

# Newsletter

March 2018

DB CHARTERED  
ACCOUNTANTS LTD

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## OFFICE CLOSURE

Our offices will be closed for Easter 30 March - 4 April (This includes the Tuesday of Easter weekend.)

We will also be closed Wednesday 25 April for ANZAC.

**Action is the foundational key to all success.**

We cover off quite a bit in this edition, including the new minimum wage rate, claiming travel expenses vs entertainment, a new option for provisional tax, information to put together for year end, valid tax invoices and upcoming tax dates.

## Change to Minimum Wage 1 April 2018

The adult minimum wage is increasing from \$15.75 an hour to \$16.50 an hour on 1 April 2018.

The starting-out/training minimum wage will also increase from \$12.60 an hour to \$13.20 an hour (80% of the adult minimum wage).

Currently the government is looking to abolish the starting out rates and considering changes to the training wage. In the meantime, these rates will continue to be at 80% of the minimum wage.

Now may be a good time to review your employees to check if any are employed on the starting-out or training wage that will need to be moved to the adult minimum wage. The adult minimum wage applies to all workers aged 16 and over who are not starting-out workers or trainees, and all workers who are involved in supervising other employees.

## Travel vs Entertainment

If you are travelling out of town for business purposes then you generally can claim 100% of meals while out of town.

For other meals offsite, 50% may be claimable under the entertainment rules.

### Travel

If you spend time travelling out of town as part of your business you can claim business travel as an expense.

A good way to prove the business portion of your travel expenses is by keeping a diary of your travels.

In addition to invoices and tickets you should also keep details of:

- The reason for and date of the trip
- Your itinerary
- The cost of car hire, and air, bus and taxi fares
- The cost of accommodation, meals and incidentals while out of town
- The time spent on business and non-business activities

**Note: the cost of traveling from home to your work is not considered a tax-deductible expense.**

### Entertainment

Offsite food and drink:

Food and drink provided away from your business premises to staff or clients is 50% deductible.

Example: Hannah invites a supplier to a business lunch at a local restaurant and pays the bill, which comes to \$160. She deducts 50% of the cost (\$80) in her tax return.



## **Break Even Analysis**

In our October 2017 Newsletter we discussed calculations of break even analysis when purchasing a new asset.

Break even analysis can also be used when deciding to incur additional costs. For example if the cost of employing a new staff member will be \$70,000 (consider all costs including ACC, leave, KiwiSaver).

If gross profit is around 50% sales will need to increase by \$140,000 to cover the cost of the new employee.

It could be that orders are not being completed on time and customers are getting frustrated. For a company with \$800,000 of annual sales, if they can retain 10% of their annual sales through improved customer service they will retain \$40,000 of gross profit (\$800,000 x 10% x 50% gross margin).

If the new employee can further assist to improve the annual gross profit by 2% (say \$16,000 per year) they have contributed a total of \$56,000 towards the annual costs of employment. In addition if they have been able to free up some of the owner's time to work on the business this could further justify the cost.



## **Do you hold a valid tax invoice when claiming GST on expenses?**

A common error Inland Revenue find during GST audits are claims of expenses for unregistered persons. Remember when claiming expenses in GST returns, especially expenses such as subcontractors, cleaners, tradesmen and property maintenance, that you must hold a valid tax invoice.

For a tax invoice to be valid it must have:

- The words "tax invoice" in a prominent place
- The name and registration number of the supplier
- The name and address of the recipient
- The date the tax invoice is being issued
- A description of the good and services supplied
- The quantity or volume of the goods and services supplied and either:
  - The total amount of tax charged, the consideration excluding tax and the consideration inclusive of tax, or
  - The consideration for the supply and statement that includes the tax charge

### **Records for GST Returns**

There is a common understanding that you do not need a receipt for anything under \$50. You still need to hold a relevant record to confirm a purchase for GST purposes.

If you make a sale or purchase of \$50 or more you'll need to give or keep a tax invoice.

If a sale is less than \$50 you can issue or receive a receipt instead of a tax invoice, e.g. a till receipt.

As a GST – registered person you'll need to give your customers tax invoices. The information you put on a tax invoice depends on their value of the goods or services being sold.



## **ANOTHER PROVISIONAL TAX OPTION**

From 1 April 2018 the IRD is introducing another option for paying provisional tax for taxpayers who use certain accounting software. The new method is optional and not compulsory for taxpayers.



The option is available for businesses that operate with sales of less than \$5million per year.

This method will be available to taxpayers who use MYOB Accountright Live or Essentials, Reckon or Xero (although generally through their tax agent).

The main benefit of the new method is that tax is paid more regularly throughout the year based on annual earnings. Taxpayers with a March balance date must opt in to the method prior to 28 June 2018. Use of money interest will not be imposed if the method is followed correctly and payments made on time (currently interest is charged for Companies and Trusts from the 3<sup>rd</sup> provisional tax date – for the 2019 income year this is 7 May 2019).

There is slightly more work in getting the correct tax figure calculated. Adjustments need to be made for depreciation, private use expenditure, debtors and creditors (if the taxpayer is on accrual basis for GST purposes), trading stock and prior year losses. Where shareholder salaries are normally allocated at year end the Company will pay the tax on behalf of shareholders as the year progresses. Taxpayers are expected to take “Reasonable Care” when calculating the tax position, failure to do so could result in penalties.

**Under the AIM method provisional tax will be paid 6 times per year in line with GST payment dates instead of the current 3 payments made per year. While this may suit some taxpayers, other taxpayers may prefer to keep the money in the business bank account until it is required to be paid to the IRD.**

If you wish to discuss your options regarding this provisional tax option please contact us.

## **RESIDENTIAL PROPERTY – THE BRIGHTLINE TEST**

Under current law if a residential property is purchased and then on sold within 2 years any gain on the value of the property is taxable. This is regardless of your intention at the time of acquiring the property, however it excludes the family home.

The Government currently has a bill before parliament which will extend this bright-line test. This means that if a residential property is purchased and then sold within 5 years any gain will be taxable. It is expected that this will apply to any residential properties acquired from date of enactment – which is expected to be April or May 2018.



### **JOKE #1**

An MIT linguistics professor was lecturing his class the other day. “In English,” he said “a double negative forms a positive. However, in some languages, such as Russian, a double negative remains a negative. But there isn’t a single language, not one, in which a double positive can express a negative.”

A voice from the back of the room piped up, “Yeah, right.”

**YEAR END INFORMATION**

For those of you with a March balance date, we would like to remind you of some of the things you need to attend to for the year end. These include:

1. **Reconcile Bank Account** – whether you use online, accounting software, spreadsheets or manual cash book system, you will need to make sure it reconciles to the bank statement for each bank account as at 31 March 2018.
2. **Accounts Receivable** – Is your accounts receivable list accurate as at 31 March 2018? If you have any bad debts, ensure these are written off prior to 31 March (This is an IRD requirement).
3. **Accounts Payable** – All unpaid invoices dated 31 March and prior. We are able to claim these as expenses for you in the 2018 income year, even though they are not paid until April.
4. **Stock on Hand & Work in Progress** - Complete a stock-take and record stock and/or WIP as at 31 March 2018. If your stock as at 31 March 2018 is \$10,000 or less you do not need to calculate a stock value – we can use the previous years figure (if your total turnover is less than \$1.3 million).
5. **Computer Reports** - If you are using an accounting package, print out (or save to PDF) copies of the general ledger transaction report, trial balance, accounts receivable & accounts payable and bank reconciliation as at 31 March 2018 – and don't forget to do a backup, especially before rolling into a new year.
6. **Asset List** – This is the time to go through your asset list from the last year and advise us of any asset that has been sold, stolen, scrapped, destroyed or traded.
7. **Other Information to Compile**
  - Bank interest/RWT certificates
  - Dividend statements
  - Details of any other income received that has not been banked to your business account
  - Income Protection Insurance details
  - Donation Receipts for your rebate claim
  - Provide any information relevant to child support and family assistance claims

***A copy of our complete 2018 checklist is available on our website, [www.dbchartered.co.nz/pdfs](http://www.dbchartered.co.nz/pdfs) under Common Forms/Annual Checklists.***

**JOKE #2**

A doctor and a lawyer are talking at a party. Their conversation is constantly interrupted by people describing their ailments and asking the doctor for free medical advice. After an hour of this, the exasperated doctor asks the lawyer, "What do you do to stop people from asking you for legal advice when you're out of the office?" "I give it to them," replies the lawyer, "and then I send them a bill." The doctor is shocked, but agrees to give it a try. The next day, still feeling slightly guilty, the doctor prepares the bills. When he goes to place them in his mailbox, he finds a bill from the lawyer.

**IMPORTANT TAX DATES**

31 March	Final date to file tax returns for taxpayers (if you have a Tax agent and permitted extension of time)
31 March	Final date for ratio option 2019 Provisional Tax applications
7 April	Final payment date for 2017 Terminal Tax due
7 May	Third Instalment 2018 Provisional Tax due (March Balance Date)
28 June	GST payment due (2 and 6 monthly for March 2018)
	Third Instalment 2018 Provisional Tax due (May Balance Date)



**STAFF UPDATE**

We welcome Kathryn McPoland to our team. Kathryn is a chartered accountant who started with us in February. We farewell Jo, who will be finishing with us in April to spend time with her young family.

If you would like to discuss anything mentioned in our newsletter please contact us at:  
 DB Chartered Accountants Limited  
 9 King Street, PO Box 5594, Frankton, Hamilton 3242  
 E-Mail: [office@dbchartered.co.nz](mailto:office@dbchartered.co.nz)  
 Phone: (07) 847 8154  
 Fax: (07) 847 8152