

The end of the financial year comes around again ...

Insert to OnBalance
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With the tax year end quickly approaching for most taxpayers, there are a number of steps that you can take prior to balance date that can maximise tax efficiency. It is therefore a good opportunity to consider the following and to tidy up your accounts ready for the end of financial year. This list is not exhaustive, however, and should not take the place of specific advice from your PKF adviser.

Bad debts – Have you written off all debts that you consider “bad”?

Bad debts must be written out of the debtors' ledger prior to balance date if they are to qualify for a deduction. The debt must be bad and physically written off before the year end.

If a debt is to be regarded as bad, it is necessary that all reasonable efforts have been made to collect that debt, and that recovery is unlikely. Writing a debt off however does not stop a creditor continuing to pursue it.

If a debt is recovered after having been written off, then it becomes taxable income in the year of receipt, less any costs of collection.

Don't forget the GST adjustment that you may be entitled to.

Qualifying companies

Companies considering entering the qualifying company regime must make an election before 31 March 2009 if they wish it to be effective in the 2009/2010 year.

A recently incorporated company may be able to back-date its qualifying company election to the beginning of its first year.

Trading stock

Trading stock (excluding livestock) on hand at year end must be valued at the lower of cost or realisable value. Provisions for obsolete stock or write downs are not allowed as tax deductions. Therefore prior to year end it is important to perform a stock take to ensure all obsolete stock is physically disposed of or written down to its net realisable value.

Some dispensations are allowed for small taxpayers. A taxpayer who has an annual turnover of less than \$1.3 million, and who reasonably estimates that the value of stock is less than \$5,000, can dispense with doing a new stock take and can use the opening stock value instead (only from 2003 onwards). There are other dispensations for taxpayers with an annual turnover of less than \$3 million. Also, retailers with an annual turnover of less than \$1 million can apply a modified version of the discounted selling price method.

The value of stock on hand should not include the value of “consumable aids” on hand. These are materials which are wholly consumed in the manufacture or sale process without actually becoming a component part of the finished product. However, if the value of these exceeds a certain threshold, the tax deduction may not be available until the next income tax year. Refer to the “Expense prepayment” section below for more details.

The valuation of trading stock should be exclusive of GST if you are registered for GST.

Prepaid expenses – Have you considered prepaying items of expenditure?

If cashflow permits, it may be a good idea to replenish supplies of consumables (e.g. oil, fertiliser) and stationery prior to the end of the income tax year. However, there are certain thresholds to be aware of.

If a taxpayer has unused consumables on hand, and the total value of these consumables exceeds \$58,000, the tax deduction may not be available until the next income tax year. There are similar thresholds for expenditure on rent, insurance premiums, service/maintenance contracts, subscriptions, bookings for travel and accommodation, advertising, and other types of services. The rules target expenditure for services which are still unperformed (wholly or partly) as at year end. Some thresholds have a dollar value, some have a time value (i.e. number of months after year end), and some have both. Check with your PKF adviser for details.

Employee salaries and other monetary remuneration

Employee salaries and other monetary remuneration are deductible by the employer only if they are actually paid within the tax year or within 63 days of the year end. Included here are accrued bonuses, holiday pay, long service leave, gratuities, and redundancy payments.

For taxpayers with a 31 March balance date, the deadline for payment is **2 June 2009**.

To maximise deductions, staff should be encouraged to take the balance of any holidays due, and staff should be paid within two months of balance date.

Similarly, please advise us of any holiday or bonuses paid between 1 April and 2 June 2009 for a March balance date.

Repairs and maintenance

Any repairs and maintenance work done to assets are still 100% deductible, but any alterations or repayments of an asset are to be capitalised and depreciated.

It may be worthwhile to bring forward expenditure for repairs and maintenance to before balance date. However, for some assets there are upper limits under the repayment rules.

Donations

Certain companies are allowed a deduction for a gift of money to charitable organisations approved for charitable rebate purposes. From the 2008/09 year there is no threshold so that all qualifying donations and gifts of money will be deductible, to the extent that the donations do not exceed the company's taxable income for that year.

Salary/wages paid to a spouse

A taxpayer must obtain approval from the IRD before claiming a deduction for a payment to a spouse.

The application may be for payments the taxpayer has actually made during the year, or for payments the taxpayer will make in the future. The taxpayer must satisfy normal employer obligations if the Commissioner of Inland Revenue grants approval for the deduction.

Fixed assets

Fixed asset registers should be reviewed for accuracy. Assets can be written off if they meet the following criteria:

- The asset is no longer in use by the business.
- The business does not intend to use the asset in the future.
- The cost of disposing the assets is more than its disposal value.

Details of any fixed asset purchases or sales which have occurred during the year should be recorded in the fixed asset register.

When large fixed assets are acquired, there is sometimes scope to show each component separately as some components have higher depreciation rates. Examples include buildings, building alterations or fit outs, and machinery or equipment with separate components. Please give us complete information on asset acquisitions to enable the depreciation to be maximised.

Fixed assets costing under \$500 (GST exclusive) can be fully written off when purchased.

Interest payments

Have you paid more than \$5,000 in interest to someone other than a bank?

If you have, you may be required to withhold Resident Withholding Tax. Please talk to us urgently.

Overseas investments

Do you have any investments or interests in overseas entities?

The tax treatment of overseas investments is quite specific, so it is important that we are aware of the types and amounts of overseas investments, and any changes in these investments.

Shareholding

Are you considering making shareholding changes?

Remember to take into account the effect of shareholding on losses carried forward, imputation credit accounts, and qualifying company status.

Shareholder current accounts should be reviewed to avoid any possible liability for fringe benefit tax. If you suspect your shareholder accounts may be overdrawn (in debit) please call us, as there are some actions that can be taken to reduce any interest which may need to be charged or fringe benefit tax payable.

Vehicle expenses

If you are a partnership or a sole trader, have you kept a vehicle logbook for a three month period during the last three years?

A logbook test period is necessary to establish a business use percentage for tax purposes and when there has been a significant change in business activity.

... and finally - Are you ready?

About now is a good time to start gathering together your usual accounting information to assist with the preparation of your financial statements and compliance returns. For example, check that you have the following available:

- √ all bank statements.
- √ cheque butts and deposit butts covering the full year.
- √ purchase invoices, settlement statements, hire purchase agreements and loan documentation for fixed assets.
- √ payroll records and all IR346 forms.
- √ GST returns and workpapers.

IMPORTANT: Find anything that is missing **before** delivery to your accountant. Missing records are inconvenient, and cause costly delays once the information has been delivered. Complete and accurate records assist with a quick turnaround and minimise the cost of processing.

