MFT McIntyre Flannery Tait
Chartered Accountants & Business Coaches

Hugh's Views

Autumn Newsletter 2012

Once again we find that the end is nigh, the end of the Financial Year that is. For most of us, year end is banging on our door trying to get in.

We wouldn't have minded another 2 or 3 weeks to tidy up last years work before starting on the 2012 Financial Year. We won't be getting a certificate from the IRD this year for being good boys and girls and filing all our returns by 31 March. However that's not new.

Elsewhere in this newsletter there are some tips for getting your information together and organised, ready for passing on to us for the completion of your work. Please take note, it does make a difference to the speed in which we can complete your work.

Accounting Software

There is an interesting battle going on with software suppliers who are all chasing the opportunity through Accountants to get more of our clients onto their particular software. This is good healthy competition and there will eventually be some benefits flow through by way of more enhanced reporting options at a realistic cost. We have taken the stance of waiting to assess all the options before we do too much with our clients. For many there is unlikely to be any change recommended, but there will clients for whom a step up may well be appropriate.

Trusts

Those of our clients who have Trusts will have received a **Client Alert** recently. We have commenced the process of getting all trusts onto a register and already have become aware of issues in a number of cases from the relatively small number we have completed to date. Having talked to some solicitors there is a general consensus that a lot of existing trusts need attention. You are likely to be hearing from us if you have a trust. If you missed seeing the client alert go to this link. http://www.mftca.co.nz/newsletter

Agreed Fees

Two years ago we gave clients an option in relation to how they would like to pay their fees. We put a lot of time into this but in the end 95% of our clients wished to continue on the same basis as in the past. We will be doing some work in this area for the current year as we think we can make the fee process more efficient for us and effective for our clients.

We would like to offer an agreed fee at the time we request the records for your annual return which you can accept or decline. The agreed fee will have terms of payment. An instalment of 50% at commencement and the balance on completion.

If you would like us to prepare an agreed fee for the 2012 Financial Statements contact sandra@mftca.co.nz

In this issue

Employer Documentation

You're probably aware that many changes to the Employment Relations and Holidays Acts came into effect from 1 April last year. If you already had reasonably detailed systems in place, you might be wondering whether they are now robust enough to stand scrutiny under the new requirements.

We know that unfortunately most of our employers will simply not meet the new requirements

We have a simple Employer Documentation Kit which will assist you.
The Kit provides essential documentation to help you maintain sound record-keeping systems on employment matters. It includes fundamental checklists, forms and letters.

The standard Kit does not include employment agreements, contracts or appraisal systems and it's not a comprehensive legal guide. This is because there's no one size fits all when it comes to contracts (so it would be inappropriate for us to provide such documents to you).

The Kit doesn't replace specialist employment advice from your legal advisors on a case by case basis.

The Kit assists you to comply with the fundamental documentation requirements of the Employment Relations Act 2000 and the Holidays Act 2003.

The good news is that the cost of getting yourself compliant **can be subsidised by up to 50%** by enrolling in the Governments Business advice scheme run through the Central Otago District Council. If you would like to know more about this option through which we can also provide assistance with completion of Employment Agreements then contact paul@mftca.co.nz.

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

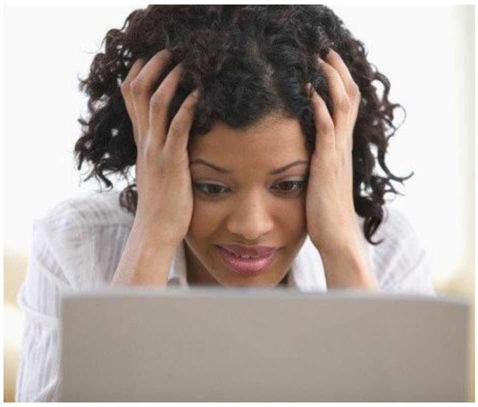
Risk and Reward

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.

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

Tax Talk

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).

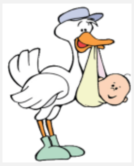
There are a maximum number of adjustment periods according to the asset's value or estimated useful life and special ‘wash-up’ rules apply when goods and services that have been subject to the apportionment rules are sold or the person deregisters.

What's been happening

Some of the team have been very active. Mark Tait took part in a Half Iron Man at Wanaka in February, and followed this up with participation in the Trail Journey's Rail Trail Duathlon in February with his wife Shannon. He along with his brother (Hugh) is participating in the Goldrush Multisport event being held as we go to publication. He also managed to fit in some Hot Laps at Teretonga in January courtesy of BankLink (software supplier for many of our clients) who sponsor one of the V8 Falcons.

Some of you may have seen Hugh on his road bike more than usual in the past few months. He has just returned from Northland after riding in the BDO Tour of the North, a four day 360km event that he was grateful to finish before the rain set in fully and the floods arrived. Next on the agenda is cycling in Provence (France) in June. And no it is not the Tour de France. There will be no hills of note!! If there is he has arranged for a vehicle to assist.

Kathryn has been back at work since January, after she got son Jayden trained. A pretty easy job as it turned out!! She is working reduced hours until things get busy and then will be working around 30 hours per week.



Sarah is leaving us in April to go on maternity leave and we have Nicole Davies starting in April, she will be the new face at reception from the middle of the month.

Talking of maternal things, Chris Oliver became a grandmother before Christmas.

Financial New Year Checklist!

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 your 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:

- [x] **New Bank Loans,** balance outstanding at year end, security, interest rate, loan term
- [x] **Fresh Hire Purchases Items,** interest rate, term and repayment plan
- [x] **Vehicle/Plant & equipment purchases,** agreements. Was finance obtained?
- [x] **Closing Stock and WIP (Work in Progress).** Stock on hand at year end? Any un-billed work in progress?
- [x] **Income,** include details of Wage or Employer Subsidies, additional income as defined for Working for Families
- [x] **Bank Statements.** If you use MYOB or a similar system, copies of final bank and credit card statements let us check the reconciled balance
- [x] **Property/Business Sales/Purchases,** agreements and settlement statements
- [x] **Debtors and Creditors**. What is owed **by** or **to** your business, including whether amounts are GST inclusive or exclusive?
- [x] **Donations/school fees?** Receipts needed please
- [x] **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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