Welcome...

WELCOME to the spring edition of our newsletter.

As we complete accounts for the 2016 year it is apparent that the economy is fizzing and this is filtering through to many business in the form of increased profits and cashflow.

Whilst this is good news (and long may it continue!) we do urge you to take the opportunity to review external debt and gauge whether it should be reduced to a level that is more manageable should a downturn come.

We also recommend that you take the opportunity while business is going well to reflect upon your systems and determine whether they need updating to better reflect your trading environment and the technology now available.

As usual, we stand ready to assist you not only with your accounting requirements, but also with business management/consulting services.

If there is anything in the newsletter you would like more information on, please feel free to give me a call.

Ross Engert
Simmonds Ball Engert Ltd

Simmonds Ball Engert
ACCOUNTANTS

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newsletter

Do you pay yourself from your business?

DO YOU take regular cash drawings from your business profits to meet personal living costs? If so, you need to be aware of how your personal drawings sit with your tax position.

Sole traders

Sole traders complete an IR3 tax return at the end of the year. Include all business income and expenses in your tax return. This includes drawings – they are not a deductible business expense.

It's much easier to track this if the cash drawings are taken like a regular salary or wage; weekly, fortnightly or monthly.

Record your drawings for personal use in a cash book or with accounting software. Make sure you do your forward planning so there is enough money in the business

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More tax changes afoot

THE INLAND Revenue Department and the Government have recently introduced a multitude of tax changes. We outline some of the important ones below.

More on company cars and FBT

From 1 April 2018, the Government is proposing to let close companies (most small companies) calculate the private use of a company car in the same way as a sole trader.

You will have to keep a log book and apportion the costs. However, you will also need to make an adjustment for GST on the car, as well as its running costs. For many people the log book idea is going to be more hassle than it's worth.

This option will be available only provided there are no other fringe benefits and no more than two vehicles are involved.

If, when the law is changed, you prefer to keep a log book and avoid fringe benefits tax (FBT), tell us. Remember, however, your compliance costs will increase a little. There'll be calculations to make and GST adjustments to do.

FBT is a quick, easy and economical method of adjusting for private use of a vehicle. It will often give you a more favourable result – but not always.

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Do you pay yourself from your business?

to cover the bills after you take your drawings.

Partnerships

Partnerships are largely in the same position as sole traders; you can take regular drawings from the business profits. These are not deductible so don't include them as a deductible expense in the end-of-year partnership return.

The split of profits to the partners at the end of the year does not take into account any drawings taken from the profits.

There is the option for a partner to be paid a salary or wage if there is a written contract of service and this might suit you and the business better. PAYE would be deducted from your salary or wage like a regular employee. You could then claim this salary or wage as a deductible expense in the partnership's end-of-year return.

Companies

If your business entity is a company, you have more options. Shareholder-employees can:

- Draw money from the company periodically throughout the year. These drawings are recorded in the shareholder current account as a loan. At the end of the tax year, the company calculates a salary amount from the company profits and credits the current account with this amount. You must pay income tax on this, declared on your IR3 Individual income tax return. It is not a deductible expense for the company.
- Be paid a regular salary, whether monthly, fortnightly or weekly. PAYE is deducted as for a regular employee, provided you have an individual employment contract with the company. The company can claim this salary as a deductible expense in its end-of-year return.
- Receive dividends from the company profits, after the tax on those profits has been paid

The company can also pay directors and management fees from its profits. These may be included as deductible expenses in the company's end-of-year tax return.

Whatever the business entity, as with other business records, you must keep records of all drawings, salary or wages for at least seven years.

Being a trustee carries responsibilities

EVERY SO often we remind clients of the risks involved in being a trustee. It doesn't matter whether the trust is a family trust or a charitable trust. Trustees are directly responsible to the beneficiaries for their management of the trust assets.

Beneficiaries can sue trustees. In a family trust, it is not necessarily a beneficiary who causes the trouble. It can be the spouse of the beneficiary who makes the bullets.

There are also obligations to the Inland Revenue Department. Until you advise Inland Revenue you've ceased to be a trustee, you're still personally responsible for its taxes.

Wait for profits

Also, from a tax perspective you should remember if the trust makes losses they can't be passed out to the beneficiaries. You have to wait until the trust makes profits before you can use up the losses.

So, if you buy an asset which is expected to generate on-going losses for some time, it might be better to not have it owned by your family trust.

Perhaps it should be owned by someone who can use the losses to save tax. It can be transferred to the trust for asset protection purposes at a later time. This would normally be when it's making profits (trustees don't generally want loss-making assets) but, of course, this may mean additional costs.

Don't be passive

There is no such thing as a passive trustee. If you choose to be passive, be it on your own head.

Some years ago X and Y were appointed trustees of a family trust. Immediately, they decided they would hold quarterly meetings. At one of these meetings one of them proposed the trust should take out an insurance policy on a factory owned by the trust, for loss of rent in the event of fire or other accident.

Two years later the factory burnt to the ground. This serves as a very good example of how trustees ought to operate. They ought to hold regular meetings and minute decisions made.

Interference

What if the person who set up the trust wants to interfere? Maybe he/she didn't want to incur the premiums for taking out that loss of rents insurance policy.

The answer is simple. If you're a trustee, it's your job to steer the ship. Your responsibility is to look after the interests of the beneficiaries. You and your co-trustees make the decisions.

If anyone starts to bring pressure on you to do as they wish, the correct course of action is to resign. Above all, never be a passive trustee.

Business wisdom from John Borghetti

WE RECENTLY read the interesting biography of John Borghetti, who never got a tertiary education but still got almost to the top of Qantas and became the CEO of Virgin Australia.

Borghetti is quoted in the book as saying: "The CEO has two main tasks, which are to 1. Set the strategy; and 2. Keep the staff on side to deliver that strategy."

From your perspective, the message is to work with your staff to help them deliver the goods. Avoid criticising – none of us is perfect. Instead, take a positive approach to helping them succeed at their job.

If you really have to correct someone, there's a right way of doing it. Start by imagining you were the employee and work out how you would feel. What can you do to soften the blow? If that doesn't work, you may have employed the wrong person.

When hiring staff, Borghetti doesn't look at the CVs. Instead, he likes to get the candidates talking about their home lives to get an insight into their ethics and personal values.

At the end of the book he lists 10 lessons he has learnt about business. One good one is the importance of relationships. While it is obviously true that keeping a good relationship with your customers is crucial, don't forget your suppliers and your staff. Keep them on side. For staff, don't forget 'those who play together stay together'.

Tax on capital gains

ARE CAPITAL gains taxable? Yes, in some circumstances they are.

For example, if you buy a property with the intention of selling it for a profit, regardless of how long you have had it, that profit is taxable.

We noted an article in a national daily paper recently concerning interest-only loans. The Reserve Bank says 40% of loans are interest-only and 47% of loans are to investors.

If you buy a rental property and finance it substantially with an interest-only loan and don't make any effort to reduce the debt, some – including Inland Revenue – might argue your investment was made with the intention of getting a capital gain.

That would mean your gain, when you sell, might be taxable. There may be other valid reasons why the debt is structured this way. Just be careful.

Read every word of insurance policies

Strangely, one of the biggest risks in business is your insurance policy.

We're all familiar with the problems Canterbury people have had with their home insurance. If ever there was a document you need to read very carefully it is your insurance policy.

We've heard of someone buying travel insurance for a six-week period only to find, when a claim was lodged, that the policy was limited to a maximum of one month away from the country.

Read every word of your insurance policy and if there's anything which is not clear or looks as if it's not covered, raise the matter with the insurer or agent.

Make sure you get a response in writing. A telephone conversation is not enough.

Debt forgiveness

It may seem extraordinary but if someone forgives you a debt, from a tax perspective, you have taxable income unless the debt is forgiven for natural love and affection.

In this context the lender can only have natural love and affection for their relatives or a trust where those relatives are beneficiaries.

If you're structuring a business deal, don't include debt forgiveness. For example, A says to C: "I'll sell you my shares for $40,000 and forgive you the debt you owe me of $10,000".

It would be better to sell the shares for $30,000 and insist on the debt being repaid.

Reverse mortgages

Oldies often run out of money and they are sometimes helped by their children. There's usually an understanding that when the parents die, the children will be repaid out of the estate.

These arrangements should be documented. Otherwise disputes can occur as to who lent money and how much.

A new business has been created to take care of family loan issues. If you're interested, go to the website www.familyloans.co.nz

• In Brief

The biggest lies in business

The biggest lie in business used to be: "The cheque is in the mail."

It is now: "We are experiencing an exceptional volume of calls at the moment" or "We value your business…"

If you're a small or medium-sized business, don't copy big brother. Give your customers a fantastic telephone reception – that's one way to beat the big guys.

Have your say

IRD has asked us to draw your attention to its new website: changingforyou.ird.govt.nz

It would appear IRD wants to consult with you about proposed changes. The website outlines the IRD's vision for the future.

Want to buy a house?

It's easy to sell a property at the moment, but if you're a buyer, get sorted before putting in a tender or going to auction. This includes making sure you have builder and LIM reports, that you have been back to the bank within a week of the tender date to confirm your finance is OK, and you've taken legal advice, as needed.

Ask yourself; is it better to accept an unconditional offer for, say, $600,000 or a good conditional offer of $610,000? Most people will take the unconditional offer.

TAX CALENDAR

September 28

2nd instalment of 2017 Provisional Tax (December balance dates)

October 28

First instalment of 2017 Provisional Tax for those with March balance dates, who pay GST twice a year.

November 30

1st instalment of 2017 Provisional Tax for those with June balance dates

Great news for two finger typists

TECH UPDATE

IF YOU'RE tired of typing up endless reports, or your arms ache from too much typing, you might want to consider some voice recognition software.

This software can be easily installed on your computer or mobile device. Essentially the software recognises your voice and puts it into text.

Dragon is a market leader in this software, but others can be found if you Google 'voice recognition software'.

Dragon costs start at $122 + GST for a home version, $244 for the office, $280 for a Mac and $840 for the super-duper professional version. There's even one for medical professionals, which allows them to dictate appointment and medical record notes directly into their electronic health records.

So what does it do? The biggest advantage is hands-free dictation into your computer or device. It allows you to automate phrases and terms common to your work (such as medical or mechanical terms) and add punctuation. But it can also edit documents and spreadsheets, and use commands to surf the web, open and close email and other programs, and more.

It's great for small business people who have to type most reports and other documents themselves.

Most software comes with a headset and microphone in the pack.

It takes an hour or so of dictation for it to recognise your voice. Transcriptions are still not perfect, but it's pretty good at picking up your vocal nuances.

It will also dictate a recording you might have of someone else's speech, or an interview, but it might not be as accurate because it's someone else's voice.

Dragon claims accuracy is 99%.

continued

More tax changes

Use of home

There is a proposal to change the rules for claiming 'use of home'. For years, Inland Revenue has said that to make a claim for this cost you must set aside a room as an office. This isn't quite true.

A Court case some years ago settled this matter; you can apportion the cost of a room used for business between your business use and family use, based on the time each activity uses the room.

Now, the IRD is planning to get its rule enshrined in the law, so if the law changes, you will need to have a room set aside as an office, if you want to claim for the use of a room for business.

To make claiming this cost simpler, the department plans to set a rate for utilities per square metre ($x for power etc). You will add your adjustment for rents, rates and interest.

You won't have to use the IRD calculation but it might save you hassles if you do. The bigger the power bill, the more likely you won't want to use the IRD rate.

Shareholder/employees

Currently, you are either a provisional taxpayer or you get a PAYE salary. A mixture of the two is not strictly permitted unless the provisional income is at least half the PAYE salary.

In practice, it makes very little difference and for this reason, the Inland Revenue Department is proposing to do away with the restrictions and allow shareholder employees to take a PAYE salary and then top up their incomes at the end of the year, once the profit is known. We look forward to this change becoming law.

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