

ACCELERATE

August • 2017 | Issue • 003 | Managing your cash flow

THE MONTHLY NEWSLETTER FOR GROWING BUSINESSES

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.

CASH

IS NOT PROFIT – AND VICE VERSA

The purpose of a business is to make money, and that means you have to know the difference between profit and cashflow.

Net profit is what you have left after you deduct all your business expenses from all your revenue. You change net profit only by changing the things that affect revenue and expenses.

For example, if:

- You renegotiate with your suppliers, you may get stock cheaper, or carry less inventory
- Your staff engage with customers better, you can learn more about what they do and don't like – and get more business
- You can roster staff differently, you may be able to run your business more efficiently.

Cashflow comes from various sources. However, it also covers operating expenses, taxes, equipment purchases, repayments, distribution, and so on.

Note that a profitable business does not always have good cashflow. And a business with good cashflow is not always profitable. For example, you can have good cashflow, and loss-making expenses.

To work out how fast you can grow your business, you need to look at your projected cashflow. We can advise you on this.



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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 IRD 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 affects your business please contact us.

IRD AIMS TO PLEASE – NEXT YEAR

A key principle of the tax system is taxpayers should pay tax as income is earned. That doesn't work well for businesses with seasonal or volatile incomes, and is why the Government announced, early this year, a new method for paying provisional tax.

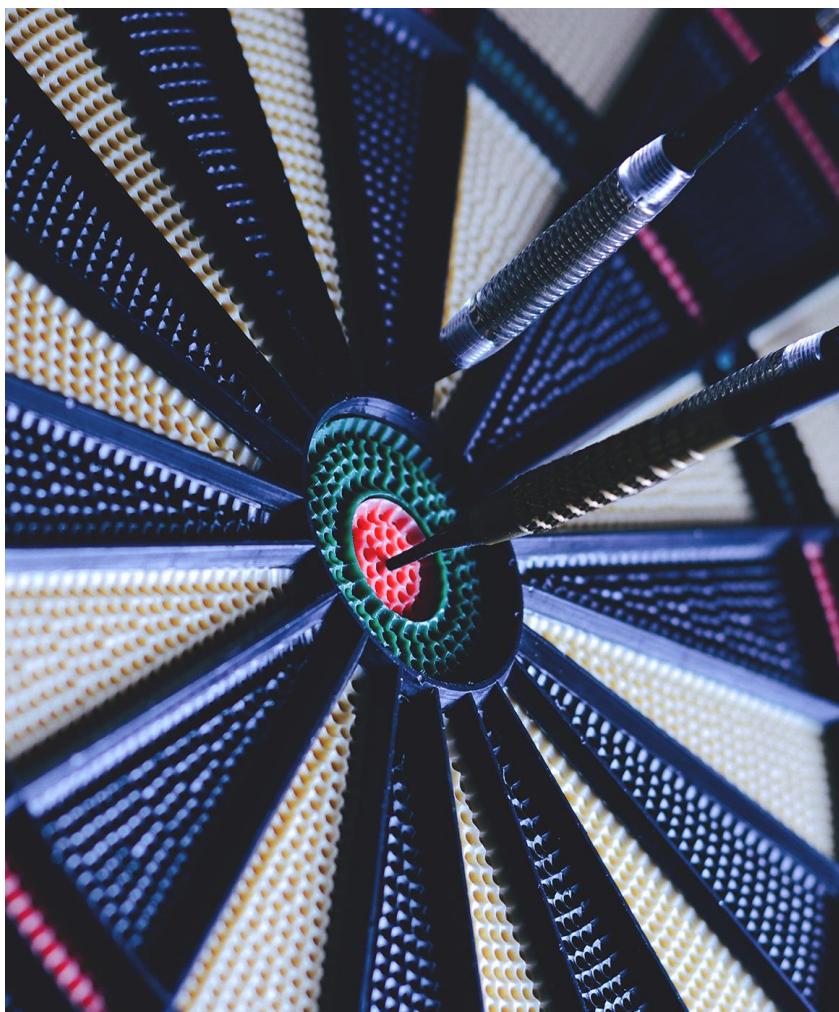
The Accounting Income Method (AIM)

More and more small and medium enterprises (SMEs) have digital accounting systems for better business decisions. Integration between accounting software and IRD's systems and processes is happening.

SMEs use tools like these to track how their business is performing. This same information can, therefore, also be used to make provisional tax payments on an actual results basis.

Businesses make provisional tax payments in most cases six times a year at the same time as GST payments, or monthly for those who file GST returns each month. The payment is based on the results achieved in that tax year, matching payments to cash flows as closely as possible.

AIM will help new businesses pay tax only on results they achieve. The same goes for businesses with seasonal income – because tax payments adjust to the season, as well.



SEVERAL WAYS TAXPAYERS CAN GET CAUGHT OUT



Taxpayers who earn income from various sources may get caught short if they don't plan ahead. This could come about in various ways:

- Airbnb
- Overseas investment
- Shares in an overseas company

AIRBNB INCOME

If you rent rooms or homes through Airbnb, you may not realise that the IRD considers you to be a landlord. Your rental income must be included in a tax return.

If you're unsure of your tax obligations please consider seeking professional advice.

OVERSEAS RENTAL PROPERTY

You must declare any rental income you get from properties overseas. You can claim deductions for rental-related expenses, and you may also be able to claim a credit for tax paid in the other country on that income. Complexities can arise when loans and

mortgages are held overseas. Call us if this applies to you.

OVERSEAS TRUSTS

Under New Zealand law, trust matters are settlor-based. This means New Zealand tax treatment of the trust depends on where the settlor of the trust lives. As a trust does not have a legal personality, there is no concept of residency for trusts. However, a trust is recognised as a taxpayer, so [New Zealand generally verifies the residency of the trustee to determine which income of the trust is subject to New Zealand tax.](#)

IF YOU OWN SHARES IN A FOREIGN COMPANY

You will have to pay tax in New Zealand on foreign share dividends unless:

- [You are a transitional resident](#), or
- The shares are subject to the foreign investment fund or controlled foreign company rules.

Dividends paid by overseas companies to transitional residents or non-New Zealand tax residents are **not** taxable in New Zealand for the transitional period.

The rules surrounding Foreign Investment Funds and Controlled Foreign Companies are complex and you should get professional advice on the taxation of offshore investments, whether from us or your financial advisor.

OVERSEAS-ISSUED CREDIT/DEBIT CARD

Having an offshore credit or debit card may or may not trigger New Zealand tax obligations. Note, though, that even if foreign withholding tax has been deducted on foreign income, that does not necessarily mean the income is no longer taxable in New Zealand.

It can be tricky to work out your tax position. Call us if you're not sure.

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.



BUSINESS HEALTH CHECK

Get a clear cashflow picture before third quarter.

Cashflow forecasting is important because if your business runs out of cash it won't be able to operate. You now have one clear month before the third quarter to get the best possible clarity around cashflow.

How often you forecast cashflow depends on the soundness of your business, although you really cannot do it too much. If your business is struggling, you should be forecasting and revising your cashflow every day.

Focus on cashflow now to:

- Identify potential shortfalls in cash balances in advance — like an "early warning system"
- Make sure your business can afford to pay suppliers and employees
- Spot problems with customer payments
- Have current information for stakeholders like banks.

If you would like to have a chat about your business cashflow, let us know.

R&D TAX CREDIT CHANGES CAN BOOST CASHFLOW

Changed research and development (R&D) tax credit rules, which came into effect at the start of the 2016 income year, can help business cashflow.

The R&D Tax Credit regime allows a "cash out" of an organisation's R&D tax losses. The cashed-out amount must be repaid from future income.

In general, a taxpayer will be eligible for the cash out if they:

- Are a New Zealand tax resident company
- In a tax loss position
- Maintain continuing ownership of intellectual property

- Have a "wage intensity" of at least 20 percent (calculated as total R&D labour expenditure ÷ total labour expenditure).

The "cash-out" is subject to maximum caps and will be clawed back in certain circumstances such as a substantial shareholding change or the disposal of R&D assets. Only expenditure [that doesn't meet the threshold to be capitalised as an intangible asset](#) qualifies for the tax credit. If you think you may be eligible please contact us.

KEY TAX DATES:

DATE	CATEGORY	DESCRIPTION
7 August	PAYE	Large employers return and payment
21 August	PAYE	Small employers return and payment Large employers return and payment
21 August	RWT	RWT Return and payment due for deductions from dividends and deductions of \$500 or more from interest paid during July
21 August	NRWT / Approved Issuer Levy	Payment and Return due for either preceding months' Non-Resident Withholding Tax or Approved Issuer Levy
28 August	GST	Return and payment due for period ended 31 July

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