

# The L O Down



Winter 2016

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## Risk and Reward

### Underpaid income tax?

Underpaid provisional tax can cause a few headaches.

Maybe you did not keep up with your provisional tax payments throughout the year? (oops) Perhaps you did not end up paying enough because you had a better-than-expected financial year (yay! but damn, an increased tax liability). It could be that seasonality or volatility make it difficult to forecast your provisional tax payments.

Whatever the case, owing the taxman additional income tax can put pressure on your business' cashflow. With Inland Revenue's interest clock continuously ticking at 8.27 per cent (and at 9.21% for tax debt incurred up until 8 May 2016) while that tax remains unpaid, the cost can quickly add up.

### Tax pooling

An option we have discussed before is tax pooling. It is a service designed to reduce interest costs and provide payment options for provisional taxpayers.

#### How does it work?

For underpaid income tax, you can settle what you owe IRD by paying through a tax pooling intermediary such as Tax Management NZ (TMNZ) at an interest cost lower than the interest IRD charges on underpaid tax.

The payment you make is essentially a purchase of tax that TMNZ paid to IRD on the original date the provisional tax was due.

As this payment is date-stamped, IRD treats the tax as paid on time once it has processed the transfer from the tax pool to your IRD account. Any late payment penalties and interest showing on your account will be reversed once this happens.

#### When might this be useful?

Tax pooling can be used if you have underpaid income tax for the current tax year (2016) or the one just completed (2015).

#### Is tax pooling secure?

Tax pooling intermediaries are registered with IRD and operate under legislation set out in Income Tax Act 2007 and Tax Administration Act 1994.

The system was proposed by IRD so private markets could provide ways for provisional taxpayers to manage their income tax obligations and reduce their compliance costs.

The tax pool accounts operated by tax pooling intermediaries are held at IRD and managed by an independent trustee. The independent trustee also oversees the bank accounts in which your payments are made.

#### Timeframes for using tax pooling


Tax pooling gives you an extra 75 days past your terminal tax date to pay what you owe IRD. So, if you have a 7 April terminal tax date, you have until **15 June** to settle underpaid provisional or terminal tax liabilities for the 2015 tax year. For underpaid income tax relating to the 2016 tax year, you have until mid-June 2017.

#### What to do next


Contact us if you would like to discuss tax pooling as an option to clear up your underpaid provisional tax debt.

In April, the Government announced proposals to simplify business tax, with legislation to be passed in August this year. They asked for feedback by end May on the best way to implement these proposals. The earliest of the changes would take effect from April 2017, with more coming online in 2018. At the moment, this would change the tax landscape to look something like this:

### From 1 April 2017

<p><b>Use of money interest</b></p> 	<p>Hundreds of thousands of taxpayers will be better off following the government's proposed revamp of business tax, as they will be removed from Inland Revenue's use of money interest regime, says Tax Management NZ chief executive Chris Cuniffe.</p> <p>Taxpayers using the standard uplift method (paying 105% of last year's tax bill) will no longer be charged interest if they underpay at their first and second provisional tax dates, provided they pay the income tax they owe at their last provisional tax date.</p> <p>Businesses and individuals who have residual income tax below \$60,000 will also not be subjected to interest. It is expected that 67,000 taxpayers will benefit from this.</p>
<p><b>Penalties</b></p>	<p>Incremental late payment penalties will be removed from new debt for goods and services tax, income tax and working for families tax credits.</p>
<p><b>Credit reporting of tax debt</b></p>	<p>Inland Revenue can disclose significant tax debts to credit reporting agencies, so that other businesses considering extending credit can make more informed commercial decisions.</p>
<p><b>Information sharing</b></p>	<p>Inland Revenue can share information with the Registrar of Companies to help enforce company law requirements. This will help weed out non-compliant companies continuing to trade with an unfair commercial advantage over compliant businesses.</p>
<p><b>Withholding tax and scheduler payments</b></p>	<p>Contractors will be able to elect their own withholding tax rate.</p> <p>Contractors working for labour-hire firms can be covered by withholding tax.</p> <p>Contractors and their payers can forge voluntary withholding agreements so that contractors can have tax withheld on a payday basis, reducing the impact of provisional tax.</p>

### From 1 April 2018

<p><b>A new way to calculate and pay provisional tax</b></p> 	<p>The accounting income method (AIM), which will be available to taxpayers with turnover of \$5 million or less, will allow those who have IRD-approved accounting software to pay income tax on a two-monthly basis. Up to 110,000 taxpayers will be eligible.</p> <p>Companies can pay tax as agents for shareholder-employees in respect of their shareholder-employee salary. This will reduce the impact of provisional tax for shareholder-employees.</p> <p>Taxpayers who are forced to use the estimate method due to volatility or seasonality may find tax pooling a useful option to manage income tax payments, as they will be subjected to IRD interest.</p> <p>Tax pooling would also provide businesses with cashflow constraints greater flexibility around when and how they pay their provisional tax payments.</p>
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## But what will it mean for me?

The outcome of the consultation phase on tax simplification may still change how or whether some aspects are implemented but it seems certain that the broad outline of the changes will go through.

**Best case scenario** for small businesses: this should reduce complexity and make it easier to pay tax. You'll pay tax more frequently based on your business' actual income. You may end up paying less in tax, penalties, and interest. However paying tax more frequently may require you to keep a closer eye on cashflow to keep money coming in to pay the bills.

**Worst case scenario** for small businesses: you may end up paying more tax if you don't stay aware of your tax obligations and ensure the accuracy of the data input into your business software. We can assist you with regular monitoring and checking your systems are accurate and fit for purpose.

## New GST online filing

The first steps towards tax simplification lie in the new option for taxpayers for online filing of GST returns. Inland Revenue has been working with two software providers to pilot a service so taxpayers can file their GST returns directly from their business software. At present this can be used for GST only returns or for combined GST and provisional tax returns, although this option is not open to taxpayers who use the ratio option to calculate provisional tax.

To use this service you need two things: you need to be using the software but you also need confidence that your systems are set up to capture your GST position correctly. You want to be sure you won't be exposed to tax penalties for underpayment further on.

If you would like to discuss this further please contact us.

## R&D Tax credits

Does your business conduct research or development which is making a tax loss? Let us know, as you may be eligible to cash out your R&D tax losses for the 2015/16 tax year. We'll need to check your eligibility and register your business in the Investment Management System (IMS).

### Mileage rate changes

Inland Revenue announced in May that the Commissioner had reduced the mileage rate from 74c to 72c/km for the 2016 tax year (1 April 2015 to 31 March 2016 for standard balance dates). If you rely on the standard mileage rate when reimbursing your team for travel, make sure your payroll system is updated to reflect the reduced rate.

## Budget Perspective

### No drama

The 2016 budget has come and gone and the only people really shouting about it are the Opposition and the tobacco companies.

Perhaps the Government felt they have already given businesses enough to be excited about with their pre-Budget announcements of the proposed tax simplification and business transformation. Beyond the reform of the provisional tax system and other changes announced to be staged over 2017 and 2018 (covered here on page 2), there were no dramatic shifts for business.

**New spending:** Health and education will see most of the new spending, \$2.2b and \$1.44b respectively over the next four years. However, total annual new spending will be around \$1.6b shored up by whatever additional funds can be found in other cuts or underspends. \$258m goes to provide more social housing in the epicentre of the nation's housing crisis, Auckland, with an additional \$100m freeing up Crown land for housing. Science and innovation projects will receive an extra \$410.5m over the next four years, with increases to support tertiary education and apprenticeships in science, engineering and agriculture as well as regional R&D initiatives.

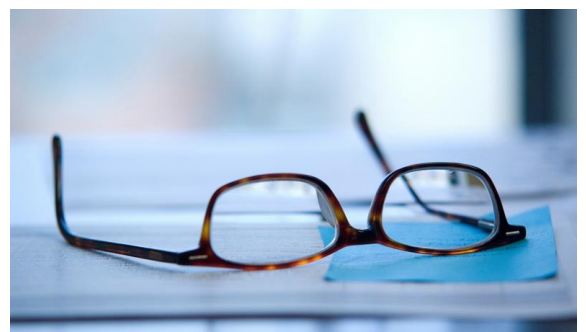
**Debt reduction:** while net debt is forecast to peak round 25.6% of GDP in 2017, the plan is for overall reduction, bringing it within the Treasurer's target of 20% for 2020. Surpluses are forecast for the next few years. Some of the figures, however, seem to rest on the hoped for dairy price recovery which remains to be seen.

**ETS subsidy:** From 1 January 2017, the Emissions Trading Scheme subsidy will be removed. This was only ever a temporary measure during the global financial crisis, allowing some businesses to pay one emissions unit for every two tonnes of pollution emitted.

**Tax:** There is some promise of tax cuts and of lowering tax rates and thresholds, primarily to take some pressure off lower and middle income earners. However, that's on a wait and see basis for next year's Budget.

Inland Revenue's new tax administration system has been allocated \$503m in new operating funding and \$354m in new capital funding. This is closely aligned with giving effect to what the Government has planned for tax simplification and business transformation. A reshaping of Inland Revenue also seems inevitable. Balancing the additional allocations are cuts to Inland Revenue's existing budget – \$284m over the next four years – those savings to be recycled back into business transformation. The overall aim, however, is to generate more tax revenue with a smoother system ensuring better tax compliance.

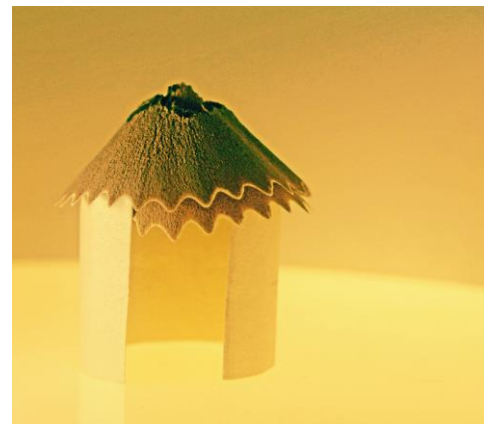
The Government announced that they will be making further changes targeted at multinational companies, to make it harder for them to avoid paying their fair share of tax. What those changes are, we don't yet know but it is probable they hinge on sharing tax compliance information internationally as the Government is now party to the OECD multilateral competent authority agreement. This enables automatic sharing of country-by-country reporting and is part of a larger OECD project to reform the international tax framework. Disclosure requirements for foreign trusts will also come under scrutiny.



## Changes to land sales could affect you

Are you selling residential land? From 1 July 2016, a new withholding tax – residential land withholding tax (RLWT) – may need to be deducted from a property sale/disposal where the property being sold/disposed of is in New Zealand and meets the definition of 'residential land', and the vendor:

- acquired the property on or after 1 October 2015, and
- has owned it for less than two years before selling or disposing of the property, and
- is an offshore RLWT person



Obviously, this affects non-residents. Less obviously, an 'offshore RLWT person' includes New Zealand resident companies who have shareholdings of 25% or greater held by foreign persons, and trusts where more than 25% of the trustees are foreign persons. Just because your business is New Zealand company, it doesn't mean that you will not be caught by these new rules. It is possible for certificates of exemption to be applied for affected taxpayers. Contact us if you think this may affect you.

## IRD Targeting the Cash Economy

Inland Revenue's crackdown on '**cashies**' continues with their focus on undeclared cash in the construction and hospitality sectors. Last year, the Auckland region saw the most activity. Inland Revenue are now widening their reach. They've been trying to change attitudes among tradies and subcontracting businesses and their efforts seem to be getting results.

Inland Revenue acknowledge people trying to cheat on tax are in the minority but stress that they're a very expensive minority. The so-called 'hidden economy' is a cost to all New Zealand taxpayers, who carry more than their fair share because of it. There's another hidden cost too, as business owners who are meeting their tax obligations find it hard to compete with operators who can undercut on quotes because they don't pay tax.

What's this have to do with you, you may ask. Because we're sure you're up to date with your tax obligations. In which case: sweet. However, if you are in the situation of having under-reported – or unreported – income, now is a great time to straighten it all out. We want to help you make sure your returns are accurate and timely and, as far as possible, help you avoid penalties and use of money interest on any tax owing.

If you think you might have got yourself into a mess with your tax, declaring it early and taking action to correct it goes a long way toward setting you apart from deliberate tax evaders. You may have made a mistake or filed an incorrect tax return, left out some income from your return or incorrectly claimed expenses. We can help you make a voluntary disclosure which may reduce shortfall penalties by up to 100% and protect you from prosecution.

## Setting the record straight

Inland Revenue have signalled they will be looking at businesses' record keeping systems. Key targets will be that all jobs and all income are being recorded and that GST is being handled properly. Recent prosecutions indicate that PAYE records are another hot topic, along with the corresponding employment records. If sketchy records are a quick way to set off the IRD alarm bells, this could be a great time to do a sense check on your records and systems.

As a business owner you're required by law to keep certain records. Poor record keeping lets you down just in terms of the penalties that apply for record keeping failures (up to \$12,000). Inadequate systems also make it harder for you to keep track of what you owe, how much you have already paid, to whom and what for and who owes what to you. You lose track of things, miss key deadlines and your costs increase in proportion to how much of a nightmare it is to straighten it out.

With the advances in online systems of recent years, many businesses have overhauled their systems and are in good shape to pull out regular management reports that detail their position clearly. However, there may still be areas where things fall through the cracks.

This applies particularly in industries such as construction where large amounts stay on the table as retentions until the job is completed and it is difficult to keep track potentially across several tax years. At the other end of the scale, the high volume and high speed cash transactions of the hospitality sector can also punch holes in the records.

If you are still making do with the basic systems you started out with, it is possible that your business has outgrown them and they now constitute a business risk. We can help you to look at this and do something about it, if necessary.







## Weekly/Monthly/Quarterly Performance Reports Can Help

Performance reports are prepared so that management can monitor their business' actual performance. These reports can be produced on a weekly, monthly or quarterly basis. This helps to keep you informed as to what is actually happening and also allows monitoring of variable trading conditions, costs or product pricing and how it all affects the bottom line.

The real benefit of receiving regular performance reports is that it enables you to immediately investigate any key performance indicators which are not in line with your budget estimates and to instigate action as soon as possible.

If you would like some help to implement a profitability reporting system for your business, please do not hesitate to contact us. We have the tools and expertise to work with you and identify areas of your business that can be improved. Together we can make sound business plan and monitor progress to meet your goals.

**'Unless you have definite, precise, clearly set goals,  
you are not going to realize the maximum potential that lies within.'**

**Zig Ziglar**



## Do you have backup?

What would you do if the unexpected happens and there's a blackout, your laptop is stolen from your car, or downloading someone's funny cat dancing video has infected one or more computers on the network with a virus or your hard drive simply decides it has had enough? Recreating lost data and information can be an extremely costly business. A backup plan takes it from what could be an utter disaster to somewhere on the inconvenience scale.

It can be as simple as a backup of your Accounting Data from your system to USB drive/memory stick and take it away from your computer somewhere safe.

Or for bigger systems, it might be worthwhile for peace of mind to have your IT support audit your system and review your IT plan. It should cover backup for all data and files and protection for viruses and malware. It can also be good to have clear protocols for all users so they don't put the business at risk by failing to backup key files or unwittingly attracting a virus.

### Scam Alert

There is currently a phone scam making the rounds and people are being called and told they owe the IRD money and need to pay immediately or the police will be around to arrest them.

This will never happen and the IRD would never contact you like this. They will also not email you with demands or to advise you that you have a refund.

If you are ever contacted by the IRD and are unsure, please feel free to refer the caller to us – I am sure they will not ring us or hang up and give the IRD or us a call so we can put your mind at rest.

### XERO U

Xero offers users a Treasure Trove of Training Videos for Users. Check out the training on offer to see if you can brush up on any tips and tricks for using Xero or if you aren't a Xero user, have a look and see how Xero works and if it is an options for you.

<https://www.xero.com/nz/training/>

If you have any queries or want to look at Xero options or Add-Ons further, please give us a call.



## Profit – the nuts and bolts

When you look at your accounts, can you read your profitability? Here are some things to look for.

### Gross profit

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$$

On your Profit and Loss Statement, **gross profit** is the difference between revenue and the cost of goods sold (or services provided). It generally appears before administrative expenses and general overheads are accounted for. Ideally, gross profit covers your overheads as well as generating your targeted profit, your net profit.

### Net profit

$$\text{Net Profit} = \text{Total Revenue} - \text{Total Expenses}$$

**Net profit** is what you're going for – it is the actual profit after all expenses and overheads have been paid. Net profit is the bottom line. When you are assessing your business' actual profitability, bottom line tells you a lot (it is, after all, the bottom line).

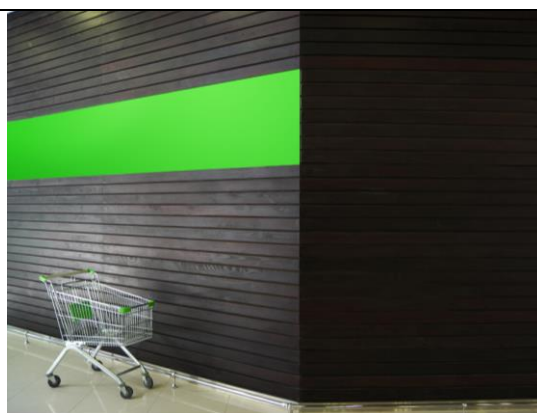
They're the basics. But there are other indicators worth analysing. Gross profit percentage is one.

### Gross profit percentage

**Gross profit percentage** is a percentage of sales and it's a valuable metric to keep hold of. It is the ratio of your gross profit in proportion to your sales:

$$\text{Gross profit \%} = \frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$$

Now that you've calculated it, what are you going to do with it? For a start, calculate your breakeven point:



### Breakeven point

$$\text{Breakeven} = \frac{\text{Total Expenses}}{\text{Gross Profit \%}} \times \frac{100}{1}$$

## What does your gross profit percentage tell you?

Gross profit percentage is a useful indicator of production efficiency and financial health. Ideally, it is fairly stable, barring drastic upheavals in your business or industry. A drop might mean one of a number of factors which need to be corrected, such as a rise in costs, waste or bad debts.

In a competitive market, where benchmarking data is available, you might compare your business' gross profit percentage to that of your competitors and take steps to make sure you keep your edge. Gross profit percentage can vary widely across different industries. For food and beverage businesses, for example, it's a very thin margin while for software businesses it tends towards the high end.

Changes in gross profit percentage might also mean increased competition in the market or increasing demand from customers for discounted products or services. It could be a response to changes in the business, such as expansion driving increased production costs or a higher wages bill.

Keeping track of your profitability gives you the big picture on your business. The key metrics that indicate profitability are all windows onto the big picture. Understanding them will help you set goals and drive growth. Talk to us today and we work with you to better understand your business results and help build strategies to grow your business.

## Congratulations to Rachael Bell, C.A.

After many hours study and hard work, Rachael is our newest Chartered Accountant. Great work Rachael, Outstanding Achievement and the Leslie & O'Donnell Team are very Proud.



Looking for business advice that really adds up?

Look no further than Leslie O'Donnell.

Leslie + O'Donnell  
chartered accountants

- + Business Advisers
- + Business Development
- + Financial Strategies
- + Business Coaching
- + Virtual CFO
- + Future Planning

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## New Xero Annual Questionnaires & Customer Service Assistant – Trish

You may have already received your 2016 Client Questionnaire and noticed that it is now on-line and links directly to Xero, which we use to prepare your Annual Financial Accounts. You do not have to be on Xero, at all, but for us it brings all your information into one area for us to work smarter and more efficiently for you.

Together with this, we have Trish rising to a challenge and taking on a new Role. She is sending out the Questionnaires and monitoring your replies and the records you drop into the office. If you drop off your year-end information without seeing your Account Manager, Trish will go through the records and ensure they are all there and ready for your Account Manager to start the job. Trish may contact you directly for missing information. Having this help for the Accounting staff, means that when they start a job with all the information together, the job can be completed faster and without delays waiting for missing information.

NZ YOUNG  
VITICULTURIST  
OF THE YEAR



### Proud Sponsors

Leslie & O'Donnell Limited are proud sponsors of the Marlborough Young Viticulturist of the Year competition. The Competition is great opportunity

to celebrate the young talent in our Region in the Viticulture Industry. The Marlborough Awards were held on Friday 24<sup>th</sup> June and the calibre of contestants was very impressive. Congratulations to Brenton O'Riley who will represent Marlborough in the National Competition, of which the winner will then go on to compete in the Young Horticulturist of the Year. We wish him all the best.

Also, in July, Leslie & O'Donnell Limited are sponsoring the Marlborough search for a representative for the New Zealand Young Winemaker of the Year. Again this is a great opportunity to encourage the Viticulture Industry and the amazing young winemaking talent we have in Marlborough.



sauvignon  
2016<sup>NZ</sup> International  
Sauvignon Blanc Celebration  
Marlborough 1-8 Feb

**Leslie & O'Donnell Limited** were proud to be Sponsors of the International Sauvignon Blanc Celebration held in Marlborough in February.

This was an outstanding success, which showcased our beautiful Marlborough Region and its outstanding wine industry to the World.

The Event attracted over 350 guests, from 18 countries, who had the opportunity to taste over 400 Sauvignon Blanc wines from 8 different

countries at formal tastings. The Culinary programme delivered a stunning range of Marlborough's and New Zealand's best produce and there was a waiting list for all events and tastings.

### 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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