

2011 Year End Tax Alert

from PKF Francis Aickin Limited

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Accountants &
Business Advisers

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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, and even audit and accounting fees!

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



IRD guidelines for the apportionment of deductible outgoings are 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, there are other ways of making this claim, and in most circumstances we find a better way. For example 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, think laterally, and talk to us. 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.

Top 10 New Year's Resolutions for Businesses

The end of the financial year is a good time to reflect on business progress and challenges over the past year and plan improvements for the coming year.

Our top 10 resolutions will help you focus on what's important to you and your business, whilst maintaining a sensible work-life balance and a state we like to call 'Business Contentment'.

1. Learn how to delegate and make it a daily habit

We often delude ourselves that it's easier to do something ourselves rather than teach a staff member the process. That initial time spent transferring knowledge and skill is a powerful investment in leveraging our own time.

2. Fight procrastination

Procrastination is referred to as the 'thief of time'. The simplest trick in dealing with procrastination is to do the hardest tasks first.

3. Focus on one thing at a time and stop multi-tasking

Recent research indicates that people who constantly multi-task take longer to complete tasks and make more mistakes. Get into a real work zone. Turn off your mobile phone and your email and disconnect from all distractions and possible interruptions for blocks of time. You'll be amazed at what you achieve.

4. Set realistic goals

Goals should be SMART – Specific, measurable, achievable, realistic and time bound.

5. Make business planning a weekly event

Set aside time each week to review, adjust and look forward. Lock these times permanently into your diary or online calendar.

6. Promote your business regularly and consistently

It's amazing how businesses just expect potential customers to know that they exist. There are plenty of low cost ways to promote your business, so create a simple marketing plan.

7. Learn something new

What you choose to learn may be directly related to your business or completely unrelated. Depending on how you choose to learn, you may meet new and interesting people who may become customers, colleagues or friends.

8. Drop what doesn't work for you and move on

If a technique, a product or a business relationship isn't working for you, take stock. Don't keep investing a lot of energy into trying to make the unworkable work. Move on. Something better will turn up.

9. Give something back to your community

Find a cause that matters to you and give what you can. Serve on a worthwhile committee, be a mentor, volunteer or simply make regular donations to the groups in your community that make the place you live a better one.

10. Put time for you in your calendar

Business owners lead demanding lives. All work and no play is a recipe for mental and physical disaster. If you have trouble freeing up time to do the things you enjoy, write time regularly into your schedule to 'meet with yourself' and stick to that commitment. If you won't invest in yourself, who will?



People are so worried about what they eat between Christmas and the New Year, but they really should be worried about what they eat between the New Year and Christmas.

Author Unknown

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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