



NEWSLETTER

December 2013

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Hi Everyone and Merry Christmas

With the festive season upon us, Wayne, Dianne and the team would like to extend Season's Greetings and wish you a New Year abounding with Health, Happiness and Prosperity.

We would also like to say a big "thank you" for your support in 2013, and a special "thank you" to those of you who have responded promptly to our various requests for information. We look forward to working with you in 2014 and onwards.



Jam Jars, and other spending behaviours

The best way to operate bank accounts when you have a business is to have one for business spending, and a different bank account for personal spending. Then, you might also want a business savings account to keep your tax monies away from your spending. There's no problem using your credit card for work, although if you use it a lot, you may want to have separate credit cards for personal items.

The more bank accounts you have, the more time you spend moving money around between them, the greater the risk of a bank account getting overdrawn, and more difficult it becomes for us to unravel what exactly is going on.

Private expenses should be kept out of business bank accounts, particularly companies and trusts which are separate legal entities. Pay private expenses from your private bank account.

December and January Are Short Working Months

As December is a short working month please ensure that all November GST papers are brought in to us early December. We will also need December GST papers during the week beginning the 13th of January.

Payment Dates

20 Dec 2013 for November PAYE
15 Jan 2014 for November GST and Provisional Tax
20 Jan 2014 for December PAYE
28 Jan 2014 for December GST



Christmas Break

Our office will be closed for annual holidays from 12.00 Midday Friday 20 December 2013 and will re-open on Monday 13 January 2014. If you require assistance over this period please leave a message on the answerphone and one of us will get back to you.

You can still be broke while having made a profit

Profit is the consequence of sales income less deductible expenses. Your cash-flow is quite different, for two reasons. Firstly, there is a timing mismatch, doing something this month usually means the money changes hands next month. Secondly, not everything you spend money on counts as a profit reducing expense — tax, drawings, assets, leases, loans etc.

Companies Office Matters

"Authority" is the term used for links to the company file. It provides us access to information not available to the public, so for that reason we will always need that authority. It is also necessary for doing the annual returns or any other changes. Although our preference is that we do the Annual Return you can opt to do that yourself.

If you do not file the annual return, then the company will drop off, and there is a monumental amount of paperwork to get it reinstated. When the company has dropped off, it has no legal standing, and all assets and bank accounts are forfeited to the Crown.

NZBN

All companies on the Companies Register have now been assigned a New Zealand Business Number (NZBN).

This is the first step towards allocating a NZBN to all businesses in New Zealand, and creating a single searchable public register of businesses. Initially, the introduction of a NZBN will have a limited impact for Companies, however, it is intended that the introduction will mean that in the future companies spend less time and effort on government forms and correspondence and more time and effort on business.

Provisional Tax

is IRD's way of getting you to pay tax as you go when you are not on wages. Usually, the amount is based on the last filed income tax return. Sometimes the amount is based on the current years likely taxable income, and we ought to work closely with you so we have a chance of ensuring that each profit is correct.

IRD do not normally enforce the collection of provisional tax as it falls due. But once the tax return has been filed for the year, IRD will retrospectively apply penalties and interest if you ought to have been paying provisional tax. These are calculated on a daily rate.

The single biggest impact on reducing the penalties is to pay the first provisional tax instalment in full on time. If you think that no prov tax is needed, you really do need to talk to us, so you understand the consequences of choosing to not pay. Equally, if you can't pay, then pay as much as you can, as quickly as you can. If it looks like getting it up to date is going to take some time, talk to us, or IRD, about whether to set up a formal payment plan.

Working for Families Tax Credits

This is based on family income, which is not just what is declared as taxable. Income also includes rental income and payments by your extended family on your behalf. If your income is too low, IRD do come and ask for proof about your living costs, including personal bank statements for the whole year.

Weekly payments are not a good idea if you are self-employed. The risk of being overpaid and having to pay it back is quite high.

Most people also find that a lump sum is more useful.

Drawings or PAYE

If you own and operate a company, you are almost always better off on drawings and paying provisional tax. It means that you do have fewer larger payments to IRD, but we can help you convert this to voluntary monthly payments if you prefer. It is more difficult to manage the correct tax position if you are on PAYE Wages.

We will often allocate all the profit out as shareholders salary the accounting is less complicated and the total tax paid can be cheaper.

Personal expenses are not tax deductible

Clothing is only deductible if it is protective in nature (hi-viz jackets, boots, wet weather gear), or if it is clearly and distinctively marked with your business details.

Food is only deductible if you are staying out of town, or is half deductible if you are out to lunch with a business contact.

Medical expenses, massage, physio, chiropractor, are not deductible because they are personal in nature. Same with health insurance. Spectacles are only deductible if they are exclusively work related.

Traffic fines, and any other penalties are never deductible, because it is "contrary to good public policy".

Training is only deductible if it relates to the current income. If it is intended to lead to a new way of earning income, then it is not deductible.

Entertainment expenses need to be very narrowly restricted to your business activity, and are mostly only half claimable.

Xero

If you are thinking of moving to Xero, talk to us first. It sounds fantastic in theory. But there are a lot of things to think about, including the ongoing costs, deciding whether to proceed, and also in then deciding how to best set it up.

When working out what to charge, it's not just about the price

A common mistake is to charge about the same as your competitors — but you need to think about this carefully. Do you want to be known as someone who does cheap, or someone who does good. Sure there are times when you need to be careful because of who the person is, or where you get the work from.

Increasingly we are seeing people charge hard, and then reward through discounts for good behaviours such as

prompt payments and referrals. It still gets you back to the same number, but it's easier to drop prices than to have no room for manoeuvre. It is also good padding in case the client is late, or pays by credit card.

How can I make more money without putting up my rate?

If you are charging by time, are you charging for all of your time. Not only the time on-site, but the running around, getting stuff, thinking about the job, making phone calls.

If you are buying products and components that you on-charge, are you charging at retail.

If you provide drawings, and plans, charge for them. It's using your time, knowledge and expertise. You can include this as part of the total job cost, but it stops people taking your plans and getting them executed somewhere else.

If you are doing "a special" to try to get in with a new referrer, charge the full price, and then show the job discount and reason, as a separate line. It's then much more difficult to be told "but it wasn't this much last time."

Is the work extra complicated, difficult, dirty, or just plain annoying.....

Is it urgent, is it outside of work hours?

Bundle the work so that the perceived value received is greater.

Vehicles

If you have a passenger vehicle owned by the company, then you must pay FBT because the vehicle is available for private use. We do this by way an accounting adjustment at end of year. There are some exemptions allowing no FBT, but the default is that such vehicles are available for personal use.

If you want to claim the GST, it can only be claimed if the owner is GST registered. So, if you are trading as a company, you must have the vehicle owned by the company.

If you claim GST on the purchase, you must return GST when sold or transferred back to personal use. The transfer value is an arms-length independent valuation.

If it is a passenger vehicle (ie not a goods vehicle), then there must be a private use adjustment (or fringe benefit adjustment)

Fringe Benefit Tax

FBT is calculated at 20% of the GST inclusive cost of the vehicle. If you have a company, and you have a vehicle in the company, then you must pay FBT, unless the vehicle is exempt as a 'work related vehicle' and NEVER available for personal use, like a ute. This is one of those things we try to sort out when we do the accounts but if you do have a burning desire to purchase a vehicle, talk to us first.

FBT isn't bad, but there are some sensible things you can do to make it less, especially by choosing to buy a lower cost vehicle.

Hire Purchase, or Lease?

What matters is what is in the agreement, not what it is called, or what you are told. If you do not own the thing until after the final payment, it is a rental. The GST is claimed on each instalment, and there is no depreciation. If you own it upfront, then it is a hire purchase. On the face of it, you claim the GST on the asset upfront, and not on the regular payments.

We ask for the paperwork at end of year, or at GST time, to read the fine print, to make sure we understand whether it is a lease or a hire-purchase, and to make sure that we have the correct entries into our records.

Buy / Sell Houses

IRD have flagged that they are again looking at capital gains on house sales. If you buy with the intent of making a profit on sale, that profit is taxable. There is no permission for just once.

Having said that if you buy, and then change your mind and quickly sell, you ought to be prepared to explain why.

Donations Rebates

Are limited to how much tax you pay you cannot get a rebate if you haven't paid tax.

ACC bills must be dealt with quickly. They don't delay going to debt collectors.

House Insurance

The system is changing and you NEED TO READ THE STUFF they send you. Until now, you have been generally covered for size. This has changed to value, which now also takes account of quality of fit-out. If you don't get it right, you will not be able to get the same house on a rebuild.

NZ Post

You NEED to allow a week for delivery

Traditionally a letter was deemed to be received at the time it is posted. IRD seem to be now closing the gap, so that mail received today for yesterday's due date is in time, but then tomorrow it is late.

NZ post turnaround time is 3-5 days.

You also now should be displaying the Post Code on the envelope — the website www.nzpost.co.nz, sending within NZ, has the address and post code finder.

Livestock

We need to know not only how many, how old, and what sex at tax time, we also need to know how many how old

what sex were bought, sold, killed, or born (although these we know the age of) during the 12 months.

Sometimes more expense is less

Bank Fees. If you use a different banks atm, you pay extra. If you transact over the counter rather than by direct

deposit or Internet, you pay extra. Sometimes paying a high flat monthly fee is cheaper than paying per transaction.



Wayne, Dianne and the team wish you a
Safe and Merry Christmas
and a Happy and Prosperous New Year.

Thank you for your support in 2013.
We look forward to assisting you in 2014 and onwards.



Christmas Thoughts

Christmas is mostly for children. But we adults can enjoy it too, until the credit card bills arrive.

It's so silly that when our stomachs are gaining weight around Christmas our wallets are losing weight. Merry Christmas.

I love Christmas. When else can you sit in front of a dead tree and eat candy out of socks?

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