

Chapmans Business Bulletin Spring 2018



Welcome to the Spring edition of our newsletter.

We say good bye to Meghna Gupta, and wish her well in her future endeavours.

HIRING YOUR FIRST EMPLOYEE

Hiring your first employee is a big decision, and it's a real milestone for any business. If managed well, it can mark a turning point for what your business can achieve.

First off, it's important to think ahead, and to plan for this new phase in the life of your business. Many business owners only start the hiring process when they are already overwhelmed with work. Ideally it is better to hire before you get to this point, so you can take your time and find the right person for the job.

Check in on your own health, time and abilities

- are you working long hours and feeling overstretched, or overstressed?
- consider the most productive use of your time, eg if you paid someone \$25/hour for an admin role, could your business earn more than that for an hour of your work?
- think about what role you would want to hire for. Are you looking for help with administration? Is there more demand for your product or service than you can manage? Do you want to offer different services that require skills you don't have?

Check in on the health of your business

- are you losing business because you don't have capacity for new clients/customers?
- could you make more money if you offered different services?
- where do you expect your business to be over the next year or so, based on your recent experience? Is your business likely to continue growing, or could this be a seasonal blip?
- can you afford to hire? The business needs to be able to provide tools for a new employee to do their job, and should be able to sustain at least 12 months of wages for an additional permanent person. Remember you may also have other financial obligations to a new hire, eg KiwiSaver contributions and holiday pay.

Experience is simply the name we give our mistakes—Oscar Wilde

Growing old is mandatory—growing wise is optional—Anon

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OUR NEWSLETTER FOR GROWING BUSINESSES



Handling your growing pains

Expanding your business can be exciting, but if you grow too fast – and without adequate planning – you could face major problems.

Besides the uncertainty of how long the growth period will last, it's common to lose focus on some of the factors that play a key role in the success of your business - your people, capital, forecasting and legislation that can affect your daily operations.

Avoid getting lost in the chaos of growth by looking out for 'blind spots', which are things you don't realise can go wrong due to a lack of knowledge or the classic 'she'll be right' mentality. A little time spent learning and preparing today means a better chance of success tomorrow - a good offence is the best form of defence, after all.

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My Food Bag shares growth tips and tricks

Cecilia and James Robinson founded My Food Bag in March 2013 with Masterchef winner and dietician Nadia Lim, her husband Carlos Bagrie and former Telecom chief executive Theresa Gattung.

With a concept based on delivering a week's worth of recipes and the ingredients needed to make them, it's no surprise that within three years the company reached \$100 million in annual revenue and had 30,000 customers across 14 cities in New Zealand and Australia.

We chatted to CFO Alex Boyo to learn a little more about the company's growth strategy.



How did My Food Bag manage rapid growth?

There's always a lot of risk that comes with rapid growth for any business. For us, a big part of risk management is simply about making good business decisions. The three most important things that guided our decision making were:

- i. Staying focused on and never compromising our deeply held customer values.
- ii. Doing less things and executing them incredibly well. When you're growing rapidly and are very successful at the same time, the temptation is always to do more and more at speed. This can be a real trap for businesses.
- iii. Empowering people and teams 'on the ground', closest to the risks to identify and address them. We found we were less successful when we initially tried to do this mostly top down, by senior managers.

Did you have a growth strategy, and if so, what did it consist of?

Yes, absolutely! We opened up a brand new food category in New Zealand by identifying and creatively solving one of the most common everyday problems all households have: what to cook for dinner? The strategy therefore had an amazingly powerful customer underpinning and was then developed around:

- Healthy, nutritious, tasty food using Nadia's 'nude food' concept
- Always offering customers the best possible value
- Inspiring and teaching adults (and kids!) to cook as a means to changing lives and building stronger, healthier Kiwi communities
- Hiring the best people to work for us and developing strong, mutually sustaining partnerships with our suppliers – our success has also been their success
- Using technology to make it incredibly easy for our customers to order very easily on a recurring basis
- Being ethical and sustainable was a key differentiator for My Food Bag.

What are your tips to overcome growing pains?

- i. Put your customers at the heart of every decision you make, no matter how small.
- ii. Hire talented people who really believe in what the business is doing - ultimately this is what will get you through the tough times.
- iii. Never let growing pains and their related challenges stop the business from dreaming big.





Financing business growth with provisional tax

There are several options available when it comes to accessing money to invest in your business.

However, did you know that provisional tax payments are also a source of finance?

Tax Finance, an option offered by an IRD-approved tax pooling provider such as Tax Management NZ (TMNZ), lets you free up working capital by deferring a provisional tax payment to a later date, without incurring IRD interest of 8.22 percent and late payment penalties.

The cost is cheaper than using your business overdraft or an unsecured loan. Approval is guaranteed, and no security is required.

Who might Tax Finance suit?

It will suit those who:

- Are looking for funding that doesn't affect other lines of credit or who want to keep headroom in their existing lending facilities.
- Don't wish to go through the rigmarole of the normal lending process.
- Want a fixed interest cost.

How does Tax Finance work?

1. You pay TMNZ an upfront finance fee, which is based on the amount of tax due and the future date you wish to pay, and TMNZ puts a date-stamped tax deposit aside for you in its tax pool account at IRD.
2. At the agreed upon future date, you pay TMNZ the tax owed.
3. TMNZ arranges for your date-stamped tax pool deposit to be transferred to your IRD account. IRD treats this as if the tax was paid on time once it processes the transfer, eliminating any interest and late payment penalties incurred.

Contact us for more information.

Grow with the (cash) flow

Steady cash flow is the fuel that powers your business, but when you're busy doing a million things at once it can easily slip to the bottom of the priority pile. Here are some tips to keep the cash flowing while you're growing:

- Invoice quickly - good debtor management is crucial, so send invoices quickly, ensure your payment terms are clearly outlined and offer discounts for prompt payment.
- Make it easy - whether you offer mobile, online, credit card or modern POS payment options, make it simple for customers to pay you.
- Take advantage of technology - ditch the paper and take advantage of cloud accounting.
- Be one step ahead - use cash flow forecasting to outline your expected income and costs.

If cash flow is king, forecasting is queen - and making informed estimates doesn't have to be confusing. Give us a call to chat through your objectives and we'll help you develop a valuable, detailed and easy to digest profit and cash flow plan so you can confidently stay on track as you grow.

How anti-money laundering legislation impacts you

If you've seen the film *The Wolf of Wall Street*, you'll be familiar with the concept of money laundering – an illegal process where 'dirty money' received from criminal activities is passed through legitimate businesses and made 'clean.'

In response to a growing number of laundering incidents in New Zealand, the government has made changes to the law, which now affect accountants and small businesses like yours. As of this month (October 2018), we're required to put new preventative measures in place to help tackle money laundering and financing of terrorism.

What does this mean for you?

We might need to ask you for more information about your business than what we have in the past, especially if it involves large cash transactions (\$10,000* or more in one transaction). You may also be asked for additional information about your identity.

If you're a real estate agent or your business involves sports and race betting or dealing in high value goods, take note - the anti-money laundering legislation will extend to you from next year. To find out what the changes mean for your business, give us a call.

* Refer Justice Department commentary

<https://www.justice.govt.nz/justice-sector-policy/key-initiatives/aml-cft/info-for-businesses/accountants-and-amlcft/>



Get up to speed - new rules for motor vehicles

Did you know the mileage rate we've been referring to for years is now the kilometre rate?

If you're a sole trader or in a partnership (and use your own vehicle for business), you can claim your running costs as an income tax deduction. Traditionally, if you own a company you're liable for FBT any time you provide non-cash benefits (like motor vehicles) to your staff. Recent amendments to the income tax legislation, however, now allow close companies to use the kilometre rate (where one or two motor vehicles are provided to shareholder employees for their own use) to calculate deductions for motor vehicles instead of paying FBT.

We'd love to talk you through these changes over coffee, but in the meantime, here's a summary.

You can now claim a deduction based on a kilometre rate method. This method uses set rates, which are divided into two tiers:

- First tier - recovery of both the vehicle's fixed costs and its per kilometre running costs, for the first 14,000 kms.
- Second tier - recovery of the vehicle's per kilometre running costs only, after 14,000 kms.

The following rates per kilometre will apply for the 2017/2018 income year:

Vehicle type	First 14,000 kms	After 14,000 kms
Petrol or diesel	76 cents	26 cents
Petrol hybrid	76 cents	18 cents
Electric	76 cents	9 cents

As an aside, note where employees are reimbursed for work travel using their own vehicle, a transitional rate of 76c / km is available for the 2018/2019 income year to calculate their tax-free reimbursement amount.

The legislation can be tricky, but with a little advice from an expert (like us!) you can rest assured you're paying the correct amount of tax and staying onside with the IRD.

KEY TAX DATES - OCTOBER 2018

Date	Category	Description
5 October	PAYE	Large employers returns and payment
8 October	FBT	Quarterly payment and return
23 October	RWT	RWT return and payment due for deductions from dividends and deductions of \$500 or more from interest paid during September
23 October	PAYE	Payment and return for September, small and large employers
23 October	N-RWT / Approved Issuer Levy	Payment and return for September
23 October	FBT	Quarterly payment and return
29 October	GST	Return and payment for September



Business Health Check

Visualise, plan and prepare for growth

When you consider every large corporation started out as a small business, the idea of growth is exciting! To avoid growing pains, however, the first step is to create a focused vision for your business. Here's how:

1. Define your company's values.
2. Know your goals and make them SMART (specific, measurable, attainable, relevant and time-bound).
3. Write a company mission statement that aligns with your values and goals.
4. Share your goals and mission statement with those who are going to implement it (your employees!) and get them on board.

When looking to expand, the visualisation and planning stage is sometimes half the battle, so don't be afraid to ask an expert for help - you can always call us for a chat!

Disclaimer: This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.

