Newsletter

September 2019

DB CHARTERED ACCOUNTANTS LTD

Contents:

The road to success is always under construction & full of detours – enjoy the ride

This month we look at use of money interest, PIR & RWT rates and a vehicle mileage update. We also have ideas around improving cashflow as well as information on overdrawn shareholder current accounts, a book review and upcoming tax dates.

PAY TAX ON TIME – AND AVOID UOMI

Last month we explained Provisional Tax and how it was calculated.

UOMI, is Use of Money Interest charged by the IRD on taxation. Generally UOMI will only be charged to tax payers when their annual tax to pay is over $60,000 (with the calculation starting from the 3rd provisional tax date – being 7 May for March balance date tax payments). Provided all tax has been paid on time.

However if any tax instalment is short paid or late paid during an income year UOMI will be charged on any final tax due. This will be the case even if the annual tax is less than $60,000.

We have seen instances where taxpayers with less than $60,000 of annual tax, have inadvertently paid tax late (even by 2 days) and ended up having UOMI charged, meaning they were required to pay additional interest to the IRD.

NZ PIR & RWT RATES – WHAT IS THE DIFFERENCE?

PIR Rates

PIR rates apply to all New Zealand tax residents who invest in PIE Funds (Portfolio Investment Entities). PIR rates apply to investments such as investment portfolios & Kiwisaver accounts.

When the correct PIR rate is used no further tax is payable – with the highest rate being 28%. If the correct PIR rate is not used then the IRD requires this income to be recorded in your personal income tax return.

For individuals you can select the lower PIR rate based on your income for each of the last two years as follows:

Taxable Income	& Taxable income including net PIE Income	PIR Rate
$14,000 or less	$48,000 or less	10.5%
$48,000 or less	$70,000 or less	17.5%
Other		28.0%

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PREVIOUS NEWSLETTERS …

We will often refer to articles from previous newsletters. To view these go to our website www.dbchartered.co.nz and click on "News".

Under "Common Forms" our website also has access to our annual checklists, IRD forms and other relevant information.

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RWT rates

Resident withholding tax (RWT) is the tax that is deducted from New Zealand residents, on interest that is earnt from funds in the bank. A New Zealand resident is not just limited to individuals, it also covers Companies and Trusts as well.

Individuals	**RWT Rate**		
Up to $14,000	10.5%	**Companies**	28.0%
$14,001 to $48,000	17.5%		
$48,001 to $70,000	30.0%	**Trusts**	33.0%
$70,000 & over	33.0%		

MONITORING YOUR BUSINESS – WHY CASH IS KING

Business owners who have successfully navigated through recessions of the past know just how important cashflow is. While making a profit is important to make a business sustainable, cash flow is just as important. Without it a business will eventually be unable to operate. Below are a few reminders on what to monitor.

Understand your Cashflow - do you know how much in costs the business will be required to pay over the next 30, 60 and 90 days including payables, loans, GST, income tax. Are you confident you will have the funds when needed? Growth businesses will have additional cashflow pressures (see our September 2016 newsletter).

Understand your Profits - how much profit does your business generate per month? Is this enough to cover payables, loan and hire purchase payments? What parts of the business are most profitable (both as a $ or %)? Can you invest more time into areas that provide improved profit?

Accounts Receivable – is there a system to ensure that invoices are paid on time? Depending on your business you may have terms that require payment within 7, 14 or 30 days. Ensure you have a system to follow up non-payment the next 1or 2 days after payment is due. The squeaky wheel gets oiled. If you follow-up to get paid this will hopefully get your business to the top of the payments list.

Closely Monitor your Drawings – if the monthly drawings/wages that owners are taking out of the business is higher than the monthly profit the business will soon have cash flow problems. This may be particularly relevant when profits have decreased but the owner is still taking a high level of drawings or wages out of the business.

Stock Control - Stock on Hand is effectively cash not sitting in the bank. Are there good controls over stock purchases so that you are not over stocked? Unnecessary funds tied up in stock would otherwise be sitting in the bank account.

Review the Information – Do you have relevant information to assess your business on a regular basis to confirm if you are on track with expectations? While it's okay to be thinking "business is going okay" or "business seems to have slowed up" what are the facts?
We assist a number of our clients to get relevant reports and information from their accounting system to keep them informed on how business is progressing. Contact us if you require assistance with this.

Heed the Warning Signs – there can be many signs that cash flow is becoming a problem including; funds are not available to pay accounts payable on time, it is taking a longer period to pay all payables off, costs are being put onto a credit card and it is not being paid off, trouble meeting loan, GST, PAYE or tax payments as they fall due. Taking action in the early stages can avoid future grief down the track.

Take Responsibility – if anything requires action take action!

WHAT HAPPENS WHEN SHAREHOLDERS OWE THE COMPANY MONEY (WHAT IS AN OVERDRAWN CURRENT ACCOUNT)?

When shareholders have taken more funds out of a company than what has been allocated to them in profit they have what is known as an “Overdrawn Shareholders Current Account”.
This can come about when there are still company profits or dividends to be declared to shareholders, or where funds from a Company loan have been drawn out for personal use or the company has received a capital gain on the sale of an asset and the shareholders have taken the funds from the sale out of the company.
When this situation occurs the overdrawn current account is an asset of the company and the Company is required to charge interest on the current account (at a current interest rate of 5.77%pa).
As an example a Balance Sheet may be as follows:

Assets	
Accounts Receivable	$80,000
Overdrawn Shareholder Current Account	$50,000
Fixed Assets	$50,000
Total Assets	$180,000
Liabilities	
Bank Overdraft	$20,000
Accounts Payable	$60,000
	$80,000
Net Assets Represented by:	
Retained Earnings	$100,000

In this example the shareholders current account is overdrawn by $50,000. To remedy this a dividend can be declared from retained earnings for $50,000 to offset funds withdrawn from the company. Until that happens interest must be charged at 5.77%.

JOKE #1

A child asked his father, "How were people born?" So his father said, "Adam and Eve made babies, then their babies became adults and made babies, and so on." The child then went to his mother, asked her the same question and she told him, "We were monkeys then we evolved to become like we are now." The child ran back to his father and said, "You lied to me!" His father replied, "No, your mom was talking about her side of the family."

MOTOR VEHICLE KILOMETRE RATES – CHANGES TO THE CALCULATION

The IRD has updated the mileage rates when reimbursing vehicle mileage. This applies to self-employed persons, close companies (where there are shareholder employees) and when reimbursing employees who use their own vehicle for work purposes.

Vehicle Type	Tier 1 Rates – First 14,000kms	Tier 2 Rates – After 14,000kms
Petrol or Diesel	79 Cents	30 cents
Hybrid		19 cents
Electric		9 cents

Remember that a record of annual kilometres travelled for a vehicle must be maintained.
If annual travel is over 14,000 km a logbook must be kept to determine business % usage. In this case the calculation is Kilometre Rate x Kilometres Travelled during the year x Business % per log book.
For further information refer to our December 2018 newsletter.

BOOK REVIEW

Rich Enough? A Laid Back Guide for Every Kiwi - Mary Holm 2018

Mary's main theme is that you don't necessarily need a million dollars to retire with, it's more about deciding on a figure and heading towards that direction.

The book looks at ways to start saving including paying off high interest debt (and the credit card), monitoring and managing spending and creating good habits (luck has nothing to do with it) and watch out for those advertisements encouraging you to spend money – "because you deserve it" (a common advertising trick).

Tips on insurance and creating a rainy day fund and a good explanation of Kiwisaver and the type of funds (and fees) is covered as well as avoiding scams.

The Book provides a good guide on how to set goals towards having an adequate retirement fund and the options of what to invest in (property, shares, fixed interest and bonds) and how to make investing as simple as possible along with some common rules to invest by.

In addition the book covers how to go about setting goals for your retirement and some ideas on how much you could draw down on your investment funds each year once you retire.

IMPORTANT TAX DATES

30 September	Student loan repayments due for overseas-based borrowers.
28 October	2 & 6 monthly GST Returns due (Period ended 30 September). 1st 2020 Provisional tax payments due (May balance date).
28 November	2 monthly GST Returns due. 1st 2020 Provisional tax payments due (June balance date).
15 January	2 monthly GST Returns due (October/November period). 2020 Provisional Tax instalments, student loan interim payments (March balance date).

USE OF MONEY INTEREST RATES

If use of money interest does apply to your situation IRD advises that from 28 August 2019 the interest rate will increase from 8.22% to 8.35% for underpaid tax and will decrease from 1.02% to 0.81% for any overpaid tax.

JOKE #2

The teacher said to his class one day, "Please stand up, anyone who thinks they're stupid."

Nobody stood up so the teacher said, "I'm sure there are some stupid students in this class!"

At this point Little Johnny stood up.

The teacher said, "Oh Johnny! So you think you're stupid then?"

Little Johnny replied, "No, I just felt bad that you were standing up on your own."

STAFF UPDATE

We are welcoming onto our team Karen O'Connell, who will be performing all our tax administration duties including advising clients of payments due. Elaine Lin, has also started with us as part of the accounting team.

This month we are saying farewell to Maree Rodgers who will be finishing with us on 20 September.

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

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