

# MANAGING YOUR CASHFLOW

## KEEP CASH CROWNED AS KING



If you want to succeed in business, understand that Cash is King. Your business can't survive without cash.

The following six takeaways are essential for business success:

1. **Protect your cash position, by knowing what it is.** Build a cashflow statement and always keep it up to date. If you foresee a shortfall, start at once to fix it.
2. **Create a cash buffer** as an insurance against unexpected difficulties.
3. **Protect your cash position** against revenue shocks, by maintaining a balance equivalent to at least two months of operating expenses.
4. **Be realistic with revenue expectations.** Take action now if it looks like sales are not going to get you to breakeven.
5. **Credit checking up front** will reduce the risk of customer non-payment. Follow up with clear payment terms agreed in writing. Communicate regularly with customers. And automate where possible.
6. **Every dollar you spend reduces cash reserves.** The best way to protect your cash is to create a budget for the spend you know you need, and stick to it.

## CASH IS NOT PROFIT – AND VICE VERSA

The purpose of a business is to make money, and that means you have to know the difference between profit and cashflow.

**Net profit** is what you have left after you deduct all your business expenses from all your revenue. You change net profit only by changing the things that affect revenue and expenses.

For example, if:

- You renegotiate with your suppliers, you may get stock cheaper, or carry less inventory
- Your staff engage with customers better, you can learn more about what they do and don't like – and get more business
- You can roster staff differently, you may be able to run your business more efficiently.

**Cashflow** comes from various sources. However, it also covers operating expenses, taxes, equipment purchases, repayments, distribution, and so on.

Note that a profitable business does not always have good cashflow. And a business with good cashflow is not always profitable. For example, you can have good cashflow, and loss-making expenses.

To work out how fast you can grow your business, you need to look at your projected cashflow. We can advise you on this.



## BUSINESS HEALTH CHECK - CASHFLOW

Get a clear cashflow picture before third quarter.

Cashflow forecasting is important because if your business runs out of cash it won't be able to operate. You now have one clear month before the third quarter to get the best possible clarity around cashflow.

How often you forecast cashflow depends on the soundness of your business, although you really cannot do it too much. If your business is struggling, you should be forecasting and revising your cashflow every day.

Focus on cashflow now to:

- Identify potential shortfalls in cash balances in advance — like an "early warning system"
- Make sure your business can afford to pay suppliers and employees
- Spot problems with customer payments
- Have current information for stakeholders like banks.

If you would like to have a chat about your business cashflow, let us know.



# SLOW PAYERS COST YOU REAL MONEY

You know you have to get your debtors to pay, but do you understand the true impact of slow payers? Without a realistic picture of the direct and indirect costs of slow payment, your debt management practices may hurt your business. You may:

- Reduce your cashflow.
- Create a snowball effect – if debtors think you're relaxed about payment, you encourage them to be slow.
- Build up an increasing number of debtors, leading you to let smaller debts slide.
- Chew up valuable time and resources in managing slow payers and following them up.

## What you can do

- If credit reporting information shows a customer is a slow payer, you can put tighter terms in place.
- Use online tools to manage receivables.
- Be straight up about discussing alternate invoicing patterns, payment options and terms.
- Set your rules for automatic payment reminders.
- Track all collection notes easily.
- Tag invoices with common reasons for late payment.

## COMMUNICATION IMPORTANT IN MANAGING DEBTORS

Like any relationship, timely communication between creditors and debtors goes a long way to avoiding trouble. One of those tools for small businesses is the financial web.

The financial web describes the growing electronic connectivity between small business, accountants and financial institutions, particularly when coupled with Cloud computing.

According to Xero, the continued expansion of the financial web will help small businesses make smarter decisions, improve cashflow, get paid faster and access capital quickly.

At the same time, traditional practices still go a long way to helping small business stay on top of debtor management.

If you don't have large reserves of cash, you may want to reduce your terms to 10 days or seven days. You should also:

10. Be up front. Explain "how we do it here".

1. Quantify fees in advance.
2. Bill regularly.
3. Bill as near as possible to the conclusion of work segments.
4. Where practical, present the account to the customer.
5. Provide payment options.
6. Consider fixed fees.
7. Follow up debts systematically and often.
8. Explain the value of the work.
9. Build a relationship and show your value.

In the case of debt collection costs, the Fair Trading Act requires you to disclose your terms of trade to customers at the time credit is given.

Your terms of trade must include provision for the recovery of collection fees. Make sure your terms of trade are clearly identified on your website, invoices and statements.

## IRD AIMS TO PLEASE – NEXT YEAR

A key principle of the tax system is taxpayers should pay tax as income is earned. That doesn't work well for businesses with seasonal or volatile incomes, and is why the Government announced, early this year, a new method for paying provisional tax.

### The Accounting Income Method (AIM)

More and more small and medium enterprises (SMEs) have digital accounting systems for better business decisions. Integration between accounting software and IRD's systems and processes is happening.

SMEs use tools like these to track how their business is performing. This same information can, therefore, also be used to make provisional tax payments on an actual results basis.

Businesses make provisional tax payments in most cases six times a year at the same time as GST payments, or monthly for those who file GST returns each month. The payment is based on the results achieved in that tax year, matching payments to cash flows as closely as possible.

AIM will help new businesses pay tax only on results they achieve. The same goes for businesses with seasonal income – because tax payments adjust to the season, as well.





# RENTAL PROPERTIES

## TAX IS PAYABLE ON RENTAL INCOME . . . MOSTLY



**If you receive income, you must pay tax. So if you have rental income, you have to pay tax on it, right?**

Maybe, maybe not – if you get rent from boarders or homestays.

### Boarders and homestays

When you get income from boarders or homestays, your tax position depends on how many boarders you have, and how much you charge, compared with the IRD's standard-cost method. In other words:

If you have . . .	Then the standard 2017 cost is . . .
One or two boarders	\$263 a week for each
Three or four boarders	\$263 for boarders one and two, and \$215 for boarders three and four

2017 figures from [www.ird.govt.nz/technical-tax/determinations/other/standard-cost/standard-cost-boarding/](http://www.ird.govt.nz/technical-tax/determinations/other/standard-cost/standard-cost-boarding/)

If you charge less than standard-cost figures for four or fewer boarders, you don't have to declare that income.

With standard-cost, when you charge more than the IRD figures you may have to pay tax. If you claim for losses, your return must not only show all payments received, but list actual costs, backed up by full documentation (this is called the actual-cost method).

### ACTUAL-COST METHOD

Your tax position is unequivocal if you have five or more boarders – you must report that income. If you and your spouse or partner have boarders and tax is payable, the person who's most directly involved each day should declare the income.

If you get your rental income in advance, it's taxable in the year in which you receive it.

Owning property for generating rental income is not, usually, classified as carrying on a business, but you may deduct related expenses. Those include:

- Rates and insurance
- Interest
- Fees or commission
- Repairs and maintenance
- Related motor vehicle and travel expenses
- Mortgage repayment insurance
- Accounting costs for preparation of related accounts
- Depreciation

Rental property expenses should still be deductible even when the property is temporarily vacant.

You can't charge GST on rent, or claim it on the property's purchase price or ongoing rental costs. But when you claim deductions, you use the cost of the expense, including GST. However, that's not the case for homestays, farm stays, bed-and-breakfast businesses, short-term stays (think Airbnb) and other types of "commercial dwelling".

One exception is if you buy a house for development, but rent it out as an interim measure. In that case the developer can claim the GST input tax on the purchase. However, if the house is used concurrently for taxable and non-taxable purposes, adjustments may be needed. It can be complex and we can help you with this.

### RENTALS AND DEPRECIATION

The land a rental property is located on is not depreciable because it can't be consumed and has no replacement cost. However, buildings, fixtures and land improvements are considered technically depreciable, even though they have a depreciation rate of 0 percent.

Chattels, like stove and carpets, will depreciate, and you may choose to calculate those and deduct the total as an expense.

## TENANTS MUST BE INFORMED OF INSULATION STATUS

It's been compulsory since 1 July last year for any new tenancy agreement to include an Insulation Statement. That means landlords must record if rentals have insulation, where it is, the type of insulation and its condition. That allows tenants or potential tenants to make more informed decisions about renting.

### INSULATING RENTALS IS NOW MANDATORY

On top of that, if you have rental property without floor and/or ceiling insulation, you have until 1 July 2019 to install it. If you don't have an Insulation Statement, or your property remains uninsulated from 1 July 2019, you can be fined up to \$4000.

The insulation requirements don't apply to in-ground concrete floors and integral ceilings-floors in a multi-storey dwelling.

Note that it's illegal to install or repair electrically conductive insulation, known as foil insulation, in any residence. A breach could cost you up to \$200,000.

## MUST I PAY TAX ON HOLIDAY HOME INCOME? THAT DEPENDS



If you rent out your holiday home sometimes, you may have to pay tax on that income.

The IRD says you have a “mixed-use” holiday home if, during the tax year, you use it for:

- Private use, and
- Income-earning use, and
- It's unoccupied for 62 days or more.

It is still private use if you receive rent from family members, or from non-family members who pay less than 80 percent of market rates.

The property becomes “income-earning” if you get rent from non-family members at 80 percent or more of market rates.

You can keep the property outside the tax system if it's privately owned, *and* your income-earning revenue is less than \$4000 a year. But then you can't claim any of your related expenses. You can also remain outside the tax system if you make a loss, *and* your gross income from income-earning use is less than two percent of the property's rateable value.

If an expense relates to income-earning use and private use, you need to apportion it using this formula:

$$\frac{\text{expenses} \times \text{income-earning days}}{\text{income-earning days} + \text{private use days}}$$

If you make a loss from your mixed-use holiday home, and your gross income from income-earning use is less than two percent of the rateable value, you can't claim the loss in the current year. You must carry it forward to offset against income from your holiday home in a future tax year.

## BUSINESS HEALTH CHECK – RENTAL PROPERTIES

### Things to do this month

- Are your records for rental income and expenses together for us to do your tax? One way of doing that is to get your hands on a good Rental Questionnaire template. Contact us if you would like one. Some rental situations can be complex, so talk to us if you're unsure.
- If you're not on top of insulation requirements for any rental property (see article above), make a note to get it done. In fact, with the weather improving, the workload for insulation contractors may be dropping, and that may get you a better deal.
- The end of this month marks the halfway point of the financial year. That will be a key time to lock in a picture of your cashflow, revenue, expenses and all financial information for the half year. Do it soon so you can respond promptly if there are problems.

## KEY TAX DATES: SEPTEMBER 2017

DATE	CATEGORY	DESCRIPTION
20 September	PAYE	Small employers return and payment Large employers return and payment
20 September	RWT	RWT return and payment due for deductions from dividends and deductions of \$500 or more from interest paid during August
20 September	NRWT / Approved Issuer Levy	Payment and return for August
28 September	GST	Return and payment for August

## CONTACT OUR TEAM

270a Queen St  
Richmond, 7050  
p: 544 6179  
f: 544 5979

[www.caca.co.nz](http://www.caca.co.nz)

**craiganderson**  
CHARTERED ACCOUNTANTS