Newsletter - March 2011

BEAN COUNTERS

March is just about over, and for many this will mark the end of another financial year. If you would like assistance with your year end procedures, please contact me now to make an appointment for April as time slots are filling rapidly. We recommend running year end as soon as you have done all your reconciliations and finalised all your creditors. This allows you to give your information to your accountant as early as possible, and hopefully will enable them to provide end of year accounts before they receive data from all their other clients. Ask them how promptly they are able to complete your accounts, as it is much easier to provide answers to their queries while it is all recent history, and it is important in a tough economy to be on top of your accounts information.

If you thought all the GST changes from last year were more than enough to cope with, the government has introduced a number of changes to the way GST operates in certain situations.It is worth checking the changes in case it affects you (page 2).

Working for Families loopholes closing

Loopholes have been closed which allowed families to access the Working for Families (WFF) rebate when they had a reasonably good family income.
When calculating income for WFF purposes, the following sources of income may have to be included (there are some rare exceptions):

- Family trust income
- Fringe benefits
- Deposits into an Income Equalisation Account (for farmers)
- Half of pension or annuity scheme income
- Passive income of dependent minors, like rent and royalties and money attributed in a PIE, unless it is locked up until retirement as well as any distributions from a PIE, but excluding any payments to minors from a family trust totalling less than $1000
- Non-residents' foreign-sourced income of the person's spouse, civil union partner, or de facto partner
- Income replacement payments

It includes the value of payments:
(a) paid or provided to the person from any source; and
(b) used by the person to
(i) replace lost or diminished income of the person or the person's family
(ii) meet usual living expenses of the person or the person's family.
There are exceptions to this, one is student loans. If the amount paid to the two partners is no more than $5000 in total this source of income can be ignored.

How does it affect you?
You must tell the IRD if you are getting money or income from these sources. Therefore you need to give your accountant this information when they prepare your annual tax return.

Keep a record of efforts to recover bad debts

Record your attempts to collect bad debts. Refer to your notes when talking to bad payers so you can remind them of what they said previously.

Your notes will also be useful if you have to write off the bad debt and you are later required by Inland Revenue to justify your write-off. Sage allows recording of this information within the Memo or Communications sections of a record.

If you have made a charge which should never have been invoiced, this is not a bad debt. If you have to issue a credit note after balance date and the invoice was issued before your balance date, you should remind your accountant, when preparing your annual accounts, to reduce your sales figure by the amount of the credit note issued.

Important
If you have bad debts, you must write them off before your balance date (for most people 31 March).

Writing off can mean different things to different people. If your records are very simple, it might be enough to write across your copy of the invoice "written off on (date)".

Before you are allowed to write off a debt, you must have taken all practical steps to recover your money.

Writing off a debt does not stop you from continuing efforts to get paid. If you get some of your money, it is taxable income.

New GST rules from April

From April 1, special GST rules have been created when a sale involves land. The buyer has to declare, in writing, whether the property is going to be used for a GST activity, such as commercial rent. If it is and the buyer is GST registered, then the whole transaction is zero rated (no GST involved) just as though it were a business sold as a going concern.

Cars and other assets

For companies, cars will be treated as fringe benefits in the usual way. The rules for sole traders and partnerships are now much more logical.

If you buy a car and intend to use it say 30% for private running, then you claim only 70% of the GST. Full marks to IRD for getting this right. However, if you underestimate your private running by 10 percentage points or more, *or* when you recalculate the GST claim, the difference exceeds $1000, you have to make an adjustment.

Percentage points are the difference between two percentages. If you start with 70% and move down to 61%, you have moved 9 percentage points.

Suppose you bought a car for $46,000. The GST content is 3/23 of $46,000, or $6000. You claim 70% ($4200). If your business use goes down to 61%, no adjustment is required because the movement is less than 10 percentage points.

But you must also see if the effect is more than $1000. Sixty-one percent of $6000 is $3660. You claimed $4200. The difference is only $540 so no adjustment is needed.

Inland Revenue does not have a reputation for great generosity. When you sell the car, there is a wash-up. Assume your actual business running averages 61%. You will repay most, but not all, of the $540 at that time. Why not all? Well, let's just say there's a complicated formula which is not easy to explain. If you ask when we see you next, we'll tell you the details.

When you exceed the 10 percentage points or the $1000, we also have to apply the formula. It involves going back each year to the beginning and redoing the calculation. That takes time and adds to costs.

One of the nice things about these new rules is that you don't have to go on year after year making private use adjustments, because it all comes out in the wash-up.

IRD has decided you can claim all the GST if the asset costs $5000 or less. You make just two adjustments, if needed, up to $10,000, five adjustments from there to $500,000 and 10 adjustments if the cost is more than $500,000.

How does it affect you?

Be accurate with your private use estimate. If you think it is going to go up over time, aim a little low with your GST claim. In the above example, a 60% adjustment would have been a better choice. Remember, it will all come out right in the wash-up when you sell.

Other changes

Income from farmstays and homestays is subject to GST from 1 April 2011. If your business does not generate $60,000 revenue, you will still not need to register.

Property developers, who generate domestic rental income while their project progresses, have a new and easier formula for working out their GST adjustment.

Focus on your primary business

A CHINESE proverb says “Do not have each foot on a different boat!”

From time to time, we have clients who want to run two (or more, sometimes) businesses at the same time. It rarely works well.

Why? It's hard enough to promote just one business. If you do this properly, it is hard to find enough time in the week for a second one. In addition, especially if funds are tight, there is a lot of administration work involved in transferring funds between each entity, and then reconciling the transfers each month.

Sage has departmental reporting, and project costing, both of which can be used to isolate the performance of profit centres as required. It is only if you absolutely need separate legal entities (for instance, if a part of the business is being prepared for sale) that you should use separate companies.

Sponsorship and tax

You are keen on sport. The club you belong to asks you for money as sponsorship. Is this payment tax deductible?

If you claim a tax deduction for sponsorship it must be a real business expense. Your payment must provide a reasonable amount of profiling for your business. It is asking for trouble to make a payment to your favourite club and put it down as sponsorship when the value provided by the club bears no relationship to the amount paid. Any arrangement needs to be in writing.

Sponsorship can be a handy alternative to making a donation. If a company makes a loss as a consequence of donations, that loss is not tax deductible. However, sponsorship does not affect the tax deductibility of a loss.

Disputes Tribunal a useful tool for debt recovery

If you have a disputed debt of $15,000 or less, a convenient way of getting the issue resolved is to use the Disputes Tribunal.

Both parties conduct their own case (lawyers are not permitted to speak on your behalf). If you have to use the Disputes Tribunal, here are some points which might help you:

Go to to the Ministry of Justice website:
www.justice.govt.nz/tribunals/disputes
for some useful advice on conducting your case.

If your claim exceeds $15,000, you can still use the tribunal, but you have to accept you will not get more than $15,000.

You can search the tribunal decisions on the website above. If you type in key words, cases will come up on your computer. This means you can compare your case with others previously decided.

April 7 2011

Terminal Tax for 2010
(March, April, May and June Balance dates)

May 7 2011

3rd Instalment 2011
Provisional Tax
(March balance date)
GST for March 2011

May 28 2011
1st Instalment 2011
Provisional Tax
(December balance date)
GST for April 2011

Horrible old man laid to rest aged 125

Gift Duty lingers on painfully until 1 October 2011.
The duty was born in 1885 and in October it will be officially dead.
Its demise means:

- No more annual gifting.
- You can gift as much as you like whenever you like to whoever you like (or don't like if you prefer it).
- No more carefully worded agreements for loans between family members for fear that not charging interest will be considered a gift. For example, if you lend your children money to buy a house you will no longer need a formal agreement with them, although a mortgage document might be prudent.

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Best regards,
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