trialbalance

The official newsletter of NZ CA Limited

NZ CA — AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS

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In this Issue

Building your business

Recently we heard about an employer who built up a successful business by focusing on his staff.

He shared with us how he did it.

Every three months he would meet each one of them and discuss their personal and business ambitions.He would talk about what they liked and what they didn't like at work.

Knowing their aspirations he could learn how to motivate them. If they wanted to create a business like his, he would tell them they would need to learn how to manage people and he would guide them into positions of responsibility. In due course, some would leave to set up their own businesses.

Initially, they might contract to him but eventually they would no longer need to do this, at which time he would wish them well for the future.

Tax by stealth

Bracket creep is where inflation ensures your income rises over time and if the tax thresholds are not adjusted your income creeps up into a higher tax bracket. The Government progressively takes a greater proportion of it. In August last year Parliament rejected a Bill suggesting the tax rates be adjusted every three years to allow for bracket creep.

Take action if you lose your cellphone

As business people, we rely on our cellphones for information as well as communication.

Losing a phone is serious. It's likely to contain all your useful information – including your passwords for apps and financial accounts. So if you know it's not simply mislaid in a jacket pocket or purse, you need to act fast to protect yourself, your business, and data about your clients and friends.

The first task should be to delete your device information and lock it. You can do this with Google's Find My Device for Android and Apple's Find My iPhone. These programs can track your phone, so it will tell if you've left it at work or dropped it in the garden. If it's somewhere strange, you'll probably want to just get the information off the device quick smart.

In Apple, log into your iCloud account; for Android users go to Goggle's Find My Device page. From there you will want to lock your phone and wipe its contents. We won't go into how in this article, but if you haven't set it up already, your internet provider or phone manufacturer should be able to help.

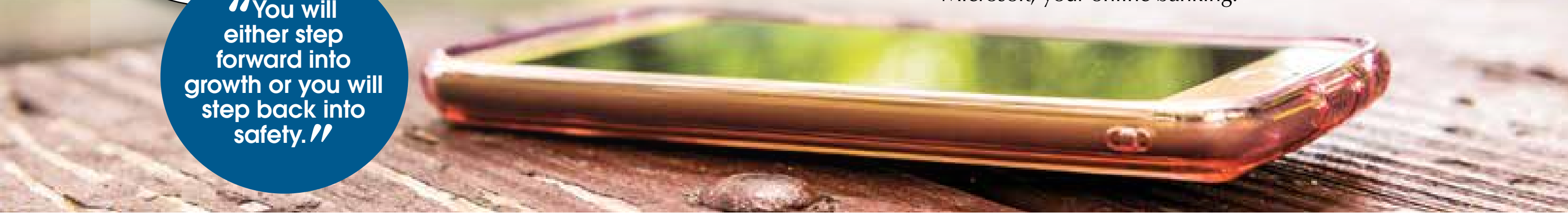
Then tell your mobile service provider. They can take your phone off the network and make it harder for someone to steal the information.

Of course if it's a work phone, there's likely to be business-related information on it, so tell the boss straight away.

Then there's the laborious job of changing passwords. Sorry, it has to be done. Start with the ones that could have the most dramatic effect if hacked – Google, Apple, Microsoft, your online banking.

"Your **SMILE** is your **LOGO**. Your **PERSONALITY** is your **BUSINESS CARD**. How you leave others feeling after an experience with you becomes your **TRADEMARK**."

"You will either step forward into growth or you will step back into safety."



Debt collection in an age of inflation

Inflation was once a feature of commercial life. Wages and prices were expected to rise by five to ten percent each and every year. When such uncertainty in the value of the dollar was pervasive, firms would build into their contracts provisions for inflation.

Many commercial arrangements allow for payments to be made in the future. However, when processes were moving quickly, parties needed some way to fix the future value to something that would make sense. Most businesses are not into currency trading and wanted some certainty.

Two approaches were used. The first was a price, with adjustments linked to the inflation index, usually but not always in CPI, or Consumer Price Index. Many larger organisations liked to use the Producer Price Index. The other was to build into a contract an interest rate that incorporated not only the time-value-of money but also the expectation of inflation.

If you assumed that prices would rise by five percent, and you wanted a two percent return on any outstanding capital, an interest rate of seven percent was what you would go for.

However, inflation was tamed nearly three decades ago under the formidable Reserve Bank governor Dr Don Brash. Now prices rise by a steady and predictable one to two per cent annually. Firms have fallen out of the habit of building into their agreements any reference to the CPI or other indexes.

Now, however, the rules of the game might be about to change. There was much media excitement last month when Statistics New Zealand announced that annual inflation was now 3.2 percent. However, what most media missed was that the changes in quarterly inflation looked like this:

Prices in the last quarter rose by 1.3 percent, which equates to an annual rate of inflation of over five percent. By quoting the figure of 3.3 percent, the media were only telling us how far we have come, not how fast we are going.

This is like measuring the average speed of a race car from the moment the starters light turns green and the first ten seconds, without mentioning how fast the car is speeding at the ten second mark. Well, at the moment we are at the ten second mark and the speed is 5.2 percent.

With luck, the Reserve Bank can wrestle this genie back into its bottle, but if it cannot, those of us in the business of managing receivables ledgers and setting future contract prices, will need to brush off long-lost skills.

Source: Waterstone

The overlooked virtue of the **Disputes Tribunal**

Debt collection can be a frustrating task and one of the most effective tricks deployed by persistent debtors is to raise a meritless dispute.

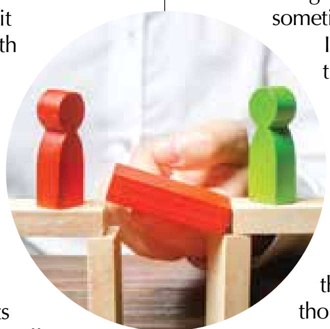
For a debt collector or an accounts receivables manager, this can be tricky. Sometimes, the debtor has a real grievance. However, those responsible for delivering the product or service can be less than forthcoming with the credit manager. Being seen to side with the disgruntled customer can create internal tensions.

However, sometimes, just sometimes, customers lie.

Regardless of which situation the credit manager finds themselves, the Disputes Tribunal is a powerful tool. These is a limit of thirty thousand and any debts referred to the Tribunal must actually be disputed. You cannot use this as a means of getting an enforceable judgement.

However, within these two constraints, the Disputes Tribunal is without question the most effective and efficient part of our judicial system.

It is true that sometimes the arbitrators are not well clued up in the law, but over recent years the quality of arbitrators has been increasing. It is also true that the judgements are not as 'safe' as those from the District Court, in terms of getting the decision right, but the difference is marginal.



These two issues are trivial, however, compared to the advantages of referring disputed debts to the Tribunal. Decisions are fast. They are cheap. No lawyers are allowed. Even if you lose, you lose quickly and at minimal cost. This is a far superior outcome than losing after a long and bitter process sometimes lasting years.

If the disputed debt is over thirty thousand, it can make sense to refer it. You cannot get a judgement for more than thirty thousand, but when you factor in the cost of lawyers, it is better to get a thirty thousand decision from the Tribunal than a fifty thousand one from the District Court that cost forty thousand in legal fees.

Disputes Tribunal decisions carry the weight of a District Court judgement. They cannot usually be appealed. The only ground is that the referee ran the hearing in an unfair way that had an impact on the result. If the decision was wrong on the law, or was just wrong on the facts of the case, well, that is that.

This makes some creditors nervous. It shouldn't. In a small minority of cases you will lose cases you should win, but equally you will sometimes win when you should not. The value in the process is the speed and efficiency.

Source: Waterstone

Big change to loss carry forward rules

Arising out of Covid 19 and starting with the 2021 income tax year, it is proposed to allow business losses to be carried forward even if the 49% continuity rule is broken. The condition is that there is no major change to the way the business is carried on. One of the benefits of the new rule is it will allow businesses to take on new capital.

The law change is expected to be enacted before 31 March 2021. Although it has arisen out of Covid 19, it is proposed it will apply to all losses arising out of the 2014 financial year or later.

As the government is still working through the details, we will provide more information at a later date.

It was originally suggested there should also be an ability to carry losses backwards but this seems to have been dropped.

Getting IRD interest cancelled 2021 year

Under section RC 7 of the ITA 2007, a taxpayer is entitled to make a fair and reasonable estimate of their provisional tax any time up to P3. A new section183 has been inserted into the Act. If the taxpayer makes an estimate, and the ability to get it right has been significantly adversely affected by Covid 19, they may apply to Inland Revenue for cancellation of interest.

This applies so long as the RIT is less than $1 million and the requirement to estimate has not arisen as a result of making an election to transfer losses back to a previous year see section IZ 8 or by a company in the same group of companies as the taxpayer.

Terminal tax has to have been paid on time. The application for cancellation of the interest should be made as soon as possible.

An estimation has to be notified to Inland Revenue prior to the provisional tax payment date. If this was not done for P1 and the tax was underpaid, it could be done for P2 or P3 and therefore provide some relief from interest.

Tax calendar

7 April 2022
Terminal tax for 2021 (March, April, May and June balance dates). For all clients except those who have lost their extension of time privilege.

9 May 2022
Third instalment of 2022 Provisional Tax (March balance date).
GST for March 2022.

30 May 2022
First instalment 2023 Provisional Tax (December balance date).

31 May 2022
Deadline for Fringe Benefits Tax returns.

Year end tax implications

There are a number of issues that need to be considered when preparing year end financial statements. The timing and treatment of certain expense items can have tax implications, and in some cases the accounting treatments applied can result in tax efficiencies.

Typically accountants in conjunction with the business owners, need to consider the treatment of certain expenditure in particular whether it can be bought forward into the current period. The general rule is that business expenditure is deductible in the tax year that is incurred.

PREPAID EXPENSES

Repairs and Maintenance
If carried out before year end, then the amount will be deductible in the current year. The total cost of a service contract is deductible if it has less than three months to run at balance date and costs less than $23,000 for a full year. If purchasing a fixed asset and there is a warranty or service contract, ensure the warranty or service contract is separately identified, as these are deductible.

Stationery
If re-stocking is about to occur in April or May, consider moving this forward to March. The total costs of stationery are deductible in the year these are paid.

Travel and Accommodation
Advance bookings for business related travel and hotel or motel accommodation are deductible provided it is not more than six months in advance and does not exceed $14,000.

Subscriptions
Newspapers, journals and periodicals are deductible without adding back unexpired amounts. Associated memberships are tax deductible provided they extend no more than 12 months after balance date and the subscription does not exceed $6,000

Insurance
Insurance premiums are deductible provided they are not prepaid for more than 12 months and the total amount of such expenditure incurred in the income year in respect of the contract does not exceed $12,000.

Advertising
If advertising is paid prior to year end and if the period of the advertising relates to no more than 6 months after balance date and the advanced portion is less than $14,000, then it is fully deductible in the current year.

Rent
Prepaid rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than $26,000.

Livestock
Prepaid expenses for the lease or bailment of livestock or bloodstock are deductible provided they are not prepaid for more than six months and the amount does not exceed $26,000.

Consumables
Consumables used in conjunction with but not forming part of the final product can be deducted in the year of purchase, provided total stocks at year end do not exceed $58,000.

Telephone
Payments for the use or maintenance of telephone and other communication equipment are deductible if not prepaid for more than two months.

Services
Prepaid costs for services, other than those mentioned above, of up to $14,000 and for no more than six months are deductible in the current year.

Motor vehicles
Motor vehicle registration and driver licence fees paid in advance are fully deductible in the current year.

Leave Provisions/Bonuses
Amounts owing at balance date for holiday pay and long service leave is only deductible if paid out within 63 days of year end. If you want to pay staff bonuses relating to the tax year, they must be paid within 63 days of the business's tax balance date to be claimable for that year.

Bad Debts
Bad debts are deductible only in the year that they are written off. Bad debts must be written off before balance date.

OTHER ITEMS TO CONSIDER AT BALANCE DATE:

Accounts Receivable
Every year we have clients who do not understand they must pay tax on all their earnings, including money not yet received. March invoices paid in April are part of year end income as are April Invoices for March work.

Stock and Work in Progress
You must count and value your trading stock at balance date, unless it is less than $10,000 and your sales are less than $1.3 million. Keep your stock sheets to show Inland Revenue if they ask for them. Dispose of obsolete stock now as it must be valued at its cost, unless you can prove it has a lower market price. A guess is not acceptable. You have to find evidence to support the price. This can be difficult. Work in progress must be valued unless your business is only providing services which cannot yet be billed.

Company Dividends
If you plan to pay a company dividend, you might be able to get a tax refund for a person whose income is less than $48,000, if the dividend is declared by 31st March. If a family trust owns shares, you might be able to allocate the dividend to a low-income member of the family. The law is complicated so check with us.

Overseas Income
If you receive overseas income and are a tax resident in New Zealand, you will be taxed in New Zealand on your worldwide income. There is a temporary tax exemption available for those residents who are 'transitional tax residents' for a four year period (please contact RSM New Zealand for more details).

As the tax treatment of overseas income is quite specific it is important that you advise us of all the types and amounts of overseas income you have.

There are many issues to consider at year end. We strongly recommend you talk to your accountant/tax advisor before the year end to minimise negative consequences and avoid disappointments.

Why you need a will in NZ

None of us like to think about the fact that we're going to die one day, despite the unavoidable fact that the grim reaper is coming for us all. Maybe that's why many of us Kiwis put off the task of estate planning, data indicates over half of us don't have a will.

Some of us assume we don't need a will because we don't have enough assets. Others just don't consider it, and more of us still just think we'll live to a ripe old age so can arrange our affairs sometime closer to our death.

Well, life isn't always that convenient. The grim truth is that over 33,000 New Zealanders die every year, that's nearly enough to fill Eden Park. While our chances of dying increase as we age, there's still plenty of young and middle-aged people that pass away each year.

Even if we're young and healthy, that isn't the same as being immortal. Being young and healthy won't protect us from dying in a car accident or a natural disaster, or from a sudden illness or injury. We can never be truly sure what tomorrow will bring.

Why we need a will

No matter how straightforward our circumstances, having an up to date will ensures everyone understands what we'd like done with our estate – that is, our assets, debts, and anything else in our name after we're gone. This can include who will be responsible for carrying out our final wishes, our funeral instructions, who will be the testamentary guardian of our children and who should benefit from our assets, including any specific gifts or donations we might want to make.

When we die, everything we own, and everything we owe, is called our estate. This might include:

- Bank accounts
- Home and other real estate
- Shares
- Retirement accounts, including Kiwi Saver
- Vehicles
- Jewellery, watches, personal effects.
- Furniture
- Electronics
- Pets
- Collectibles, paintings, books, clothing, musical instruments, family heirlooms, and so on

A will is also important for naming our executor and trustee – the person or persons who will be responsible for applying to the High Court for probate, collecting all our assets, paying all our debts, managing our estate during the process, carrying out our final wishes, and dealing with any disputes.

If we die without a will in NZ

If we die without a will and have assets worth more than $15,000, then the law decides where everything goes and what is to be done. Our loved ones will probably have to navigate a lengthy and difficult process to determine how our assets are divided and what happens to the people who depend on us.

It's not always pretty either, as the changing nature of NZ families, (including higher divorce and separation rates, more single parents, blended families, special laws about Maori land, and NZ's high rate of family trusts), means that even seemingly simple situations can soon be not-so-simple for those left behind. This might mean our entire estate could end up going to an estranged spouse because we were never legally divorced, or to a sibling we haven't seen in years.

It can also lead to disputes. We might think our family and friends would never do this, but people who have lost a loved one sometimes express their grief in unexpected ways.

Changing a will

Wills can be changed, they're not set in stone. If our life situation isn't as settled as we'd like, if our circumstances change, or if we simply change our mind, we can just write a new will. Even if we decide to make a completely new will, we can still use the old one as a reference, which make the process faster.

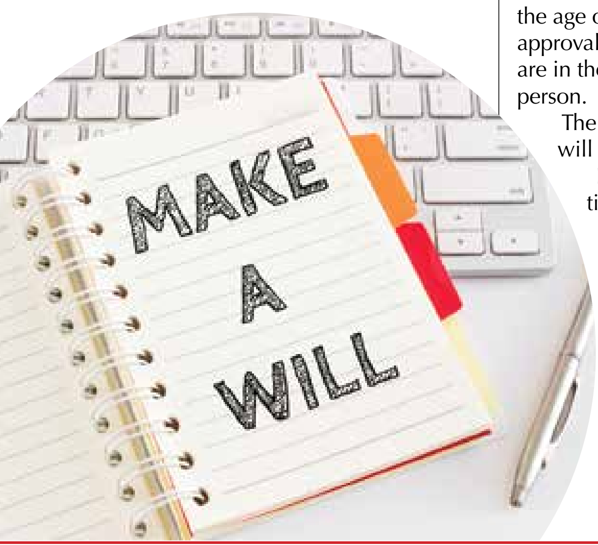
Who can make a will?

Anyone of sound mind who is at least 18 years old can make a will. A person under 18 may make a will if they are (or have been) married or in a civil union or de facto relationship. Others under the age of 18 can make a will if given approval by the Family Court or if they are in the military or are a seagoing person.

The bottom line, why you need a will in NZ

For just a small investment of time, money, or both, we can purchase the peace of mind that comes with the knowledge our loved ones will be taken care of when we're gone, and of knowing that we're not leaving a mess behind. That's something we can't put a price on.

Source: Milestone Direct: www.milestonedirect.co.nz



NZ CA
AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS

RSM

RSM New Zealand Group Limited

Auckland, Auckland Central, Auckland North

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Colin Wilson	Jason Stinchcombe	Charles Worth
Carl Cachopa	Steve Hayes	Dean Stevens
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Changes in Particulars

Please remember to let us know of any changes in:

• Physical address • E-mail address • Phone and/or fax numbers
• Shareholdings • Directorships • Trustees

Or anything else that may be relevant.

Disclaimer