



Paul Duggan & Associates Limited
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tax + business newsletter



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Questionnaires – we have made some changes

It's that time of the year again – time to start thinking about getting your 2012 Financial Statements and Tax Returns underway.

This year we will be carefully scheduling when we complete your financial statements and returns. We expect that by planning our work in this way we will complete your returns in a timely manner, and give you certainty about when your work will be finished.

At this stage we will be asking you to bring us your records at a similar time to previous years.

2012 Year End Tax Alert



We will email your electronic questionnaire or paper copy, whichever is applicable, closer to your scheduled time.

If for whatever reason it does not suit you to bring your records in at the scheduled time, please do give us a call as we may be able to schedule an alternative date that suits you better.

Website Launch

Great news! Our online accounting practice is here.

We're very pleased to announce the launch of our new interactive web practice at www.pduggan.co.nz. We aim to provide you with topical and relevant information, by drawing your attention to the latest tax and business developments.

Examples of services available online include the [Key Dates](#) section where you can keep up to date with important dates and deadlines, or visit our [Tax Facts](#) section to learn more about tax requirements within New Zealand.

In addition, our web practice also offers you interactive services.

With our new practice, you can view your personalised documents (financial statements, tax returns, etc) directly from within your own password protected area.

You can also organise an appointment with one of our staff via our special online appointment form. This is particularly useful if you struggle to find the time during normal business hours to phone.

Plus, we've made it easier for you to provide us with your bank transaction details via your personalised secure area in our web practice. This way you no longer need to save your data onto CD or memory stick – all you need is access to a computer with an internet connection. And of course, if you have any questions, comments, or suggestions please don't hesitate to contact us at any time. We'd love to hear from you!

If you didn't receive our recent website launch email, please contact our office or via our website to update your email address.



Risk and Reward



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 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.

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 is 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.



Fixed Price Agreement

We will soon be introducing the option of service plans and fixed price agreements for our clients. You will be able to choose the services you would like us to perform for you, and we will agree upon the fee before work starts. Because the fee is agreed in advance, there are no surprises for you. If you require additional work or an unanticipated need arises we will then agree to perform this work at a mutually agreed upon price, before the service is provided.

Our fees are payable by the 20th of the month following invoicing, but if you prefer you can pay monthly instalments in advance by automatic payment.

We know that unexpected costs are never welcome, and that frequent smaller payments are often easier to manage than one off costs. We hope that by offering these options we can do our bit to help your business manage cashflow. And if you need help managing cashflow, you can talk to us about that too!

Xero – online accounting system

This is a great time of the year to change to Xero if you are considering changing your accounting software or if you want to complete your GST returns online for the first time.

We are proud to be a Xero Certified Partner and this certification gives us an in depth understanding of Xero functionality to our clients.

Xero is an online accounting system that gives small businesses like yours and your advisors easy access to bank transactions, invoices, reports and GST – anytime you need it, anywhere in the world.

If you would like more information please contact Leslie.



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

☒ Financial New Year Checklist!

Business Perspective

Take the time to consider ways to minimise tax and maximise cash surpluses for the coming year.

☐ 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.

☐ 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 you 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:

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