31 MARCH 2019 YEAR END TAX TIPS AND REMINDERS

The end of income tax year is fast approaching and will end on 31 March 2019. It's a timely reminder to spend a little time reviewing your financial records and reflect on the past year.

It's also an opportunity to remind you of a few steps you may need to take to help minimise your tax bill.

The list is a summary only and is not intended to be exhaustive or complete. However, I believe that there's a reasonable chance that you'll find a couple of tips and strategies to add some extra savings to your tax bill.

Please don't hesitate to contact me if you'd like to discuss your specific needs and circumstances.

Regards

Mark Gwilliam FCCA CA
Director
Business Advisory Accounting & Tax Services Limited
www.bizadvice.co.nz

FIXED ASSETS REVIEW

Scrutinise your fixed asset register to ensure your fixed assets are classified correctly and the correct tax depreciation rates are being applied. If you no longer use an asset and the cost to dispose it greater than its disposal value, it can be written off.

Assets costing less than $500 (GST exclusive) can be written off immediately. This assumes that it's not an upgrade part of a wider acquisition of the same asset from the same vendor, with the same tax depreciation rate.

You may claim depreciation for a full month for any part of a month that you own and use an asset.

Consider buying replacement assets before 31 March 2019 to claim one month's depreciation deduction. If you anticipate making a loss on selling an asset, consider selling it before 31 March. If you think you'd make a gain on selling an assets, consider postponing selling it until after 31 March.

Commercial fit-out

The tax depreciation rate for buildings with an economic life exceeding fifty years is 0%. To maximise taxable depreciation deductions you need to separately identify, where possible, commercial fit-out expenses (so that depreciation tax deductions can be claimed) from the building itself.

BAD DEBTS

You can claim a taxable deduction for bad debts that you've written off during the current income tax year. You must be able to demonstrate that you have undertaken a process of determining that the debt is "bad". Individual trade debts should be reviewed. They must be actually written off in your accounts receivables ("debtors") ledger before 31 March to be allowed.

A debt is generally classified as bad if a reasonable and prudent person would conclude that the debt is likely to be repaid. The length of time that the debt has been outstanding and what you've done to collect it will be key factors in determining if it's a bad debt. A debtor doesn't have to be insolvent for the debt to be classified as a bad debt. You can still pursue them for the debt.

EMPLOYEE WAGES, HOLIDAY PAY AND ANNUAL LEAVE

Employee expenses owed at 31 March 3019 (e.g. holiday pay, bonuses, long-service leave), providing payment is made within 63 days after year-end, can be claimed. Therefore if you pay them before 2

June 2019 you can claim them in the period ended 31 March 2019.

CLOSING STOCK

Unsold trading stock (excluding livestock) at 31 March 2019 must be valued, subject to meeting the relevant criteria, using **one** of the following methods: cost; its discounted selling price; replacement price, or market value if it's lower than cost. These methods must be applied consistently.

Obsolete stock or stock "write-downs" aren't generally not tax deductible. Before 31 March 2019 you should consider carrying a stock-take. You must physically dispose of any obsolete stock or value it by using one of the four methods listed above.

If your turnover is less than $1.3 million you may value your closing stock at its opening stock value. But only if you can reasonably estimate that your closing stock is valued less than $10,000.

MIXED USE ASSETS

Inland Revenue recently introduced new, stricter, legislation to determine income tax and GST obligations for assets which are used for both private and business purposes ("mixed use assets").

Rules specifically focus on people with holiday homes, boats and aircraft. If the mixed-use asset rules apply to you, ensure that you have kept complete and accurate records of relevant income and expenses.

DIVIDENDS

If, as shareholders you have taken regular drawings and your current accounts are overdrawn, you need to be very careful. You may be required to pay Resident Withholding Tax by 20 April 2019 if you declare a dividend in March.

PREPAID EXPENSES

Some expenditure is tax deductible in the income year in which it is incurred, regardless of whether it will used in a later income year. But only if it has been recorded in your financial accounting records. Some concessions have either a $ or time limit. The following prepaid expenses could be claimed in the income year ended 31 March 2019:

- Advertising and marketing for the period ending 30 September 2019 if doesn't exceed $14,000;
- Insurance for up to twelve months if premiums do not exceed $12,000;
- Rates to the extent of the amount invoiced on or before 31 March 2019;
- Rent for the period ending 30 September 2019 if it doesn't exceed $26,000;
- Subscriptions or fees for membership in any trade or professional association, for up to twelve months if it doesn't exceed $6,000;
- Advance bookings for travel and accommodation, to be used by 30 September 2019 if they don't exceed $14,000;
- Service or maintenance contract for plant, equipment or machinery, for up the three months ending 30 June 2019, if the expenses during the contract's year does not exceed $23,000;
- Unlimited for stationery, subscriptions for newspapers, journals or other periodicals, and postal and courier services.
- Unlimited for motor vehicle registration fees, driver's license fees and road user charges;
- Other services for up to 30 September if they don't exceed $14,000. balance date, and not exceeding $14,000 in total.

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COMPANIES

Structural changes

Being able to carry forward tax losses is subject to maintaining 49% continuity in ownership. Grouping tax losses requires 66% "common" ownership. It's important to consider these limits if you have substantial losses carried and you're planning to change or restructure shareholdings or group entities.

Group loss offset elections and subvention payments

Companies in a formal "group of companies" (i.e. at least 66% commonly-owned) can elect to offset profits and losses. This rule allows a profitable company to make a "subvention payment" for a loss.

Elections and subvention payments must typically be made by the 31 March that follows the balance date of the loss company. Companies which are not 100% commonly-owned, but part of a group, can now elect to transfer imputation credits.

Consolidated group elections

Consider whether you should form a Tax Consolidated Group if you have several companies. It may reduce the number of tax returns you need to file and utilise the concessions available by a Tax Consolidated Group.

Elections to join or form a Tax Consolidated Group must be made by 2 June 2019.

LOOK THROUGH COMPANIES (LTC)

IRD must receive LTC elections before 31 March 2019 to be effective from 1 April 2019 (except for newly incorporated companies).

If you want to revoke an LTC election, IRD must receive it before 31 March 2019. There can often be significant tax implications of electing into and exiting the LTC regime. Restrictions apply on who can be an owner and the number of owners.

Other restrictions apply if the LTC receives foreign-sourced income and if more than fifty percent of the LTC is owned by non-residents.

LOAN ACCOUNTS AND CURRENT ACCOUNTS

If your company has loan accounts which have debit balances (including overdrawn shareholder current accounts), there could be unwelcome tax consequences. An overdrawn shareholder account means that the shareholder owes money to the company, typically through regular drawings throughout the year, or via a loan.

To avoid a "deemed dividend" or fringe benefit tax liability on the loan, consider:

- repaying the loan in cash before 31 March 2019;
- pay a shareholder salary; or
- declare a dividend.

TRANSFER PRICING AND INTER-ENTITY LOANS

IRD has **significantly** increased its focus on transfer pricing and related party transactions and has increased its audit activity in this area.

New Zealand's transfer pricing legislation requires that transactions between related parties (for example: entities with common ownership) are carried out on an "arm's length" basis. If they aren't adjustments are required to tax liability calculations.

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IRD generally places the onus of proof on taxpayers to show that all related party transactions are undertaken at arm's length.

However, if the taxpayer has prepared sufficient documentation, the onus of proof can shift to IRD.

Loans between related parties should incur interest at market rates. If interest isn't charged it could trigger a deemed dividend, unless the loan was for a **short-term** working capital loan.

DONATIONS

Companies (except LTCs) can claim a taxable deduction for gifts made to IRD approved organisations.

INTEREST PAYMENTS

If you have paid or pay $5,000 or more in interest payments to anyone (excluding a bank), you will generally have to withhold Resident Withholding Tax any pay it to IRD.

LAND AND PROPERTY SALES

Selling land and property

Surpluses gained from selling land are generally taxable upon settlement. Although dependent on each contract's settlement terms, if a settlement date is deferred beyond 31 March 2019, the sale wouldn't generally be applicable for income tax until the following income tax year.

Bright-line test for residential properties

New tax legislation seeks to tax certain residential properties which are sold within two to five years of them being acquired, irrespective of the purpose or intent when the property was acquired.

The bright-line test period is two years for properties purchased between 1 October 2015 and 28 March 2018, and five years for land purchased 28 March 2018. Some tax exemptions are available.

HIGHER INCOME

If your taxable income is significantly more than the previous year, consider making some extra voluntary provisional tax payments. Alternatively, consider aligning tax payments with income.

If you've not paid enough provisional tax, consider using a provisional tax intermediary to help reduce IRD's expensive use of money interest costs.

OVERSEAS INVESTMENTS

Tax on overseas investments is highly complex and will depend on which method must be used to calculate the relevant income. You should review your foreign investments, such as shares, superannuation and life insurance policies.

You should determine how changes to your portfolio will affect your potential tax liability.

We strongly recommend seeking tax advice before making changes, particularly if you're considering making lump sum withdrawals or transferring funds from an overseas pension fund.

PAYMENTS TO CONTRACTORS

There were some significant changes made to the withholding payment rules, effective from 1 April 2017. PAYE and withholding tax legislation applies to a broad range of contractors. It's particularly important that you ensure these rules are followed to avoid IRD's use of money interest and tax penalties.

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PAYMENTS TO NON-RESIDENTS

PAYE rules or Non-Resident Withholding Tax rules generally apply to payments to non-residents. Some exemptions are available.

Non-Resident Withholding Tax will generally apply if you have paid interest, dividend, or royalty payments to a non-resident.

REPAIRS AND MAINTENANCE

Broadly speaking, repairs and maintenance expenses are deductible only to the extent they have been incurred during the income tax year.

Tax legislation draws a very thin line between a tax-deductible repairs and maintenance and capital expenses (which are not tax-deductible).

Consider making repairs and maintenance before 31 March 2019 to bring forward the tax-deductible expense - especially if your rental property has losses. Losses will be subject to new loss "ring-fencing" rules with effective from 1 April 2019.

VEHICLE EXPENSES

If you own a vehicle which hasn't been used exclusively for business, you must keep a vehicle logbook. The logbook must be used to determine a business use percentage for income tax, GST and fringe benefit tax purposes. If business usage has significantly changed, you'll need to recalculate it.

LEGAL FEES

Some legal fees are not tax deductible. For example professional fees related to forming a new company or a trust and some capital expenditure are not tax-deductible.

WORK IN PROGRESS (WIP)

At 31 March 2019 you need to review any jobs "in-progress", to determine their values and a percentage of completion, income received, and expenses incurred to date, and anticipated profit.

RECORD KEEPING

It's important that you keep accurate and complete records. Your business' financial records should include bank and credit card statements, proof of income and expenses, cash books and wages records.

You need to be organised, keep your records up-to-date and then hold on to them for a minimum of seven complete tax years.

Please contact us if you have any questions about preparing for the end of the financial year.
P: +64 9 449 0417
E: admin@bizadvice.co.nz

This checklist has been carefully prepared. It has been written in general terms and should be seen as broad guidance only.

It should not be relied upon to cover your specific tax or personal circumstances or situation. You should not act, or refrain from acting, upon the information contained therein without seeking professional advice.

Please contact us to discuss these matters in the context of your particular circumstances.

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