know, is on the brink of being able to afford a home but not quite able to get over the final affordability hurdle. Hopefully this will support more Kiwis into their own houses.

Funding for businesses
The Budget is light on business spending but does include a new $100 million Business Growth Fund for SMEs. This could be instrumental in addressing the ongoing difficulty of business lending for SMEs.

The Government is also continuing the Regional Strategic Partnership Fund and putting some money towards designing its earlier-announced income insurance scheme. Apprenticeship schemes are getting an additional $230 million in funding, which may eventually help address some of the current skills shortage in our labour markets.

How you you get access to new funding?
We'll be keeping a close eye on exactly how people can receive the $350 cost-of-living payment or any of the other funding opportunities from this Budget. We can talk you through what you might be entitled to, and help you figure out how this will affect your business or your staff members.

WITH THE COST OF LIVING SOARING, INTEREST RATES RISING AND HOUSE PRICES FALLING, BUDGET 2022 AIMED TO DELIVER A LITTLE SOMETHING TO HELP THE AVERAGE HOUSEHOLD. SO WHAT'S IN IT FOR YOU?

RESIDENTIAL PROPERTY BRIGHT-LINE TEST & INTEREST DEDUCTIBILITY RULES

"CHANGES TO THE TAX SYSTEM WERE PROPOSED TO COUNTERACT THE PERCEIVED FAVOURABLE CONDITIONS FOR PROPERTY INVESTORS."

Earlier last year the Government announced a number of measures designed to make the housing market more accessible to first home buyers. Changes to the tax system, in particular, were proposed to counteract the perceived favourable conditions for property investors.

The first key change was the extension of the bright-line test for taxing profit on residential property sales, doubling from a 5 year to a 10 year catchment period. The 10-year bright-line test applies to residential properties purchased on or after 27th March 2021. Exceptions include new builds (5 year bright-line period), inherited properties, and main homes (although an apportionment calculation applies where the property is not always used as the owner's main home, resulting in a portion of the gain on disposal being taxable).

The second major change to be introduced was the removal of deductions for interest on residential rental properties. Applying from 1st October 2021, interest deductions are not permitted on residential rental properties purchased on or after 27th March 2021, and interest on loans for properties purchased before that date is on a reducing basis over four years until completely phased out.

These new measures essentially constitute a capital gains tax in disguise, and at the time of the announcement were estimated to have the ability to bring in additional revenue of $1.82bn for the Government. Most Kiwis who have invested in residential rental property will no longer be able to claim tax deductions on interest incurred, and the market may well see rents rise in a bid to offset these new rules.

There are some exemptions to these new rules. For example, the removal of interest deductibility does not apply to new builds (for 20 years after issue of the Code of Compliance Certificate (CCC), where the CCC was issued on or after 27/03/2020 and the property was acquired no later than 12 months after CCC). Exemptions also apply to certain types of residential property such as houses on farms, hotels, retirement villages and social housing. Generally, property developers can still claim interest on houses they develop for sale. It is also worth noting that where interest deductions are not permitted, they can still be claimed if the property ends up being taxed under the bright-line test, with the deduction being permitted in the year of disposal. Note that loss ring-fencing still applies, so interest not caught by the new rules will still be ring-fenced if there is a net rental loss.

There is a great deal of detail in the new rules and how they apply vary depending on specific circumstances.

Income Year	Amount of $15,000 Annual Interest You Can Claim
1 April 2020 – 31 March 2021	100% = **$15,000**
1 April 2021 – 31 March 2022 (transitional year)	1 April 2021 – 30 September 2021 = 100% of 6 months = $7,500 1 October 2021 to 31 March 2022 = 75% of 6 months = $5,625 to a total of **$13,125**
1 April 2022 – 31 March 2023	75% = **$11,250**
1 April 2023 – 31 March 2024	50% = **$7,500**
1 April 2024 – 31 March 2025	25% = **$3,750**
From 1 April 2025 onwards	0%

CASE STUDY: MOVING TO XERO ACCOUNTING SOFTWARE

The Business

Garden Designs Ltd* is a busy landscaping business created around six years ago by two brothers, Rob and Tim*. Servicing the greater Auckland area with residential landscaping, they currently have three permanent employees and use contractors regularly.

The Issues

When Rob and Tim first came on board as UHY clients they were using bank statements, Microsoft Word and Excel spreadsheets for their GST returns, invoicing and other general accounting. But they found they were spending increased time manually doing GST returns, invoicing, payroll and other general accounting tasks. Additionally, they did not know how much revenue they were making each month and therefore could not compare it with other months for variances, where their gross profit was sitting, or whether individual landscaping jobs were making money or losing money. Lastly, they only knew how much money the business had made after the annual accounts and tax return were prepared - several months after financial year-end. As the business grew, so did the scale of its accounting functions. It became obvious that Garden Designs Ltd would benefit from accounting software functions like invoicing, reporting, debtor management, payroll and even project management, rather than the manual processes they had in place for doing these regular tasks.

The Solutions

We recommended that Garden Designs Ltd convert to Xero accounting software. As Xero Platinum Partners, we help small business owners to convert, get up to speed and get the most out of the software for their business. It was a quick and straightforward process for this business to convert and have system training to get up and running.

Regular transactions are automatically coded in Xero which means that each month there are only a small number of irregular transactions to review and code. As well as saving considerable time, it has substantially reduced the errors in their GST returns, giving them peace of mind that their returns are correct and there will be no nasty surprise bills.

Once Rob and Tim were confident in finding their way around Xero and the standard payroll, invoicing and reporting functions, we customised their system to their landscaping business. The quoting, job management and timesheet software add-ins were ideal for helping them seamlessly manage the costs associated with different projects, and for the first time they could measure revenue and profitability while running their business – not several months after financial year-end!

The Results

The switch to Xero has provided Rob and Tim with vastly improved efficiencies, saved them valuable time and improved accuracy in their accounts. They have been able to spend more time working “on” their business, which has included identifying and setting business goals and putting strategies in place. Regional expansion, garden product sales and leadership development are all part of their five-year strategic plan.

Perhaps most important is the way that Rob and Tim now feel like they are in control of their financials and know how their business is functioning. They understand their cashflow and profitability better than ever before, and at last feel like they are making informed decisions. This confidence and empowerment have been particularly invaluable in the face of the unpredictable work restrictions and lockdowns they have been subject to over the past couple of years.

**Name changed to protect privacy*

"ROB AND TIM NOW FEEL LIKE THEY ARE IN CONTROL OF THEIR FINANCIALS AND KNOW HOW THEIR BUSINESS IS FUNCTIONING"

TAX CHANGES THAT COULD IMPACT YOU OR YOUR BUSINESS

With over 100 tax changes that came into effect in April, there's sure to be something that will have an impact on you or your business. Take a look at our summary of the 13 most influential areas of change.

- Matariki is now a public holiday for tax purposes.
- GST is being tweaked for: groups; importers and exporters; crypto assets; and record keeping.
- Late tax penalties are able to be waived; use of money interest relief can now be extended for anyone who can't pay tax on time due to adverse effects from Covid-19 restrictions.
- Provisional tax can be paid later for safe harbour customers.
- Some rates are changing, including the minimum thresholds for ACC earners' levies and student loan repayments.
- Trusts now have additional reporting requirements in place – these have changed quite significantly, so do get in touch if you have a trust.
- Sales suppression software that alters EFTPOS sales data is prohibited.
- Working for Families tax credits are increasing; the minimum family tax credit has increased by over $1,750 per year.
- Child support rules have been tweaked to make it less complex and encourage compliance.
- The bright-line test 10-year extension is now in place, with a 5-year rule for the initial owners of new builds.
- Rental interest deductibility phase-outs continue, with some exemptions.
- KiwiSaver members who make employee contributions have more ways to request changes to their contribution rates. There is a new process for employers to return contributions once an employee is no longer a KiwiSaver member.
- Fringe benefit tax has a new calculation method and unclassified benefits have been clarified.

For more information, you can visit the Inland Revenue's dedicated page covering all these changes and more.

Take the confusion out of it by getting in touch with us. We can tell you which changes will affect you or your business and what impact they'll have – we are here to help and we'd love to hear from you.

OUR SUMMARY OF THE 13 MOST INFLUENTIAL AREAS OF CHANGE

THE DIFFERENCE BETWEEN FINANCIAL ACCOUNTING & MANAGEMENT ACCOUNTING

LOOKING TO THE FUTURE IS A FAR MORE PRODUCTIVE WAY OF MANAGING YOUR FINANCES THAN JUST COUNTING WHAT'S IN THE BANK

You're running a business, so you know the legal requirements around producing accounts and submitting tax returns. But do you truly know WHY you've engaged an accountant? And do you understand the value that a good accountant and business adviser can add to your company?

As a business owner, managing director or CEO, there are three fundamental areas of the accounting proposition that you're probably most interested in:

1. **Compliance work** – this is the bookkeeping, financial accounting and tax work that's legally required for you to be compliant with the law. Overall, this compliance work looks backwards at your numbers from the past (your 'actuals'), showing you where you have been, rather than where you are going.
2. **Financial performance work** – this is the work that aims to improve the financial health of your business. It includes the cashflow, cost management and funding work that helps you to strengthen your balance sheet, manage your working capital and become a more stable financial proposition. The work is based on your historic actuals but also has an element of forward-looking forecasting and projections.
3. **High-value advisory work** – this is the forward-focused, high-level strategic advice that helps you look to the future and plan out your business. This can include helping you to define your personal and business goals, create a 5-year business plan, manage your company strategy, and focus on growth, value, and an eventual exit strategy etc.

How does a management accountant differ from a financial accountant?

To make a success of your business, and to get the best value from your accountant, you need an adviser who can deliver in all these three areas. But not all accountants are the same. As we'll see, it's important to understand the difference between a financial accountant and a management accountant.

At the most basic level, these are the key differences:

- **Financial accountant** – in general, a financial accountant focuses on the basic compliance work, with a small amount of financial performance work thrown into the mix. They make sure your bookkeeping is done and dusted, will file your tax returns, and use your historic numbers to produce statutory accounts. They're 'bean counters,' making sure you have a clear record of all the beans you've produced.
- **Management accountant** – a management accountant, however, looks forwards rather than backwards and has a greater focus on the future. They will usually provide the compliance work too but will delve deeper into the financial performance and high-level advisory work. Rather than just 'counting the beans' they help you choose the right beans, decide how to plant them, and make sure you nurture and grow these beans to bring in a better (and more profitable) harvest.

THE DIFFERENCE BETWEEN FINANCIAL ACCOUNTING & MANAGEMENT ACCOUNTING (CONTINUED)

How does a management accountant deliver more value?

Looking to the future is a far more productive way of managing your finances than just counting what's in the bank. A management accountant will empower you to understand your business and will give you the tools and the knowledge to make good, well-considered decisions.

This additional help can be invaluable. With an experienced management accountant working alongside you, your financial thinking can be completely revolutionised.

For example, you will:

- Stop looking backwards – your focus will be all about looking forwards to what you can change, not just recording your past transactions (the things you can't now change, even if you wanted to).
- Know your numbers inside out – you'll have a far better understanding of your regular finances, thanks to the detail included in your regular monthly management accounts.
- Get in control of your cashflow – you'll be able to drill down into your cash inflows and outflows and, by doing so, improve the liquid capital and cashflow in the business.
- Streamline your financial processes – you'll refine and improve your internal accounting procedures, so you're more efficient and more productive.
- Refine your pricing strategy – by reviewing your pricing model, you'll be able to enhance your margins, boost revenue and make the whole company more profitable.
- Stop unnecessary expenditure – you'll analyse your overheads, expenses, and cost base to reduce the money that's leaking out of the business.
- Bring more money and investment into the business – with more robust accounts and projections, you'll have better access to funding and to private investment.
- Get a firm grip on your business data – with meaningful metrics being tracked and monitored through your cloud accounting platform, you'll greatly enhance your business intelligence and the evidence behind your decision-making.
- Improve the quality of your advice – you'll always have an adviser on hand, giving you access to your management accountant's knowledge, experience, and advice.

If you're keen to understand and grow your business, switching to the benefits of management accounting could have a massive impact on your future destiny.

IF YOU'RE KEEN TO UNDERSTAND AND GROW YOUR BUSINESS, SWITCHING TO THE BENEFITS OF MANAGEMENT ACCOUNTING COULD HAVE A MASSIVE IMPACT ON YOUR FUTURE DESTINY.

SHOULD YOU SELL YOUR RENTAL PROPERTY?

Although property prices rose by over 30% in 2021, the predicted flatten out or drop has certainly come into effect in many Auckland suburbs as well as other regions around New Zealand. But with the government's changes to the tax system for property investors, many landlords are wondering if this is the perfect time to cash up and sell.

Let's take a look at why you might sell – and the reasons to keep holding.

Reasons To Sell

First, we are entering a period of flat or low price growth, so it's possible that capital gains will be weak for the next few years. Then there are the issues around borrowing: interest rates are rising; banks are being pickier about their lending; and interest-only loans are far harder to secure or renew.

Then there are the various changes that have made it more expensive to own rentals, such as the phasing out of interest payment deductibility and the Healthy Homes Standards. If you're planning to exit the rental market, all these factors make a pretty compelling case.

Reasons To Hold

But not so fast – there are also good reasons to hold onto your rental. Property is traditionally seen as a good hedge against inflation, because not only do rents rise alongside other costs of living, but inflation supports higher asset prices. Plus, any debt you have against your property remains the same, while your income (hopefully) increases, effectively eroding your debt.

If you do sell, that presents another issue. Where should you put the money you gain from selling your rental? Where would you get a return that outperforms inflation?

Consider Your Long-Term Financial Goals

One of the biggest deciding factors in making the decision to sell your rental property should be your long-term financial goals. Does your rental fit into these? Is it moving you in the right direction? If so, you should keep it. And if not, this could be a great time to rethink your investments.

We can help you with analysing your rental property's affordability, the potential returns on alternatives, and thinking about your long-term goals.

WITH ALL OF THE CHANGES THE GOVERNMENT HAS INTRODUCED TO RESIDENTIAL PROPERTY INVESTMENT, IS NOW THE RIGHT TIME TO SELL YOUR RENTAL PROPERTY AND CASH UP?

BUSINESS TIPS: SETTING KPIS & MEASURING PERFORMANCE

In our experience, many small businesses don't know which key performance indicators (KPIs) they should be tracking, how to access the relevant information, or what those metrics actually mean. Tracking specific metrics and KPIs allows you to see how you're performing against your targets – so you can take action to improve performance, sales, growth and profitability. So which KPIs should you be tracking?

Sales And Conversion Rates

An obvious metric to track is the number of sales you're making each month. You should have a target for these sales in your business plan, so you can see how your business is performing month-by-month. It's also important to understand and track the drivers that lead to these sales. How many sales enquiries are you receiving? How many of these enquiries are being converted into actual sales? How many customers are being engaged by your marketing campaigns, and is this engagement leading to interest in your products and/or services? The more detail you can track from your sales and marketing activity, the more forensic you can get with which campaigns are delivering the goods.

Sales Revenue And Other Revenues

Tracking your sales revenue is a vital measure of your financial health. Tracking your revenue streams over time keeps you in control of your finances and helps you make the right decisions. You can track performance against your revenue targets. You can forecast how much working capital you'll have at a future point in time. And you can see if there's enough cash in the bank to fund your projects and growth plans.

Cashflow And Ongoing Cash Position

Good cashflow management is all about balancing the process of cash coming in against cash going out of the business. Recording and tracking your cash position is easy to do with the latest cloud accounting software and cashflow apps, so there's no excuse for not tracking your cash position. Ideally, you want the business to be in a positive cashflow position (with more cash coming in than going out). But to achieve this, it's helpful to see these cash inflows and outflows in real-time. With up-to-date metrics on your cashflow position, you can make informed decisions about spending, paying bills and where additional cash and funding may be needed.

Debtor Days And Aged Debt

When customers fail to pay your invoice on time, that creates an aged debt – money that you SHOULD have received but which the customer has yet to pay. An aged debtor report shows you which invoices are unpaid, which customers haven't paid, and the total size of this debt. Your debtor days number is a metric that shows the average number of days it takes your customers to pay you. Anything above 45 days is bad news so aim to keep this number between 14 to 30 days if possible. A large amount of aged debt will leave a hole in your cashflow – and that can quickly start to impact on the day-to-day running of the business.

Gross Profit Margin

Generating a profit is crucial to the continued success of your business and having metrics to measure your profitability is an important part of managing your finances. One common way to do this is to track your gross profit margin. This metric shows the amount of profit made BEFORE you deduct things like overheads and the cost of goods sold (COGS), shown as a percentage. The formula for calculating your gross profit margin looks like this:

Gross Profit Margin = Gross Revenue minus COGS, divided by Net Revenue, multiplied by 100

- Deduct your COGS value from your gross revenue to find your gross profit.
- Divide this gross profit by your revenue.
- Multiply the resulting number by 100 to get a %
- This is your gross profit margin as a % of gross profit
- A percentage of 50-70% is healthy, but aim for as big a margin as possible

BY KEEPING A CLOSE EYE ON FINANCIAL METRICS AND KPIS, YOU HAVE THE BEST POSSIBLE INSIGHT INTO THE FINANCIAL PERFORMANCE OF YOUR BUSINESS.

IRD TO CLAMP DOWN ON TOP TAX RATE AVOIDANCE

In 2021, Inland Revenue increased the top tax rate to 39%. That rate is higher than both the 28% tax rate for companies and the 33% tax rate for trusts.

The new tax rate concerns IRD because it doesn't want people to use companies and trusts to avoid paying tax at the highest rate. It warned early on that it would be keeping a close eye on the situation.

After some evidence that high earners are taking advantage of this "arbitrage incentive", IRD is now proposing changes that will make it more difficult to do so.

What Is Being Proposed?

It is proposing three rounds of changes:

1. First, in the way it treats company and trust dividends to prevent "dividend stripping".
2. Then, looking at how income is retained in companies to prevent high-earning professionals from reducing their taxable income by keeping money in their businesses.
3. And finally, considering issues around tax on investment fund income such as PIE funds.

Will This Affect You?

If you are one of the estimated 119,000 Kiwis who earn over $180,000 in taxable income, these changes may well have an impact on how you should structure your entities or allocate your income.

For the non-accountant, these proposals can be tricky to understand, but we are keeping a close eye on the changing tax environment to make sure we're always up to date.

Our priority is ensuring that you are always compliant: paying the correct amount of tax – not too little and not too much. You don't want to be the subject of compliance action for avoiding tax, so please talk to us so we can make a plan for correctly calculating your tax, structuring your entities and allocating your income in a fully compliant way.

DO YOU EARN MORE THAN $180,000 IN TAXABLE INCOME? INLAND REVENUE IS PROPOSING CHANGES THAT WILL MAKE IT MUCH TOUGHER TO AVOID PAYING THE FULL 39% TOP TAX RATE