



## **MARCH 2018 NEWSLETTER**

The 31<sup>st</sup> of March completes another financial year for most of our clients & we accordingly enclose for your completion, our annual Client questionnaire. This is a requirement of the Institute of Chartered Accountants & is also helpful to ensure that we correctly calculate your taxation position. If there have been any changes to your business or personal circumstances please note these on the questionnaire so that our records can be updated.

The “team” are ready for the onslaught of the next few months & we pride ourselves on timely completion of Financial Accounts. We expect to turnaround your work inside eight weeks to provide you with timely reporting & plenty of planning time for those tax payments, provided we get all relevant information particularly in relation to:-

- Mortgages & HP agreements
- Asset purchases & sales
- GST worksheets & adjustment reports

We ask that when we have forwarded completed accounts to you, & you are happy the information is correct, that you return the signed tax returns to us as soon as possible. Every year we spend considerable time “chasing” clients for these. We cannot file your tax returns until you authorise this; which delays any tax refunds due & finalising our reporting to you.

On a lighter note, what all accountants have always known has recently been confirmed in a survey of women, conducted by the UK's leading dating site – accounting has been voted the sexiest profession.

### **YEAR-END TASKS**

**BAD DEBT** write offs, must physically be written off your debtors ledger prior to year-end.

Therefore, to be able to reduce your debtors at year end, by claiming some as “bad debts”, you need to:

- Write off the debt from the debtors' ledger, recording the date this was done

- Have made reasonable efforts to collect the debt, e.g. diarised phone calls & copies of letters sent
- Have reasonable grounds for believing that you won't be paid, e.g. debtor out of business.

**STOCK ON HAND** needs to be valued (at cost & GST exclusive if you are GST registered). An estimate is acceptable if you consider the value to be less than \$10,000 & your turnover is under \$1.3 million. Any obsolete or deteriorated stock can be written down below cost if it is considered that proceeds from sale will be less.

**WAGE** payments to your children who actually assist in your business can be made & claimed as a deduction. Wages must actually be paid & represent fair value; you are also required to deduct PAYE from their wages; as such the child will need to complete an IR330 declaration - we will not be able to account for payments made to children during the year, unless they are included in monthly payroll returns.

If we undertake your payroll function & your kids actually help in your business, you will need to let us know so we can ensure proper documentation is maintained.

**STAFF ENTITLEMENTS** such as holiday pay, service leave, or bonuses due & owing at year end, can be claimed as an expense, provided any such accrued expense is paid to the employee within 63 days of Balance Date. Depending on the timing of you forwarding your records, if you are aware of any staff leave to be taken before 2 June, or have paid staff holiday pay within this period, provide us with details.

**ASSET LEDGER** should be reviewed to check whether any assets have been scrapped during the year. Further, a tax deduction is also permitted for any assets that are no longer used in the business, if the disposal costs exceed the tax book value.

## INTEREST DEDUCTIBILITY

To be able to claim a deduction for interest paid on bank overdrafts, loans & mortgages, the borrowings must be directly in relation to your business.

A fairly common scenario that we come across is the case where a taxpayer purchases & shifts into a new family home & decides to retain the former home as a rental; it is usual that this requires additional borrowing. Even though there may be equity in the former home, the purpose of any new borrowing is to acquire the new family home & as such interest on any new borrowing will not be deductible against the rental income – you will be limited to claiming interest on the balance of the existing finance, as this borrowing is now for the purpose of having a rental property.

We may be able to suggest ways of restructuring your affairs that will allow interest on any new borrowing to be deductible, so it is important that you talk to us BEFORE you undertake any sort of re-finance; it is always easier to consider a restructure before the event!

## RENTAL PROPERTY REPAIRS

We are often asked why expenditure incurred in “repairs” on rental property are not always claimable.

Essentially to be able to claim an expense, it must be directly incurred in connection to deriving rental income & it must also be incurred to bring the property back up to the standard when you purchased it.

The tax legislation & IRD interpretation statements are extensive & we cannot briefly summarise them all, however, it is important to consider the timing of maintenance.

You purchase a property for rental & immediately spend money on getting it ready to attract a tenant – such expenditure will not be deductible as it is improving the property & was incurred before any rental was derived, so meets neither of the tests above.

You have owned & rented a property for years but now decided to cash up & get out. You give the tenants notice & after they move out you undertake repairs for damage they have caused as well as a general “titivation” to make it more appealing to a prospective purchaser. None of the expenditure you incur will be deductible, even though you can clearly demonstrate that there is no element of improvement; the expenditure claim fails as you are no longer deriving rent.

We are here to help & provide expert advice. When considering any major expense, we recommend that you talk to us first.

## TAX MATTERS

### INCOME TAX RATES

Personal tax rates remain unchanged:

Income to \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30%
\$70,001 & over	33%

Trustee & corporate tax rates also remain unchanged at 33% & 28% respectively.

### BRIGHT-LINE TEST

The Bill extending the bright line test has just passed its third reading & will undoubtedly become law. This will have the effect of requiring tax to be paid on any gains made from a residential property sale when it has been owned for less than 5 years. This test does not apply to a property that is your primary residence.

There are some fairly complex rules around the date a property is deemed to be acquired or sold, so it will become even more important to ensure that you do not fall foul of these rules.

### STUDENT LOAN THRESHOLD

Repayments will be required if annual income exceeds \$19,448 (\$374 gross p.w.)

### ACC

Maximum liable earnings for the ACC Earner levy will increase from \$124,053 to \$126,286; any income over this will not be subject to ACC.

*A businessman was confused about a bill he had received, so he asked his secretary for some mathematical help.*

*“If I were to give you \$20,000, minus 14%, how much would you take off?” he asked her.*

*The secretary replied, “Everything but my earrings.”*

### FAMILY TAX CREDIT

Changes have been made to assist low & middle income earners with dependent children, by:

- Increasing the family tax credit by between \$575 to \$1,400 per year
- Increasing the working for families tax credit abatement threshold from \$36,350 to \$42,700
- Increasing the working for families abatement rate from 22.5% to 25%
- Reinstating the independent earner tax credit of \$520 to those with incomes between \$24,000 & \$48,000
- Introducing a \$60 per week child best start tax credit for families with children under 3, if born after 1 July 2018

## **COMPANY SHAREHOLDING CHANGES**

Have a number of flow-on tax effects & it is important that you discuss any proposal to re-arrange shareholding with us BEFORE you proceed, as the consequences can be significant, these include:

- Prior period losses may be lost.
- Imputation credits can be forfeited
- Tax liability crystallised for Look Through Companies.

## **TRAVEL BETWEEN HOME & WORK**

Generally this cost is not tax deductible. Doing "some work" from home is not considered enough to make this travel deductible. To be able to claim this cost, the home has to be

a significant place of work so as to constitute a second work place. Some of the factors making it significant include:

- A large percentage of the time is spent working at home
- Files are kept at home
- There are good business reasons to work from home
- The work done from home produces significant income to the business
- The work at home is integral to the business

Not all these factors need to be present & each case would need to be considered on its own merits.

## **PIE/PIR RATE**

Ensure that your investments in a Portfolio Investor Entity are being taxed at the correct rate, which is based on the lower rate applicable over the last two tax years. If in any doubt, contact your Investment Advisor or let us have a look.

*If you think the problem is bad now, just wait until we've solved it.*

## **EMPLOYMENT MATTERS**

### **MINIMUM WAGE**

The minimum adult wage increases from \$15.75 to \$16.50 per hour from 1 April 2018.

### **PUBLIC HOLIDAYS**

We get many calls from employers as to how to calculate employee earnings, highlighting the confusion over Public Holidays & who is entitled to what:

- Only employees who work on a Public Holiday are entitled to be paid time & a half for the hours worked & they will also qualify for an alternative day paid at ordinary rates if the Public Holiday is a day of the week that they would normally work.
- The alternative holiday does not apply if the Public Holiday is a day of the week that the employee would not normally work; those employees are entitled to be paid time & a half if they work on that Public Holiday.

- Employees who normally work on weekends but do not work on these when they are Public Holidays are entitled to be paid for the days at normal rates but do not qualify for an alternative holiday.
- Employees who do not normally work on weekends & do not work on these when they are Public Holidays will have these days off unpaid & no alternative holiday.

Please ring us if you need further clarification or assistance with the pay calculations.

*When does a person decide to become an accountant? When he realises he doesn't have the charisma to succeed as an undertaker.*

## **EMPLOYEE OR CONTRACTOR**

To be able to categorise someone working for you as a contractor rather than an employee & therefore not entitled to the benefits of an employee, you need more than a written contract for service as against one of service.

IRD set out 5 tests to determine the nature of the arrangement (none of them definitive):

- Do you control the "employee"?
- What is the intention of the parties?
- Is the contractor truly independent?
- Is the type of work being done similar to that performed by other employees?
- Does the contractor look like he is in an independent business?

Factors that will be taken into account in assessing the arrangement may include, whether the contractor works for other people; whether he advertises his services; whether he controls the hours & times he works.

## **COMPUTER SOFTWARE**

We are fully conversant with programs such as Banklink, Xero & MYOB. We can assist with advice, implementation & training. In many cases the cost of this software & associated implementation costs will be more than recouped within two years, as a result of reduced "end of year" accounting fees. It is important though that the most appropriate software is selected, you fully understand the system & correctly collate & analyse the data.



"He's right, when you look at it that way,  
it's not so bad!"

## INSURANCE

### AUDIT SHIELD

Many of you have received a renewal offer from us to take out audit shield insurance. We have submitted a number of claims over the last year; all were settled in full & promptly, as such, none of our time spent on the audit was charged to the client. If you haven't yet taken it up, wondering whether it represents "value for money", even a simple enquiry from IRD requesting documentary proof of say a GST claim can take an hour by the time information is located, forwarded to IRD, queries resolved & confirmation received that the return is accepted. Because our time is covered by insurance, we can potentially devote a lot more time arguing & disputing IRD interpretations.

### ACC / INCOME PROTECTION

Always check your ACC bills. You can be overcharged because:

- Incorrect ACC classification
- Your total income takes you over the maximum leviable earnings
- Treated as full-time when in fact the business is part-time only
- ACC has been supplied with, or picked up, the wrong income figure

If you are in business you will be levied ACC on your net profit/shareholder salary, the higher your income the higher the ACC charge. In many cases we believe this method of insuring to be inappropriate, because:

- In the case of a claim you may need to prove actual loss of income
- There is no cover in the event of sickness.

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*A meeting is an event at which the minutes are kept and the hours are lost.*

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A better alternative may be to opt for ACC cover plus extra at an agreed level of cover & supplement with key person cover which will provide cover for both accident & sickness with no offsets.

We have restructured a number of our clients' insurances so as to provide for better cover at cost effective premiums. We will consider your ACC position as part of our compilation process, however if you wish to discuss your options beforehand, please contact us.



### FINALLY

Lynette resigned a couple of months ago & Jess has taken maternity leave in anticipation of the birth of twins in June.

We have recruited Faye Greer to replace Lynette. Faye is a Nelsonian, recently returned after years in Christchurch & Wellington. She has worked in Accountancy Practices before

& comes with glowing recommendations from former employers.

Also due to start in April, is Teresa Mattioli; again she has extensive experience from working in Public Practice & IRD & will be a valuable addition to the accounting team.

We have revamped the Office (after all we have been here 2 years & we all know that females insist on change!). That said, the changes do make sense & we have successfully leased out the bit we're no longer using – so goodbye pool table.

Our business continues to grow & we say a big thankyou to those of you who have referred new clients & to the many new clients who have put their faith in us & we look forward to working with you in the future.

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