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ASSOCIATES LTD

NEWSLETTER

Issue 21 March 2014

Planning ahead

Did your New Year's resolutions include making significant changes, gaining control over, or simply maintaining your business in its current form? If so, putting a plan in place will help you think through the critical aspects of your business and help you to make good decisions in the year ahead. Like a map, a plan can help you to see where you want to go and will help you feel more confident about how to get there. Two effective tools for planning are budgets and cash flow forecasts.

Preparing a budget is a good discipline as it encourages you to look forward and forecast what your expected income and expenditure will be for the upcoming year. This is very important if you are planning for growth as it enables this to be monitored. If a business grows too fast and payments from debtors are not being received in a timely manner, then payment of everyday business expenses may put a strain on a business's cash flow.

Once the budget is set, regular comparison against actual performance enables you to review variances and take action as necessary. Taking a pro-active approach by planning your cash commitments for the future can help to avoid the risk of spending more money than your business is generating.

However profitable your business may appear to be, cash is still the lifeblood of any organisation. When the cash flowing into your business exceeds the cash flowing out, you can continue to operate. If the opposite is happening, you may eventually run out of money and the business may fail.

It is therefore essential that business owners have a forecast of predicted cash flows in the future to ensure the business can survive.

There are five key reasons why a cash flow forecast is important:

- It identifies potential shortfalls in cash balances in advance and enables you to plan accordingly. For example, if your business is seasonal, a forecast will highlight months where you may need to find additional sources of working capital, such as a temporary overdraft.

- It confirms that your business should be able to pay its suppliers and employees on time. Suppliers who don't get paid will soon stop supplying goods to your business.

- It can highlight problems with timing of debtor payments. It may indicate that your debt management system needs to be reviewed to ensure you have robust systems in place. You may need to introduce measures to encourage debtors to part with their cash earlier, such as early payment discounts or penalty interest for late payments.

- It indicates when it is timely to review your current banking arrangements.

- If you have a business bank loan, the bank may request cash flow forecasts at regular intervals. Producing quality budgets and cash flow forecasts demonstrates to the bank that you have a good grasp on your financial situation.

Once prepared, the budget and forecast should be reviewed on a regular basis to take into account any factors that have arisen since they were set. It is also important to make sure the appropriate members of the organisation have input into the budget and forecast process.

When mapping out the future of your business, you need to be able to see the road ahead if you want to get to where you want to go.

Superannuation: decisions, decisions

If you have (or had) funds in foreign superannuation schemes, let us know. Recent changes to legislation and further impending changes may affect you.

I transferred my Australian super to KiwiSaver.
Is it taxed here?

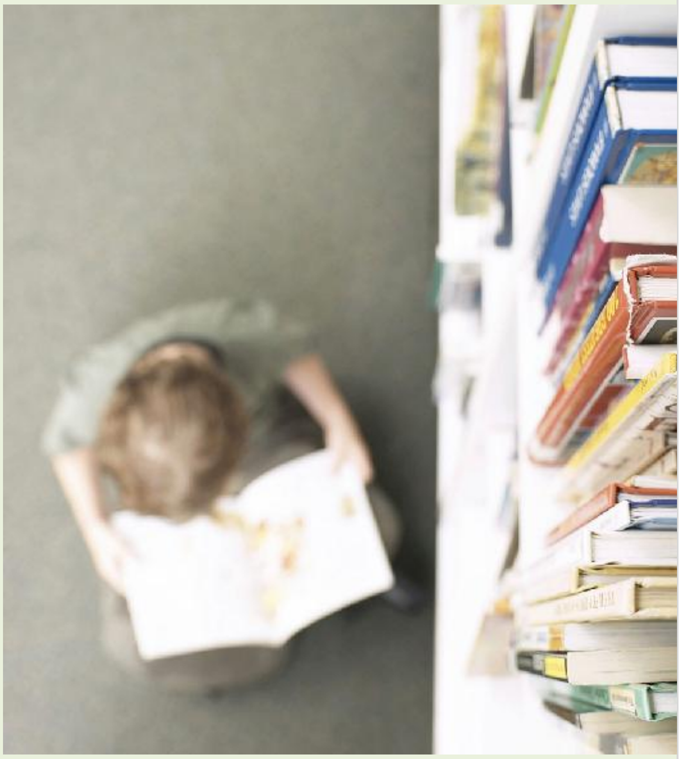
Transfers from complying superannuation funds in Australia into KiwiSaver won't be taxed in New Zealand on transfer. However, future earnings on these transfer funds will be taxed as normal KiwiSaver investments.

This isn't the case with transfers from other countries - there are New Zealand tax implications on transfers in these cases. However, under the new rules, if you transfer your non-Australian foreign superannuation into KiwiSaver after 1 April 2014, you will be allowed to make a withdrawal from KiwiSaver to pay your tax bill.

I withdrew (or transferred) funds from my foreign super last year. What are the tax implications in New Zealand?

If you withdrew or transferred funds any time between 1 January 2000 and 31 March 2014, and have not previously accounted for New Zealand tax on these funds, you will be able to meet your tax obligations by paying tax on 15% of the amount transferred or withdrawn. The remaining 85% of that sum will not attract income tax. However, it has to be shown in the tax return for either the 2013–14 or 2014–15 income years.

For a limited period of time only, you can choose to calculate your tax liability using this concessionary 15% rate option without penalties or interest, or under existing law (which may involve imposition of penalties and interest). Talk to us to work through the options that are best for your situation.

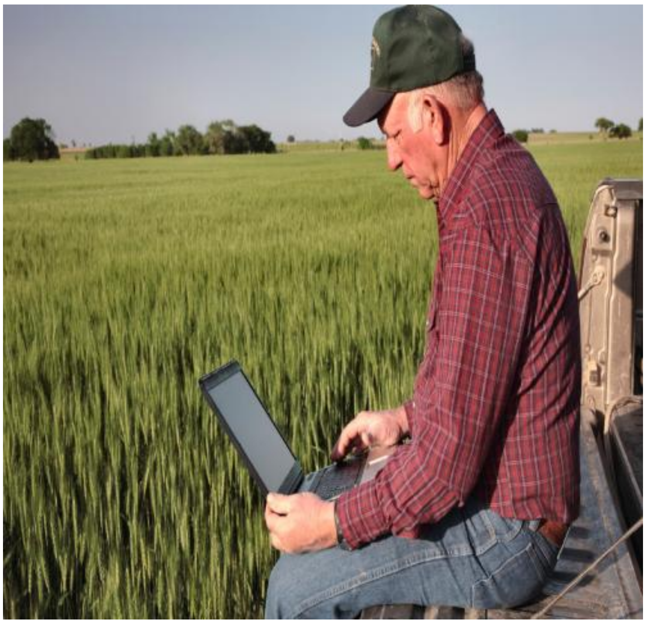


I'm confused. I've been declaring my foreign super under the FIF rules. What happens now?

The current foreign investment fund rules will no longer apply to foreign superannuation schemes from the proposed date of 1 April 2014. However, if you previously declared your foreign superannuation and used the foreign investment fund (FIF) income rules prior to 20 May 2013, you may choose to keep using them in relation to your foreign superannuation interest after 1 April 2014 under the 'grandparenting' provisions.

Anything else?

Don't forget also, superannuation is counted as adjusted taxable income when calculating income for child support, family income for Working for Families tax credits, and parental income for student allowances.



Minimum wages for farmers

A recent case ruling has followed the Ministry of Business, Innovation and Employment (MBI) investigation of the dairy sector focusing on farm employers maintaining accurate time and wage records.

Seasonal 'averaging' in the agricultural sector is a breach of the Minimum Wage Act. The main issue is that during the busy periods of the farming year when hours worked tend to be longer (compensated by shorter working hours during the off season), the average wage when calculated in relation to hours worked, does not always meet the minimum wage rate levels.

The recent case ruling presents a wake-up call for all farmer employers. To avoid being prosecuted, farmer employers must ensure that accurate time and wage records are kept for all employees.

Year end chores

For many businesses, 31 March is an important date because it is the end of their financial year, and it is the last day their accountant has to file their prior year's tax return. To make the year end process as smooth as possible (at least from a tax perspective), a few "to dos", along with some tax planning opportunities, have been summarised below.

Year end issues

- **Bad debts**: bad debts must be written off before the end of the financial year in order to be tax deductible in that year. Points to consider when writing off bad debts are the age of the debts and the likelihood of the debts being collected. If the debts are then considered to be bad, they should be written off to reflect a more accurate picture of the year's profitability.
- **Accruals and provisions**: as you accrue and provide for expenditure, think about whether the costs are incurred at balance date. In general, an expense should be deductible if you are definitively committed to the expenditure at year end and can reasonably estimate the amount. There are exceptions though, for example, accruals for employment expenditure (such as annual leave) are tax deductible if they are incurred and are paid out in the current year or within 63 days after balance date.
- **Charitable donations**: these are fully deductible up to the company's net income for the year, provided that they are paid in the financial year. So if a donation is planned before the end of the year, it may be worth writing the cheque sooner rather than later. On the other hand, if you have made a loss for the year, but are expecting a profit next year, it could be beneficial to wait until the new financial year.
- **Shareholder current accounts**: if the company is owed money by shareholders, consider paying commercially justifiable shareholder-employee salaries or paying a dividend to settle the debts. FBT or deemed dividend issues may arise if this is not carried out. Depending on the company, there are some extra timing rules which can apply here.
- **Legal expenses**: business-related legal fees are deductible, provided total legal costs for the year are $10,000 or less. If you are nearing this threshold and the legal work is not urgent, consideration could be given to postponing it.
- **Asset purchases**: these may need to be reviewed to ensure that assets that cost more than $500 are capitalised for tax purposes. This can often be overlooked especially where such assets are expensed for accounting purposes.
- **Entertainment expenditure**: businesses will need to ensure that entertainment expenditure is analysed to determine if the expenditure is 50% or 100% deductible. A GST adjustment will need to be made for entertainment that is only 50% deductible.
- **Closing stock**: if closing stock is held that is worthless, an accounting impairment might be made. This type of adjustment is non-deductible for tax purposes. However, if market data can be prepared that reflects the stock as having no value, the adjustment can be included on the basis that stock is being valued under the "market selling value" method.

eXPired technology?

Taking your business online? Look at whether your current setup will let you keep up with the change.

For instance, if you're still running XP, be aware that Microsoft will no longer support Windows XP and Office 2003 from this year.

From April, if you use Windows XP, you won't receive technical support for it. This means no new security updates, or non-security hotfixes. No support and no online technical content updates.

Until July 14 2015, Microsoft will continue to offer Windows XP users its malware scrubbing program (MSRT). However, your system will become more vulnerable to security risks and viruses.

Over time you'll encounter more applications and devices are incompatible as software and hardware manufacturers upgrade their products.

Tax Talk

and the good news is… ACC

Workers and employers will pay $387 million less in ACC levies in 2014/15 (subject to the regulation being passed). The cuts affect the Earners Account (paid by workers) and the Work Account (paid by employers).

	Work Account Average levy (per $100 of liable earnings, ex GST)	**Earners' Account levy** (per $100 of liable earnings, ex GST)
2014/15	$0.95	$1.26
2013/14	$1.15	$1.48

The Health and Safety in Employment (HSE) Levy is changing to a flat rate of $0.08 per $100 liable earnings. Look for more news on this later in the year.

Motor Vehicle Account levies, incorporated into car registration and petrol prices, will remain the same. The Government expects to introduce cuts for motor vehicle owners from 1 July 2015.

In other news, there have been some minor changes to classification unit codes, affecting second-hand booksellers and people working in digital effects industries.

Are you managing ACC on your own? We could help you with that, with our ACC Administration and Advisory service. Talk to us about how the service might save you time and money.

Working for Families

The minimum family tax credit threshold will increase from an after-tax income of $22,724 to $22,776 from 1 April 2014.

Student loans and allowances

The government continues to tighten up access to assistance for students as well as extending their reach for repayments.

Limits on access

If you are starting study after 1 January 2014, there is now a residency requirement of three years (previously two years) before you are eligible for a Student Loan which applies to those who are not New Zealand citizens, refugees, or protected persons. Age limits apply for Student Allowances. The amount of assistance people over 40 are eligible for is limited to 120 weeks and students aged 65 or over are no longer eligible for a Student Allowance for study starting after 1 January 2014.

Tax statistics

Figures released by the Treasury show that high income earners are paying a higher percentage of the income tax take than ever before. 6% of earners in New Zealand earn over $100,000, and in the 12 months ending March 2013, accounted for 37% of the income tax paid for the year. This is compared to 29% for the previous 12 months.

If you have ever wondered where you fit in on the income tax contribution scale for the country, the Government's treasury website sets out a forecast for the year ended 31 March 2014:

http://www.treasury.govt.nz/budget/2013/taxpayers/02.htm#_whopaystax .

Staff

Welcome to Katie Bradburn who has joined the Taupo office as a trainee accountant. Katie has recently returned to Taupo after living in Auckland for four years.

If you have any questions about the newsletter items, please contact us, we're here to help and look forward to your feedback.

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