YEAR END STRATEGIES

THE 2011/2012 TAX GUIDE FOR YOU AND YOUR BUSINESS

YEAR END TAX PLANNING IN INTERESTING TIMES

One thing is certain, when it comes to planning for taxation, the more things change, the more they stay the same. Steps taken by the Government to simplify taxation in one area invariably leads to complications in another.

Combine this with business owner expectations for next year, which suggest reduced sales and profitability, and we are all in for an interesting and challenging year.

Like all challenges, they are best managed in pieces. Now is the time to review the last twelve months, set new goals and begin preparing for the next financial year.

Timing is crucial: ensuring the timing of a transaction or investment is right can minimise your tax obligations. Correct timing can also affect the cash flow impact of your tax payments. Sending us your accounting and personal records early means we can discuss planning opportunities and help you manage cash flow by giving you early warning of any tax payments due.

FIXED ASSET DEDUCTIONS

Reviewing your fixed asset register to ensure that the assets exist, and to identify those which are no longer used, means you can claim a deduction for the remaining book value of the asset.

Assets can be written off if they meet the following criteria:

- The asset is no longer used by the business; and
- The business does not intend on using it in the future; and
- The cost of disposal would be greater than the proceeds from disposing the asset; and
- The asset is not a building or an asset being depreciated using the pooling method.

Assets under $500 (GST exclusive) qualify for an immediate write-off provided that:

- They do not form part of another asset; and
- They have not been purchased from the same supplier on the same day as another asset and the total is not more than $500 (excluding GST).

IN THIS GUIDE:

dfk oswin griffiths
CHARTERED ACCOUNTANTS
Business Solutions International Connections

DFK OSWIN GRIFFITHS LIMITED

LEVEL 4
52 SYMONDS STREET
AUCKLAND 1010

PO BOX 6077
WELLESLEY STREET
AUCKLAND 1141

TEL (649) 379 3890
FAX (649) 309 3304

E-MAIL
office@dfkog.co.nz

WEBSITE
www.dfkog.co.nz

PARTNERS
David Griffiths
Navin Patel
Mukesh Parshottam
Shane Browning
Sanjay Kumar
Michael McNab

Business Advisory Services
Accounting & Taxation
Audit & Assurance
Forensic & Litigation

CHARTERED ACCOUNTANTS

MAXIMISING DEPRECIATION DEDUCTIONS ON BUILDINGS

From 1 April last year, the ability to claim depreciation on buildings with an estimated useful life of 50 years or more ceased.

This zero-rate applies to existing buildings owned and new buildings acquired after this date. The presumption here is that all buildings have an estimated useful life of 50 years. However chattels, such as stoves, dishwashers, heating systems and carpets, can be depreciated.

Taxpayers that determine a particular building has an estimated useful life of less than 50 years, are not able to claim depreciation automatically. They can, however, apply to the Inland Revenue Department (IRD) for a provisional depreciation rate for "classes of buildings" with a useful expected life of less than 50 years.

There is a high threshold in establishing that a building has a useful life of less than 50 years.

The impact of this change is that taxpayers with buildings which previously claimed depreciation and received a tax refund could now be paying additional tax.

The legislation raises the question as to what is defined as a building. The IRD has issued an interpretation statement which states that 'buildings' are considered to be a structure of considerable size, enclosed by walls and a roof and intended to last a considerable time.

For many property owners, 'structures' on their property are eligible to be depreciated. These structures include portable huts, cool-stores and freezing chambers, slaughterhouses, fowl pens, plastic hothouses and PVC tunnel houses and glasshouses etc.

At the same time, new rules ensure the fit-out of commercial and industrial buildings will continue to be depreciable.

As with many changes in legislation intended to make things clearer, there remain many items for taxpayers to work out for themselves – and at the risk of facing penalties if mistakes are made.

One thing is certain, last year's changes do result in taxpayers increasing their exposure to tax this year. With many still recovering economically, it is essential to take steps now to maximise tax deductions and undertake a review of all items that may be depreciable so that claims for depreciation are not overlooked.

YEAR END TAX CHECKLIST

- **PAY EMPLOYEES**
  All salaries, holiday pay, bonuses, redundancy and leave are to be paid within 63 days of the balance date, in order to be deductible at 31 March 2012.

- **VALUE YOUR STOCK**
  If your business has trading stock, it will need to be valued at the years end. Keep in mind that if the market value of the stock is lower than the cost of the goods, that value may be able to be used instead.

- **GET RID OF BAD DEBTS**
  Consider all your bad debts before the year end. In order to receive a deduction, the amount must be written off the account ledger and there must be no reasonable likelihood that it can be recovered.

- **REPAIRS AND MAINTENANCE REVIEW**
  Take a look at all spending during the year in order to determine whether items are deductible or need to be depreciated.

- **DETERMINE IMPUTATION CREDIT**
  Your company's imputation credit account must be in credit at 31 March 2012. This way you will avoid having to pay the debit balance, as well as a penalty to the IRD. Try not to overdraw the imputation credit account.

- **INCOME**
  Be sure to review any credit notes issued to customers following the 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.

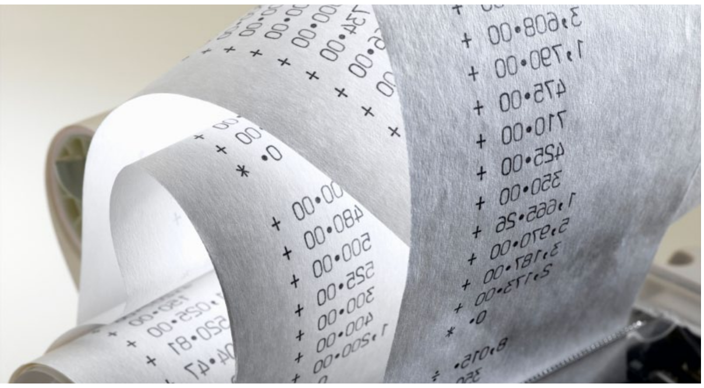
- **LOSSES ELECTION**
  Subvention payment elections must be passed on to the IRD before 31 March 2012 in order to be effective.

- **VEHICLE EXPENSES**
  You are required to keep a vehicle log book if you are in a partnership or are a sole trader. Remember to keep a record of a representative three months every three years.

- **DONATIONS**
  If you company has made a donation to a charitable organisation, this can be deducted as long as it does not exceed the company's taxable income.

- **DIVIDENDS**
  Dividends are now required to have to have 3% withholding tax paid over to IRD by the 20th of the following month. If you or your trust have taken cash out of the business on account of a dividend yet to be declared, the dividend should be declared prior to 31 March and the DWT paid over to IRD on 20 April.

Recent changes to tax pooling



The Taxation (Tax Administration and Remedial Matters) Act 2011 introduced a number of amendments to the tax pooling rules, aimed at making the legislation simpler and more equitable.

Tax Pooling was introduced by Inland Revenue in 2003 to allow provisional tax payers to reduce their exposure to use of money interest costs (UOMI). This is the penalty interest that the IRD charges taxpayers who have not paid the right amount of tax on time.

The amount paid during the year as 'provisional tax' reflects the taxpayer's best judgment of the law on a large number of technical issues. If the taxpayer's assessment of their liability is incorrect, they may underpay tax and be exposed to UOMI. This may also be the case where the amount of tax payable has been reassessed.

What is tax pooling?

Where there has been an overpayment of provisional tax, taxpayers may receive credit UOMI. However, the UOMI rate applying to underpayments is higher than that applying to over payments. Furthermore, the underpayment rate is often higher than a company's commercial borrowing rate.

Tax pooling allows taxpayers to pool tax payments, offsetting underpayments by overpayments within the same pool to reduce their UOMI exposure. The pooling arrangement will be made through a commercial intermediary, that will charge clients who acquire tax pooling funds and compensate depositors whose funds are acquired by another client.

Intermediaries will be able to pay a higher rate of interest to taxpayers who have overpaid their tax into the pool. They will charge a lower rate of interest than the UOMI rates to those who have underestimated their tax (having purchased from the pool funds).

Recent Changes

The main change in this regard, allows taxpayers to apply tax pooling purchases to future provisional or terminal tax payments. This would commonly occur where a taxpayer elects to purchase extra tax during the year to top up an anticipated provisional tax shortfall. As no actual liability exists at this point in time and the tax return is not filed (or due), Inland Revenue would not apply the tax pooling purchase. Taxpayers would purchase tax in excess of their provisional or terminal tax obligations and use that excess for liabilities not intended to be covered by tax pooling such as GST arrears.

A change allows the taxpayer to purchase tax for expected provisional tax liabilities provided that returns for prior years have been filed and the effective date of the tax pooling transfer is restricted to the tax year in which the funds are used. A return does not need to be filed prior to the transfer being completed.

In addition, the amendments extend time from 60 to 75 days to satisfy provisional or terminal tax obligations and extend the use of pooling funds to voluntary disclosures for certain non-income tax revenues where there has been no previous assessment.

These changes came into effect from 29 August 2011.

Revised depreciation rates for chattels

In November 2011, the depreciation rates for assets in the 'residential rental property chattels' industry category were revised. The list includes items of depreciable property that are commonly found in residential property.

A chattel is any moveable item that is not permanently attached to the land or building. In other words, not a fixture. To clarify things further the IRD released an updated list of residential rental property chattels. This list applies from 1 April 2011.

Depreciation cannot be claimed on chattels unless a chattels valuation is completed. If a rental property is purchased, and the value of chattels is not separately identified prior to submitting a tax return, the entire purchase price will be treated as land and buildings for tax purposes. The depreciation rate for buildings is 0% from 1 April 2011.

It is important to be aware that a combined value of chattels shown on a registered valuation, or on a sale and purchase agreement, is not considered an acceptable chattels valuation for tax purposes. A chattels valuation must be a list of items with individual values.

A chattels valuation can be completed by a taxpayer, provided that the values attributed to chattels are justifiable. Alternatively, a chattels valuation can be completed by a professional valuer and the cost of this is normally tax deductible.

Increased certainty with the IRD

Trying to understand tax law is a bit like treading on a mine field. In some cases you don't know what the outcome is going to be until it is too late. Sometimes it is essential to have some certainty about a particular tax issue. That is why the IRD can provide a binding ruling.

Binding rulings are issued by the Commissioner to provide greater certainty for taxpayers, as well as helping them meet their tax obligations.

What is a binding ruling?

Binding rulings are issued by Inland Revenue upon formal request by a taxpayer. It sets out how Inland Revenue will apply the tax laws to a particular arrangement. An arrangement is any 'agreement, contract, plan or understanding (whether enforceable or not), including any steps and transactions that carry it into effect'.

In 2009, the IRD relaxed some of the restrictions on binding rulings, making them accessible to a broader base of taxpayers.

Why apply for a binding ruling?

Binding rulings help taxpayers comply with the law and meet their obligations by clarifying how the IRD will interpret the law in relation to a specific transaction. They can be beneficial when the law is unclear or there is more than one potential interpretation; there is new legislation; the transaction is controversial or the arrangement raises significant issues.

Provided a taxpayer follows a binding ruling precisely, Inland Revenue is bound by it. A binding ruling does not however, remove the requirement to file an income tax return and pay any taxes arising from the arrangement.

New minimum wage

New minimum wage rates take effect from 1 April 2012.

The new adult minimum wage rates (before tax) that apply for employees aged 16 or over will be increased from $13 to $13.50 an hour.

The training and new entrants' minimum wages will increase from $10.40 to $10.80 (or 80% of the adult minimum wage.

There is no statutory minimum wage for employees who are under 16 years old.

Working from home?

Taxpayers that use their homes to run a business may be entitled to deductions for a proportion of expenses which relate to the use of the home for the business. It is not essential that there be a separate room for that purpose.

The deductible portion expenses are determined by calculating the percentage of the area of the home used for the business. Typical expenses that can be claimed include heating, electricity, telephone rental, and rates.

Sometimes a separate room is not set and the portion of expenses claimed may be determined using other methods 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 a garage, storage area or workshop.

Entertainment expenses

Generally where entertainment expenses are incurred for the purposes of generating business income, entertainment expenses are deductible for income tax purposes.

The income tax deduction for expenses fall into two categories - those which are fully deductible and those for which 50 per cent of the expense may be claimed. Entertainment expenditure that falls outside of the specified entertainment area may be subject to fringe benefits tax.

Here are some examples of entertainment expenditure and income tax treatment:

100 per cent deductible

- Food and drink consumed while on business travel, alone or with other company employees;
- Dining with clients for business purposes outside New Zealand;
- Light lunches provided to employees during a meeting on the employer's premises;
- Morning and afternoon teas provided to staff on the employer's premises.

50 per cent deductible

- Dining with a client at a restaurant;
- Staff Christmas functions held either on or off the employer's premises;
- Friday night social drinks for your team;
- Tickets to corporate boxes, marquees and similar exclusive areas.

We Are Here To Help

Make good use of us! This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us early for help in taking advantage of tax-saving opportunities and tax efficient investments.