MONEY MATTERS

YEAR END STRATEGIES

ISSUE Q1/2016

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New financial year resolutions

A new financial year is a great time to review your current business goals and choose some resolutions for the year ahead.

Even if you are satisfied with your business's current performance, there is should always room for improvement. Here are our top five suggestions for business owners who are unsure of where to begin:

1. Embrace social media

Small businesses can benefit by tapping into social media channels to expand their reach across target audiences and build brand recognition. Social media use in the business world is ever-growing; if your business has not yet jumped into the digital arena, developing an online strategy can help to boost sales and reinforce your offline marketing strategies.

For those businesses already using social media, consider new channels or improving the way you use current channels. To maximise your online engagement with new and existing customers, a digital and social media marketing strategy should be implemented with an assigned staff member responsible for managing content.

2. Get on top of your record-keeping

Staying on top of record-keeping all year round can save time and unnecessary stress especially when the end of financial year is approaching. Although record-keeping can seem like a monotonous job, it is an essential part of running a business and maximising your tax return. Consider making the transition to paperless files by adopting management and accounting software which can increase efficiency and save on costs.

3. Set or reassess goals

A business plan is ineffective if it is not continually reviewed and updated to implement new goals and objectives. Both short and long-term goals should be reassessed to reflect your current financial and operational position. When forming new goals use the SMART goal setting theory to make them specific, measurable, achievable, realistic and timely.

4. Rethink recruitment methods

The recruitment process can be a lengthy activity for time-poor business owners. However, attracting the right candidates doesn't need to be a time-consuming chore if you have a recruitment strategy in place. A recruitment strategy can provide guidance with consideration to the following:

- Plans for expansion or reduced staffing needs
- Goals and objectives you would like to achieve through recruitment of new staff, such as new skills or roles, staff retention levels etc.
- Any gaps you currently have in your business and how a new staff member can fill these gaps
- A recruiting and training budget - how much are you willing to invest to meet your standards?

5. Network, network, network

Building relationships is key to business development. Connecting with previous colleagues, forming better relationships with co-workers and reaching out to new contacts are all critical aspects in relationship-building. If you're feeling hesitant, start by searching for events in your peak industry association or join a community group.

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Tax shortfall penalties

A shortfall penalty is applied as a percentage of a tax shortfall, resulting from the incorrect tax actions of a taxpayer.

Shortfall penalties are determined by a framework which aims to assess the taxpayer's accountability for the understatement of tax.

The penalty increases in proportion to the seriousness of the breach. Penalties include:

Lack of reasonable care

Taxpayers who fail to take reasonable care in their tax position will receive a 20 per cent penalty of the tax shortfall. Generally, this means you must take the same care that a reasonable person in the same circumstances would take.

Taking an unacceptable tax position

The tax position fails to meet the standard of being, as likely as not, correct. This type of breach incurs a 20 per cent penalty.

Gross carelessness

Gross carelessness refers to doing or not doing something in a way that, in all circumstances, suggests a high level of disregard for the consequences. This behaviour results in a 40 per cent penalty.

Taking an abusive tax position

This applies to taxpayers who enter into arrangements or apply tax laws with the primary purpose of taking a tax position that will reduce or eliminate tax liabilities or provide tax benefits. The penalty is 100 per cent of the tax shortfall.

Evasion

Tax evasion may involve: evading assessment of payment of tax, using deducted tax for an unlawful purpose, failing to deduct, unlawfully obtaining a refund or payment of tax or enabling another person to obtain a refund or payment of tax - knowing they are not entitled. Evasion carries a penalty of 150 per cent.

Property tax deductions

As a property investor, there are a number of tax advantages to capitalise on at the end of financial year.

When claiming tax deductions, it is a good idea to familiarise yourself with the rules and tax minimisation strategies around claiming expenses to keep the taxman onside. Here are some considerations when filing your end of year return:

Rental period

Tax deductions can only be claimed when the rental property is receiving income. Costs are not deductible if the property is vacant or being used for private purposes. However, expenses on a vacant property are deductible if it was unoccupied for the purpose of carrying our repairs and maintenance.

Repairs and maintenance

You can deduct costs for repairs such as replacing a shower head, although, caution must be exerted when claiming repairs as they may be considered a capital improvement which may not be treated as a deduction. An example of a capital improvement may be buying a rundown property and spending large amounts of money to significantly improve or alter it before renting out.

Interest

You can claim the interest charged on the borrowed funds to finance your property. If the loan has been used for investment and private purposes such as the rental property and the house you live in, you must have documentation to prove this as only the rental property interest can be claimed.

Depreciation

Deductions for depreciation can be claimed on any furniture or fittings that belong to you. Consider a chattels valuation to work out the value of your assets to help maximise your depreciation claim.

Below market value

If the property is rented out for less than the market rental value, for example to a relative or friend, the expenses may not be tax deductible. If the property makes a loss, you are unable to offset the loss against other income for tax purposes.

Choosing a KiwiSaver provider

For new members joining KiwiSaver, choosing a provider is a crucial step in your investment strategy as default or employer-chosen providers may not be suitable for your investment needs.

When choosing your provider consider some of the following features:

Investment mix

The provider you choose should offer the right mix of investments for you. Avoid providers with a limited range of investment strategies to allow for greater flexibility.

Control over contributions

If you are looking for greater control over your contribution amount and pattern, ensure your provider permits these actions. This is particularly useful for non-employees and self-employed people.

Flexibility

The provider you choose should allow you to invest in more than one of its funds, which may become more important as your balance grows. Members should be allowed to pick the exact mix of assets they want and to change them without costs or restrictions.

Special features and rewards

When comparing providers look at the special features they offer such as automatic risk reduction as retirement looms; active or passive management; or a fund that invests in a single sector, such as shares. Also, be sure to compare member rewards such as wholesale insurance etc.

Travel and car expenses

You may be able to claim motor vehicle expenses if you use your own vehicle in the course of renting out your property. There are two options for claiming these expenses: claim a percentage of the total running costs and depreciation; or use the Inland Revenue mileage rates.

If you travel to your rental property that is somewhere other than your hometown, the costs are usually fully deductible if it is the sole purpose of your trip. If your trip is for rental property activity and personal reasons, only the rental activity portion is deductible.

Year end tax tips for 2016

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

It may come as a surprise that a couple of extra savings from 2015-16 can add up to reduce your tax bill by a significant amount. Here are some of our top tax tips for preparing for the end of financial year:

✓ Prepaid expenditure

Certain incurred prepaid expenditure may be claimed as a deduction, provided it has not been capitalised to the balance sheet as a prepayment. Some prepaid expenses are deductible regardless of the amount or period being prepaid, such as stationery, subscriptions for papers or journals, vehicle registration and road user charges, postal and courier charges, rates and audit and accounting fees.

✓ Valuation of trading stock

The cost valuation method is to be used when valuing trading stock. The market selling value may be used only when it is lower than cost and can be substantiated. There is no provision for the write off of obsolete stock. To reduce the value of these items in stock on hand, they should be physically disposed of or, alternatively, valued at market selling value.

✓ Bad debts

A deduction for a bad debt is only claimable provided that the debt is actually written off your debtors list prior to 31 March. There must be sufficient evidence that you have take reasonable measures to try and recover the debt before writing it off.

✓ Imputation credit account

Companies with a debit balance for their imputation credit account at 31 March may be liable for imputation penalty tax. Voluntary payments made prior to 31 March will clear the debit balance and avoid any penalty.

✓ Employee expenses

Amounts payable to employees at balance date, including holiday pay, bonuses, long service leave or redundancy payments, are deductible in the current year to 31 March if paid to the employee within 63 days of balance date.

✓ Repairs and maintenance

Generally no deductions are allowed for a repair and maintenance reserve. It may be worthwhile to consider undertaking repairs and maintenance prior to 31 March to receive a full deduction. At year-end, review repairs and maintenance expense accounts to consider whether they contain capital expenditure. Deciding whether expenditure on an asset is deductible as repairs and maintenance or should be capitalised is often a difficult decision.

✓ Mixed use assets

There have been changes to the income tax and GST rules for certain mixed-use assets, those which are used for business and private purposes. The assets primarily targeted include holiday homes, boats and aircrafts which may be used privately and to derive income.

✓ Losses

Loss offset elections must be filed with Inland Revenue no later than 31 March. Once approved they cannot be reversed.

✓ Legal expenditure

Businesses with $10,000 or less of legal expenditure can claim a full deduction irrespective of whether legal fees are capital in nature. The fees must be business-related activity.

Recent changes to property tax

The Taxation Bill was enacted on 16 November 2015 with the introduction of a new residential land withholding tax (RLWT) for “offshore persons” selling residential property.

The RLWT applies to the sales of residential property by people who live overseas and acquire and sell the property within two years of purchase. The residential land withholding tax is intended to support the “bright-line test” which applies to land for sale and purchase on or after 1 October 2015.

Under the bright-line test provisions, the vendor is liable to pay tax if residential property is owned for less than two years before selling it. There is no exception if the sale is the vendor’s main home as the RLWT applies to offshore persons only and it is unlikely the property being sold is an offshore person’s main home. There will be an exemption for disposals of inherited property, as well as relief for relationship property, carried over from the bright-line test.

The RLWT applies only to an “offshore person” which includes all non-New-Zealand citizens and non-permanent residents. It also includes a New Zealand citizen who is living overseas, if they have been overseas for the last three years.

The vendor can claim a tax credit for the RLWT withheld and paid to the Commissioner against their final income tax liability in relation to the sale of the residential property. This may result in a tax refund.

The vendor will need to complete an income tax return including property income, along

with a Property Sale Information (IR833) form which will be available from 1 April 2016 on the Inland Revenue website. Once the income tax return is filed with the Inland Revenue Department, the income tax will need to be paid by the due date. The RLWT will be payable from 1 July 2016.

Hiring the right employee

Hiring a new employee is an important decision with the potential to make or break your business.

Hiring the wrong employee can cost your business a lot of time, money and productivity. Employers can benefit from spending more time on the recruitment process to ensure the candidate suitably matches the culture and position you want to fill.

Here are a few ways to hire the right staff:

Plan your hiring strategy

To attract the right candidates, develop a clear job description for the advertised role. The job description should identify the tasks involved, skills, qualifications and experience necessary to fulfill the position. A well defined job description can help to screen applicants and assist with the development of interview questions. Employers need to assess whether candidates are appropriate for the position by assessing if they have the necessary skills. Employers should shortlist candidates based on how well their skills and experience best match the role.

Consider your organisational culture

Candidates should be assessed on their compatibility with your business's core values, attributes and behaviours. Employers need to understand their own culture and decide on what personality and character traits they are looking for in a potential employee. A candidate's cultural fit can be determined through interview questions aimed at revealing the personality and character of the applicant.

Review credentials

Before making a job offer, check references and verify the credentials claimed are accurate. If the position requires qualifications, make sure you have relevant documents and certificates. Conducting reference checks is a vital step in the recruitment process. References provide valuable insight into the applicant's past behaviour, providing employers with a better indication of fit for the position. Performing a background check can help you to make more informed hiring decisions.

Protecting your information

Protecting your business's confidential information should be a high priority, especially when employees leave.

Confidential information such as client lists, pricing information, market research data, sales and marketing plans are all considered to be confidential in nature and are at a greater risk of exposure especially when employees leave to take on a role with a competitor.

There are some ways to minimise risks and protect your confidential information, including the following:

Identify and label your trade secrets

Information that is not accessible to the general public and is valuable to the employer is considered confidential information. The information may provide the employer with a competitive advantage and is not easily accessible by others. If the information is viable from other legitimate sources or is used by employees in their usual work routine it may not be considered confidential.

When assessing your business be realistic and avoid overreaching every aspect of your business as a trade secret. After identifying confidential information and trade secrets, you may consider labelling documents or electronic information as "confidential" so employees are aware of what is considered confidential.

Limit access

Implementing internal controls is one way to restrict access to only the employees who need the information to complete their tasks. For example, physical documents containing confidential information may be stored in locked file cabinets and for electronic data, passwords should only be given to appropriate staff.

When an employee departs your business, it is important to collect documents and valuables provided such as smartphones and laptops to protect information from being leaked.

Consider a confidentiality policy

To ensure employees are aware of their expectations in regards to confidential information, consider adding a confidential policy to the employee's handbook. The policy should clearly identify what you consider to be confidential information in your business and when employees are allowed to access this information.

The policy should coincide with the employee contract which should include a provision to prohibit use or disclosure of the business's confidential information and trade secrets.

Important tax dates

February 29

GST return and payment due

29

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

March 7

Employer deductions form and payment and employer monthly schedule due

21

Employer deductions form and payment due and employer monthly schedule due

29

GST return and payment due