

FEBRUARY 2017

WRITE OFF BAD DEBTS



With 31 March looming as the end of many businesses' financial year, there's always the prospect of paying too much tax, it doesn't need to be this way.

One of the biggest issues is the importance of writing off bad debts. It seems almost every year we have a client for whom we prepare the annual financial statements, who has a large amount of money owing to them.

When we get the results for the year we find there is a big profit, which has been inflated by an excessive accounts receivable figure. Discussion reveals some of this money is never going to be collected.

Can we fix the problem?

No. The law will not permit us to write off bad debts back-dated to the previous year. The client has to pay the tax and wait until next year to get these bad debts written off.

In the end the result is the same but in the meantime our client has to pay his tax earlier than would have been necessary.

Look at the debts owing to you. Are there some you have been pursuing and who won't pay you? Have you taken every reasonable step to get paid?

If yes, you must **physically** write off the bad debt before balance date, if you want to reduce your accounts receivable and hence your profit and tax. It depends on the system you are using as to how you go about this. If it's a very basic system like keeping copies of the invoices you have sent out, just write on your copy the words "written off as a bad debt on..." **and insert the date. Do this now.** It is not something you want to overlook.

You should tell us the amount you have written off as Inland Revenue likes us to record this separately.

Can you continue to try to collect a bad debt? Definitely yes. If you're lucky enough to get some money it becomes part of your taxable income.

GET YOUR DEBTORS RIGHT AT 31 MARCH

Clients use all sorts of systems for keeping a tally on the money owing to them. From a tax perspective, the figure at balance date needs to be accurate.

Assuming a 31 March balance date, all work done up to 31 March which is capable of being charged must be included as income. For income tax purposes holding some of your invoicing over until April does not necessarily mean you can ignore it. You don't have to actually send out an invoice but you do have to add the amount into your accounts receivable figure for tax purposes. You won't be taxed twice because once we have put in a figure for the amount owing to you, we then deduct it in the next year's accounts. If work cannot be charged because it is not quite complete, it doesn't get included in your accounts receivable.

Some businesses have work in progress, which is partly completed work. They must value this on the basis of the amount of material which has gone into jobs in progress and the value of the wages they have paid to do that work. Any other direct costs should also be included such as hire of equipment.

Cut off

Don't deduct money received in April, until you have finalised the total owing to you at the end of March.

Professional services

Professionals, who have supplied partly completed work (not invoiced), do not need to include these services in their annual accounts unless there is a right to make progress claims.

BEWARE OF THE DEBT COLLECTOR

Inland Revenue now has the power to disclose tax debts to debt collectors.

If the debt is more than 12 months old and greater than 30% of the taxpayer's gross income, the tax department can release the information.

These disclosures are going to be very dangerous. They will damage the credit rating of those who offend. If you are in this situation, be sure to **make an arrangement with the Inland Revenue to catch up and make sure you stick to it.**

Don't agree to anything you are not going to be able to sustain. Obviously, if you are in tax trouble, it might be wise to talk to us first.

Nowhere to hide

Meanwhile, tax departments around the world are clubbing together to swap information about assets and incomes owned and derived by taxpayers in countries other than their home country. IRD calls this AEOI, an acronym for Automatic Exchange of Information. Soon there'll be nowhere to hide.

BUYING OFF THE PLAN? THE BRIGHT--LINE TEST AND YOU



We've talked before about how changes to tax law around buying and selling property might affect you. Now that the changes are in operation and the bright line test is being applied to determine tax liability, an issue highlighted only recently might leave you exposed.

As we've discussed before, people who buy or sell a property within two years of acquiring it must pay tax on the gain. The main home is exempt and there are some other exceptions such as inheritance and relationship break-ups.

However, what happens when you have bought a house and land package off the plan but titles haven't been issued yet and settlement is still 12 months off or more? Do you intend to move the asset into your family trust on settlement? If you have signed the purchase agreement in your own name but want to have the family trust settle the deal, it looks like you may be caught under the bright line test. Inland Revenue may deem your interest to have been disposed of within two years, in which case if there is a gain it will be taxable.

A spokesperson for Inland Revenue has commented that 'in the case of a purchase off the plans, the house has never been used as the main home and therefore cannot qualify for the main home exemption.' Inland Revenue have no plans at this time to review their position on this. If you think this might affect you, please contact us to discuss your tax position.

BIG CHANGES ON THE WAY FOR PAYE

On 3 November 2016, Inland Revenue announced changes to PAYE effective from **1 April 2019**.

- Monthly schedules are to be abolished.
- PAYE information is to be filed on a payday basis.
- Dates for payment of PAYE are to remain the same with the option of paying on a payday basis.
- All information is to be filed electronically unless total PAYE deductions are less than \$50,000.
- Payroll subsidy is to cease from 1 April 2018.

TAX CALENDAR



SAVE THE DATE AND DON'T BE LATE

April 7 2017

2016 Terminal Tax
(March balance date)

May 8 2017

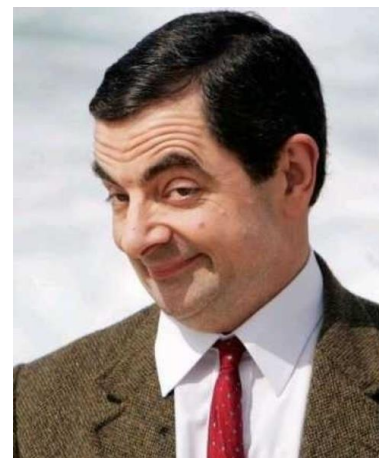
3rd instalment of 2016 Provisional Tax
(March balance date)
GST for March 2017

May 29 2017

1st Instalment 2018 Provisional Tax
(December balance date)
GST for April 2017

May 31 2017

Deadline for Fringe Benefits
Tax returns



That special look you get when everything balances!

CASUAL EMPLOYMENT

Casual employees might be right for your business, for instance if you are covering unexpected absences. But remember that, no matter what you *call* the employment, if you treat casual staff as if they are permanent — for instance, give them regular hours or work over a sustained period — their employment may be regarded as permanent, with all that that entails.

Points to note:

- Casual work is intermittent or irregular, and casual employees don't have to accept every offer of work you make so it may not fit the situation you have in mind
- Just like other employees, people who work casually for you need an employment agreement
- You can offer casual employees annual holiday pay on a 'paid as you earn' basis. You need to discuss this with the people you propose to employ as casuals. If they agree, this must be stated in their employment agreements, and payment must be recorded separately in wage records at a rate of at least 8%.

FIXED TERM EMPLOYEES

It might suit your needs better to employ someone on a fixed-term agreement, particularly if working hours are going to be regular and predictable. But the law is very strict about the form of such agreements, and if that is not complied with, you may find yourself with a permanent employee, i.e. someone whose agreement is of indefinite duration.

Because a fixed-term agreement is intended to be for a limited time, the agreement must state the means of ending the employment relationship. For instance, this might be a specific date or event (like the last day of the Boxing Day Sales or the final performance of the Christmas pantomime). Or it might be when a specific project is completed, for instance roofing the new hay barn or installing a new cooling system.

As an employer you must have genuine reasons for the employment period to be fixed-term and you must advise your prospective employee of when and how the employment term will end and the reasons for it ending in that way. Make sure the employment agreement backs this up clearly.

Be aware of the rules around entitlement to holiday pay. Like casual employees, employees on a fixed-term

agreement of less than one year can agree that they will receive 8% added to their gross weekly earnings (paid-as-you-earn) instead of taking annual holidays or getting paid out all of the 8% at the end of their term. Again, you must state this clearly in the employment agreement, it can't be less than 8% of the hourly rate, and it must be shown as a separate item in the employee's pay slip and in wage and time records.

If you would like more information about how to cover these situations in your employment agreements or your wage and time records, please let us know.

NEWS IN BRIEF

TAX DEDUCTIONS ON FOOD AND DRINK

Inland Revenue has informed us it considers the supply of all food and drink, whether in the course of entertainment or not, is tax deductible only to the extent of 50%. Thus, under this new interpretation, if you give your client a bottle of wine or a food hamper you can no longer treat this as a fully tax deductible cost. If you want a 100% deduction, think of something different such as a bunch of flowers or something else which cannot be consumed.

CHARITIES

Inland Revenue is concerned because some charities do more than just carry out their charitable works. They run businesses. The department has no trouble letting the charity off paying Fringe Benefit Tax when an employee gets a benefit such as a car. It is concerned when the employee is not actually working for the charity so much as working for a business run by the charity. In future, there is to be an apportionment between mileage used for the charity and mileage used for the business. The business arm is to pay FBT. This change to the law has not yet occurred.

NEW TRUST LEGISLATION IN THE PIPELINE

Justice Minister Amy Adams has released a draft Trusts Bill to replace the current Trustee Act 1956, which is now 60 years old and in need of modernisation. The intention is that the bill will not require existing trust deeds to be changed, because the bill largely restates the existing law. The underlying policy decisions have been extensively canvassed by the Commission and agreed to by Cabinet, and are not likely to change at this point.

DEDUCTING TAX FROM PAYMENTS TO A CONTRACTOR

Generally, if someone working for you appears to be an employee, they probably are for tax purposes.

There are a whole lot of tests you can apply but if you supply the equipment, premises, agree on hours of work etc you have probably got an employee. Ideally, if the person is a contractor you should have a "contract for service" prepared by an employment law specialist that reflects the actual arrangements. It is important to get this right because if you get it wrong not only would you be liable for the PAYE and penalties etc you could have a claim for holiday pay and/or personal grievance!

Some clients also have problems determining whether they should deduct schedular tax. In this case the rule is simple. If the occupation is listed as being subject to schedular payments, you deduct tax. If it is not listed you don't deduct tax. You can find the list at this URL: <http://www.ird.govt.nz/payroll-employers/make-deductions/withholding-tax/emp-deductions-salaries-wt-activities.html>

If you are reading this and you are a contractor, don't forget if your income exceeds \$60,000 you have to register for GST. Inland Revenue is discovering lots of cases where this is being overlooked.

GET CONTROL OF DONATIONS

Get control if you're bombarded with donation requests.

If you put all your donations through your company, you can keep a record of each one. When your annual accounts are completed, you can get a list of all donations for the year past and this would tell you what you gave last year. Note: if the company makes a loss, you won't be able to claim that loss to the extent it is caused by making donations, so only do this if the company always makes profits.

Another way of keeping control is to save up all donation requests until one day each year and then pay them all out just the once.

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

UNDECLARED CASH JOBS

Recently, Inland Revenue wrote to us to remind us "undeclared cash in the construction sector remains a high priority for us".

Failing to declare cash jobs is, of course, illegal.

One way Inland Revenue can discover the extent of cash income is to re-construct the taxpayer's expenditure. Once they have a good idea of the extent of your expenditure, they can deduce your income. The system is surprisingly accurate. If they find a shortfall they then make their estimate of what the income ought to have been and you have to prove them wrong.

It should be obvious; anyone who has a cash business can be targeted by the Department. The simpler the business, the easier the target. Taxis and cafes would have to be sitting ducks. Tips must be included as taxable income.

Inland Revenue has asked us to remind our clients of the consequences of not declaring income. They say it "can include tax penalties, criminal convictions or their ability to contract for work – which could have a considerable impact on their business and personal circumstances. Let them [clients] know that IR is getting smarter at finding people who are not declaring all their income."



IRD MAY BE CONTACTING YOU!

Don't worry if IRD txt or write directly to you, it's a new policy they have and we are unable to circumvent it. Just let us know if you hear from them and we will deal directly on your behalf...after all, that's why you engage us ...