

NEWSLETTER

December 2022

CONTENTS

Office Closed – Christmas Break.....	1
Tax Payments	1
GST Invoice Requirements Update .	1
6 Key Ratios to Monitor your Business.....	3
Are You Buying or Selling Commercial Property or a Business?.....	4
Important Tax Dates....	4
IRD Use Of Money Interest	4

“Opportunity is missed by most people, as it is dressed in overalls and looks like work”

- Thomas Edison

DB CHARTERED ACCOUNTANTS LTD

In this newsletter we cover the options for tax invoices, 6 key ratios to monitor your business, and the new requirements when buying or selling commercial property or a business.

OFFICE CLOSED – CHRISTMAS BREAK

Our office will be closed for the Christmas break from Midday Wednesday 21 December 2022 and will re-open on Wednesday 18 January 2023.



The October/November 2022 GST Returns are required to be paid and filed with the IRD by 16 January 2023.

If we complete GST Returns on your behalf please ensure that you have your information to us by 16 December 2022 so we can prepare the return before the Christmas break.

TAX PAYMENTS

In the New Year a provisional taxpayer with a March balance date will have 2023 provisional tax payments due on 16 January 2023, 8 May 2023 and possibly a terminal 2022 income year tax payment due on 11 April 2023.



If, due to cash flow circumstances, you need to pay any tax off in instalments we can contact IRD on your behalf to arrange this, or you can contact IRD directly.

GST INVOICE REQUIREMENTS UPDATE

Under current rules a GST registered entity is required to hold a valid tax invoice before being able to claim GST on a transaction in a GST Return. From 1 April 2023 the requirement to have all relevant information on the one document is being relaxed.

For most business's, their current systems will continue to meet IRD requirements.

The GST terminology is being updated. **New terms coming into effect are:**

- Taxable supply information (TSI) will replace Tax Invoices;
- Supply correction information (SCI) will replace Credit/Debit Notes;
- Buyer-created taxable supply information will replace Buyer-created tax invoices.

Continued on Page 2

Continued from page 1

In order to claim GST on a transaction it will be a requirement to hold the relevant "Taxable Supply Information". This is the minimum set of information buyers and sellers need to keep as evidence of a transaction.

Supplies over \$1,000 – TSI required will include the name and registration number of the supplier, recipient details, address of a physical location for the recipient (if available), date of the supply, a description of the goods or service and details of the GST charged. This is similar to the current requirements for a "Tax Invoice", however from 1 April 2023 the information will not be required to be stated in the one document – the required information is just required to be held somewhere to support any GST claim.

Supplies over \$200 and less than \$1,000 – TSI required includes details of the goods or services supplied and a statement that the amount of consideration includes tax charged for the supply, or a statement of the amount of tax charged. In most cases the record of the sale will contain the relevant taxable supply information.

Supplies up to \$200 – TSI will include any record of the transaction including record of sale, invoices, supplier agreements and bank statements.
The definition of taxable supplies has not changed.

Supply correction information (SCI) – where details, or information, relating to the supply has changed a credit or debit note is now optional. Supplying the relevant updated information will be sufficient. This will be useful in circumstances where the supply is cancelled, goods are returned or not delivered, or where incorrect information was originally provided – e.g. description of the goods or services, buyer or seller details, dates or GST calculations.

Supplier Groups, GST Groups and shared Tax invoices

The new rules allow 2 or more registered persons to form supplier groups so they can issue 'shared tax invoices' for GST purposes.

Members of supplier groups enter into an agreement stating 1 member of the group will issue tax invoices, credit notes and debit notes on behalf of the other members.

The member responsible for issuing tax invoices, credit notes and debit notes is called the issuing member. Supplier groups are not the same as GST groups.

Changes to Buyer- Created tax invoices

The change in buyer-created tax invoices (now known as buyer-created taxable supply information), means the removal of the requirement to obtain Inland Revenue approval to issue these documents. An agreement, in writing, between the parties is required to confirm that - (i) the supplier will not issue taxable supply information for the relevant taxable supplies and - (ii) that the recipient will issue taxable supply information for each taxable supply by the supplier to the recipient.

JOKE

What does Santa do when the reindeer drive to fast?

He holds on for deer life!



6 KEY RATIOS TO MONITOR YOUR BUSINESS

We recommend that business owners have a current understanding of the financial position of their business. Relevant financial KPI's (Key Performance Indicators) to monitor include:

Gross Profit

Formula: **Sales less Direct Costs** (being direct purchases & wages)

Example: Monthly sales \$100,000 less purchases/wages \$70,000 = Gross Profit \$30,000

Gross Profit Margin

Formula: **Gross Profit / Sales** x 100

Example: Gross Profit \$30,000 / Sales \$100,000 = Gross Profit Margin 30%

The gross profit of a business should cover the overheads and contribute to the final profit of a business. If the gross profit (or gross profit margin) is reducing, action may be required if the changes are resulting in a reduction of profit.

Net Profit Margin

Formula: **Net Profit / Sales** x 100

Example: Net Profit \$15,000 / Sales \$100,000 = Net Profit Margin 15%

The net profit margin will identify the amount of sales that results in actual profit.



Current Ratio

Formula: **Current Assets / Current Liabilities**

Example: Current Assets \$130,000 / Current Liabilities \$75,000 = 1.7

This formula generally shows how easily current obligations (debts & invoices to pay) can be met from available funds. A ratio of at least 2, should mean that there is sufficient funds to meet short-term commitments. Our last newsletter explains this ratio in more detail as well as the Quick Ratio which also measures liquidity and excludes stock/inventory.

Interest Coverage Ratio

Formula: **Earnings before Interest and Taxes (EBIT) / Interest charges**

Example: EBIT \$180,000 / Interest \$40,000 = Interest Coverage 4.5x

Banks would normally require that this ratio sits above 2.5x. Anything less than this may mean that the business is unable to afford the required debt principal repayments.

A ratio of less than 1 would mean that the business is not generating enough profit to cover interest.

Equity Ratio

Formula: **Shareholder Equity / Total Assets (excluding Goodwill)**

Example: Shareholder Equity \$350,000 / Total Assets \$1,000,000 = 35%

This ratio shows how much of the business is owned by the shareholders (and not the banks or other creditors). If this ratio is below 35%, the business financial structure is at higher risk.

(the contra to this formula is the Debt to Total Assets ratio - **Total Liabilities / Total Assets** . This shows the % of the business that is not owned by shareholders).

If you need assistance with regular monitoring of the KPI's of your business please contact us.

ARE YOU BUYING OR SELLING COMMERCIAL PROPERTY OR A BUSINESS?

When selling (or buying) commercial property or a business it is an IRD requirement that the following items are allocated a separate price:

- Trading Stock
- Timber
- Depreciable property (including plant and equipment)
- Buildings (that are depreciable property)
- Financial Arrangements (for example if accounts receivables or payables were to be sold with a business)

The latest edition of the Auckland District Law Society (ADLS) sale and purchase agreement now includes a "Schedule 4" where the price allocations can be completed.

IRD requires that allocations must be based on the relative market values of the assets.

As a reminder, if this information is not completed at the time of purchase, the vendor has 3 months to advise IRD of the allocations (which will be binding on both parties). After this time the purchaser can advise IRD of the allocation. If no allocation is made, the IRD may determine the allocation.

We would therefore recommend that the allocation is agreed and recorded by both parties when completing the agreement.

IMPORTANT TAX DATES

16 January 2023 - Provisional Tax Due (2nd instalment) October/November GST Return Due

20 January 2023 - December 2022 PAYE payment due.

7 February 2023 - 2022 Terminal Tax due (if no extension of time with IRD)

28 February 2023 - December/ January 2022 GST Return due and Provisional Tax due for GST Ratio Option taxpayers.

31 March 2023 - Final day for Ratio option Provisional Tax applications.

7 April 2023 - Final date for 2022 Terminal Tax due.



IRD USE OF MONEY INTEREST

The use of money interest rates have been increased from 30 August 2022. These are now 7.96% for underpayments (previously 7.28%) and 1.22% for overpayments (previously 0%).

JOKE

What do you call a reindeer wearing earmuffs? Anything! He can't hear you.



Merry Christmas



Thank you for your support over the past year from the team at DB Chartered Accountants Ltd: David, Elaine, Gaylene, Karen, Kathryn, Katie, & Pam.

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

DB Chartered Accountants Limited.

E-Mail: office@dbchartered.co.nz

Phone: (07) 847 8154

Website: <https://www.dbchartered.co.nz>