

Interest pitfalls

if you had a big year

If you are expecting an annual income of more than around \$200,000 from your business and you're not paying PAYE on any salary from the business, beware of Use of Money Interest, which has now been set at 9.21%.

If your income exceeds \$204,820, your tax is going to exceed \$60,000, which is the threshold at which Use of Money Interest is applied.

Inland Revenue expects you to know your income for the year ended 31 March 2023 by 7 May 2023.

This is not particularly realistic for small businesses. However, if you

haven't paid enough tax by that date, you must top up the tax or face Use of Money Interest charges on short-paid tax.

What to do? Try to estimate your taxable income for the financial year. Work out your tax for the year, which is \$60,000 +39% on every dollar of income in excess of \$204,820. Deduct the first and second instalments of provisional tax you have already paid and pay Inland Revenue the difference.

Similarly there is a threshold for companies which is \$214,285.

Please give your accountant a call for assistance.



Borrowing money for your company

Given a choice, it's safer for a company to borrow money than its shareholders.

Inland Revenue has argued, successfully, that interest paid on money borrowed by shareholders for their company is not a tax deductible cost for the company. This is because the company didn't borrow the money.

Many companies have been caught out by this and had the unpleasant surprise of discovering interest had not been a tax deductible cost for some years. Inland Revenue has disallowed the expense, increased the taxable income and collected extra tax, together with a hefty Use of Money Interest charge.

It's easy for an accountant not to notice the money has been borrowed by the wrong people.

So if your company needs to borrow money, make sure it's indeed the company that does the borrowing.

If you find a loan is in your name, you can still do something about it.

- Lend the money to the company and charge interest for the loan. The interest charged needs to be based on market and charging the same as the bank is charging is acceptable and the simplest. Unfortunately if the interest the company pays (excluding interest to banks) exceeds \$5,000 in an income year RWT will have to be deducted and paid.
- An alternative is the money could have been borrowed as agent for the company.

In both cases the paperwork matters. Get professional help and get it right.



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“First, THINK. Second, BELIEVE. Third, DREAM. And finally, DARE.”
– Walt Disney



TAX

2023

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 us 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.

Kilometre rate

If you claim for the running costs of your motor vehicle on a kilometre rate basis, make a note to get an odometer reading on balance date. The rate is calculated based on the total number of kilometres travelled in the year and the proportion of them used for business. If the total number of kilometres exceeds 14,000 there is a two-step process for the calculation.

Vehicle logbook

If you need to keep a logbook you must do so for a consecutive three-month period at least once every three years.

Maintenance of equipment

Any maintenance you carry out before the end of your financial year is tax-deductible for that year. If you are planning maintenance in the short term, it might save you tax if you got on with it before the end of the financial year. Maintenance means bringing the asset back up to its original condition.



Increase your chances of getting **THE RIGHT STAFF**

New Zealand is desperately short of employees.

To increase your chances of attracting staff when you advertise, remember these rules:

- Since you want potential employees to read the advertisement, get them excited about working for your firm. What's so special that they would want to come and join you? Remember "what's in it for me"? That's what the potential employee wants to hear.
- For print advertisements, don't forget the importance of a powerful headline. You've got to catch the reader's eye.

Make the advertisement easy to read. Reverse type for text (white on black or similar) is not noticed as easily or as readable as standard black type, and doesn't usually work well on newsprint.

Make it as easy as possible for potential employees to contact you. Many will read the ad outside normal working hours. You might just have to be prepared to answer the phone when it suits them.

Build to rent asset class proposed

In some places overseas, rental properties are purpose-built for tenants who have the right to stay for the rest of their lives. New Zealand has taken its first step in this direction. A tax Bill in August 2022 is aimed at creating a "build-to-rent" asset class.

It proposes:

- the landlord must offer a lease for at least 10 years
- the tenant can request a shorter time
- the tenant can terminate the tenancy by giving 56 days' notice
- the landlord must have at least 20 dwellings in a single development
- the whole enterprise must have a single owner with all properties sharing a single boundary.

- explicit personalisation policies must be offered over and above the Residential Tenancies Act 1986
- developers can put shops in with the dwellings.

If this type of investment is created, interest will be tax deductible – even though it applies to residential rental property – on the condition the property continues to be operated as a "build-to-rent".

Existing investors in property will be given a transitional period to come within the build-to-rent rules, if they want to.



Rules change again on tax payment dates

Inland Revenue has modified the rules, again, on tax payment dates.

Previously, if the due date for payment was at a weekend or fell on a public holiday such as an anniversary day, you were entitled to pay on the next working day.

However, if you usually pay your tax electronically, the banking system still operates and therefore the time is not extended to the next working day.

If you pay physically at Westpac bank, you still get allowed that extra day.

Note April 7 is on Good Friday. Be sure to follow the new rules.

Developing an employee career path. And, why it's good for business

Career path planning is essential for the growth and development of employees. Without it an employee may become stagnant in their role; boredom will set in, and they'll start looking for more inspiring work and growth opportunities elsewhere. Can you afford to lose staff because you don't invest in the future of the excellent people you already employ?

The state of the current labour market tells us how critical it is to retain the people you have. Internal recruiting is a more effective and affordable way to fill a vacancy; it's cost effective and reduces turnover. Therefore, it is worth your while to consider career path planning for the people in your team.

Keeping business records for seven years

Before you rush to destroy old files remember the onus of proof generally rests with the client in an argument with Inland Revenue. Be selective when destroying old documents or, in these days of being able to store a ton of information on a computer, you may as well keep everything.

Flu vaccine vouchers and FBT

A non-cash benefit provided to an employee is usually subject to FBT. However, if it relates to health and safety it could be exempt under section CX 24 of the ITA 2007. Therefore, if you provide flu vaccine vouchers to your staff, these benefits are not subject to FBT.

Land purchase - when not to claim GST 2201

Do not claim GST on residential land purchased unless you are sure you are going to sell it. If you do claim GST and convert to a rental, the sale of the property will always be subject to income tax even if you sell it to an associated entity in the meantime. By claiming the GST you are notifying IRD that you purchased the property with an intention of resale.

Refinancing a partnership

Partners may borrow money and claim an interest deduction, if it is for refinancing loans they have made to the partnership or if they wish to take out prior years accumulated profits of the partnership. The interest on borrowing to repay partner's capital and realised capital gains are also deductible. The partnership is not able to borrow to pay out current year's profits or unrealised capital gains

6 things your business needs to do NOW

Here are six-step steps that organisations can take now in planning for a positive outcome in the future.

1 Plan well

Planning is key. It is important to look at the numbers and consider where you are going to be in six, twelve or eighteen months' time and plan a way forward.

2 Forecast your future

Build forecasts and projections within this plan. Businesses should involve their advisors to make the best forecast possible which can be adapted as necessary.

3 Engage with the right stakeholders

Engage with all significant financial stakeholders, banks, investors and funders to ensure there is transparency and support for the plan of action.

4 Think Differently

Industries are changing rapidly. Beyond adapting to the current environment, organisations should think ahead to be prepared for different scenarios.

5 Adapt and be flexible

Be prepared to adapt and be flexible. Put financial modelling at the centre of your plans. Actively monitor these models and be open to adapting the approach as required.

6 Be prepared for the unexpected

This is about creating headroom in your facilities to enable you to cope with the unexpected, whether good or bad.

In summary, there is much for businesses in the middle market to consider. However, by creating a robust plan of action there is a far greater opportunity to achieve a successful outcome. We have the tools to assist with your planning and trialling different scenarios. Please give us a call.



“Seek opportunities to show you care.”

The smallest gestures often make the biggest difference.”

– John Wooden – UCLA Basketball

“Don't let yesterday take up too much of today.”

Foreign exchange rates

The foreign exchange rate sources acceptable to Inland Revenue:

- Rates published by the Commissioner
- Rates published by the Reserve Bank of New Zealand
- Rates published by another country's central bank. Three currency conversion methods are approved
 - The mid-month rate
 - The end-of-month rate
 - The rolling average rate.

Tax calendar

7 April 2023

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

7 May 2023

Third instalment of 2023 Provisional Tax (March balance date)

28 May 2023

First instalment 2024 Provisional Tax (December balance date)

31 May 2023

Deadline for Fringe Benefits Tax returns.

RSM New Zealand Group Limited

Auckland, Auckland Central, Auckland North

| | | |
|-------------------|------------------|--------------|
| Ben Cooper | Bhavika Topiwala | Craig Cooper |
| Colin Henderson | Tony Oliver | Colin Wilson |
| Jason Stinchcombe | Charles Worth | Carl Cachopa |
| Steve Hayes | Dean Stevens | Lloyd Kirby |
| Kumar Aravinda | Elaine Yong | Lyle Irwin |
| Steve Young | Nicola Turner | Wei Chen |
| Brendan Foy | Lisa Murphy | Wayne Tukiri |

Contact

0800 774 623

www.rsmnz.co.nz

office@rsmnz.co.nz

Members of NZ CA Limited

| | |
|-------------------------------------------------|---------------|
| Accountants Hawkes Bay - Napier | (06) 843-4868 |
| Accounting HQ - Rotorua | (07) 348-7066 |
| BM Accounting Limited - Havelock North | (06) 876-7159 |
| - Waipukurau | (06) 857-8901 |
| Brophy Knight Limited - Ashburton | (03) 308-5104 |
| Brown Glassford and Co Ltd - Christchurch | (03) 365-0881 |
| BW Miller Dean - Wellington | (04) 910-3340 |
| Candy Gillespie - Matamata | (07) 888-7089 |
| Focus Chartered Accountants - Whakatane | (07) 307-1141 |
| GCOL Chartered Accountants - Lower Hutt | (04) 939-1975 |
| gfa Chartered Accountants - Te Awamutu | (07) 872-6444 |
| GS McLauchlan - Dunedin | (03) 477-8192 |
| - Queenstown | (03) 477-8192 |
| Harris Taylor - Hawera | (06) 278-5058 |
| Marshall & Heaphy Limited - Greymouth | (03) 768-7186 |
| Martin Wakefield - Timaru | (03) 687-7122 |
| - Christchurch | (03) 343-4012 |
| Matheson Rae - Christchurch | (03) 343-3692 |
| McDonald Vague - Auckland | (09) 303-0506 |
| McIntyre Dick & Partners - Invercargill | (03) 211-0801 |
| McKenzie & Co - Oamaru | (03) 434-7944 |
| Naylor Lawrence & Associates - Palmerston North | (06) 357-0640 |
| - Dannevirke | (06) 374-5730 |
| - Feilding | (06) 323-8752 |
| nsaTax Limited - Auckland | (09) 309-6505 |
| RSM New Zealand - Auckland | (09) 271-4527 |
| - Auckland North | (09) 414-6262 |
| - Auckland Central | (09) 367-1656 |
| Southey Sayer - Masterton | (06) 370-0811 |
| Strettons - Taupo | (07) 376-1700 |
| Sudburys Limited - Whangarei | (09) 430-4888 |
| Vazey Child Limited - Hamilton | (07) 838-2169 |
| Wallace Diack - Blenheim | (03) 578-7389 |
| Whitelaw Weber Limited - Kerikeri | (09) 407-7117 |
| - Kaikohe | (09) 401-0991 |
| - Kaitiaki | (09) 408-1220 |
| YRW Limited - Tauranga | (07) 578-0069 |

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.

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