



TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

Newsletter

AUTUMN 2019

Get end-of-year right

IF YOU want to write off a bad debt and claim your loss in the current year, you must do this before your business balance date.

Depending on your system of accounting, this could involve writing something like “debt written off by me on. . . Date signed. . .” across a copy of an invoice. If you have a more sophisticated system, you will need to make it clear the debt has been written off in time.

Logbooks

If you need to keep a vehicle logbook, remember you need to take a representative three-month period and keep a record of all the running for that time.

There is an alternative. You could record the business running only and note the total number of kilometres travelled for the period. By deduction, the difference would be personal.

You are not permitted to do it the other way round and count just the personal running, because any travel which is overlooked needs to be treated as personal by default.

If you forget to record a

business trip, you will pay for it yourself. It's better to try and account for all kilometres travelled every day to minimise the risk of overlooking a business trip.

Kilometre basis

If you're calculating your vehicle running expenses based on the number of kilometres you have travelled during the year, we will need you to supply that total. Don't forget to take an odometer reading at the end of the day on 31 March (or equivalent balance date). If you don't do this the maximum you can claim at the top km rate, currently 76c, is 3,500km whereas if you do keep the opening and closing odometer reading that rate can be used up to 14,000 kms.

If you trade in your vehicle during the year, you will need to keep an odometer reading at the time of sale of the old vehicle and at the time of purchase of the new vehicle.

You are permitted to switch from actual cost to kilometre rate or vice versa whenever you change your vehicle.

This can be done when we prepare your annual accounts, provided we do this within the time the Inland Revenue allows us. Normally, we are allowed until 31 March following balance date to get the tax returns to Inland Revenue for the year.

Stocktaking

Now is a good time to tidy up your trading stock. Get rid of anything which has no value. If you've got time before balance date, have a sale. Any stock remaining on your shelves at balance date has to be taken into account at cost unless you can prove market value is lower by comparison with other sales outside your business.

Maintenance

If you do maintenance before balance date, you have a tax-deductible cost. Leave until after balance date and your deduction will not be until next year.

Salaries and wages

Any holiday pay, paid out within 63 days of the end of the financial year, may be claimed as a creditor. You can put the amount down as money owing by you at balance date.

Use of Money Interest and provisional tax

Provided you pay provisional tax on what is called the standard basis (based on 5% increase over last year) there is no liability for Use of Money Interest for the first and second provisional tax instalments.

However, any short-paid tax, when the figure has been worked out based on your profit for the year, is subject to Use of Money Interest at 8.22% running from 7 May 2019 for 31 March balance dates.

Inland Revenue says you should have a reasonable idea of your taxable income for the year ending 31 March 2019 by 7 May 2019. Therefore, you could adjust your tax payment at 7 May.

If you think you might have underpaid your tax, we suggest you top up your 7 May payment to allow for this. If you overpay, you will get a refund and a tiny amount of interest.

TAX TIPS, TRAPS & TROUBLES

Turn rental loss into profit and save tax

As you will probably know, 31 March 2019 (or equivalent balance date) is the last year you will be able to offset losses on rental properties against other income.

Could you rearrange your finances so your rental property no longer makes a loss and the interest on borrowed money is absorbed elsewhere?

If you have an ordinary company (not an LTC), you might be able to borrow money for your company and use it to reduce the debt on your rental property.

Some clients have built up a substantial credit in their company. This often arises because they have used some of their own money to get into business. It can also come about if salaries attributed to them are more than they are taking out as drawings.

The company balance sheet shows how much the company owes to the shareholders. You



are entitled to refinance this amount by borrowing (from the bank for example) so the company can repay its debt to you. You can then use this money to reduce the debt on the rental property. Your company now pays more interest but your rental property pays less and you don't finish up with an unusable loss.

Just in case there is a reason, in your case, why you should not do this, please check with us first. You should also think about completing any needed repairs and maintenance before 31 March as opposed to afterwards.

'AMAZON' TAX PROPOSED

As you probably know, Inland Revenue does not attempt to collect GST on low-cost imports (costing \$1000 or less), because it's uneconomical to do so.

This has meant Amazon, and other overseas suppliers, have had an unfair advantage over local retailers who have to charge GST. Following Australia, Inland Revenue is now proposing to get the overseas supplier to register for GST and collect the tax, just as a New Zealand business would. New Zealand is proposing to make this change from 1 October 2019.

Get in quick to get your invoices paid

Cash flow is often a problem for small businesses. They could do a lot to improve it. Here are some suggestions about collecting bills:

- 1 Send your invoices as soon as you can. Never wait until the end of the month.
- 2 If it's a large bill, see if you can get progress payments (include this in your quote).
- 3 Email your invoices. A tradesman did a job worth \$15,000. He emailed the bill at 9.34pm and the bill was paid within seven minutes.

- 4 No law says a person must pay their bill on the 20th of the month following receipt of invoice. It was just a handy convention from many years ago. You can make your terms what you like. Why not make them as short as possible, like "please pay this account within one week of receipt".

Payday filing starts 1 April

Are you ready to implement the new rules about when you are required to file your PAYE figures?

If the combined PAYE and ESCT deductions exceed \$50,000 per year, you have two working days in which to send the information, electronically, to the Inland Revenue Department, using an IRD approved software package which automatically derives the figures the department wants.

If the combined deductions amount to less than \$50,000 per year, you may continue with paper filing, but you have 10 working days after payday to get the figures to Inland Revenue.

Alternatively, you can file returns by the 15th of the month and the end of the month, being twice a month.

It may be useful to note you can still file the figures by just filling in a form on the Inland Revenue website.

If you are a very small business, are you going to be able to handle PAYE returns, while you take a holiday, bearing in mind returns have now got to be put in at least twice a month? You will need to work out a solution to this if you are the person who prepares the wages.

Plan for Capital Gains Tax

If Capital Gains Tax is introduced (and there is now some debate about this), all assets affected by the tax will have to be valued at the time the new tax starts.

A rental property will be worth more if it has recently been renovated, repainted etc. Other people are going to cotton on to this idea, so expect some difficulty getting tradesmen as the deadline for getting a valuation approaches. You will minimise capital gains tax by maximising the value of your assets at the start of the regime.

You will probably get a better result by using a professional valuer than relying on government valuation.

Expect a stampede to get

valuers. They are likely to be overworked. Too much work equals increase in fees. You could get in early and get the valuer to complete his/her job early. It might be a simple matter to update the figures later, without the need for a second site visit.

Capital Gains Tax, if it comes in, is likely to be as wide-ranging as possible and include your business, your boat, your bach and so on. You may need to value hobby assets such stamp collections, art etc.

Above all, documentation is going to be extremely important. Inland Revenue would have the right to ask you how you arrived at the value at the start of CGT and require you to prove it.

Ensure donations above board

If you donate large sums to charity, you should check to ensure the entity is still approved by Inland Revenue. To find out, see: <https://www.ird.govt.nz/donee-organisations/donee-complete-list.html>

You can pay donations through your company, but there must be a profit at the end of the year after deducting the donations. Losses resulting from donations paid are not tax deductible.

You can claim school donations, so long as they are not designated for a specific activity such as for your child to go on a school trip.

If your child goes to a state integrated school, you may be asked to make donations to various funds such as a building donations fund. These payments would be OK for claiming the rebate. The important issue is that the child cannot be banned from the school if the parent fails to pay the donation. This is a requirement for a school to be integrated.

For non-integrated schools, the general principle is that any donations made must be voluntary. If it is really in the nature of a fee for attending the school, the rebate is not claimable.

The *New Zealand Herald* reported recently "the vast majority of parents are not claiming the tax rebate for donations even though they are entitled to it".

Part of the reason would appear to be many parents are on salaries and don't have to put in a tax return. They are overlooking their entitlement to the donations rebate.

Charge-out calculator now off site

In our last newsletter, we referred to a calculator for working out a business charge-out rate. This calculator has now been removed from the business.govt.nz website.

BRIEFLY

Don't become a dependent business

A dependent business is one which relies on one or a few other businesses to remain viable. Trade cycles are such that buoyant times are followed by high unemployment, business failure and a reduction in demand for goods and services. It is at these times dependent businesses can go to the wall. As a rough guide, make sure no more than 20% of your income is dependent on one source.

Savings accounts

In the good old days, depending upon your point of view, when interest rates were a lot higher, it paid to transfer money out of a business current account into a savings account. These days, savings accounts offer such abysmal interest, one has to wonder whether keeping them open is worth the hassle. They involve extra accounting and may now be uneconomical to run. It might be time to close them.

The quick snail mail

A telco customer was overcharged. Fearing a long wait on the telephone for a company with a poor reputation for customer service, he sent them a letter because he couldn't find their email address! Some time later he received a call to resolve the problem. It all ended happily ever after and the total investment in time was only a few minutes. Snail mail could be a quick option when dealing with large organisations who don't care about how much time you have to wait on the line for them and won't give you an email address.

Can the spam with a new email address

Whenever you sign up to a subscription service or buy something online, it's likely you'll be put on a mailing list – whether you like it or not.

Sometimes, your email address will be given to third parties, such as advertisers and marketing agencies. After a while, you'll be getting invitations, "special" offers and plenty of ways to enhance your life or your body.

If you want to ensure you don't receive any more (it won't stop what you already have), one effective way is to create an email account secondary to your main account.

Your main email address will be the one you use for work or to communicate with friends and family. Set up another email address and use it for web activities such as online



shopping, booking a hotel or subscribing to a news site.

The second email address won't stop spam from arriving, but those unwanted messages will appear in your secondary email account, rather than your primary one. After a while, you'll probably ignore it completely.

The beauty of this is it will keep your main inbox free from clutter.

Email providers such as Gmail, Yahoo and Outlook can be used to set up a decoy account for free, following the same process you used to establish your original account.

Think hard about passwords

Did you notice a recent newspaper report about a laptop which was unprotected by a password.

It contained a whole lot of information about people on legal aid.

Are your computers satisfactorily password protected? Similarly, if someone got hold of your computer, could they easily access your bank account? If you have memorised usernames and passwords, are bank accounts still adequately protected?

Passwords have become a pain and it is very tempting to use the same one for everything. This, obviously, is unwise. Similarly, it is unwise to choose passwords which can be easily detected by someone who happens to know your birth date or something of this kind.

You might like to think about choosing some system for passwords. It requires some ingenuity. Start by thinking of something which is of significance to you. If you were keen on rugby you might like to choose the first names of All Blacks.

Another thing, if you want a pin number and want to choose a date, such as 1987, it is a reasonable assumption, for those trying to get your pin number, that dates will start with 1 (or more recently 2). This means someone trying to get your pin number has only 999 options to try instead of 9999. Try reversing the number – 7891.

If access to your password or pin number would be a serious matter, be more choosy about your selection. Sometimes, the passwords and pin numbers are only for the benefit of the business selling to you. It wouldn't really matter if someone else got your password. If this is the case, you can use more readily remembered passwords or pin numbers for these organisations.



TAX CALENDAR

April 8 2019

Terminal tax for 2018
(March April, May and June balance dates)

For all clients except those who have lost their extension of time privilege

7 May 2019

3rd instalment of 2019
Provisional Tax
(March balance date)
GST for March 2019

28 May 2019

1st Instalment 2020
Provisional Tax
(December balance date)

31 May 2019

Deadline for Fringe
Benefits Tax returns

Retentions in trust accounts

If you have a significant amount of money owing to you in the form of retentions by a contracting entity, it would pay to get written confirmation the money has been set aside in a trust account.

You may have noticed a report in the newspaper about Ebert Construction Limited where there was a bookkeeping error and some of the retention money had not been set aside.

As a consequence, the subcontractors were not able to be paid, due to the way the law has been worded.

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