

March 2011

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Your essential 2011 tax planning guide

31 March is the equivalent of New Year's Eve for accountants (minus the champagne and pre-requisite hangover). For most clients, 1 April signals the start of the New Year for business and tax purposes and the month of March brings opportunities to minimise tax and maximise cash surpluses for the coming year.

Year end tax planning checklist

1. Consider pre-paying certain expenses

Some expenses can be prepaid in March and claimed as a tax deduction in the year to 31 March 2011, regardless of their amount. These include stationery, postage and courier charges, vehicle registration and road user charges, rates, subscriptions for papers or journals.

Other expenses have limits on the extent to which they can be claimed if prepaid. These include rent, consumables, insurance premiums, professional or trade subscriptions, travel and accommodation, advertising, periodic charges and other services. The rules surrounding prepayments are quite complex, so if you're planning this type of expenditure, please contact us.

2. Trading stock

Trading stock (excluding livestock) must be valued at the lower of cost or realisable value. General adjustments for obsolete stock are not acceptable to Inland Revenue. It's important therefore to perform a physical stock take at year end and actually dispose of any obsolete lines or alternatively write that stock down to its net realisable value.

Clients with an annual turnover of less than \$1.3m can value their closing stock at the opening stock value, but only where closing stock can be reliably estimated to be less than \$10,000.

3. Loss offsets and subvention payments

2010 loss offset or subvention elections must be filed with IRD on or before 31 March 2011. Subvention payments relating to the 2010 income year must be paid by 31 March this year. The IRD recently changed its practice of requiring an actual physical payment, and now accepts that a subvention payment can also be made by book entries so long as the payment obligation is discharged.



4. Write off any bad debts

To claim a deduction for a bad debt you need to physically write the debt off in your debtors' ledger prior to the end of your financial year. For most clients that's 31 March 2011. There should also be evidence that you have taken reasonable steps to recover the debt prior to writing it off.

5. Employee expenses

Any amounts owing to employees at year end (such as holiday pay, bonuses, long service leave, redundancy payments) can be claimed for tax purposes in the current year as long as they are paid within 63 days of balance date.

6. Review last year's fixed asset register

The book value of assets can be written off for tax purposes if the asset is no longer in use by the business, the business has no intention of using that asset in the future and the cost of disposing that asset is expected to be greater than the proceeds from its sale. Actually, it's simpler than that. Scan your asset schedule from last year's accounts and you'll probably notice assets that no longer exist (the mobile phone that you dropped in the tide at Christmas time), or simply don't work.

Year end tax planning checklist (cont.)

7. Retentions

Retention on building contracts are generally taxable in the year the contractor becomes legally entitled to receive them. This can result in significant deferral of income.



8. Discount reserves

A deduction for a discount reserve, to cover for example prompt payment discounts, is allowable where debtors are entitled to such a discount. In the first year a deduction of the actual discount percentage is allowed and in subsequent years a calculation is made to maintain the discount reserve at that percentage level. If the credit period offered to customers exceeds 93 days, different rules apply.

9. Repairs and maintenance

General adjustments for repairs and maintenance reserves are not allowed as a tax deduction. Instead it may be worthwhile to undertake any necessary repairs and maintenance on key assets prior to the end of the financial year to ensure a full deduction. Deciding whether expenditure on an asset is deductible as repairs or maintenance or should be capitalised is not always cut and dried, so please contact us if you aren't sure.

10. Imputation credits and dividends

Companies that have imputation credits for tax paid at 30% have until 31 March 2013 to distribute dividends with those imputation credits attached up to the previous maximum of 30:70. But tax paid at 28% for the 2011-12 income year and onwards can only be attached at the new rate of 28:72.

In addition, imputation credit account balances must not be overdrawn as at 31 March each year. If so, they attract penalties.

We realise the subject for imputation credits is complex for many of our clients. Rest assured we will contact you regarding any necessary dividend and taxation planning before 31 March.

11. Income

Be sure to review any credit notes issued to customers following balance date that can be applied to the previous year, i.e. 31 March 2011. In doing so, you will be entitled to effectively reduce your current year's taxable income.

The best measure of a man's honesty isn't his income tax return. It's the zero adjust on his bathroom scale.

Arthur C. Clarke

Some tips on minimising income tax

Entertainment expenses: As a general rule, if you provide entertainment for your team or clients, some of your business entertainment expenses are tax deductible.

The following tables help indicate which expenses are 100% deductible and which are only 50% deductible. For unusual entertainment items, contact our team for advice.

Entertainment Expenses Table : 50% DEDUCTIBLE	50% deductible	100% deductible
Friday night drinks for team members or clients in the office.	✓	
Friday night drinks for team members or clients in the pub.	✓	
Hire of a launch to entertain clients.	✓	
Restaurants providing food and drinks to team members at a social function in their restaurant.	✓	
Sponsoring local sports teams and receiving tickets to their corporate box in return. 50% of the value of the tickets would be deducted from the total sponsorship.	✓	
Sponsoring a sports team by providing a meal for the team at their grounds after each game.	✓	
Staff Christmas party on or off the business premises.	✓	
Taking a client out to dinner while you are out of town on business in New Zealand.	✓	
Taking a client out to dinner.	✓	

Entertainment Expenses Table : 100% DEDUCTIBLE	50% deductible	100% deductible
Dinner for Sales Rep while out of town selling and no client present.		✓
Donating food to a Christmas party in a children's hospital.		✓
Employee's salary package includes a taxable allowance for entertaining clients.		✓
Golf club subscription for business owner paid by the Company.		✓
Gym membership for team member paid by employer.		✓
Providing a meal for a journalist while reviewing your business for their column.		✓
Providing morning and afternoon tea for your team.		✓
Sandwiches provided at a lunchtime meeting of supervisors.		✓
Sponsoring a local sports team.		✓
Taking a client out to dinner while you are out of town on business outside New Zealand.		✓

Home office expenses

Where a self-employed taxpayer uses his or her home partly to further the conduct of a business, he or she is entitled to a partial deduction for the outgoings which relate to the use of the home for the work related activities.

These include:

- Heating
- Lighting
- Rates
- Insurance
- Mortgage interest
- House and contents insurance
- Repairs and maintenance
- Telephone rental
- Depreciation



The portion of outgoings deductible is based on the area used for the business, expressed as a percentage of the total area of the home. It is not absolutely necessary to set aside a specific room for business purposes, nor is it necessary for your home to be physically changed to suit the business.

However in cases where a separate room is not set aside, it may be appropriate to apportion the outgoings based on criteria such as the amount of time spent on income-earning activities at home as well as the area used.

Examples of areas likely to be used for business purposes include:

- An office or office area
- A storeroom or storage area
- A workshop
- A garage or part of a garage which is used to house a business vehicle

Our advice? Do the maths and think laterally. Most people who are self employed find that it is impossible to completely separate business from home life.

Paying wages to spouses and children

If you are a sole trader, no deduction is permitted for wages paid to a spouse, unless the Inland Revenue Department consents in writing to that deduction. There are no special rules for payments to spouses if you are trading as a partnership, trust or company.

Where your children work for you or your business, we suggest you draw cheques for work done and regularly pay them into their bank account during the year.

IRD can make adjustments to such wages if payments are considered to be excessive.

Risk and Reward

Employment law changes 1 April 2011

Changes to both the Holidays Act and the Employment Relations Act will come into force on 1 April 2011. These changes are intended to reduce compliance costs, increase business confidence in recruiting new staff as well as speed up the resolution of workplace disputes. The main changes include:

- Employees will be able to cash in one week of their four weeks' leave
- Employees who have irregular working hours and pay will now have their holiday, sick and bereavement leave calculated on an average daily pay basis
- Employers and employees will be able to agree to transfer taking a public holiday to another working day
- The minimum wage will increase from \$12.75 to \$13.00 from 1 April, while the training and new entrants' minimum wage will rise from \$10.20 to \$10.40, effective as of the same date



- The 90-day trial period is being extended to all employers (currently limited to those with less than 20 employees). From 1 April employers and employees can enter into an employment agreement which provides for a trial period of 90 days or less. During the trial period the employer can dismiss the employee without risking a personal grievance
- Employers will have to keep detailed personal files for each employee. These files must contain signed copies of employment agreements, other terms and conditions, handbooks, as well as any intended agreements (even where these have not been agreed to by the employee). These documents must be available to employees on request. Employers have until 1 July to get their files up to the new standard. We estimate that a good number of our clients will have some work to do here! Keep an eye out for our upcoming Alert on this very subject.
- Union representatives will need an employer's permission to enter the workplace
- Employers will be able to communicate with employees during collective bargaining
- Minimum requirements establishing a fair and reasonable dismissal process will be set out in the Act and employers will have a much clearer process to follow. This is great news for our employer clients, who can be fearful of dismissal processes being scrutinised for minor defects

ACC levies, no-claims discounts and experience rating

Government is introducing experience rating into the ACC levy system on 1 April 2011. Here's how it is likely to work:

- Small employers (paying less than \$10,000 per year in work related levies) will be entitled to a no-claims discount
- Larger employers (paying more than or equal to \$10,000 per year) will be part of an experience rating programme. This programme will reflect both the employer's and its industry's performance in preventing injuries and claims and could create an increase or reduction in levies of up to 50%!

Clearly Government is trying to provide employers with a financial incentive to prevent injuries as well as make levies fairer by ensuring low-risk employers aren't paying for high-risk ones. Having said that, is a no claims discount or loading of minus or plus 10% (the majority of employers will fall into the 'small employer' category) really going to incentivise employers to get serious about workplace safety?

Minimising shareholder employee ACC levies

Changes were made last year enabling shareholder employees to be classified under their individual occupation rather than the business activity of their employer company. This change can make quite a difference to the levies you pay. For example, the levy rate for an office manager is much lower than that of a factory supervisor.

Tax Talk

Company tax rates dropping

The company tax rate will reduce from 30% to 28% from the 2011/2012 income year (for most companies, 1 April 2011).

Building depreciation gone

Depreciation deductions on buildings with an estimated useful life of 50 years or more disappear from the start of the 2011/2012 year (for most of you 1 April 2011). New rules have been introduced to ensure the fit-out of commercial and industrial buildings continues to be depreciable.

At last – some GST simplification

Sales of land now zero rated

In the past, whether GST should be added or not to the sale of land, has sometimes been a complex matter. From 1 April 2011 these transactions will be zero rated, as long as the following apply:

- The purchaser declares in writing that the property is to be used for a GST activity, and
- The purchaser is GST registered

LAQC reviews underway

Over the past few months we've been communicating regularly with clients affected by the far reaching LAQC reforms that come into play on 1 April 2011 this year.

We've commenced a personalised review of each client LAQC and we'll be advising each of you on the best way forward very shortly. Rest assured that we have the whole issue well under control. In the meantime, if you do have any concerns do give us a call or drop us an email.



Private use adjustments on cars

As of 1 April the rules for calculating private use adjustments on vehicles for sole traders and partnerships have been simplified... sort of.

By way of example, if you expect business usage to be 80%, then you simply claim 80% of the GST on the cost of the car and any running expenses. Sounds logical, some would say obvious (accountants have been suggesting this to Government for years).

That was the simple bit. If you underestimate your private usage by 10% or more, or if any GST over-claimed due to such underestimating comes to more than \$1,000, an adjustment (not so simple) has to be made.

But wait... there's more. There's a wash up calculation when you sell the car and it's complicated. In fact, we won't bore you with the details in this newsletter. To talk through your situation, give us a call or email us, and we'll provide you with the maths!

Working for families

- tax credits income net widened

As of 1 April clients will no longer be able to use investment losses such as from rental properties to reduce their income for working for families (WFF) tax credit.

The definition of income will also include an extra nine types of income:

1. Attributable trustee income
2. Attributable fringe benefits
3. PIE income other than registered superannuation schemes such as Kiwisaver and retirement benefit schemes
4. Passive income earned by children (includes interest, dividends and rent). Amounts over \$500 per child will be included as family income
5. Worldwide income received by a non-resident spouse
6. Tax exempt salary or wages under specific international agreements
7. Income equalisation deposits made by you, your trust, or a company controlled by you or your trust
8. Certain pensions and annuities – includes 50% of payments from life insurance policies or a superannuation fund (excludes NZ super)
9. Other payments received from any sources that are used for your family's day-to-day living expenses (but only if the total amount from those sources is more than \$5,000). An example of this might be board received.

In future, when you apply for WFF tax credits, you'll need to let IRD know about amounts from any of the above sources.

For those clients who receive or are entitled to WFF credits, when we prepare your 2012 tax return, we'll need to request the above information. Good communication will be essential.

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.



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