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MONEY MATTERS

Strategies for managing your business

INSIDE:

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- And more

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LEADING CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

Changes to employment relations law

The Employment Relations Amendments Act 2018 has introduced a number of changes that aim to improve conditions in the workplace and offer more protections to employees.

Employers should familiarise themselves with these new employment relations laws, which come into effect from 6 May 2019. The Bill aims to restore a number of minimum standards and protections for employees, especially vulnerable employees, and strengthens the role of collective bargaining in the workplace. The major changes that have been passed include:

Trial periods:

Businesses that are classified as small to medium-sized, with 19 or fewer employees, may enter into an agreed upon 90-day trial period with a new employee. Businesses with 20 or more employees may continue to use probationary periods to assess an employee's skills, allowing a fair process for managing performance issues.

Breaks:

To help employees work safely and productively, set rest and meal breaks must be provided based on the number of hours worked. If a time to take breaks cannot be agreed upon, the law will require breaks to be taken at prescribed times. Some limitations may apply for workers in specified essential services or national security services.

Reinstatement for unfairly dismissed employees:

When requested by employees who have found themselves to be unfairly dismissed, reinstatement must be the first course of action considered by the Employment Relations Authority. In these circumstances, the Employment Relations Authority will assess whether reinstatement is a reasonable option for both parties.

Collective bargaining:

Employers and unions will be subject to a duty of good faith to conclude collective bargaining unless there is a real case not to, based on reasonable grounds. This ensures that all parties involved genuinely attempt to reach an agreement.

Unions:

Union delegates will be entitled to be paid by their employer for reasonable time spent undertaking union activities, such as representing employees in collective bargaining, during the employee's normal hours of work. Employees will need to agree with their employer to do so or notify them in advance. An employer will be able to deny the request if it were to disrupt the business or the employee's duties.

The changes in the Bill will be significant to all employers. Revision of employment agreements can help to ensure you are complying with all relevant amendments. Consult a legal advisor in cases where further assistance may be needed.

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Secondary tax changes

The Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Bill was passed earlier this year and came into effect on 1 April 2019.

The Bill amends incorrect secondary tax codes, relieving workers with more than one job who had previously been paying too much tax annually.

The IRD will now be looking closer at tax paid by wage and salary earning individuals throughout the year to ensure proper PAYE tax codes are applied. The legislation will now enable automatic tax refunds for approximately 750,000 people per year. This bill also removes the need for people who solely earn employment or investment income to file a personal tax summary (PTS) to get a tax refund.

Other changes included in the bill further relate to the IRD and updating the tax system as a whole. Some of these changes are:

- New KiwiSaver contribution rates of 6% and 10%, making the savings scheme accessible to people over 65.
- Depreciation roll-over relief for properties affected by the Canterbury earthquakes in 2010 and 2011 extended until 2024.
- Clarifications of how the IRD can collect, use and disclose taxpayer information.
- Introduction of a 'short process ruling', meaning small businesses can easily apply for a binding ruling from the IRD on any tax matters.

The Bill also confirms the annual rates of income tax for the 2018/19 tax year will remain the same as in previous years.

Positive business culture

Creating an inclusive workplace environment for all employees can increase productivity, provide positive wellbeing and deliver retention benefits.

An inclusive workplace is one that sees a diverse range of people encouraged to provide their own individual skills, knowledge and background to the business. When people have a sense of community, they generally feel happier in their surroundings. Having a positive and open attitude toward your business culture can help employees to really enjoy being connected to your business.

Appropriate training and orientation:

Employees, contractors and customers should understand from their first encounter that the business is a safe and inclusive environment. This means appropriate training and orientation must be given to ensure specific values and practices are upheld. It is much easier to employ individuals who agree with and respect inclusive workplaces than to try and change the workplace culture later on.

Team building:

Team building is a great tool for breaking down barriers between employees, allowing individuals to bond and connect outside of the work environment. There is a vast array of activities that constitute as team building. For example:

- Office luncheons
- Open workplaces
- Group work and problem-solving tasks
- Staff retreats
- Icebreaker games

Business ethos and values:

Creating an inclusive workplace has to be embedded into your brand as a whole. As a boss, this open approach and attitude will need to start with you. Employees are more likely to thrive if they feel that their leaders have the same values and views that are expected of them.

Analyse your business with the debtors days method

Ratio analysis is a method of gaining insight into a company's liquidity, efficiency and profitability by comparing the information contained in its financial statements.

Debtor days is one key measure of ratio analysis. It shows the average number of days that a business takes to collect invoices from their customers. The longer it takes to collect, the greater the number of debtor days.

The formula for working out debtor days is:

(Trade receivables ÷ Annual credit sales) x 365 days

When debtor days increase beyond normal trading terms, it indicates that the business is not collecting debts from customers as efficiently as it should be. If you aren't getting paid, you won't be able to upkeep your resources to continue servicing clients efficiently.

There are a number of small strategies you can implement to reduce your debtor days. These include:

- Starting the collection process as soon as the debt falls due, and don't wait until after the terms are exceeded to collect from customers.
- Creating easy ways of payment, such as PayPal or other online methods.
- Consider online software that provides options for automated follow-ups on due debts.
- Offering small discounts on current or future purchases as an incentive for clients to pay on time.

How remote workers can improve your business

Making the choice to employ remote workers can enable your small business to grow successfully by allowing flexibility and enhancing productivity.

Remote work is becoming an increasingly popular choice for businesses thanks to the ease and accessibility of the internet. The traditional 9 to 5 workday is being replaced by flexible hours that can be completed anywhere and at any time.

Employing remote workers isn't the best choice for every workplace, such as those that require hands-on labour. However, if the benefits of flexible work will apply to your business, it could give you a competitive advantage.

Increased productivity:

Research has shown that remote workers can actually be more productive than those who work in an office. Employees that work from home don't have the distractions that occur in daily office life. They also have the ability to work longer hours at times that suit them, without being regimented to the typical 9 to 5 workday. This can lead to workers being more engaged with the work and can also increase happiness.

This style of work is not necessarily suited to everybody, with some people experiencing isolation and loneliness when in a remote work environment. As an employer, you should make sure working remotely is a good fit for each employee's personality.

Reduce business costs:

Hiring remote workers can enable you to save money on office expenditure, such as real estate and utilities. Consider maybe moving more of your business into cloud software to allow remote employees to access office files from home or wherever they may be working. This has positive implications from an environmental standpoint, while also cutting utility costs such as paper, recycling and waste. While these may seem like minor costs, they do add up and the savings resulted from removing these costs will be noticeable to your business.

Safety obligations:

Even though staff may work from home, there are a number of workplace obligations that employers must be aware of. The employer has responsibility for health and safety issues and worker's compensation, and should complete a Work Health and Safety (WHS) checklist to assess risks in the home.

A WHS checklist helps to ensure things such as safe work practices and that the work environment is secure. Both parties should sign the agreement in the event of a compensation claim.

While there are a number of considerable advantages to employing remote workers, it would be beneficial to receive professional advice regarding issues such as payroll and your workplace safety obligations as an employer.

This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your tax planning.

Feel free to consult us for help in taking advantage of tax-saving opportunities and tax efficient investments.

Understanding superannuation contributions for small business owners

Employer superannuation contribution tax (ESCT) refers to the tax that is taken from any cash contributions made to your employees' superannuation accounts, including KiwiSaver.

The rate of ESCT to deduct can vary for each staff member, making it necessary to ensure that you follow all of the required steps as an employer.

At the beginning of each tax year, you must work out each employee's ESCT rate, which is calculated based on the employee's ESCT Threshold. This is the total of the employee's gross salary or wages, as well as any super contribution paid by the employer to KiwiSaver or another superannuation fund in the previous year.

For staff members who have worked for you for the entire previous tax year, their ESCT rate will be based on the total salary or wage received, as well as the total employer cash contributions made. If a staff member has only worked for you for a part of the previous year, then their ESCT rates are based on their estimated salary and wages for the current income year, plus your estimated total employer cash contributions.

For the employee's income for the year ending 31 March, The ESCT rates from 1 April are:

- 10.5% for $0 to $16,800.
- 17.5% for $16,801 to $57,600.
- 30% for $57,601 to $84,000.
- 33% for $84,001 and above.

Once you know what rate to use for each person, you can then make the deduction each payday from your gross cash contribution to each employee. The total ESCT for all of your staff can then be calculated.

Your ESCT is paid to Inland Revenue on the same due date as Pay As You Earn (PAYE) and other deductions when filing your Employer Monthly Schedule and Employer Deductions forms. These can be filed online through myIR, a more accurate and efficient way to send employee information than paper filing. You should contact your financial advisor for further assistance if you are still unsure of your ESCT obligations.

Taking advantage of cashless business

Advancements in technology continue to digitise our world in many ways, including financially. In recent years, more businesses and events are turning to cashless systems.

Whilst cash still remains popular in businesses dealing in small purchases such as cafes, if you run a business that handles larger transactions then changing to a cashless system could benefit you in many ways.

Managing your money through electronic payments helps you to keep track of income and expenditure. If you use a digital system, you have extensive logs of information such as where the money came from or is going to, how much you have currently and what you are expected to receive or pay. To ensure the best security and effectiveness with electronic payments, consider investing in technology that transfers money instantly whilst also tracking payments.

Running a cashless business also protects you from theft. Holding large amounts of cash can make you a target, and the time and expenses dedicated to ensuring your cash is secure could be better used on more effective financial management systems. Whilst online methods come with their own risks, there are systems you can implement to protect you such as two-factor authentication, third-party data protection and cyber liability insurance packages.

Cashless business models are also time-saving. By cutting out cash handling, you can save time with your client interactions as well as cutting out the end of day counts and lengthy trips to the bank to make deposits and changes. Whilst cashless systems are not right for everyone, if this is a viable option for your business you should consider consulting your accountant. If you decide to make the switch, give clients a grace period to be introduced to the new system and explain how it could benefit them.

Familiarise yourself with the bright-line test criteria

The bright-line test is a system the IRD uses to determine whether income received from the sale of residential land will be taxed.

This process has undergone changes to become more expensive, meaning it will now apply to more people.

The bright-line test only applies to residential properties bought and sold on or after 1 October 2015. Residential land purchased on 1 October 2015 through to 28 March 2018 sold within two years may have its sale revenue taxed, regardless of intention at the time of the purchase. Properties bought from 29 March 2018 and onward are subject to the bright-line test if sold within five years.

The bright-line period generally starts on the date the property transfer is registered with Land Information New Zealand (LINZ). If the property is in another country, it's the date the transfer was registered under that country's laws.

In cases where the sale of the property is captured by the bright-line test, the seller can claim deductions (as revenue account property) for all costs incurred in the business of making capital gains.

There are three exclusions to the bright-line test:

- You are selling your family/main home.
- You inherited the property.
- You're the executor or administrator of a deceased estate.

When property is received as part of a relationship settlement agreement, you won't need to pay income tax on the property when it's transferred to you. However, if you go on to sell this property within five years of its original purchase date, the bright-line test will apply.

Under the bright-line test, if a residential property is sold at a loss, the loss will be "ring-fenced".

This means the amount counted as a loss will have put restrictions on it, so that it can only be used for a particular purpose. You can then subtract the "ring-fenced" loss from the income you earn on a future property sale and pay less tax. Loss can only be offset against income from a property sale, it cannot be offset from losses against salary, wage or rental income.

Important tax dates

28 May

GST returns and payments due.

31 May

Quarterly FBT return and payment due.
Annual FBT return and payment due.

28 June

GST return and payment due.

Provisional tax instalments due for people and organisations who file GST on a monthly or two-monthly basis, or aren't registered for GST.

Provisional tax instalments due for people and organisations who use the ratio method.