trialbalance
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AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS
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Ever wondered... HOW FAR & FAST A DOLLAR TRAVELS?

When we pay for goods and services, the chain of spending starts. When economies are buoyant, the dollar can move extraordinarily fast. When the economy is down, the movement of that dollar slows. The speed at which this dollar moves is referred to as the 'velocity of money'.

The Covid-19 lockdown means times become tough for businesses and consumers because neither can spend. As a result the velocity of money is reduced, and businesses then look to protect their cash flow.

There is also sentiment that withholding payments to creditors during this lockdown will be acceptable. Not only is this poor business practice but if it becomes widespread, it could lead to a significant downturn in the economy with businesses and ultimately households, suffering as a result.

Instead of applying a defensive approach, businesses should become pro-active with their financial planning.

Here are a few tips:

- Be proactive with your suppliers and creditors.
  – Work out how best to support each other during these times.
  – Discuss and implement extended terms, pricing and on-demand ordering.
- Be proactive with those that owe you money.
  – Understand the situation they might be in and come to an arrangement suitable for both parties.
- Charge fairly for goods and services provided.
  – Avoid price gouging even when supply is limited.
- Factor in slower debt collection and prioritise essential costs.
- Identify areas of waste, slippage, inefficiency and make plans to address these.
- Look to develop a specific marketing and sales plan for when your business re-opens.

It's important for businesses to think short, medium and long-term. Identify strategies that will assist you during the lockdown, and be prepared to meet increasing demand as the velocity in the economy gradually picks up.

Out of every downturn there comes opportunity. Plan now to be the one to take advantage of it!

RSM New Zealand

Here to help

COVID 19 has presented us all with many challenges, both personally and for our businesses. These challenges are likely to continue for some time.

Supporting our clients through the ups and downs of business life is what we value and pride ourselves on. It's fair to say that COVID has provided a steady stream of information with a myriad of support from government agencies, which has all needed to be navigated, often quickly in an already stressful time.

As your accountants we are here to take the guess work out of all that this presents. Please lean on us to assist you in any way you need. Often when cashflow is tight and time is limited, as business owners it's tempting to not seek professional support – we encourage you do the exact opposite. It's an old saying but "a problem shared is a problem halved". Opportunities to advance your business in new directions most often come out of difficult times and the need to think differently and travel down a different pathway. Call your accountant to travel that journey with you, it may well be the most valuable call you make.

Linda Gray – Naylor, Lawrence & Associates, Chair – NZ CA

RSM

Tax calendar

28 September 2020
Second instalment of 2021 Provisional Tax (December balance dates).

28 October 2020
First instalment of 2021 Provisional Tax for those with March balance dates, who pay GST twice a year.

30 November 2020
First instalment of 2021 Provisional Tax for those with June balance dates.

Are you future focused?

Are you focused on today, or where you want to be?

With small teams typically making up SME businesses the owner is often spending all day working in the business, making sales, solving burning issues and dealing with a mountain of phone calls and emails.

How often you take time out to consider what you want your business to be in a few years' time, and how far you are along the journey. Without a firm destination, decisions are often ad hoc and a response to what is happening on the day.

What do you need to consider? It is a good idea to focus on a 3 to 5 year time frame.

- How big do you want your company to be? Where are you going to be operating? What products/services are you going to be offering?
- Who is your target market? Which customers should you be working with, or not working with?
- What level of quality of your product or service do you need to consistently deliver to your customers?
- What do you want your minimum standard of customer service to be?
- What is your point of difference? Why should customers buy from you instead of your competitor?
- What type of culture do you want to have in your company?

The next step is to break it down into milestones that you want to achieve in 6 months, 1 year, 3 years and 5 years.

Now that you have decided where you want your business to get to, you need to write it down. It does not need to be a lengthy business plan that gets lost or is not looked at again. It can be put into a simple one page plan, or even just a statement on your office wall.

Writing down your plan has several advantages. By putting it into words you are solidifying the ideas that have been floating in your head. It becomes a commitment that you are more likely to stick to. It is also able to be shared with others.

Sharing your plan with your staff enables them to know where the business is heading. They may have some ideas on how to help you get there, and it becomes a focus from which to make decisions on a daily basis in your business. If everyone in the business is heading in the same direction, there is less wastage of effort, less distractions, and you are more likely to reach your goals. Sharing your plan with others also allows you to be held accountable for your actions. Just like having a fitness partner gives you motivation to turn up and keep going, a business partner or trusted business advisor can help hold you accountable and ensure you are on track.

Review your plan at least annually. Review what progress you have made in the last year and celebrate your successes.

Focus on the future.

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Mycoplasma bovis

The outbreak of mycoplasma bovis has been hard on the farming sector, with herds of cattle needing to be culled as a result. Unfortunately this gives rise to a cashflow issue for farmers as the compensation is taxable income – but the compensation is also needed to replenish those herds.

Following lobbying efforts by Federated Farmers, the government proposes under the Bill to enable income derived by farmers being compensated for a herd cull (required by Biosecurity New Zealand) to be spread over a six-year period. In order to utilise the spreading method, farmers would need to:

- Be carrying on a dairy or beef breeding operation, with the culled breeding stock being valued under National Standard Cost (NSC) or self-assessed cost; and
- Substantially replace the stock by purchasing equivalent breeding stock by the end of the income year following the cull year; and
- Continue valuing replacement stock using, as relevant, NSC or the cost price method

The amendment would apply from the 2018 income year onwards, and taxpayers who have already filed 2018 and 2019 income tax returns would be able to apply for an amendment to these returns once the legislation has been enacted.

Self-employed — how much can you earn

Self-employed people will never make a fortune because their income is limited by the number of hours they can work.

Based on a 40-hour week, there are, say 2000 hours in a year, allowing for holidays.

Not all of this can be used for work. There is inevitable administration, including quoting for work you won't always get.

If you could earn 30 hours a week at, say, $70 an hour, you would get a gross income of $105,000. After running a vehicle and other administrative costs, you might finish with an income of $75,000 before tax. For many self-employed that would be a good result.

You can make a bigger income, of course, by employing people. If you do, the key to your success is going to be your ability to manage them. Otherwise, they will not stay long and sometimes they will make you poorer.

Rent for employee's home

You may wish to compensate an employee who has been using their home to help run your business during the Covid-19 lockdown.

Inland Revenue has issued a list of conditions for making a payment. These are contained in a publication called Determination EE002, which also sets out how much you are permitted to pay.

There is also the matter of how you pay a share of the equipment the employee is using, such as desks, carpet and light fittings. Inland Revenue allows a one-off lump sum payment of $400, without the need to have to produce any evidence of these costs.

If you read the determination, you will notice the employer can reimburse the employee up to $15 a week to cover all other expenditure. You will probably agree this is not very much.

You don't have to follow this publication. If you and the employee want to work out an allowance based on actual costs and use this instead, that is fine.

The determination applies from 17 March 2020 to 17 September 2020.

Not much charity for Healthy Homes measures

If you are a landlord or landlady and have to take measures to comply with "Healthy Homes", there's not much charity.

Inland Revenue has issued a publication, PUB00334, which sets out how it sees the tax law applying. It is much as you would expect.

However, you should remember anything you buy during the current tax year can be treated as a business expense up to an amount of $5000. So if you are required to put in a heat pump and it costs you $3000, you can treat this as an expense for this particular year.

Remember, if you buy more than one depreciable item at a time, each item having the same depreciation rate, you have to add all these together for the purposes of the threshold. So, if you buy two heat pumps each costing $3000, you now have to put these in your depreciation schedule. You can't write them off as an expense.

New R&D Tax Incentive

Unlock Cash Flow IMMEDIATELY

With the financial year recently ticking over into FY2020/2021, the majority of innovators in New Zealand (those with year-end 31 March 2020) are able to begin lodging income tax returns and unlock the value from the newly introduced R&D Tax Incentive program.

As a reminder, the R&D Tax Incentive was introduced into law in mid-2019 to bring New Zealand in line with similar regimes in the Asia Pacific region and across the majority of OECD countries. With its ambitious goal of lifting the R&D spend as a percentage of GDP to 2% within 10 years, the generous cash benefit offered by the new program is 15% of eligible R&D expenditure.

The eligibility criteria and benefits are comparatively more generous than similar programs in the Asia Pacific region.

COVID-19 GOVERNMENT RESPONSE
IMPROVED REFUNDABILITY OF R&D CREDIT

As cash is often king during the innovation phases of a business' lifecycle, one of the key policy decisions for the introduction of the new program was the limit on refundability of R&D tax credits. The initial refundability mechanism for year one of the R&D program required businesses to meet certain criteria and capped potential refunds to $255k.

This cautious approach was intended to allow the government to observe the cost to revenue from the new program in year one, and ultimately balance fiscal affordability with its benefits in encouraging greater R&D activity.

With COVID-19 sweeping the globe in the past quarter, the New Zealand government has proactively passed new legislation on 25 March 2020 which significantly increases the accessibility of R&D refunds for businesses. Introduced through the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020, the refundability measures which had been intended to be in operation from year two of the program have been brought forward to the current income year.

Under the new rules for the FY19/20 year which has now passed, innovative businesses will now be able to choose one of two refundability mechanisms which maximises their cashflow.

These measures are:

OPTION ONE ELECT FOR THE ORIGINAL LIMITED REFUNDABILITY RULES (CAPPED AT $255K)

A business may still elect for the original year one refundability mechanism if they choose to. Broadly, the key requirements are that:

- The entity must be a company.
- The entity is in a position of tax loss, or where the R&D credits exceeds income tax liability.
- The entity is not a listed company or associate of a listed company and does not derive exempt income or associate of a person who derives exempt income.
- Broadly, the entity is required to meet a 20% wage intensity test for R&D expenditure (i.e. at least 20% of wages are incurred on eligible R&D activities).
- The entity does not have any other outstanding tax liabilities.

Summary: In conclusion, this refund mechanism is targeted towards more early stage, high intensity R&D entities, with a limit of up to $255k refund (being $1.7m eligible R&D expenditure)

OPTION TWO DO NOT ELECT FOR OPTION ONE AND ACCESS BROADER REFUNDABILITY REGIME

As the default option, entities undertaking eligible R&D activities will fall into the broader refundability regime. The key requirements and differences to Option One are:

- No company requirement (i.e. can be other types of eligible R&D entities).
- No general monetary-based refundability cap or wage-based rules (i.e. unlike Option One, there is no $255k refund cap or wage intensity test). Instead the refund is more broadly limited to "labour-related taxes" (PAYE, ESCT and FBT) paid either by:
  - The R&D entity itself; and
  - Companies by which the R&D entity is controlled, or those contained within the wholly-owned group.
- No refund cap for amounts paid to levy bodies or approved research providers.

Similar to Option One, the entity must be in a position of tax loss to access a refund.

Summary

In conclusion, the early introduction of this broader refundability mechanism will ensure more mature businesses, those which are not in a company structure and entities with lower R&D wage intensity will be able to access increased cashflow for their innovation.

ILLUSTRATIVE EXAMPLE
REFUNDABLE R&D TAX CREDITS

Innovation Co Limited, a New Zealand incorporated and owned company with a year end of 31 March, develops new steel products for the Asia Pacific market. During the 2019/20 income year:

- The business derived $30m of revenue.
- The business is in a tax loss position of $10m. This was largely due to a significant investment into a new R&D program which cost $10m during the 2019/20 income year.
- The business incurred a total of circa $16.5m of total labour costs (R&D and non-R&D staff) and paid circa $4m in labour-related taxes.
- The $10m R&D expenditure consists of salaries, contract costs and significant purchases of materials for experimentation with newly developed steel products in the factory. R&D wages comprises $2m of total R&D expenditure.
- R&D labour expenditure comprises approximately 12% of the company's total labour expenditure in the year (i.e. less than the 20% required under the Limited Refundability rules).
- It is assumed all the R&D expenditure is eligible for the R&D Tax Incentive and not relating to excluded activities or expenditure.
- In April 2020, Innovation Co Limited lodges its Income Tax Return, along with the relevant R&D Supplementary Return.

If Original Limited Refundability Rules Applied

Under the original legislation for year one, Innovation Co Limited would fail the refundability test (e.g. as it fails the 20% wage intensity test, which requires at least 20% of total labour costs in the financial year to be R&D labour costs).

Under the new COVID-19 Measures

Under the new COVID-19 measures, Innovation Co Limited could potentially cash out its whole $1.5m of R&D tax credits (based on labour-related taxes paid, the refundability cap will be up to $4m). This will provide the business with crucial cashflow during the COVID-19 economic downturn. This ensures that Innovation Co Limited is able to retain more employees and continue parts of its R&D Tax program in the FY20/21 income year.

Where To Next?

If your business invested in R&D activities in the 2019/20 income year and would like to unlock the cashflow benefits from the recent COVID-19 measures and the existing refund mechanisms under the R&D Tax Incentive, please reach out to your RSM specialist to lodge your R&D claim.

Is your Trust 2021 ready?

The Trusts Act 2019 is coming into force in January 2021, bringing many new changes to Trusts law as we know it. The current act has been in force since 1956, and over time has been interpreted by courts, which has amended the letter of the law.

The purpose of the new Act is to make trust law more accessible, by codifying the law and making sure everyone can understand their responsibilities and rights under the Act.

Under the new Act there is an increased responsibility on trustees to carry out their duties properly, and greater accountability to the beneficiaries.

The new Act also divides trustees' duties into two broad types: mandatory duties which you cannot contract out of, and default duties that apply unless your trust deed says otherwise. It is important to check your trust deed in light of the new Act to ensure that the trustees are complying with the mandatory duties and to see if the default duties need to be modified. The biggest change in the new Act is that beneficiaries have increased statutory rights. Beneficiaries have the right to be notified that they are beneficiaries, and be told who the trustees are, so they can hold them to account.

They are also entitled to copies of the trust deed and any variations, information about the assets and liabilities, trust financials and information regarding the administration of the trust.

This is the change that is likely to create the greatest concern for many trusts and it is important to get specialist legal advice if this concerns you.

The new Act also extends the time period for trusts from 80 to 125 years and makes it compulsory to remove incapacitated trustees.

It is important to review existing trust structures and make sure they comply and are fit for purpose.

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The growth of intangible assets

ACC COMES TO PARTY
ACC is delaying its invoicing from 1 July 2020 until October.

Today, intangible assets (items such as data, content, software code, company and product brands, confidential information, inventions, patents, industrial know-how, and design rights) account for more than 87% of all company value. They are now the primary driver of company profitability and growth.

Unfortunately, intangible assets are essentially ignored by modern accounting standards. They either never make the balance sheet, are lost under the amorphous term "goodwill," or are listed at cost (and there is essentially no correlation between cost and value with intangible assets). When it comes to valuing intangible assets, conventional valuation methods tend to significantly under-value intangible assets and intangible asset-rich companies. With more than 87% of company value now being driven by intangible assets, this is a significant issue.

While more complex than a conventional valuation, these specialist valuations work on the principle that a strong intangible asset position delivers enhanced competitive advantage which translates into superior market share or margins and ultimately significantly increases the value of the business.

Using a proprietary three-factor model that utilizes traditional quantitative methods but importantly also analyzes the Contextual and Qualitative factors. This is critical as these factors are primary drivers of intangible asset value.

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Changes in Particulars
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• Shareholdings • Directorships • Trustees
Or anything else that may be relevant.

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