



Owen McLeod & Co. Ltd

Chartered Accountants & Auditors

Newsletter

Autumn 2017

Write off bad debts

With 31 March looming as the end of many businesses' financial year, there's always the prospect of paying too much tax, It doesn't need to be this way.

One of the biggest issues is the importance of writing off bad debts. It seems almost every year we have a client for whom we prepare the annual financial statements, who has a large amount of money owing to them.

When we get the results for the year we find there is a big profit, which has been inflated by an excessive accounts receivable figure. Discussion reveals some of this money is never going to be collected.

Can we fix the problem?

No. The law will not permit us to write off bad debts back-dated to the previous year. The client has to pay the tax and wait until next year to get these bad debts written off.

In the end the result is the same but in the meantime our client has to pay his tax earlier than would have been necessary.

Look at the debts owing to you. Are there some you have been pursuing and who won't pay you? Have you taken every reasonable step to get paid?

If yes, you must physically write off the bad debt before balance date, if you want to reduce your accounts receivable and hence your profit and tax. It depends on the system you are using as to how you go about this. If it's a very basic system like keeping copies of the invoices you have sent out, just write on your copy the words "written off as a bad debt on..." and **insert the date. Do this now.** It is not something you want to overlook.

You should tell us the amount you have written off as Inland Revenue likes us to record this separately.

Can you continue to try to collect a bad debt? Definitely yes. If you're lucky enough to get some money it becomes part of your taxable income.

(See also 'Get your debtors right at 31 March, page 2)

Big changes to PAYE on the way

On 3 November 2016, Inland Revenue announced changes to PAYE effective from 1 April 2019.

- Monthly schedules are to be abolished.
- PAYE information is to be filed on a payday basis.
- Dates for payment of PAYE are to remain the same with the option of paying on a payday basis.
- All information is to be filed electronically unless total PAYE deductions are less than \$50,000.
- Payroll subsidy is to cease from 1 April 2018.

Deducting tax from payments to a contractor

Generally, if someone working for you appears to be an employee, they probably are for tax purposes.

There are a whole lot of tests you can apply but if you supply the equipment, premises, agree on hours of work etc you have probably got an employee. Ideally, if the person is a contractor you should have a "contract for service" prepared by an employment law specialist that reflects the actual arrangements. It is important to get this right because if you get it wrong not only would you be liable for the PAYE and penalties etc you could have a claim for holiday pay and/or personal grievance!

Some clients also have problems determining whether they should deduct schedular tax. In this case the rule is simple. If the occupation is listed as being subject to schedular payments, you deduct tax. If it is not listed you don't deduct tax. You can find the list at this URL: <http://www.ird.govt.nz/payroll-employers/make-deductions/withholding-tax/emp-deductions-salaries-wt-activities.html>

If you are reading this and you are a contractor, don't forget if your income exceeds \$60,000 you have to register for GST. Inland Revenue is discovering lots of cases where this is being overlooked.

Gift vouchers

If you are in retailing, do you increase your sales by offering gift vouchers?

Gift vouchers usually have an expiry date. Be generous with the time you allow for redeeming the voucher, or have no expiry date, as this could give you a competitive advantage.

Consumer NZ last year called on all retailers to have no expiry dates on vouchers as it said consumers were losing up to \$10 million a year. Countdown, Kathmandu and Noel Leeming responded positively and now have no expiry date.

It pays to keep a register of your gift vouchers so you know exactly which ones are outstanding.

Customers will often want to use only part of their voucher at any time. Have a system for carrying forward the unused portion of the gift.

The converse applies. If you want to buy some gift vouchers, negotiate the expiry date. Who is going to turn away a sale by limiting you to a niggardly six months?



Undeclared cash jobs

Recently, Inland Revenue wrote to us to remind us “undeclared cash in the construction sector remains a high priority for us”.

Failing to declare cash jobs is, of course, illegal.

One way Inland Revenue can discover the extent of cash income is to re-construct the taxpayer's expenditure. Once they have a good idea of the extent of your expenditure, they can deduce your income. The system is surprisingly accurate. If they find a shortfall they then make their estimate of what the income ought to have been and you have to prove them wrong.

It should be obvious, anyone who has a cash business can be targeted by the Department. The simpler the business, the easier the target. Taxis and cafes would have to be sitting ducks. Tips must be included as taxable income.

Inland Revenue has asked us to remind our clients of the consequences of not declaring income. They say it “can include tax penalties, criminal convictions or their ability to contract for work – which could have a considerable impact on their business and personal circumstances. Let them [clients] know that IR is getting smarter at finding people who are not declaring all their income.”

Get your debtors right at 31 March

Clients use all sorts of systems for keeping a tally on the money owing to them. From a tax perspective, the figure at balance date needs to be accurate.

Please note:

Assuming a 31 March balance date, all work done up to 31 March which is capable of being charged must be included as income. For income tax purposes holding some of your invoicing over until April does not necessarily mean you can ignore it. You don't have to actually send out an invoice but you do have to add the amount into your accounts receivable figure for tax purposes. You won't be taxed twice because once we have put in a figure for the amount owing to you, we then deduct it in the next year's accounts. If work cannot be charged because it is not quite complete, it doesn't get included in your accounts receivable.

Some businesses have work in progress, which is partly completed work. They must value this on the basis of the amount of material which has gone into jobs in progress and the value of the wages they have paid to do that work. Any other direct costs should also be included such as hire of equipment.

Cut off

Don't deduct money received in April, until you have finalised the total owing to you at the end of March.

Professional services

Professionals, who have supplied partly completed work (not invoiced), do not need to include these services in their annual accounts unless there is a right to make progress claims.

Seeking feedback doesn't need to be pushy

How often do you dine out and get interrupted during an interesting conversation by the waiter/waitress wanting to know if you are enjoying your meal?

Apart from causing some irritation, does the question really do anything for either the customer or the business?

Norman stayed at a Quest apartment. When he got home he received this personalised email:

Dear Norman,

Colin, Lisa and the team would like to take this opportunity to thank you for choosing to stay with us at Quest Rotorua Central.

It was a pleasure to host you and your wife in Rotorua. It was great to hear that you had a nice stay. We hope that you have a great time in Taupo and safe travels till you are home in Upper Hutt.

We would be grateful if you could take a few moments of your time and complete our online guest satisfaction survey.

Please click on the following link <http://www.surveygizmo.com/s3/1216163/2013-Guest-Feedback-Survey>

If the link does not open, please copy and paste onto an internet page.

If you are a reviewer on Trip Advisor you may wish to place your feedback here: [Review Quest Rotorua Central on Trip Advisor](#)

We welcome all comments as a means to continuously improve the services and facilities we offer to you and future guests.

We look forward to welcoming you back to Quest Rotorua Central, the next time that you are visiting the city. For your next stay we will always guarantee the best available rate at: www.questrotoruacentral.co.nz

If you want feedback, do something different from everyone else. Make sure your request is genuine (as opposed to being just a routine enquiry) and you will value the response. In this way, you should get valuable feedback as well as helping to create an advocate for your business.

Beware the debt collector

Inland Revenue now has the power to disclose tax debts to debt collectors.

If the debt is more than 12 months old and greater than 30% of the taxpayer's gross income, the tax department can release the information.

These disclosures are going to be very dangerous. They will damage the credit rating of those who offend. If you are in this situation, be sure to make an **arrangement with the Inland Revenue to catch up and make sure you stick to it.**

Don't agree to anything you are not going to be able to sustain. Obviously, if you are in tax trouble, it might be wise to talk to us first.

Nowhere to hide

Meanwhile, tax departments around the world are clubbing together to swap information about assets and incomes owned and derived by taxpayers in countries other than their home country. IRD calls this AEOI, an acronym for Automatic Exchange of Information. Soon there'll be nowhere to hide.

BRIEFLY

Tax deductions on food and drink

Inland Revenue has informed us it considers the supply of all food and drink, whether in the course of entertainment or not, is tax deductible only to the extent of 50%. Thus, under this new interpretation, if you give your client a bottle of wine or a food hamper you can no longer treat this as a fully tax deductible cost. If you want a 100% deduction, think of something different such as a bunch of flowers or something else which cannot be consumed.

Charities

Inland Revenue is concerned because some charities do more than just carry out their charitable works. They run businesses. The department has no trouble letting the charity off paying Fringe Benefit Tax when an employee gets a benefit such as a car. It is concerned when the employee is not actually working for the charity so much as working for a business run by the charity. In future, there is to be an apportionment between mileage used for the charity and mileage used for the business. The business arm is to pay FBT. This change to the law has not yet occurred.

Body corporates

A lawyer's newsletter has drawn our attention to the personal liability of committee members of body corporates registered under the Unit Titles Act 2010. If you are asked to serve on one of these committees, we suggest you require the body corporate to take out insurance to cover your risk.

Buying a new computer



Most of us know very little about computers. When we need a new one, we go to a shop and the salesman usually seems more concerned about making a sale than giving you valuable knowledge.

Here are a few helpful tips to think about before you buy.

Consider why you are buying. If the computer is more than three years old (a good rule of thumb), it's probably time to upgrade. But if everything is working fine, keep your money. Most operating systems can be upgraded for free online, so make sure you've got the latest. If the new system slows down all your programs, then you'll need to consider installing more RAM, or getting a new computer.

If you decide to buy a new computer, you'll future-proof yourself by getting as much RAM as you can with the purchase. It will cost you more than the basic computer, but it will make a difference to efficiency.

Likewise with disk space (storage capacity). The more you have, the more you can store. Consider what you store most. Photographs and videos downloaded from your smart phone or digital camera can chew up space. Complicated programs, such as MS Office and design programs, can also take a lot of space, but most files, such as Word, take minimal space.

If you're into gaming (or your kids are and they use your computer), a high-end video card is important.

Another thing to consider is whether you need a desktop computer, a laptop or a tablet. You might find the flexibility of a laptop or tablet useful, but if you're mostly desk-bound, nothing beats a robust desktop computer.

Whatever your considerations, talk to the salespeople about the above points and make sure you understand what they're telling you. If you feel you're getting a sales pitch more than information, go somewhere else.

Get control of donations

Get control if you're bombarded with donation requests.

If you put all your donations through your company, you can keep a record of each one. When your annual accounts are completed, you can get a list of all donations for the year past and this would tell you what you gave last year. Note: if the company makes a loss, you won't be able to claim that loss to the extent it is caused by making donations, so only do this if the company always makes profits.

Another way of keeping control is to save up all donation requests until one day each year, then pay them all out just the once.

Save data even with cloud accounting

Although a third party provider may be used to store business records, taxpayers remain responsible for their tax obligations including retaining business records for the retention period (usually seven years) required under the Tax Administration Act. If you stop subscribing to a cloud accounting software package, will the supplier give you access to your records should you require this in the future? If the answer is no, be sure to save all your data on to your own computer each year.

Feasibility expenditure

Expenditure incurred on a feasibility study incurred in deriving business taxable income, which is an ordinary incident of the business, can be tax deductible.

An example could be a feasibility study to see what would be involved in earthquake strengthening.

In this case, you would need to keep the contract for carrying out that work separate from the feasibility study.

The tax deductibility of feasibility studies is a bit of a minefield. You should consult us first.

TAX CALENDAR

April 7 2017

2016 Terminal Tax
(March balance date)

May 8 2017

3rd instalment of 2016 Provisional Tax
(March balance date)

GST for March 2017

May 29 2017

1st Instalment 2018 Provisional Tax
(December balance date)

GST for April 2017

May 31 2017

Deadline for Fringe Benefits Tax returns

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