MONEY MATTERS

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INSIDE:

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LEADING CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

KiwiSaver HomeStart grant

The voluntary, work-based KiwiSaver scheme provides multiple benefits for members in regards to long-term saving for retirement, including subsidies from the government and your employer, and assistance with first home ownership.

The KiwiSaver HomeStart grant was introduced on 1 April 2015, replacing the KiwiSaver first-home deposit grant.

Similar to the KiwiSaver first-home deposit subsidy, the KiwiSaver HomeStart grant offers eligible individuals with a grant of up to $5,000 and couples a grant of up to $10,000 to put towards an existing home. In addition, the KiwiSaver HomeStart grant awards individuals a grant of up to $10,000 and couples a grant of up to $20,000 to help first-home buyers with the costs of purchasing a brand new home.

After contributing to KiwiSaver regularly over three years, members are entitled to apply for the HomeStart grant. But, they are only entitled to it once. They must intend to live in the house for at least six months and have a deposit that is 10 per cent or more of the purchase price on top of the grant.

For those who are purchasing an existing home, the HomeStart grant is $1,000 for each year of contribution to the scheme. For example, three years of contributing equals $3,000. Whereas, the HomeStart grant is $2,000 for each year of donation to the scheme for people buying a new home, a property bought off plans or land for building a property.

First-home buyers need to be aware of eligibility criteria that they must meet for the KiwiSaver HomeStart grant. There is a maximum amount that the combined land and new home can cost, which must be taken into consideration when purchasing land to build a new home.

Members can register for pre-approval of their HomeStart grant, even if they haven't found the right house for their first home yet. They are allowed to purchase property with other people, but only those who are members will qualify for the grant. If they are buying a property off plans, members can use the HomeStart grant for the initial payment or progress payment required in the agreement prior to settlement.

It is mandatory for members to pay the HomeStart grant back with an interest in situations where they move out of a home before the relevant six month period ends.

It is important that members are aware that Housing New Zealand needs at least four weeks from receiving an application through to issuing the HomeStart grant. The grant will not be issued after settlement has occurred.

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KiwiSaver kick-start ditched

While KiwiSaver has been successful in attracting members, a recent Inland Revenue evaluation found that the savings scheme had created substantial costs for taxpayers.

The options to reduce financial costs involved reducing or removing the $1000 kick-start payment or the annual member tax credits.

The Government has spent a total of $2.5 billion on the kick-start subsidy alone since it began in 2007. For this reason, they decided to withdraw the payment since its increasing popularity indicated that it was no longer needed to attract people to enrol. From 21 May 2015, all new members to the scheme will no longer receive a $1000 kick-start subsidy when they first join.

The change will not affect current members in any way while new and contributing members aged between 18 and 65 will continue to receive the Government's annual Member Tax Credit of up to $521. This incentive, as well as the 3 per cent employer contribution that employers are required to contribute to an employee's gross wage, will encourage people to continue to enroll in the scheme.

The removal of the subsidy means the Government will save $125 million a year over the next four years. The savings in this budget will be reinvested into priority public services. In the next financial year, the Government anticipates to spend $705 million on the tax credit and $12.3 billion on New Zealand Superannuation.

Getting customers to settle debts

Good credit management is an important business strategy to maintain cash flow and stable finances.

A cornerstone of managing credit is not only making sure an invoice gets paid, but that it gets paid on time. Before a debt recovery process commences, which may delay payment further and damage a relationship with a customer, it is worthwhile for businesses to put a few processes in place to avoid customer debt in the first place.

Prepare your customers

Making sure the customers understand their payment terms from the start is the first step in training them to keep track of outstanding invoices and payment due dates.

Keep detailed records

Businesses should keep all customer records such as payment term agreements, customer limits and outstanding sales to date.

Follow up regularly

Starting following up procedures once a payment becomes overdue will help speed up the process. It is also very important to know exactly who to speak to about payment matters, as it may be different to the person you had been dealing with during the transaction process. Being consistent when following up debts will help businesses maintain good customer relationships.

Implement payment in full

Most businesses adopt this policy in regards to payment procedures. This way the customer has a full amount to pay by a concrete due date. Sometimes 'making it easier' for the customer by staggering payments and due dates can confuse and delay payments even further. If there are ongoing problems of overdue payments, businesses can consider mediation or debt collection services.

UOMI rate change

New Zealand businesses manage their income tax by paying compulsory provisional instalments throughout the year.

At the end of the financial period, the provisional tax payments are deducted from the final tax bill.

The New Zealand Inland Revenue Department charges the Use-of-Money interest rate on a New Zealand business that has underpaid or overpaid provisional tax obligations. The rate is applied to the difference between the amount owed and the amount paid by the business. The new Use-of-Money interest (UOMI) rates on underpayments and overpayments of tax were applied on 8 May 2015.

The rates are assessed regularly to ensure they are aligned to market interest rates, which were last changed in May 2012. They remain stable with the Reserve Bank floating first mortgage new customer housing rate and the 90-day bank bill rate.

The interest rate charged by Inland Revenue on underpaid tax rose from 8.40 per cent to 9.21 per cent. While, the overpaid tax rose from 1.75 per cent to 2.63 per cent. The new Use-of-Money interest rates were approved by Order in Council on 30 March 2015.

If a New Zealand business overpays its provisional income tax obligations, then Inland Revenue will pay a 2.18 per cent interest on the excess held. Whereas, if the business underpays their provisional tax they will be accountable for an 8.89 per cent interest in the difference between the taxes owed and the tax payments made.

Upfront payments

For labour and time intensive work, some businesses ask for a part payment or deposit up front. This works as a way of showing that the customer is financially committed to the project. It also allows a business to better manage cash flow, knowing that there won't be months at a time when there are no payments coming in because of works in progress.

Legal action is very expensive and should be considered as a last resort.

Maximising the value of your business

For business owners looking to sell their business as part of their overall retirement strategy, there are some practical measures they can apply to maximise its value.

Owners can optimise the value of their business in order to obtain the best sale by focusing on the value drivers in the categories: sales and marketing, operational, financial, legal and on point of sale.

Sales and marketing

Owners will help boost revenue for their business and lower their dependency on their primary clients by expanding their client base. By marketing their products or services to different sectors they will reduce its liability to a downturn in that region. If they adjust their costs and services to industry standards, then buyers will have a better chance of retaining their clients.

Owners that drop their prices make it difficult for buyers to expand their business, and offer more desirable packages to continue delivering quality service. It is also important for the business to have staff that can complete the sales function, so that buyers are not at risk of losing sales when the owner leaves.

Operational

Owners must ensure the business can operate without them before they sell. It will be more appealing to a buyer to have the freedom to work when they want, rather than having to spend their time resolving daily issues.

Installing an efficient management structure will assist with making the take over smooth. It is also crucial for the owner to confirm the business has the right accreditations and company policies. It proves to buyers the business complies with regulations and that the business can run without the owner.

Financial

Producing an outlook of the following year's revenue and profit will convince buyers of the potential for growth. An owner should have a management accounting system in place to be able to prove the credibility of the outlook, which presents the revenue, costs and profits from each client every month in a clear and concise manner. Showing the revenue received from each client will further confirm to clients that the business does not rely on its top clients.

Buyers will be more inclined to purchase a business with no overdue settlements. Hence, owners should make sure that all of their clients are up to date with their payments.

Legal

It is essential for owners to inspect their contract documentation to reduce the

possibility of conflict or potential claims. This requires going over client, supplier and employee contracts, including terms and conditions, and making sure they are correct.

On point of sale

An owner may have to sign a non-complete agreement to reassure buyers that they will not continue to contact their clients for business after the sale. It is worth noting that an earn-out deal, rather than a downright payment, will help convince buyers of the continue strength and profitability of the business. Look at the business in the eyes of potential buyers and identify what needs to be modified to make it easier for them to make a return on the investment.

Managing your cashflow

Managing your cashflow is crucial to running a successful business.

Running out of liquid capital is one of the most common reasons that small businesses fail.

Monitoring your cashflow and planning accordingly is important at every stage of the business lifecycle; however, it is especially critical that businesses experiencing rapid growth remain acutely aware of their cash availability.

The point at which many business owners trip up is in failing to realise that even a thriving and profitable business can easily run out of cash. If you believe that your cashflow might become negative, meaning that your expenses may exceed your takings over a specified period, then you should investigate opening a line of credit for your business.

You should be firm and clear with customers and clients about due dates. Issue invoices immediately and have a system in place that will send out a reminder if the payment has not been received by the specified date.

If you are experiencing a shortage of cash, then you should be open and honest with your creditors. There is a good chance that they will be amenable to a payment plan, so long as you discuss the issue early on.

Budget focus on property tax compliance

The Budget has introduced new measures to reinforce tax compliance in the property investment sector and assist Inland Revenue impose existing rules.

Bright line test

To complement Inland Revenue's 'intentions' test, a new 'bright line' test will be introduced to New Zealanders and non-residents buying residential property. Under the new test, any gains made from residential property sold within two years of purchase will be taxed at the seller's normal income tax rate.

The exceptions to this rule include a property that is a seller's main home, inherited from a deceased estate or transferred as part of a relationship property investment. It will ensure that investors who are trading property for gains are paying tax on those gains.

More data for property transactions

New Zealanders and non-residents who buy or sell property, other than their main residence, will need to provide a New Zealand IRD number for the land transfer procedure with Land information New Zealand. However, they must have a New Zealand bank account to get a New Zealand IRD number.

This measure will enforce non-residents investing in residential property to comply with New Zealand's anti-money laundering rules. In addition, they will also have to present current identification and their tax identification number from their home country.

This data will further help Inland Revenue determine investors who are dealing with property for the sake of making gains in the property market.

Additional funds for Inland Revenue

The Budget has allocated extra funding for Inland Revenue to look into destructive tax planning strategies, property compliance and undisclosed economy activities. In particular, the Government will allow Inland Revenue to discuss information about non-residents with overseas tax authorities.

The changes will take effect on 1 October 2015, and will apply to residential property bought on or after this date.

Tips to achieving business loans

Applying for a bank loan can be a difficult process. But despite the borrowing challenges facing small business owners, there are loans being approved.

Bankers are not in the risk business, protecting their capital is paramount. Their careful examination of the integrity of a business has made it a priority for businesses to maintain a good relationship with their bank in order to preserve their future access to funds.

Develop a strong business plan

This is one of the first vital steps to ensure that the bank will identify you business as a low risk and gain the confidence to provide funds. A comprehensive business plan will highlight the viability of the business, provide the owners and managers business experience, the expenses that the loan will cover, the financial situation of the business, market changes and detailed sales expectations.

Forming personal relationships

An owner should establish more than one contact within their bank. This will ensure that they are not dependent on one banker who is familiar with their business and financial needs. Keeping these contacts informed of any changes to the business or cash flow projections is crucial to build trust between the bank and the business.

Improve your financial understanding

It is important to be aware of the financial status of your business by obtaining credit reports and public records. It will help to show the banker that you know your business and are mindful of the research the bank will acquire when deciding on the amount, if any, to loan to the business.

Learn the banking language

Understanding banking terms such as credit ratings, cost of capital and other financial drivers will place business owners in a secure position when negotiating the terms of their loans.

Keep the advisor informed

Financial advisors are there to advise and will have an intimate knowledge of bank processes. By keeping them posted of any plans or changes, the advisor can better advise the business on the best course of action, and ensure that the business will continue to prosper.

Important tax dates

June 2

Quarterly and annual FBT return and payment due.

22

Employer deductions form and payment due, and employer monthly schedule due.

29

GST return and payment due.

July 20

Quarterly FBT return and payment due

Employer deductions form and payment due, and employer monthly schedule due.

28

GST return and payment due