Welcome to the September 2017 Edition of our Finman Newsletter. As always happens, the year is escaping us, with only three months until Christmas! September is a busy time with people knuckling down and building up profits and cashflow before the end of the year. As always, if you need any advice with any aspect of your business, pick up the phone, or pop in and see us.

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:

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.

Create a cash buffer as an insurance against unexpected difficulties.

Protect your cash position against revenue shocks, by maintaining a balance equivalent to at least two months of operating expenses.

Be realistic with revenue expectations. Take action now if it looks like sales are not going to get you to breakeven.

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.

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.

PAPERLESS REVOLUTION

The Finman team have decided to ramp up their paperless efforts within the office to become an even more greener organisation. We are committed to reducing our carbon footprint and would encourage other organisations to continue to look at ways of reducing their carbon footprints also.

You will notice some changes over the coming months with our correspondence and we ask that you kindly support this initiative. This would involve receiving (and as well as passing on) correspondence by email. However, if you have any particular issues with receiving documents electronically, please let us know.

If you are not sure we have your current email address, please email us at:

admin@finman.net.nz

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.

Foster Hope
bringing hope to those in care

Following on from our extremely successful PJ Drive for Foster Hope in April, the team at Finman's are delighted to announce our continuing support for Foster Hope Wellington. For the next four weeks, we are doing a 'Toiletries/ Personal Care Drive' to help these foster kids out during their time of need.

Foster Hope NZ is a National Charity that provides backpacks full of essential items for children going into care, simple items such as pj's, toiletries, a toy, book etc. These children are arriving into the homes of strangers, sometimes at night, and it can be an extremely traumatic time for them.

Team Finman's are collecting any toiletry items for babies through to teens, - such as toothpaste, toothbrushes, shower gels, soaps, shampoo, deodorants, etc. We would love you to join us by dropping any of these items off to our office at 44 Ihakara Street, Paraparaumu. A little generosity goes a long way with these kids.

SEVERAL WAYS TAX-PAYERS 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 our office for a chat if you're unsure.

04 298 2551.

PROVISIONAL TAX AND YOU THIS YEAR

The IRD has introduced some changes to provisional tax from the current 2018 tax year.

It affects taxpayers using the standard method, which is the vast majority of provisional taxpayers and it affects the way the IRD charges Use Of Money Interest (UOMI) on provisional tax.

Firstly, the UOMI threshold for companies and trusts has been increased from $2,500 tax liability to $60,000, in-line with individual taxpayers. So, any taxpayers with a tax liability under $60,000 will not be charged interest if their tax has ended up being more than the provisional tax paid, so long as they pay the balance by the terminal tax date.

The second change affects taxpayers with a tax liability over $60,000. These taxpayers can pay provisional tax based on the previous year for the first two instalments without being charged interest if it turns out this was not enough. Interest will be charged if there is a shortfall of tax paid, after the final provisional tax instalment date. We can assist with tax planning to reduce the interest by calculating the correct amount of provisional tax for you to pay at this time.

These changes can reduce the amount of tax planning as we can pay the tax based on last year plus the 5% uplift and any extra tax that results from a better year can be paid at the end of the year without any interest charges.

Note, that penalties and interest continue to apply to late payment of provisional tax.

So overall, we view these changes as being a positive move from the IRD, as they will both save taxpayers interest costs and reduce the time spent on compliance by trying to calculate the right amount of provisional tax to pay throughout the year.