



**DM**  
DIPROSE MILLER  
chartered accountants

.....

# DOING MORE.

The Diprose Miller Newsletter | Spring 2021.

# EDITORIAL

**We've certainly experienced some late winter/early spring conditions recently across the country to let us know that the seasons are changing. Personally I'm looking forward to summer.**

It's quite an honour to prepare this editorial for the first time, following in the footsteps of Keith Miller and a chap named Kelly Diprose before him. Speaking of Keith, although there is a "changing of the guard" taking place, he's still here in full living colour around the office and plans to be for some time before he fully enjoys the fruits of retirement.

Well, where does one start? It's strange times again with the COVID-19 Delta variant arriving in the community to enforce another Level 4 lockdown which made things difficult with very little notice.

We must commend our staff here at Diprose Miller as they have done a fantastic job when we were all forced to work from home. We all slipped into the routines we put in place last year and this allowed us to continue assisting you, our clients. For me, it was great to get back to the office. When the kids were at home I seemed to eat pretty well, with waffles and warm biscuits straight from the oven for morning tea. While delicious, this means I now need some exercise to overcome the results.

This lockdown has been especially hard on businesses nationwide. While our farmers and other essential services carried on, the retail and hospitality industries had to close once again, just as they were recovering from last time. The government announced a range of initiatives to help the business community with the Resurgence Support Payment supplementing the wage subsidy to assist with covering staff wages and general

business expenses. If you have any difficulty applying for these, please don't hesitate to phone our office and we'll help you out. We're seeing the lingering economic effects of lockdown in many industries. I've been talking to a number of clients in the trades who tell me there are now huge delays in the supply of materials that will start to bite hard over the coming months.

Work hard & stay safe,

*Darren Diprose*

Spring is a great time of year. Seeing the calves and lambs running around always makes me reflect that another year has passed. It will be interesting to see what summer brings us. I very much look forward to catching up with clients over the next few months in the run-up to Christmas and will be hoping to gain an insight from them into how businesses are coping during these uncertain times.

As a final note, we certainly appreciate your ongoing support. If we can assist you in any way, please don't hesitate to ask.



# ED'S THINKIN'

## EPISODE 3: TELL ME ABOUT TAX

In our autumn and winter 2021 newsletters we addressed the first two of four common questions we are asked when clients are starting out in business for the first time:

1. What do I need to do first?
2. Do I need a company or trust?
3. What about tax?
4. How can I obtain funding and ensure I don't go broke?

In this issue we focus on tax-related issues that new business owners find challenging.

Generally, people who are employees have income tax deducted automatically at the correct rate via the PAYE system. However, once you become self-employed there are a number of taxes to be managed:

1. Income tax paid on annual profits made by the business
2. Goods & Services Tax (GST) which is compulsory if your annual turnover exceeds \$60k
3. Fringe Benefit Tax (FBT) payable on benefits supplied to employees
4. Resident Withholding Tax (RWT) deducted from interest paid to lenders
5. Withholding Tax (WT) deducted from payments made to contractors

While it is important to be aware of all the above taxes, we will focus on income tax as it applies to all businesses.

**"In preparing for battle I have always found that plans are useless, but planning is indispensable."**

Dwight Eisenhower

## HOW IS INCOME TAX CALCULATED?

Income tax is calculated on the profits generated by a business after deducting all claimable expenses. It is important to note that the taxable profit of a business is not affected by the level of personal drawings, debt repayment or asset purchases. The general example below illustrates this concept.

### Calculation of taxable profits

Gross business revenue (sales)	500,000
<b>Less</b> deductible expenses	350,000
Taxable profit	150,000

### Typical costs to be covered

Income tax (28%)	42,000
Personal spending	65,000
Asset replacement	25,000
Debt repayment	15,000
	147,000

**Surplus (deficit)** 3,000

Clients often ask us how their personal drawings are taxed. As shown above, personal drawings are funded from tax-paid profits and do not affect the calculation of income tax payable. Clients can create difficulties for themselves by drawing a higher level of cash than the business generates after tax. Managing the components of the above example is a critical part of successful business management.

## ONCE WE HAVE CALCULATED THE LEVEL OF INCOME TAX PAYABLE, HOW (AND WHEN) IS IT PAID?

Income tax is paid in three instalments of "provisional" tax throughout the financial year, with a final "wash-up" of terminal tax being paid (or refunded) after year end once the final liability has been calculated. The terminal tax is the difference between the final tax liability and any provisional tax already paid during the year.

Provisional tax instalments are based on the previous year's profits and while these can be re-assessed based on forecast performance, interest can be added to any shortfall of provisional tax if forecasts are not reasonable.

## WHAT ABOUT THE FIRST YEAR OF BUSINESS OPERATION?

For a new business there is no mandatory provisional tax requirement. However, in the second year of business there will likely be a "double-up" of income tax payments comprising both the terminal tax from the first year, plus the associated provisional tax for the second year.

This double-up of income tax in the second year of business is often problematic if the business owner has not put aside enough cash during the first year to cover the income tax on business profits. To avoid this, we recommend that 20% of all profits generated in the first year be set aside in cash to cover the resulting income tax liability. A solid business forecast will further assist business owners to understand and plan for scheduled income tax payments.

## HOW IS MY INCOME TAX LIABILITY AFFECTED BY MY BUSINESS STRUCTURE?

Under a “sole trader” or partnership structure, profits are essentially seen as already in the owner’s hands and are taxed at their personal marginal income tax rates.

The use of a company can provide more flexibility as some or all of the profits can be taxed in the name of the shareholders and/or related entities, e.g. as shareholder salaries for services provided or as interest payments on funds advanced to the company. Profits that are retained by the company are taxed at the flat rate of 28% and become part of the company’s “retained earnings”.

Under a trust structure, profits can be allocated to beneficiaries for income tax purposes and income tax is payable by the beneficiary at their personal marginal tax rate. Any profits not allocated to beneficiaries are taxed in the trustees’ names at the flat rate of 33%.

While it can often be a confusing and stressful issue, an important part of our role as advisors is to ensure that business owners are aware of their tax obligations well in advance and have cash funds available to pay these as they fall due. Another key service we provide is an ongoing review of the business structure to ensure that business profits are taxed in the most efficient manner.

# BITS & PIECES

## AUDIT SHIELD – IS IT FOR ME?

We’ve recently contacted many clients with an offer to subscribe for Audit Shield’s Accountancy Insurance. These policies cover the cost of our services to respond to enquiries from Inland Revenue.

Even if there is no underlying error, dealing with Inland Revenue on your behalf can be a taxing issue and it is not difficult for our time and costs to mount up. With Inland Revenue’s increasing reliance on the electronic (automatic) review of tax return information, all accountants are experiencing increased levels of contact. It is important to note that the policy does not cover any tax shortfalls, penalties or interest.

There does not need to be any form of review or audit underway for the policy to apply. Any Inland Revenue contact is covered, regardless of the tax type. The cover is not compulsory, but is well-priced.



## FORECASTING FOR NON-FARMERS

We make extensive use of the Figured software, in conjunction with Xero, to prepare full budgets, cash forecasts and scenarios for farming clients. It works well, and more features are being added on a regular basis.

One of these new features is the “Commercial Manager” module. This provides the ability for non-farming businesses to use the planning and forecast features of Figured without the farming focus. In our opinion it is easier and more reliable than using a spreadsheet.

One of the major benefits of the Figured software is that each Figured file is linked to the associated Xero accounting file in real time, meaning that up-to-date actual figures are automatically available for planning and variance reporting purposes.

## WE DON’T MIND THE PRESSURE, BUT ...

We’re finding that, over recent months, clients have been taking longer to provide us with the source documents necessary to prepare GST returns on their behalf. This makes it very difficult to schedule work so that the GST returns can be completed before the due date. Our staff feel a personal obligation to look after their clients’ work, so delays create unnecessary stress as deadlines approach.

To those clients that are always prompt, we’re grateful for your co-operation. To those that are slipping, please try a bit harder to help us help you.

We would ask that source documents be with us no later than the 15th of the month in which the return is due.

## CONTACT DETAILS

We’d like to remind clients to let us know if contact details change, especially postal and physical addresses, telephone numbers and email addresses.

All that’s required is an email to [mail@diprosemiller.co.nz](mailto:mail@diprosemiller.co.nz) to let us know the changes and we’ll take it from there.

## FOOD FOR THOUGHT

**“There is only one way to avoid criticism. Do nothing, say nothing and be nothing”.**

Aristotle

## SHARON SAYS... "COVID-19 FROM AN ACCOUNTANT'S PERSPECTIVE"

**We decided that we couldn't publish this newsletter without a comment on the pandemic that has affected all our lives and many of our livelihoods.**

The ongoing COVID-19 scenario has been well covered by the media over the last 18 months and we're not interested in re-hashing any of this, however clients may be interested in some observations on how our interaction with them and our ability to assist them has been impacted.

### Working from Home

Under lockdown levels 3 and 4, we're not in our offices, so we've all needed to work from home. Just about everyone has been able to continue working at a reasonable level, if not as effectively as when in the office. Obviously the short notice for the August lockdown created an additional frustration, but we were able to complete all necessary work for clients over the lockdown period.

### Subsidy & Support Payments

Over the lockdown period we assisted many clients to apply for the assistance available from the government, including employer and self-employed wage subsidies, Resurgence Support Payment (RSP) funding and Small Business Cashflow Scheme (SBSC) loans.

Our website has links to all the available COVID-19 assistance packages. We encourage clients to review these and make sure they have taken advantage of the wide range of funding available.

There are application deadlines for the various packages, so it is important to keep up to date with applications. If you need us, we're here to help.

### Paperless Provides Pandemic Protection (aka PPPP)

During lockdown periods we've been forced to operate in a paperless manner while working from home. We worked our way through that, thanks to online cloud storage capacity. However, the bulk of our office procedures are still paper-based. We've been gradually moving the bulk of our business information to a digital platform and we've now realised that, to protect ourselves and our clients in the future, we need to move more swiftly toward creating structured paperless processes. This will not only help us to get through any future lockdowns, but also create a more effective operating structure for our practice.

### Keeping in Contact

We've recently established an electronic signing facility for client documents and talk about this in a separate article. This allows for much more straightforward and reliable signing and tracking of client documents.

We're also exploring the best way to receive client source documents (invoices, etc) without the need to have physical documents changing hands. Ultimately we'll see most source documents uploaded digitally into a cloud-based location for reference by both ourselves and clients. We'll keep you up to date with progress on this initiative.

## A WORD OF THANKS

We'd like to thank all our clients for their understanding during the lockdown period. Some work took a bit longer and wasn't as straightforward as usual, but we got there in the end. We're all back on deck now and enjoying the office camaraderie. The masks aren't much fun, but at least we're laughing and not coughing!

# KEEPING UP WITH THE TIMES

## CCH E-SIGNATURES

As an important part of our work, we prepare and retain signed copies of important documents to protect the accounting and legal integrity of our clients' companies, trusts and related entities. The signed documents are stored in our online "CCH Entities" software and are required for compliance with a variety of statutory requirements. These documents include resolutions of shareholders, directors and trustees, together with deeds of debt, lease and gifting.

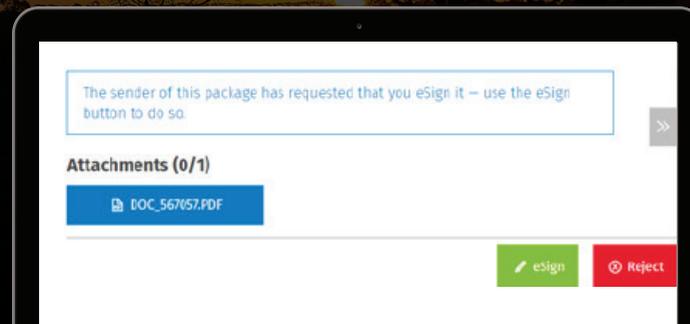
Traditionally we have posted or emailed these documents to clients to review, sign and return. For some time now, our "hit rate" for prompt responses from clients has not been high, despite repeated requests.

CCH have recently released an additional software product linked to CCH Entities that provides for signatures to be added electronically. This has significant benefits for both ourselves and our clients.

1. Clients can review and sign documents from any device without the need for pen and paper
2. Copies of the signed documents are automatically emailed to the client
3. There are no postal delays or missing documents
4. We can track when clients have reviewed and signed documents
5. Electronic reminders can be generated for documents that have not been signed

We are hoping that clients will embrace the new process. Many will have already experienced the process with documents from other institutions. When clients receive the first document for electronic signing they will need to create a password to access the software for future signing.

For those clients unable to make use of electronic signing, paper copies can be generated and posted.



**If you have any queries on the electronic signing process, please contact your advisor.**

# HR NEWS & ADVICE

## LEARNINGS FROM LOCKDOWN FOR EMPLOYERS

As we emerge from the August COVID-19 lockdown it is evident that many employers do not understand what payment obligations they have to their employees who are unable to attend work due to a Government-imposed lockdown.

When claiming the Wage Subsidy, the Government has indicated that “an employer should seek best efforts to pay employees at least 80% of their usual weekly earnings”. This however is not an automatic right for an employer to impose this reduction on their employees without their written consent.

This has been highlighted in case law, confirming that employers must have an agreement in writing to temporarily reduce wages prior to any reduction occurring. Without this agreement, employees should expect to receive 100% of normal wages, despite being in lockdown.

As the August lockdown may not be our last, employers need to be more proactive

**“Always treat your employees exactly as you want them to treat your best customers.”**

Stephen Covey

in having plans in place for future lockdowns that prevent the need to engage in consultation with their staff at the time.

Our recommendation is that business owners consult with their employees to establish a documented “lockdown policy”. This policy would include an agreement to a wage reduction strategy that will automatically apply in the event of future lockdowns, without the need for further consultation.

If you wish to discuss how this might apply to your business, please contact us.

## MYACC FOR BUSINESS

We encourage clients to register for the “MyACC for Business” service that allows you to view and manage your ACC affairs online.

To register for the service, go to <https://www.acc.co.nz/> and select “Online Services”. You will need to create an account, but once registered you can manage your ACC account online and:

1. Update your contact and business details (to get the correct invoice first time)
2. Download your invoices
3. Check what you owe and pay by credit card, online or direct debit
4. See your work-related employee claims and costs covered by ACC
5. See subsidies your business is eligible for
6. View your transaction history

For assistance with registering for this service, please contact our office.

## STAFF NEWS

### ... AND MEGAN MAKES 20

June 2021 brought up 20 years of service for staff member Megan Farac. This achievement was recognised with a presentation to Megan by the directors over a morning tea in Te Aroha.

Megan remembers her first day with Diprose Miller back in 2001. She shared an office with Gloria Mason and Tracey Erceg, with Gloria providing the training.

With no previous accounting experience (unless you count power meter connections and disconnections for the power company here in Te Aroha) Megan learned on the job. She enjoyed the change to working as part of a close team.

She’s laughing now about the fact that it took her three tries to land the job, after interviews with

Dean Sweeney and Keith Miller were unsuccessful. Kelly Diprose finally decided to give her a try, and we’d have to say it was one of his smarter recruitment choices!

She tells us that, even after 20 years, coming to work still gives her a bit of a thrill. What more can you say?



Darren Diprose presents Megan with her certificate and flowers

## HELPING OUT IN THE COMMUNITY

Back in June, staff member Nakita McNab baked cakes for her workmates to raise funds for the activities of the Te Aroha Springs Community Trust.

Her efforts raised \$91 for the Trust, which promotes a wide range of activities for both young and old in the Te Aroha community. Well done Nakita!

## YES, GRANT IS A BACHELOR !!

Staff member Grant Glover is excited about completing his Bachelor of Business Studies degree at Waikato University.

Majoring in accounting, Grant finished his final paper in June after working towards the qualification since 2016 while working full-time here at Diprose Miller.

He’s taking a short break before starting on his Chartered Accountant study programme through CAANZ, our professional governing body. This will see him “hitting the books” outside of work hours for a further couple of years.

To keep a clear mind for this process, Grant has just taken up playing golf. He’s also busy organising the construction of a new home in Morrinsville with his partner Paige.

SO IT’S A BIG “CONGRATULATIONS” FROM ALL OF HIS WORKMATES ON A JOB WELL DONE (SO FAR).



Grant takes a break from reading textbooks

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