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health adviser

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End of year tax considerations

When preparing year end financial statements and tax returns, there are a number of issues to consider with regard to the timing and treatment of expenses in order to maximise tax deductions.

The accounting treatment of expenses can affect the timing of deductions. For example, certain prepaid expenditure is deductible in the tax year in which it is incurred if it is below set thresholds and it is not treated as a prepayment in the financial statements. We have noted below common examples of prepaid expenses for which an advance deduction may be available, as well as other typical year end tax issues:

Advertising - if the period of the advertising relates to no more than six months after balance date and the prepaid portion is less than $12,000 per contract, then it is fully deductible in the current year.

Bad debts - bad debts are deductible, but only in the year that they are written off. This requires something more than the decision that a debt is bad. The appropriate bookkeeping entries would be necessary in most cases, which ensure bad debt is written out of the debtors ledger at year end.

Consumables - consumables used in conjunction with, but not forming part of, the final product can be deducted in the year of purchase, provided the unused stocks at year end do not exceed $58,000.

Depreciation of fixed assets

- depreciation is claimed for each full or part month the asset is used or available for use in the business
- assets costing less than $200 (GST exclusive) can be expensed as repairs, rather than capitalised. This is proposed to increase to $500 for assets purchased after 19 May 2005
- for any assets disposed of at a loss (either by sale or scrap), the loss becomes deductible in the year of disposal.

Discount provisions - if a prompt payment discount is offered to debtors, then a provision for the potential discount can be made and claimed at balance date.

Insurance - insurance premiums are deductible provided they are not prepaid for more than 12 months and the total annual premium for each policy does not exceed $12,000.

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New Zealand business owners among the more stressed

The 2006 Grant Thornton International Business Owners Survey (IBOS) reveals that stress levels among business leaders worldwide has risen by 50% over the past year, and New Zealand business owners were among them.

Research among more than 7,000 business owners in 30 countries around the world shows that 57% of all business owners reported higher stress, compared to 39% in the previous year, and only 6% felt their stress levels had gone down.

Among New Zealand business owners, 46% reported higher stress over the past year, compared with 32% in the previous year.

The stress figures follow closely another Grant Thornton Business Owners Survey that showed a dramatic collapse in optimism among the same medium-sized businesses in New Zealand. In that survey, New Zealand businesses recorded the lowest level in three years in terms of their confidence for the outlook of the country's economy over the coming 12 months.

The research also showed a direct correlation between stress and the amount of holiday leave (excluding public holidays) taken by executives around the world.

European countries took by far the highest number of days holiday on average (22 days) compared with just 12 days in East Asia. New Zealanders, with 18 working days off a year, fare better than many but not as well as the Europeans.

Other factors which contributed to stress in some countries included business travel and fears over job security. Job security was a low stress factor in New Zealand.

Holiday leave changes

Currently all employees are entitled to a minimum of three weeks annual holiday after completing 12 continuous months of service with the same employer.

That entitlement increases to four weeks in 2007. The Holidays Act 2003 provides that on an employee's next anniversary date after 1 April 2007, he or she will be entitled to take four weeks of holiday.

Employees receive their entire year's annual leave entitlement all at once on their anniversary date each year. This means employers need to accrue the costs of that leave during the year leading up to the anniversary date, in case employees want to use it immediately.

If an employee currently entitled to three weeks holiday leaves before 1 April 2007, all leave is paid at 6%. If that employee leaves their job after 1 April 2007, they must be paid annual leave based on the four weeks right back to their last anniversary date.

So for example, an employee whose anniversary date is 14 July will become entitled to four weeks holiday on and from 14 July 2007.

Note that the anniversary date is the date the employee started work for you and not the common company anniversary date you may have set, such as the Christmas closedown. It is recommended you put money aside to pay for this extra leave from each employee's anniversary date on or after 1 April 2006.

Year end tax considerations (Cont).

Leave provisions - amounts owing at balance date for holiday pay and long service leave are only deductible if paid out within 63 days of year end.

Rent

- prepaid land and property rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than $23,000
- prepaid livestock or bloodstock rental is deductible on the same basis.

Repairs and maintenance

- if the work is 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 a warranty is purchased with a fixed asset, ensure the cost of the warranty is separately identified so it can be deducted rather than capitalised.

Staff bonuses - any staff bonuses should be determined before year end and paid within 63 days of year end, otherwise they are not deductible until the following year.

Stationery - if re-stocking is about to occur in April or May, consider moving this forward to March (for a 31 March balance date).

Subscriptions

- newspapers, journals and periodicals are deductible without adding back unexpired amounts
- association memberships are deductible provided they extend no more than 12 months after balance date and the subscription does not exceed $6,000.

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 the total does not exceed $12,000.

Other periodic charges not otherwise dealt with are deductible provided they are not more than twelve months in advance and the prepayment portion does not exceed $12,000 per contract.

May 2005 Taxation Bill - Tax changes on their way

We have discussed the amendments proposed in the May 2005 Taxation Bill in previous editions. However, it is timely to provide an update on the Bill's progress and the proposed deferral of some measures.

The Bill lapsed following the dissolution of Parliament in the lead-up to the general election last year, but has since been reinstated and is expected to be enacted in late March 2006.

Some of the proposed changes are to apply retrospectively from 1 April 2005 and will impact on the current year, while other changes will apply from 1 April 2006 and later. We have highlighted below some of the key amendments which may affect our readers as small and medium-sized business owners:

- Aligning the payment of provisional tax with GST due dates;
- The option of basing provisional tax payments on a percentage of GST taxable supplies;
- Changing the due date for provisional tax and GST to the 28th of the month;
- Tax depreciation changes including:
  a) Depreciation rates for buildings acquired on or after 19 May 2005 will decrease from 4% diminishing value (3% straight-line) to 3% diminishing value (2% straight-line).
  b) Depreciation rates for shorter-life plant and equipment acquired from 1 April 2005 will increase by up to 57%.
  c) The immediate deduction allowed for low-value assets will increase from $200 to $500 for assets acquired after 19 May 2005.
- FBT changes (generally applying from 1 April 2006) including:
  a) The option of calculating the motor vehicle fringe benefit based on tax book value or cost price.
  b) The fringe benefit valuation rate applying to the tax book value of a vehicle will be 36%. The equivalent rate for the cost option will be reduced to 20% (from 24%).
  c) The fringe benefit from a lease vehicle will be based on its cost or tax book value rather than its market value (treatment aligned with owned vehicles).
  d) The removal of the tax benefits of "9-to-5" vehicle leasing.
  e) Minimum value thresholds to increase to $200 per quarter per employee and $15,000 per annum for employers.

For more detailed analysis of these amendments, please refer to our 2005 Winter and Spring editions.

Deferral of provisional tax and GST changes

The Minister of Revenue, the Hon Peter Dunne, has sought to defer to 1 April 2007 the application date for the proposed change to the GST due date. He has also sought to defer the application date of the proposal to align the provisional tax payments with GST due dates and to base provisional tax payments on a percentage of GST turnover, from the 2007-08 income year to the 2008-09 income year.

The deferrals have been proposed in order to allow more time for affected taxpayers and the Inland Revenue Department to prepare for the changes.

Motor vehicle mileage rates

The Inland Revenue Department has recently confirmed that employers can now use mileage rates published by the New Zealand Automobile Association to reimburse employees who use their own vehicles for work purposes.

Under the Income Tax Act, employers can determine the amount of employee vehicle reimbursement that is exempt for tax purposes. Employers commonly use the mileage rates published by the Inland Revenue Department in 1996 for this purpose. Those rates are 62c per km for the first 3,000 km and 19c for each km over 3,000; or a flat rate of 28c per km.

These mileage rates are clearly out of date. In response to queries on increasing the rates, the Inland Revenue Department has agreed that employers now have the option of using mileage rates published by a reputable independent New Zealand source such as the New Zealand Automobile Association, provided they represent a reasonable estimate. Generally, the independent mileage rates should be much higher than the Inland Revenue Department rates.

This gives employers four options when reimbursing staff for business use of a private vehicle:

- Actual expenditure incurred by the employee.
- The employer's own reasonable estimate of expenditure incurred by the employee.
- Mileage rates published by a reputable independent New Zealand source, as long as they represent a reasonable estimate.
- The 1996 mileage rates published by the Inland Revenue Department.

Mileage rates for self-employed people are presently being reviewed by the Inland Revenue Department.

Meet our people

Eugene Sparrow

Eugene Sparrow is an Associate in our Business Advisory Services Division.

He initially joined Grant Thornton in 1994, qualified as a Chartered Accountant in 1997 and left in 1999 to take on the challenge of overseas experience in the UK. His five-year experience there included treasury accounting and project accounting for MCI Worldcom, Diageo, Reuters and BP.

He rejoined Grant Thornton on his return to NZ in 2004 and he focuses on providing business advisory, accounting, and taxation services to a wide range of small and medium sized businesses.

His participation and interest in commercial and residential property investment is building his expertise in this area and he enjoys providing accounting, taxation and structuring advice in this field.

Eugene is keen on overseas travel; socialising and spending weekends away with friends and family; and outdoor activities such as swimming, kayaking, and fishing.

Stacey Ireland

Stacey is an Associate in the Business Advisory Services division of Grant Thornton Auckland Limited. She is a Chartered Accountant (CA) and a member of both the New Zealand Institute of Chartered Accountants and the Institute of Chartered Accountants in Australia.

She joined Grant Thornton in 2002, after returning from four years working in Sydney, Australia, also in the Chartered Accounting environment.

During her time in Australia, she helped her clients come to grips with the new Goods and Services Tax (GST) regime, including implementing appropriate accounting systems to assist with the reporting requirements.

Stacey has over 12 years experience providing accounting, taxation, systems and business advice. She has also assisted clients with the accounting support work required with the sale or purchase of a business.

Stacey has worked with a variety of ownership structures, with a diverse range of sizes and business activities. Most of these are owner operated or family enterprises.

Outside the office, Stacey enjoys travelling, spending time with family and friends, and making the most the great kiwi outdoors lifestyle.

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