trialbalance

The official newsletter of NZ CA Limited

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AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS

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Paying lump sum bonuses

How to deduct the right tax

Paying team members a bonus can be a good way to reward outstanding performance and motivate your team. Here's a practical guide to help you get the tax right on any lump sum bonuses you make to staff.

Lump sum bonuses

Lump sum payments include:

- annual or special bonuses
- cashed-in annual leave
- back pay
- retirement or redundancy payments.

Overtime or any regular payments are not considered lump sum payments.

Calculating PAYE on lump sums

Follow these steps to work out the PAYE rate to use for a lump sum payment:

1. Work out what your employee has earned (before PAYE) over the past four weeks.
2. Multiply this figure by 13.
3. Add the lump sum payment to the figure in step two.
4. Use the table below to work out what income bracket your employee is in.
5. Deduct PAYE from the lump sum payment at the rate shown in the right-hand column for that income bracket.

Choose the right PAYE rate

Income bracket	PAYE rate to use (including ACC earners' levy)
$14,000 or less	11.89%
$14,001 to $48,000	18.89%
$48,001 to $70,000	31.39%
Greater than $70,000, but less than the ACC earners' levy maximum threshold of $124,053 (for the 2018 tax year)	34.39%
Greater than $124,053	33% (excludes ACC)

You can use the PAYE rate of 34.39 cents in the dollar if the employee asks you to.

Other deductions to make

You also need to calculate student loan repayments, KiwiSaver deductions and employer contributions on lump sum payments, if applicable.

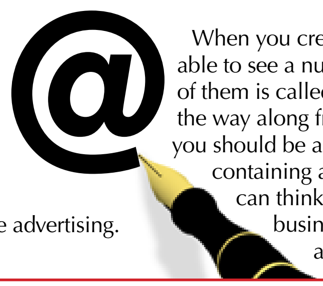
ACC earners' levy should only be applied to earnings below the threshold of $124,053.

But you don't deduct the ACC levy from:

- redundancy payments
- retiring allowances
- employee share scheme benefits.

In these cases, you'll need to reduce the above rates by 1.39%. Redundancy payments and retiring allowances are exempt from KiwiSaver employee deductions and employer contributions.

Put a signature on every email



When you send an email, you can put a signature at the end of it. This can be set up so it always appears. Why would you want it?

It can put in the name and address of your firm, telephone number etc.

It can put in the URL for your website.

It can include a mission statement or some advertising.

It can include a logo or photograph.

When you create a new email message, you will be able to see a number of options in the header. One of them is called "signature". It is about two thirds the way along from the left. Right click on this and you should be able to set up a signature for yourself containing any of the above, plus anything else you can think of. An email signature always looks business-like and you can use it for free advertising.

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CHARTERED ACCOUNTANTS

How not to do business

A business client recently had her wifi internet fail for no apparent reason.

She rang her tele-communications provider and was incredulous to hear the response.

"It's probably your modem." she was told.

It seems this brand of modem has proved to be a problem, with several customers complaining about its reliability. Running a busy business which relies on the internet, our client was keen to get back up and running.

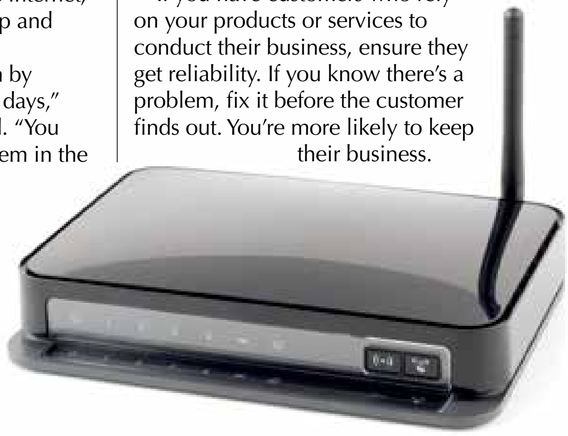
"We'll send you a new modem by courier, which takes 2-4 working days," the provider's help desk man said. "You could try using a third-party modem in the meantime."

She tried and that didn't work

The lesson here is something the provider should have considered. It now has a very unhappy customer who is close to renewing her internet contract. It's unlikely she will stay with this provider.

So what should the provider have done? Knowing there's a problem with this brand of modem, it should have replaced every one of them, or at the least advised its customers a problem might occur. Bear in mind this provider supplies only businesses, not residential customers, so its response is even more unbelievable. Having reliable internet is a critical part of business in the 21st century.

If you have customers who rely on your products or services to conduct their business, ensure they get reliability. If you know there's a problem, fix it before the customer finds out. You're more likely to keep their business.



Selling your business?

Buyers always look at 3 things when considering the value of a business –

- What is the return on the investment?
- What is the possible risk?
- How sustainable is the business?

After all your years of hard work you certainly want to achieve the best price possible. There are certain pitfalls, that can decrease the value –

Assets can be overstated – they may have been damaged, sold or be beyond repair. Or the equipment although still useable, can be revalued at too high a price.

Businesses do not sell on potential – if there are proposed future orders they should be covered by signed orders or contracts.

Major percentage of business is tied into a few non-contracted customers

Supply line – there are a few key non-secured suppliers

Overstated Vendor add backs

IP rests predominantly with the Vendor

IP rests within the staff – employment contracts become all important

Business has no real IP – risk considered high

Assets high but earnings low – will require different structuring for purchase

Earnings high but assets low – will require some form of warranty that trend will continue

Stock level old / highly fluctuating / unrealistic for the turnover

These are just *some* of the items that one needs to consider. If you need further advise I am more than willing to meet with you to discuss how to prepare your business for sale.

Source: Basil Badenhorst of LINK Business Broking, 0224 548 348

Commercial buildings – splitting assets

When a client buys a property, you can separate out items of commercial fit out for depreciation purposes. Along with the fitout, one item often overlooked is depreciable land improvements like hardstanding areas, such as car parks, as separate assets. These hard standing areas could just be base course. The diminishing value rate for car parking pads is 4% and the diminishing value rate for walkways, which could include curbing and channelling is 8%.

Inheritance from overseas

If you have a client who inherits money from an overseas estate, there is a potential for a tax liability. The reason for this is that the estate is considered to become a foreign trust. If it gives a New Zealand beneficiary an actual house, any increase in value of the house, while the estate owns it, would be taxable income of the client as it would be a distribution of a related party capital gain from a foreign trust. The gain has arisen on the transfer of the property to the beneficiary, who is associated to the trust. Inheritances of lump sums of money are not taxable but any interest earned by the trust before distribution will be subject to tax when distributed.

RWT on interest – reminder

RWT must be deducted from interest payments when they exceed $5000 a year, unless the receiver has an exemption. This only applies to entities borrowing money which are carrying out a taxable activity. If a mother provides her son with a mortgage to buy a home, there is no need for the son to deduct RWT from payments to his mother. He's not using the money in a business.

RWT is paid monthly. However, if the monthly payments are less than $500 the taxpayer can register for six monthly remittances.

Ceasing to let a rental property

You can claim expenses on your rental property so long as it's available for rental.

If you want to sell the property or move into it yourself, the moment your tenant leaves the property it's no longer considered available for renting. Therefore, any expenses relating to the property, after this date, are not tax deductible. This includes major repairs caused by an unruly tenant.

Remember, all repairs have to be done before the tenant leaves or they are not tax deductible.

Tax calendar

November 28 2017
1st instalment of 2018 provisional tax (June balance date)

January 15 2018
2nd instalment of 2018 provisional tax (March balance date except for those who pay provisional tax twice a year).
Pay GST for period ended 30 November 2017

April 9 2018
Terminal tax for 2017 (March April, May and June balance dates)
For all clients except those who have lost their extension of time privilege

Contracting: Hidden costs and expenses

Make sure your contractor rate allows for things an employer would normally cover, eg holidays and time off sick. Here's how to budget for contracting ebbs and flows

What to Budget for

Broken income: If you're contracting, you may have to get used to unplanned gaps between the end of one contract and the start of another. Ideally put aside three months' income in case you don't have continuous work.

Sick days: It's a good idea to factor in not being able to work five days a year when you're too sick to work. Include this in your hourly rate.

Public holidays: When you're a contractor you may not be able to – or want to – work on public holidays. In New Zealand we have 10 national holidays, eg Easter and Labour Day, and one holiday per province, eg Hawke's Bay anniversary day. Budget for these as well.

Annual leave: Some contractors budget to use gaps between contracts to take a holiday. If you don't save a buffer you may find you can't relax or go away between jobs.

Expenses: You may need to buy or replace equipment like a computer, tools or safety gear. You can claim these back when you do your taxes.

Insurance: Ask yourself what could go wrong at work, and think about types of insurance that might cover you for these risks. You might also want to protect your assets, vehicle or buildings against loss or damage. Liability insurance is useful if you do work for other organisations – it covers you if that organisation sues you or an employee for damaging their property or reputation.

KiwiSaver: It's a good idea to plan for your retirement. As a contractor you have to set up and pay into KiwiSaver yourself. If you pay in at least $20 a week, or $1,043 a year, you'll get a $521 top-up from the government.

NZCA Sponsors of Dairy Business of the Year

NZCA is now in its third year as a gold sponsor of the Dairy Business of the year

Dairy Business of the Year (DBOY) provides farmers with the opportunity to undertake a high-level analysis of the KPIs within their business that drive profitability, resilience and sustainability, whilst benchmarking themselves against their counterparts.

The strategic purpose of Dairy Business of the Year is to contribute to dairy farmers and the dairy industry in New Zealand by:

1. Challenging paradigms to bring about ongoing improvements in farm profitability
2. Developing resilient and sustainable farming systems
3. Recognising and reinforcing the value of motivated and innovated people within farming enterprises
4. Increasing the awareness of dairy farming practices that minimise dairy farming impact on the environment

To bring about positive change across these four core objectives Dairy Business of the Year activities and events encourage dairy farmers of every scale and business model to benchmark profit, people management and environmental practices to identify gaps and implement solutions.

The only way to improve your business is by knowing where you currently are. It's not just about cashflow, it's about knowing how your financial results have come about. By comparing your business against others in your region you can reveal opportunities for improvement. As we know, business performance isn't just about financial performance, and that is why Dairy Business of the Year assesses people management and environmental performance as well.

NZCA Chair, Linda Gray presenting to the 2016 Supreme Winners

Improving farm profitability and developing resilient and sustainable farming systems are two of the key drivers behind NZ CA's Gold Sponsorship of the Dairy Business of the Year. With so many of our Chartered Accounting firms located in provincial New Zealand and having dairy farm business as clients, it's a logical move for NZ CA to be involved in supporting and further developing these businesses. We're also eager to acknowledge and reinforce the value of businesses with motivated, innovated owners and managers prepared to benchmark themselves against industry leaders and challenge their current farming systems.

If you are a dairy farmer and want to enter DBOY, please feel free to talk to us to learn more about the competition. You can also visit the website www.dboy.co.nz and www.nzca.co.nz

Australia has recently changed its GST legislation on low value goods, meaning NZ businesses will be required to return 10% Australian GST. This will apply to businesses that have sales direct to end consumers in the Australian market of greater than A$75,000 a year. The legislation change will take place from July next year.

Currently imported goods under A$1,000 are not subject to GST in Australia. However, this has become a major issue for local retailers in Australia as they are at a significant disadvantage, due to online operators coming into the market with a GST exclusive price.

This will be a challenge to smaller retailers as they will need to adapt to this change and start charging 10% AUD to their invoices in Australia.

AIM is coming very soon

As you will be aware, there is now no use of money interest on provisional tax at the P1 and P2 instalments, provided the tax is paid on the uplift basis. However, clients are going to have to get their accounts completed in time for the P3 instalment or risk some use of money interest. This is not particularly practical in public accounting. The solution may be to use AIM.

From April 2018 AIM will be up and running. Some clients will want their accountant to use this, particularly those faced with the risk of use of money interest after P3. Those who pay their tax using AIM, will not be subject to use of money interest, because they will be outside the provisional tax regime.

Details of the way AIM will work are expected to be available from about November this year. Profit, and hence income tax, will be calculated by approved software and the tax payments will be made on a two monthly basis. The client does not have to be registered for GST to use AIM. If there is a loss for a two-month period, there will be an automatic tax refund. At the end of the year, there will be a terminal tax figure to pay. AIM will only be available for businesses with a turnover of less than $5 million.

Don't get caught by PHISHERS

The dictionaries can hardly keep up with the words coming from new technology. One of them is phishing, which sounds like fun but is far from it.

Phishing is a scam that tries to trick you into providing personal online information such as passwords, bank details and payments to legitimate sources. Once the "phishers" have your details, they can steal your money, or even use your identity for their own gain – and your loss.

Knowing how to spot a phishing expedition online will help ensure you're not caught.

Phishing is usually activated through a phony email. It often looks like it's coming from your bank or other trusted sources. It often suggests you need to reactivate your account, your account will be closed, or you need to claim a prize. With logos and corporate-style wording, it looks legitimate.

So how can you tell if it is?

Firstly, don't trust emails from someone you don't know. If it's legitimate and important, they'll ring you.

Banks rarely ask you to verify anything online.

Many phishers don't have English as a first language, so look for poor spelling and grammar, and the quality of logos and other images.

Look at the email address it's coming from. It might have a bank name in it, but often along with something else, for example, anzguest, or bnzinfo.

If it's not addressed to you personally, ignore it.

If you're asked to click to a website, beware. Look for https in the url – the 's' means it's secure. Just http is not secure, so don't go there. However, even https doesn't guarantee authenticity, so remain wary.

If you do feel you've been caught because you've clicked through and provided details in good faith, notify the appropriate organisation, such as your bank, or shut down your browser, restart and change your relevant password immediately.

Taxing schedular payments made to contractors

If you pay a contractor for work under a schedular payment activity, you must deduct tax from their pay. You will find the schedular payment activities on page 3 of the Tax rate notification for contractors (IR330C) www.ird.govt.ird.

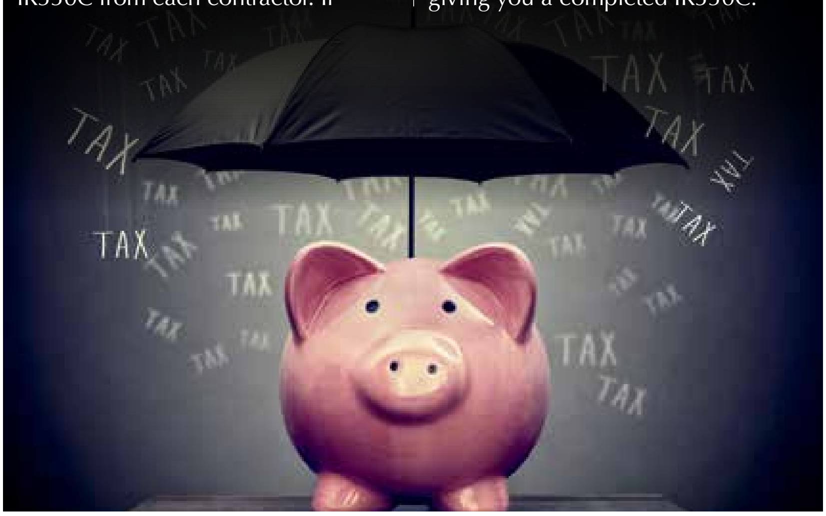
Note: Contractors hired under a labour hire arrangement fall under the schedular payment rules.

Contractors can choose their own tax rate between 10% and 100%. 15% is the minimum rate for contractors on a temporary entry class visa. To confirm their tax rate, make sure you get a completed IR330C from each contractor. If you don't get a completed IR330C, you need to deduct tax at the no-notification rate for their activity (generally 45%).

If the contractor wants to be taxed at less than 10%, they'll apply for and give you a special tax rate certificate or a certificate of exemption.

You need to include contractor income and tax on your *Employer monthly schedule (IR348)* and *Employer deductions (IR345)* form.

Contractors that don't fall under the schedular payment rules can also choose to have tax deducted by giving you a completed IR330C.



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Brophy Knight Limited	- Ashburton	(03) 308-5104
BW Miller Dean	- Wellington	(04) 910-3340
Brown Glassford and Co Ltd	- Christchurch	(03) 365-0881
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McIntyre Dick & Partners	- Invercargill	(03) 211-0801
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	- Dannevirke	(06) 374-5730
nsaTax Limited	- Auckland	(09) 309-6505
RSM New Zealand Group Limited	- Auckland	(09) 271-4527
	- Auckland North	(09) 414-6262
	- Auckland Central	(09) 367-1656
Strettons	- Taupo	(07) 376-1700
Southey Sayer	- Masterton	(06) 370-0811
Sudburys Limited	- Whangarei	(09) 430-4888
Vazey Child Limited	- Hamilton	(07) 838-2169
Wallace Diack	- Blenheim	(03) 578-7389
Whitelaw Weber Limited	- Kerikeri	(09) 407-7117
	- Kaikohe	(09) 401-0991
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Changes in Particulars

Please remember to let us know of any changes in:
• Physical address • E-mail address • Phone and/or fax numbers
• Shareholdings • Directorships • Trustees
Or anything else that may be relevant.