

The L O Down



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Risk and Reward

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Remuneration of shareholder employees

The *Penny and Hooper* decision is a landmark tax avoidance case that has implications for small businesses operating through a company or trust. Essentially, the Supreme Court decided in favour of Inland Revenue, concluding that setting artificially low salaries amounted to tax avoidance.

Penny and Hooper were two orthopaedic surgeons, each earning taxable income of between \$600k and \$850k a year. They restructured their businesses into companies with a family trust owning most of the shares. They provided their services to the companies in return for salaries of \$100k - \$120k each year. The balance of the company's income was declared as dividends to the family trust which the surgeons drew from regularly.

Each year tax of between \$20k and \$30k was saved by having the profits after salaries taxed at the trustee rate rather than at the surgeons' individual top personal tax rates. The court found these savings a 'more than merely incidental' reason for their low salaries.

The IRD has put businesses on alert and is actively reviewing those operating through a company or trust where the income



is generated from services provided by an individual, and the individual's salary is unreasonably low. Although there may be good reasons for setting the salary low in a particular year, e.g. adverse business conditions, or a planned expansion of the business, in some cases the sole reason for the salary level is to take advantage of the lower tax rate that applies to companies.

The IRD is entitled to go back four years into a business' records, but have publicly confirmed that where a 'voluntary disclosure' is made, only the last two income tax returns will be reassessed. A voluntary disclosure might significantly reduce IRD penalties or avoid them entirely.

Whenever we're discussing your business we'll look at this for you. In the meantime, if you are concerned and would like to discuss this with us, please do contact us.

ACC changes self-employed invoicing

ACC has recently changed the way it invoices self-employed clients with regard to their full or part-time status, dependent on whether you work 30 hours or more a week.

Information on your full or part-time status no longer flows through to ACC's database on the IRD IR3 form. If you held part-time status last year and this year your earnings crossed the threshold you will receive a letter from ACC automatically confirming your change to full-time status. In all other scenarios it is up to you to formally confirm a change of status with ACC.

It would pay to check your invoice this year and call us if there's any confusion. Clients could get stung, for instance, if they have been paying levies on the basis of part-time status, have an accident, and then declare full-time status. In such a case ACC may query it and can backdate levies up to four years.

We provide an ongoing ACC administration and advisory service to our clients on an agreed annual fee basis. Being recognised by ACC as your online agent gives us secure online access to your levy information, your cover status and invoices, allowing us to



work directly with ACC. A simple signed authority from you and we'd be happy to review your cover structure and premiums, to ensure your cover is appropriate and levies are minimised.

Working For Families

From April 1 2012 many of the small changes to Working For Families signalled last year come into effect:

- The family tax credit amount for children under 16 will rise for inflation:

Qualifying Child	Current amount	New amount
First child under 16	\$4,578	\$4,822
Second child if under 13	\$3,182	\$3,351
Second child if 13 - 15	\$3,629	\$3,822

- The net income level guaranteed by the minimum family tax credit will rise from \$22,204 to \$22,568
- The abatement rate will increase from 20 to 21.25 cents in the dollar
- The abatement threshold will decrease from \$36,827 to \$36,350

KiwiSaver

As of 1 April 2012 employer contributions will no longer be tax free. Employer Superannuation Contribution Tax will apply at the employee's marginal tax rate.

Minimum wage

As of 1 April 2012 the minimum wage will increase from \$13.00 per hour to \$13.50 per hour.

Training and new entrants' minimum wages will increase from \$10.40 to \$10.80 - 80 percent of the adult minimum wage.

New GST rules for multi-use assets

New rules came into effect 1 April last year replacing the old change-in-use rules by apportioning input tax deductions in line with the actual use of the goods and services. As the 2012 financial year closes, the new rules will be applied for goods and services acquired on or after 1 April 2011. In subsequent periods, when a change to the actual taxable use occurs, from what was first intended, a GST adjustment within an adjustment period must be made (a number of exemptions may apply).

There is a maximum number of adjustment periods according to the asset's value or estimated useful life and special 'wash-up' rules apply when goods and services that have been subject to the apportionment rules are sold or the person deregisters.



Tax pooling

You can easily save more than 25% of IRD's interest cost on your provisional tax. All with the seal of approval of the IRD.

If you don't pay the correct amount of tax on time the IRD charge you interest. The current rate is 8.89%.

Tax pooling is a service introduced by Inland Revenue in 2003 that allows provisional taxpayers to reduce their exposure to IRD interest costs.

How it works: When we have finished your income tax return, we will inform you whether you owe any further tax to IRD. In many cases, you will also owe IRD interest.

Tax pooling allows you to buy tax credits that other taxpayers do not need. These tax credits have already been paid to IRD, but through the tax pool can be transferred from the seller to you. The cost of buying those credits is substantially less than paying IRD interest.

The table below shows the savings you can make on 2011 underpaid provisional tax if purchased in March 2012.

Underpaid Provisional Tax	Estimated Savings
\$10,000	\$268
\$20,000	\$536
\$30,000	\$803
\$50,000	\$1,338
\$100,000	\$2,675

We can quickly arrange a tax purchase on your behalf as we work closely with NZ's leading tax pooling company, Tax Management NZ. They've assisted thousands of NZ companies and individual provisional taxpayers in saving money.



Death and taxes may be inevitable, but they shouldn't be related. J.C. Watts, Jr.

✓ Financial New Year Checklist!

Business Perspective

Take the time to consider ways to minimise tax and maximise cash surpluses for the coming year.

☐ Will the company make a loss?

File loss offset elections and make subvention payments for the 2011 income year by 31 March 2012.

☐ Can you pre-pay expenses?

Many items can be prepaid and claimed as a tax deduction in the year to 31 March 2012.

☐ Are you committed to employee expenses?

Amounts owing for holiday pay, bonuses, redundancy payments, long service leave etc. can be claimed, if the employer is committed to them at year end and they're paid within 63 days.

☐ Have you scheduled a stock take?

Dispose of obsolete trading stock by 31 March or alternatively write it down to its net realisable value, the lesser of cost or market value.

☐ Have you reviewed fixed assets?

If you have assets no longer in use, the book value can be written off - provided the cost of disposal is expected to outweigh the proceeds from its sale, e.g. the keyboard you spilt coffee on.

☐ Are repairs and maintenance due?

Consider undertaking repairs and maintenance to key assets before 31 March to ensure a full tax deduction.

☐ Do you discount for prompt payment?

You may claim deductions for a discount reserve. In the first year a deduction for the actual discount percentage is allowed. Subsequently the amount is calculated at a percentage level. Different rules apply if credit extended to customers exceeds 93 days.

☐ Have you talked to us about the ICA and dividends?

The imputation credit account must balance so there is no debit balance at year end. If you have imputation debit balance, we'll contact you to discuss further.

☐ Have you reviewed your debtors' ledger?

To claim a deduction you need to physically write off bad debts in your debtors' ledger before 31 March. You must have taken reasonable steps to recover the debt first.

☐ Have you reviewed all contracts?

Have you invoiced retentions that are not due and payable for another year? If they are payable in the current year they need to be declared as income but if not, the income will be deferred to a subsequent year.

☐ Have you reviewed all credit notes?

Review credit notes issued to customers after 31 March which might be applied to the previous year, potentially reducing the current year's taxable income.

Get your docs in a row...

We aim to prepare your financial statements and tax returns in good time. To do this we need your completed annual questionnaires with full supporting documentation. Minimise costly delays by keeping in mind likely supporting documents for:

✓ **New Bank Loans**, balance outstanding at year end, security, interest rate, loan term

✓ **Fresh Hire Purchases Items**, interest rate, term and repayment plan

✓ **Vehicle/Plant & equipment purchases**, agreements. Was finance obtained?

✓ **Closing Stock and WIP (Work in Progress)**. Stock on hand at year end? Any un-billed work in progress?

✓ **Income**, include details of Wage or Employer Subsidies, additional income as defined for Working for Families

✓ **Bank Statements**. If you use MYOB or a similar system, copies of final bank and credit card statements let us check the reconciled balance

✓ **Property/Business Sales/Purchases**, agreements and settlement statements

✓ **Debtors and Creditors**. What is owed **by** or **to** your business, including whether amounts are GST inclusive or exclusive?

✓ **Donations/school fees?** Receipts needed please

✓ **Interest, dividends and rebates?** Provide details

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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**ARE YOU CONSIDERING A
COMPUTER SYSTEM FOR
YOUR BUSINESS?????**

STOP!!!!!!

**PLEASE TALK TO US
FIRST.**

There are huge advantages to you using a computer system for your business and there are a lot of excellent products available. The trick is choosing the right one for you.

You don't want a system that is too big and you pay for some things you won't ever use and is far too complicated.

You also don't want a system that is too small and won't allow you to grow or give you all the information you need.

Or maybe you don't want a computer system at all, you just want to be able to deliver accurate information for us to deal with, direct from your bank.

Having a computer system that works for you means you are able to monitor your business more efficiently and be able to discuss business options with up-to-date data. This enables us to get alongside you as your strategic business partner to help grow your business.

It also makes our job of collating end-of-year data easier and therefore will assist us in maximising the value of services we provide.

The system you choose should enable you to do what you do best – operate your business, while the number crunching is dealt with accurately and efficiently.

We have access to a wide range of accounting products and staff available to assess your needs and find the right system for your business.

**ONE SYSTEM DOES
NOT FIT ALL.**



CLOUD ACCOUNTING

We are hearing more and more about operating our computers and storing data in the "Cloud". Cloud computing is the delivery of computing as a service rather than a product. Resources are provided to computers over the Internet, rather than having the software installed on your computer. Smart Phones, iPhones, iPads, Tablets, etc are opening doors to being more mobile with data and being able to store more data, without having huge servers. No installations, no updates and no backups as it is all done in the cloud.

With clients being bombarded with new options for Cloud based Accounting, we are getting more and more enquiries regarding the opportunities now available.



Xero seems to be heading the way with on-line accounting options. Xero is an on-line accounting system

that has live integration with your bank, ensuring that your business data is always accessible and up-to-date. This allows you to view your financial information in real-time. Xero is easy to use and is available on PC or Mac in the office, at home or on popular mobile devices – anywhere, anytime.

As your accountant, you are able to give us permission to also access your Xero data to collaborate on-line. This enables us to work alongside you at any time to assist with processing, look at results, and plan for the future, without the need to transfer files.

Leslie & O'Donnell are now a Xero Certified Partner. We have 4 staff that have completed and passed the Xero certified program. If you want to know more about Xero, please do not hesitate to contact us or have a look on www.xero.co.nz.

MYOB Accounting Packages are also transitioning to On-Line Solutions with MYOB LiveAccounts being the first. Again, this is an anywhere, anytime accounting package that is designed for small business.

Check out www.MYOB.co.nz for more details or ask us.

For our rural livestock clients, CCM also have an on-line system upgrade available and Banklink are in the process of developing an on-line product too. We are sure other Accounting Systems will soon be offering on-line solutions to keep pace with the changing face of technology.

Please do not hesitate to talk to us about any options you may be considering or if you want more information.



New ACC Levy Classification for Horticultural Contractors

ACC have provided a new Business Classification Unit Number and rate effective from the 2012/2013 Income Year.

This affects **Agricultural, Horticultural and Viticulture Contractors** who previously had to use the classification of 2190 Agricultural Services (not elsewhere classified). The new classification is 2195 Horticultural Contracting & Labour Supply Services.

The levy rate is less under the new classification and clients affected should check their 2012/2013 ACC invoice to ensure the switch has been made to the new rate.