

NEWSLETTER

APRIL 2020

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This too shall pass.

DB CHARTERED ACCOUNTANTS LTD

We find ourselves in the unusual situation of being in lockdown. For a number of people this will bring uncertainty, which is to be expected.

This newsletter provides various information regarding the response to Covid19 including wage subsidy, cashflow planning, a framework to guide businesses, loan options and tax changes.

OFFICE HOURS

During the period of lockdown we are currently working from home and the phone/email will be operational. Our interim phone number is 027 536 4738. We will be providing our usual service as best we can during this period. During Easter we will not be open on Tuesday 14 April.

IRD advises that the MyIR site will not be accessible to taxpayers from Thursday 9th till Thursday 16th April.

TAX PAYMENTS

IRD has advised that taxpayers who are unable to pay their tax on time due to the impact of Covid19 will be eligible to have any late payment penalties or interest remitted. On this basis if you need to juggle or delay the payment of taxes due to Covid19 then consider paying tax in instalments so as not to put undue pressure on the finances of the business. An arrangement can be made to pay the tax off over a period of time to suit the taxpayer.

COVID-19 WAGE SUBSIDY

By now a number of employers will have applied for and received the MSD Wage subsidy. When completing your GST Return remember that the employer will NOT be liable for GST or income tax on the subsidy received from MSD (and will not be entitled to an income tax deduction for wages paid out of the wage subsidy).

Employers can code the funds from the subsidy to a liability account so it does not get treated as income. Please get in touch with us if you need assistance with this. Wage subsidies should be passed onto the employee by the employer and processed as part of the employee's normal wages. All deductions (such as PAYE, KiwiSaver and child support) should be made as normal. For more information on this view our website:

<https://www.dbchartered.co.nz/news-item/covid-19-wage-subsidy>

For some businesses we would recommend that the subsidy funds are set aside into a separate bank account in order to keep a separate track of it. In this way it will not get mixed into operational funds. Remember the funds are supposed to assist for a 12 week period.

Wage Subsidy (contd)

The MSD has a link on its website so that anyone can check who has received the subsidy and how much. Employees can also request to MSD to confirm if an employer has included their name in a subsidy application. After the initial flurry of pay-outs we can expect MSD to be checking that payments have correctly been made to employees – and that they will be taking action against employers who have not complied.

COVID-19 BUSINESS LOANS AND MORTGAGE HOLIDAYS

Business Assistance

With a reduction in sales and uncertainty in the months ahead, business cash flow becomes a priority. The Government has announced the Business Finance Guarantee Scheme. This will be for loans of up to \$500,000 for a term of up to three years. Businesses with turnover of between \$250,000 and \$80 million will be eligible for the loans with the Government guaranteeing 80% of the loans. Note that if there is a default on your loan the bank will be expected to try to recover any funds due from their customer before recovering any shortfall from the Government.

It will be the banks who will make the decisions on whether a businesses will be eligible for the loans. This will mean they will be looking at the history and future expectations of the business. They will consider whether the business was profitable before the Covid19 outbreak or if it was already struggling to be profitable.

Banks are still required to be a “responsible lender”, meaning they will be required to consider the future viability of any business before lending funds (they do not want to set up a business to fail). Depending on individual circumstances a bank will likely require financial forecasts, trading and profitability details prior to the lockdown, among other information. The bank will also be considering the financial position of the business and what security they require for the lending.

The main banks have now determined their requirements for lending and business owners will be able to contact or apply to their bank to register. As noted above the Government guarantee will only be recouped by the bank if all other methods to collect funds have failed.

If you need assistance with preparing information for the bank then please contact us.

Personal Loans and Mortgages

Most banks are now ready to offer **six-month home loan repayment deferrals**.

This may include deferred mortgage repayments for 6 months or interest only repayments for 6 months. In the long run any repayment holiday will increase the overall interest charges incurred over the course of the loan. However this is weighed up against the fact the reduction in payments may assist through a difficult period.

Your bank may also be able to offer a short-term overdraft facility – each bank will have different options available to clients.

CHANGES TO MINIMUM WAGE 1 APRIL 2020

The adult minimum wage increased from \$17.70 to \$18.90 an hour on 1 April 2020. It will mean an extra \$48 per week before tax for employees on minimum wage working a 40-hour week.

The training/starting out wage also sees an increase from the current rate of \$14.16 to \$15.12 per hour (being 80% of the adult minimum wage). It is intended that minimum wage will increase to \$20 by 1 April 2021.



A job applicant went for a job interview and the manager said, “We’re looking for someone who is responsible.” Well I’m your man the applicant replied, “In my last job, whenever anything went wrong, they said I was responsible.”

RESPONSE FRAMEWORK

As many business owners assess “where to from here”, below is a framework to guide you while planning for the immediate and longer term future of your business.

Immediate actions:

Employees

- Confirm what arrangements are required during the lockdown period
- Make decisions regarding the wage subsidy and apply if eligible
- Confirm what is to be paid to staff during the lockdown period, consult and put in place
- Communicate to employees as more information becomes available.
- If still operating, ensure team structures are effective and cohesive.
- Ensure best use of collaboration, communication and technology.
- If working from home (WFH) set up relevant procedures.
- If working off site ensure relevant PPE gear is provided where appropriate and relevant safety measures are documented and followed.
- Find a way to keep the team in touch to maintain team cohesiveness.

Supply chain

- Consider the different scenarios regarding continuance of supply (and determine required supplies ongoing).
- Consider backup plans for supply disruptions at all levels (from essential to non-essential)
- Follow up with the landlord regarding lease expectations

Customers

- Build a plan to prioritise and protect valuable customers - understand them and how their situation will evolve.
- Focus on the most important segments (eg higher margin, continuing relationships, community needs)
- Build customer trust - establish a rhythm of updates and engagement
- Choose who to invest with based on analysis and planning.

Cashflow / Liquidity

- Understand the current cash position during the lock down period and for the following 2 months (see our separate notes on the following page).

Also consider:

Structure – what is the nature of the work and function/responsibilities within the team?

People – leadership, culture, cohesiveness

Process – meetings, decision making, single source of truth (don't let the grapevine take over), performance management.

Technology – how can this be used to keep on track and assist at any of the above steps.

Next steps - Where to from here? :

1. Identify and prioritise key risks
2. Develop tailored scenarios - based on a range of outcomes
3. Stress test the financials – based on the scenarios how will the profit & loss, Balance Sheet and Cashflow look?
4. Establish a portfolio of interventions – when/what will trigger changes/actions
5. Implement good cash controls – and assess expected requirements
6. Monitor the situation based on new information received.

For some businesses this may also be a period to implement relevant projects that have been on the back-burner for some time.

Speed, Purpose and Discipline will be important during this time.

Contd...

Back in Business

- Create a detailed plan for when lockdown finishes
- Consider employees, customers and the supply chain.

Looking Longer Term

- What will your business look like in 6-12 months time?
- What will be the long-term impact on: your industry / sector? on your customers?, on your business?
- How will your business adapt to meet these changes?
- What opportunities may be out there for your business?
- What changes will be seen in legislation, trade, economy, supply chain
- How will the nature of your work change? What have you learnt during lockdown that could now be put in place?
- What leadership team will you need to have in place to develop these plans?

We understand that this can be a stressful time. If you need an independent ear to discuss some of the possible impacts and options for your business feel free to get in touch.

CASHFLOW PLANNING

During this time we recommend business owners take the time to assess their businesses (and personal) expected cash position (current bank funds and expected cash in and cash out). Aim to understand the available cash for a 3 month period (broken down weekly if needed). Things to consider include:

- What are the immediate bills payable each month? - Contact suppliers to determine what terms they will accept, confirm with the landlord the rent expectations.
- What funds are expected in? - Contact customers to see when they will be able to pay so you can plan ahead – a lot of businesses will be in a similar situation.
- What other payments including tax and loan payments are due?
- What personal funds are required?

Once the expected position is determined you can take relevant action. This might include contacting suppliers, contacting the bank to utilise relief packages or an overdraft, planning out paying tax/GST in instalments.

If you require assistance with your forecasting we are available to help, or if you have planned out your cash-flow and want to go through it with someone please contact us.

TAX CHANGES - 2021 INCOME YEAR

The Business Continuity Package to assist businesses struggling due to the impact of the COVID-19 outbreak includes 5 proposals related to tax:

- **Increase in the low-value asset write-off threshold:** The low-value threshold has been raised to allow the immediate expensing of assets that cost less than \$5,000 in the 2020-2021 income year. This will be a temporary increase for assets purchased in the 12 months from 17 March 2020. After 17 March 2021 the threshold will be \$1,000.
- **Increase in the provisional tax threshold:** the provisional tax threshold has been increased from \$2,500 to \$5,000 from the 2020/2021 income year. While provisional tax may not be payable throughout the year, taxpayers will need to be mindful of a higher terminal tax cost on 7 April 2022.
- **Use of money interest remission:** The package allows Inland Revenue to remit use-of-money interest (UOMI) on late payment if the taxpayer's ability to make the payment on time was significantly adversely affected by COVID-19.
- **Depreciation on non-residential buildings:** From the 2020/2021 income year onwards, depreciation is permitted on commercial and industrial buildings. The depreciation rate is 2% declining value or 1.5% straight line. This applies to existing and newly acquired buildings and to capital improvements made to existing buildings.
- **Removal of hours test from the In-Work Tax Credit:** The hours test eligibility requirement for the in-work tax credit (IWTC) is removed from 1 July 2020.

YEAR END INFORMATION

For those of you with a 31 March balance date, we know that many of you may use the lockdown period to put your 2020 records together, so we would like to remind you of some of the things to attend to for the year end. These include:



1. **Reconcile Bank Account** – whether you use online, accounting software, spreadsheets or a manual cash book system, ensure it reconciles to the bank statement for each bank account as at 31 March 2020.
2. **Accounts Receivable** – Is your accounts receivable list accurate as at 31 March 2020? If you have any bad debts, ensure these are written off prior to 31 March (This is an IRD requirement).
3. **Accounts Payable** – All unpaid invoices dated 31 March and prior. We are able to claim these as expenses in the 2020 income year, even though they are not paid until April or later.
4. **Stock on Hand & Work in Progress** - Complete a stock-take and record stock and/or WIP as at 31 March 2020. If your stock as at 31 March 2020 is \$10,000 or less you do not need to calculate a stock value – we can use the prior year figure (if your total turnover is less than \$1.3 million).
5. **Computer Reports** - If you are using an accounting package save to PDF (or print out) copies of the general ledger transaction report, trial balance, accounts receivable & accounts payable and bank reconciliation as at 31 March 2020 – and don't forget to do a backup, especially if rolling into a new year.
6. **Asset List** – This is the time to go through your asset list from the previous year and advise us of any assets that have been sold, stolen, scrapped, destroyed or traded.
7. **Checklist** – Complete and sign the checklist. This is available on our website and should be included with your records www.dbchartered.co.nz/pdfs
8. **Other Information to Compile**
 - Bank interest/RWT certificates
 - Dividend statements
 - Income Protection Insurance details
 - Donation Receipts for your rebate claim
 - Details of any other income received that has not been banked to your business account

JOKE

I saw an ad in a shop window that said “Television for sale - \$1 – Volume stuck on full”.
I thought: “I can't turn that down”



IMPORTANT TAX DATES



20 April	PAYE Payment Due – Payday Returns to be filed 2 days after payday
7 May	Third Instalment 2020 Provisional Tax due (March Balance Date)
20 May	GST payment due (2 and 6 monthly for March 2020) PAYE Payment Due – Payday Returns to be filed 2 days after payday
20 June	PAYE Payment Due – Payday Returns to be filed 2 days after payday
28 June	Third Instalment 2019 Provisional Tax due (May Balance Date) GST payment due (2 monthly for May 2020)

STAFF UPDATE

In March we welcomed to our team Charmaine Snyman and said farewell to Emma who finished with us at the end February.

Thanks and stay safe from the team at DB Chartered Accountants Ltd: Charmaine, Elaine, David, Gaylene, Karen, Kathryn, Pam & Tyler

If you would like to discuss anything mentioned in our newsletter, please contact us at:

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