trialbalance
The official newsletter of NZ CA Limited
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AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS
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Four ways to GROW YOUR BUSINESS

1 Increase the number of customers (of the type you want to have)

2 Increase their transaction frequency

3 Increase the average transaction value

4 Increase the effectiveness with which you do things

Break-even analysis

The break-even analysis is a very useful tool for determining your pricing strategy and tracking your cash flow. It can be used to calculate the sales volume at which your variable and fixed costs will be recovered.

Another way to look at this is that the break-even point is the point at which your product stops costing you money, and starts to generate a profit.

We have a number of tools which we are able to use to help your determine your break-even point and assist with your pricing strategy.

Cash flow

Positive cash flow boosts your growth options.

The more cash your business generates the more profit it will make. The reverse may not be true. Your business accounts may show a profit but you may still owe more than you can pay.

Knowing your inwards and outwards cash flow over the time enables you to plan for growth. A regular cash flow report will address the following questions:

- What your cash flow buffer is (how many weeks you have in hand should your income cease)
- How far you are from your cash flow target (what you reasonably require the business to generate over a given period)
- How your cash flow trends over time.

Similarly, a cash flow forecast enables you to manage your cash flow and to know when you may need help from your bank. We can help you with these reports, and to identify what is driving your results so that you can make the right decisions to grow your business.

Source : RSM New Zealand

Keep work tech at home up to date

If you're working for a business from home, you might not have the most efficient technology to work efficiently.

Lucky employees will have access to a team who can keep them upgraded, but often you'll be expected to keep both hardware and software up to date. Assuming you have a reasonably new computer system, here's a few tips to stay on top of the technology, and avoid frustrating down-time when something's not working right.

Keep software, especially operating systems, up to date. When an upgrade is suggested, download and install. They almost always include fixes for the glitches found in previous systems, and better security.

Talking security, it's vital. You're always prone to cyber attack, so check you have the best security system available. Check it out online, read reviews and talk to experts. If you get a cyber attack, it could hit you personally and put your employer at risk.

Check that you have the best internet connection. Get fibre if it's available. Plenty of online "speed tests" will tell you how well your internet is working. Poor performance slows down productivity and is always frustrating.

Most likely you'll have to store plenty of data, which will eventually clog up your PC and slow you down. Use the cloud to store data – it will ensure you never lose files if your computer crashes. While you're at it, consider getting all those space-hogging personal photos and videos off your hard drive and put them on the cloud.

IN THIS ISSUE

"A successful business requires one simple thing: PASSION."
– Teresa Collins

Wallace Diack
CHARTERED ACCOUNTANTS

Fair Pay Agreements Act 2022:

A Sea Change for New Zealand Employment Law

Parliament has passed the Fair Pay Agreements Act 2022 (the "Act"). The majority of the Act comes into force on 1 December 2022. It is the most significant change to the employment law landscape in decades. New Zealand has not had a regime for collectively-bargained minimum standards since the national awards system was retired in 1991.

FPAs in a nutshell

Under the new Act, minimum terms and conditions can be set for an entire industry or occupation as a result of collective bargaining. Once a fair pay agreement ("FPA") is finalised it will bind every employer with one or more employees within its coverage, whether or not the employer was involved in bargaining or knows about the FPA, and whether or not the relevant employee is a union member. To initiate bargaining, a union needs to pass either the representation test, with at least 1,000 covered employees or 10% of all covered employees supporting bargaining, or the public interest test, where employees within coverage are low paid and either have little bargaining power, a lack of pay progression, or are not adequately paid taking into account long/unsocial hours, or contractual uncertainty. These tests will be relatively easy for unions to satisfy.

The Employment Relations Authority can fix the terms of an FPA if the terms cannot be agreed in bargaining, ratification of a proposed FPA has failed twice, or the employer side cannot find a bargaining party willing to represent it (employers cannot represent themselves). This means that once the process is set in motion it is almost certain that an FPA will result, and there is a real risk that the terms of an FPA could be set without input from affected employers.

What employers need to know

The most important points for employers at this stage are awareness and organisation. If a business does not know that bargaining has been initiated for an FPA which would cover its employees, it cannot organise and elect an employer bargaining party to represent its business interests at the bargaining table. There is no way to permanently opt out of the application of an FPA once it is finalised, and the Act provides for a penalty and enforcement regime if FPA terms are breached. It is no excuse for an employer to say that it was not aware bargaining was underway or that it did not participate in the bargaining for an FPA. If any term of an FPA is more favourable than a term in an employee's employment agreement, the FPA term will automatically prevail from the date the FPA comes into force.

The first FPAs

Unite has already launched its campaign for a hospitality worker FPA, and is likely to be the first to initiate bargaining now that the Act has passed. We anticipate other early adopters will be unions which represent security guards, bus drivers, ports and logistics, teaching and retail workers.

Source: LangtonHudsonButcher

Special deal for travel from home to work

The latest tax Bill proposes a subsidy by an employer – mainly for the purpose of an employee travelling on public transport between home and work – will not be subject to fringe benefit tax (FBT).

Public transport means bus, train, ferry, tram or cable car. It does not include airfares, taxis, shuttles and E-scooters.

The Government plans to bring this law into effect from 1 April 2023. Obviously, if your business is a company, you can also subsidise yourself, as an employee, for public transport.

Never use expensive IRD money

Inland Revenue has hiked its interest rate twice this year, with it now at just under 8 percent.

You should never use Inland Revenue money.

If you're on a high income or your income suddenly jumps to a high figure, attracting tax for the year of at least $60,000, you will be liable to pay interest to Inland Revenue on any underpaid tax for the year.

But you can do something about it. Your first option is to top up the tax to the right figure by the due date for the third instalment of provisional tax, known as P3 (for most people 7 May). If you can't get your accounts done by then, you will just have to guess your income and calculate the tax on the guess. Your next best option is to pay as soon as you can after P3. This might mean getting your accounts done early or at least getting a rough idea of your income and again taking a guess. You will now incur some interest but you can minimise it by paying tax early.

If the interest bill is going to be large, you can use a tax intermediary to reduce it.

Income insurance scheme – main points

The main points of the income insurance scheme are:

- to cover redundancy, layoffs, health conditions and disabilities
- employers will pay four weeks salary at the rate of 80 percent
- scheme will pay six months at 80 percent
- option to extend support for up to 12 months for training and rehabilitation
- case management service to help find a new job
- just like ACC
- tax at 1.39 percent of the employee gross salary, which is payable by both the employee and the employer
- employees will qualify if they have contributed to the levy for six months in the previous 18 months.

We don't know whether the scheme is going to apply to shareholder employees who are paid a shareholder salary and not a PAYE salary.

Make tax reminders

Set up tax reminders in your diary for a couple of weeks before each date tax is due to be paid. Reminders coming by email might not reach you or they might go to your junk folder and not be noticed.

DATA, GST FOR 'PLATFORMS'

The platform economy is where websites introduce buyers and sellers to each other.

Starting at the beginning of January 2024, certain platforms called "listed services" are going to have to collect information from you. This will help Inland Revenue ensure people pay tax if they're selling on the internet.

The listed services are:

- accommodation
- personal services such as ride sharing, tutoring and gardening
- web graphic design
- transport services such as Uber and vehicle rentals

All these platforms are going to need to register for GST regardless of how small they are, except for non-resident platforms, which will be required to register if their supplies exceed $60,000.

If you're selling and use the services of one of these platforms, it will add a 15 percent GST charge. It will pay the GST and you will receive the exclusive amount zero rated. You include this in the zero rated keypoint in the GST return and you will still be entitled to claim GST on your expenses in the usual way.

If you're not registered for GST the platform will account for GST at the rate of 6.5 percent, but will be collecting 15 percent from the customer. It will pay the extra 8.5 percent to you.

For example, an Uber driver not registered for GST would charge a fare of $10. The platform would collect $11.50. The Uber driver would get $10.85.

Why is this? Since the Uber driver has had to pay GST on the fare, there needs to be some allowance for GST on expenses and this is how it's being done. It might be clearer if we say the Uber driver is actually having to put up his fare to $11.50 as though he were GST registered.

GST

Unlike other businesses, any supplies normally zero rated, such as export services, will be standard rated for these platform operators.

If you or anyone you know is thinking about creating a website providing listed services, remember you might have to register for GST.

A rough idea is better than none

Businesses should be preparing accounts more than once a year, even if the result is only an approximation. It is better to have a rough idea of how you are doing than to have no idea at all. From time to time we see a client turn in a poor result for the year, not knowing it has happened until well into the following year. Often thousands of dollars could have been saved if the business had been monitored regularly.

Gross profit percentage

For many businesses the ratio of gross profit to sales should be reasonably constant. Gross profit is the amount left over after deducting direct costs from sales (direct costs are the costs that vary with sales, as opposed to fixed overheads).

To improve this ratio, look for;

- Wastage of materials and/or time
- Theft of goods or cash
- The proportion of high to low profit margin sales (sales mix)
- Quoting errors
- Underpricing
- Discounting to achieve increased sales volume
- Ways to maximise trade discounts
- Regular review of margins and markups
- Systems in place to ensure that all costs (materials, labour, travel etc) are on billed
- Maintenance of accurate inventory records
- Regular review of inventory for slow moving and obsolete stock, monitoring stock turnover.

Source : RSM New Zealand

Seven-year records might not be enough

Inland Revenue requires us to keep our business records for seven years. But it's not quite as simple as this.

The department also requires taxpayers to prove themselves innocent if ever they are challenged. So in 10 years, Inland Revenue might approach you with a question they want answered. You would need to be able to answer the question and if it was going to give rise to a tax issue, prove yourself to be right.

Let's look at an example. You buy a residential property and for good reason you sell it a short time later. A couple of years after you have destroyed records, Inland Revenue decides it wants to check on whether you had kept the property long enough to avoid tax on what it calls the bright line test. This requires the buyer of a residential rental property to keep it for a certain number of years. If you haven't got all the documents to show when the property was bought and when it was sold, you might have a problem.

There can be several crucial dates:of purchase

- the date you signed the sale and purchase agreement
- the date the contracts went unconditional
- the date the property was transferred to you

Similarly, there are several dates needed for sale or disposal of the property. So here you have an example where holding on to documentation for more than seven years is important.

If you have a family trust, ignore the seven years rule because you need to comply with trust law as well as tax law. *Keep all records for the life of the trust.*

Be selective about what you throw out. Computers have enormous storage capacity so why not scan most of the documents and save them in your computer or on to a portable hard drive?

New rules to make GST record keeping easier

Are you registered for GST?
Keeping records is about to get easier.

20 October 2022

Changes aimed at modernising GST rules for invoicing and record keeping are being introduced.

Most changes come into effect on 1 April 2023.

The new rules are designed to support e-invoicing and electronic record keeping. Particularly New Zealand's adoption of the Pan European Public Procurement Online (PEPPOL) framework.

There is no change to the GST calculation, only the rules relating to invoicing and record keeping.

The changes are designed for the greater flexibility, so if your invoicing practices meet the current requirements, you'll comply with the new rules.

Overview of changes

Starting on 1 April 2023, there will be new terminology to support flexible record keeping practices. For example, the term 'taxable supply information' will replace the current term 'tax invoice'.

Also starting on 1 April:

- New information requirements will need to be met based on the value and type of the supply.
- A single document that holds all the taxable supply information will no longer need to be kept, such as a tax invoice, credit note or debit note.
- Transaction records, accounting systems, supplier agreements and contracts can be used alone, or in combination, to meet the information requirements.
- Taxable supply information can be provided using an automated direct exchange between a buyer's and seller's software.

You will not need to change the wording of the GST documents your business uses to reflect the new terms. For example, you may continue to provide taxable supply information in a single document. However, this wording will no longer be required.

Tax calendar

January 16 2023
Second instalment of 2023 Provisional Tax (March balance date except for those who pay Provisional Tax twice a year)
Pay GST for period ended 30 November 2022.

April 11 2023
Terminal tax for 2022 (March, April, May and June balance dates). For all clients except those who have lost their extension of time privilege.

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Changes in Particulars

Please remember to let us know of any changes in:
• Physical address • E-mail address • Phone and/or fax numbers
• Shareholdings • Directorships • Trustees
Or anything else that may be relevant.