

# MONEY

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# MATTERS



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## Five key business improvements

A new financial year is always a great opportunity for business owners to take a step back and think about what they can do to improve on previous years.

Sometimes, the answers are glaringly obvious, but in other instances, you may have to think a little outside the box.

Even if you are entirely satisfied with your business's performance, it always pays to be aware of areas that you can look to improve. Circumstances beyond your control can always impact your business's viability, and you need to remain vigilant. Furthermore, there is always room for improvement in every business, so you should never feel that you have nothing left to work on.

Here are our top five tips for business owners who want to break away from the pack in 2015-16:

### 1. Meaningful social media marketing

With all the hype surrounding social media marketing, it is not uncommon for businesses to fall into the trap of making social media content for its own sake. Doing this can be a costly mistake, and can even damage your brand in some circumstances. This year, put a little extra effort into making sure that your social media marketing is informative, creative, and, most importantly, reaching the right audience.

### 2. Share your vision for the future

Have a vision for your business that you share with your employees. Allowing your staff to participate in the realisation of planned goals

will give them a sense of accomplishment and promote job satisfaction.

Employees who are satisfied in their roles are generally more productive, and are also more likely to remain in their positions for a longer time period.

### 3. Never stop learning

Even the self-employed can always benefit from a little extra training. By attending seminars, short courses, or even just reading relevant books you can make a huge difference to your business. Think about the area of your business that you are the least confident in, for example marketing or IT, and make the decision to improve your knowledge.

### 4. Get organised

A great way to start improving your organisation is by writing to-do lists. You should begin by listing long term goals, and then slowly breaking them down into smaller tasks. If you do this, tasks will seem far more manageable, and you will be able to create a realistic timeline for completion.

### 5. Build your dream team

At the end of the day, the success of any business will be determined by its people. Of course, it is important to hire the right people at the right time. However, the thing that will ultimately allow your staff to take your business to new levels of success is the ability to work together effectively.

Where staff members have good communication channels and productive working relationships with one another, it can make a significant positive impact on your business's productivity. You should always be looking for new ways to promote team collaboration in your business.

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## KiwiSaver for the self-employed

Although KiwiSaver is a voluntary scheme, there are multiple benefits to becoming a member.

You will receive a government kick-starter of \$1000, good tax credits, and the option of withdrawing from your KiwiSaver in order to buy your first home.

If you are self-employed and you want to join KiwiSaver, you will need to agree on the amount and frequency of your contributions. You will also have to choose a KiwiSaver provider that suits your needs. In order to do this, you may need to do a little research on the differences between providers.

It is also possible to change schemes at any time. However, you may only belong to one KiwiSaver scheme at any one time.

Although KiwiSaver is not guaranteed by the government, and you are investing at your own risk, all funds are regulated by

the Financial Markets Authority.

Our team members can provide you with more detailed information on KiwiSaver. Before you make a decision you should familiarise yourself with the pros and cons of different providers and contribution plans.



## Keeping up in business

In order to survive and grow, small business owners and entrepreneurs need to keep up-to-date with current business trends.

Always aim to learn new skills that will allow you to improve your business.

Here are some lessons that can help small businesses stay relevant and survive:

### Helping customers find you online

One of the most common ways that people now find businesses is using mobile phone or tablet applications.

Make sure that your business information is as up-to-date as possible in these apps, and on any websites that

help people find businesses in a specific area. Use these sites as a platform from which to promote services, products, business hours, contact information and special offers.

### Cloud computing

Cloud computing may represent a way to overcome any business functions that are inefficient and costly. This internet service is considered a cost effective and productive tool for small businesses.

Cloud computing can be used to manage e-newsletters, payrolls and in-house email.

### Presentation skills

When you are looking for investors, it is essential to consider how to present a business plan effectively. Investors are now more likely to want to see a short electronic slide presentation before a written business plan.

Carefully consider the information included in these slides and learn how to use digital media to achieve the desired impact. Putting a little effort into improving your public speaking techniques is also advisable.

### Social responsibility

Business owners and entrepreneurs may have goals beyond making money. The 'triple bottom line' refers to striving for a positive outcome for the planet,



## Get on top of your business records

Effective and reliable record keeping is extremely important for small businesses.

Maintaining effective records will help you to meet your tax obligations and will be helpful in the event that you get audited.

A good record keeping system can also help you to monitor and reflect on your cashflow, and can be a valuable tool when making business decisions.

In order to ensure that your tax deductions are accurate and to prove their legitimacy in the event of an audit, there are a number of records that you must keep.

All records need to be kept for a minimum of seven years. They should be stored in an accessible format, and should be in English (unless you have specific approval from the Commissioner).

You should have systems in place that ensure that the following records are maintained in good order:

- A record of all income received
- Proof of expenses incurred
- Accounting records
- Wage records
- Bank statements
- Details of interest or dividends earned
- Stocktake records
- A comprehensive list of business assets and liabilities

Meticulous record keeping can be a time consuming and challenging task. It may be in your best interests to research a variety of options for systemisation. Any business that has been subject to an audit should contact our office for assistance.

people and profits. It is important for businesses, whether large or small, to consider their social responsibilities and how their business practices impact the environment.

Many businesses are now seeking ways to be more sustainable and to contribute to the community.

## Year end tax tips for 2015

As the end of the financial year approaches, it always pays to spend a little extra time examining your financial records and considering ways to increase your after tax income.

There is a high chance that you will find a couple of extra savings from 2014-15, which can add up to reduce your tax bill by a significant amount. It is also a good time of year to reflect on your financial position, and think about tax minimisation strategies and goals for 2015-16. Here are a couple of our top tax tips for preparing for the end of financial year:

### ✓ Write off bad debts

Businesses with outstanding amounts owed, no matter the size, that are unlikely to be recovered in full should consider writing these off as bad debts. Bad debts can be used as a tax deduction, effectively reducing your taxable income for the relevant year.

In order for a debt to be considered bad, you must have formally written the debt off in your accounts, and be able to prove to Inland Revenue that you have taken reasonable steps to recover the amount.

### ✓ Pre-pay expenses

By pre-paying for tax deductible expenses before March 31, you will be able to minimise your tax bill. Some categories of business expenses can be pre-paid without any limitations, meaning that you can claim as much as you like. Examples include stationery, vehicle registration, accounting and

auditing fees and postal charges. Most other expense categories have caps that limit the amount that can be claimed in a year.

### ✓ Split business income

In some circumstances, it may be possible to minimise your tax liability by redistributing the flow of income from your business. For example, if your partner is a low income earner, it may be advisable for you to split the business income with them. It may also be possible for you to redirect some of your income towards your children.

However, if your family members are employed in your business as wage earners, you should be aware that Inland Revenue may elect to make tax adjustments if they consider the remuneration to be excessive.

### ✓ Earthquake relief rollover

The government is extending the tax concessions available to taxpayers affected by the Canterbury earthquakes until the end of the 2018/19 financial year. In most part, the concessions remain unchanged.

However, taxpayers must show a 'commitment to rebuild' in order to extend their rollover relief. Taxpayers who have banded together to form a company to rebuild or replace damaged assets are able to extend their rollover relief until the replacement asset is sold, they sell their shares, or the company goes into liquidation.

### ✓ Discount reserve

You are able to claim a deduction for a discount reserve, for example a discount for speedy payments, if your debtors are



traditionally entitled to this discount. In the years following on from the first year that you are allowed you claim a discount reserve deduction, adjustments will be made to maintain the discount level at a consistent level.

### ✓ Trading stock valuation

Trading stock must be valued using a cost valuation method, unless the market selling value is lower than the cost. Therefore, in order to lower the value of your stock before the end of financial year you should either physically dispose of it or sell it at market price (if market price is lower than cost).

### ✓ Bonuses and holiday pay

It is possible to claim amounts payable to your employees as a deduction for the current financial year, so long as the full amount is paid to the employee within 63 days of the balance date. Amounts that are paid more than 63 days from the balance date can only be claimed in the following financial year.



## Tax effective giving

New Zealanders enjoy one of the most generous taxation systems in the world when it comes to rewarding charitable giving.

Taxpayers are able to claim a donations tax credit for one third (33.33%) of all donations made, up to the full amount of their taxable income.

It is also possible to donate to charity by having your employer automatically deduct the amount from your salary or

wages. This scheme is called Payroll Giving and it means that you will be awarded the tax credit immediately as a net reduction in the PAYE deductions that your employer makes on your behalf.

However, anyone making a charitable donation that is not Payroll Giving, will need to complete a claim form (IR 526) to submit to Inland Revenue. Inland Revenue has indicated that they will forward the claim form to every taxpayer who has claimed a charitable giving deduction in the past two years.

## Inland Revenue compliance focus for 2014-15

Inland Revenue (IR) has outlined several specific areas of compliance that they will be focusing on when reviewing tax returns for the 2014-2015 financial year.

### High-income earners

IR will be closely examining high-income earners and high net worth individuals who have large one-off or abnormal transactions, unexplained losses, inconsistencies between tax paid and net wealth, complex ownership structures and mixed-use luxury assets.

It is advisable that any high-income earners who are unsure about an arrangement contact IR for a binding ruling.

### Property Investors

Individuals who are involved in

residential property trading, investing in new developments (buying off the plan) and one-off speculations will be another area of compliance focus.

Anyone who is uncertain as to whether or not they should be paying tax on income from property investments is welcome to contact our office to discuss their situation.

### Trusts

Trusts that are employing aggressive tax planning strategies and structures that do not make commercial sense (or offer unfair tax advantages) will also be coming under scrutiny this year.

In order to ensure that your trust is paying the correct amount of tax, you should familiarise yourself with the relevant compliance regulations. Trustees are also advised to keep meticulous financial records. Any mistakes that are realised after the fact

should be voluntarily disclosed to IR.

Additionally, IR will be focusing on more general areas of compliance including ensuring that taxpayers are using the correct tax code and making payments on time.



## Tax on mixed use assets

The Inland Revenue (IR) has progressively introduced a new set of tax rules for mixed-use luxury assets.

These rules establish a new method for apportioning tax deductible expenditure on assets used for a combination of personal and income-earning purposes.

The new rules are replacing an older system that allowed generous tax deductions for luxury assets with a high rate of personal use.

### What is a mixed use asset?

To be classified as 'mixed-use', an asset must be used for a combination of business and private purposes, and must not be used for at least 62 days a year. IR does not consider long-term residential properties to be mixed-use assets.

The new rules apply to any person claiming deductions from an asset (including lessees) and all entities other than companies that are not closed companies.

### When do the new rules come into effect?

The new rules apply to real estate - including improvements to real estate - from the beginning of the 2013-14 financial year. From April 1 2014, they have also applied to boats and aircraft valued at over \$50 000.

### How is the new system different?

Using the old system, taxpayers were unable to claim tax deductions for the number of personal use days divided by 365 days.

The new system uses an apportionate formula to calculate the amount of the expenditure that can be treated as a tax deduction.

The apportionate formula divides the number of income earning days by the number of total use days to arrive at the proportion of expenditure that can be claimed as a tax deduction.

It is important to note that private use days include use by family members and associated parties, irrespective of whether or not they paid market price for use of the asset.

### Case study

Jane owns a yacht that she has private use of for 30 days each year and hires out for 60 days each year.

Under the old system, Jane would have calculated her tax deductions for the upkeep of the yacht by multiplying her deductible expenses by (30 days / 365 days), effectively reducing her deductions by 8.21%.

The new rules require Jane to multiply her deductible expenses by (30 days / 90 days), thereby reducing her deductions by the much higher rate of 33.33%.

## Important tax dates

### February 20

Employer deductions forms and payment and employer monthly schedule due

### March 2

GST return and payment due

Provisional tax installments due for people and organisations who use the ratio method

### 20

Employer deductions forms and payment and employer monthly schedule due

### 30

GST return and payment due

### 31

Income tax return due for clients of tax agents