

# Sharemilkers Seminar

For the first time this year we are running a seminar for anyone that is new to sharemilking or contract milking.

This is open to anyone embarking on their first contract position. So if you know anyone starting a new position on the 1st June, please make them aware of this. They do not need to be clients of BRG – we just want to make sure people starting their sharemilking career have good information to get them started. We will be covering topics such as operating structure (sole trader, company, etc.), tax obligations, tax deductible expenses, becoming an employer and many other things. All couples attending will walk away with a valuable booklet outlining all sorts of details that are needed when starting out on this pathway.

The seminar is being held at the Te Puke Squash Club on Tuesday 4th April from 7pm. We are asking you to register for this by phoning 07 573 5569 or emailing [katem@busres.co.nz](mailto:katem@busres.co.nz). There will be a small charge of \$20 + GST per couple – but you will each receive a free beer or wine on arrival.

## Billing Changes

With BRG's move to Xero as our software of choice over the last few years, we are now doing more for each client during each GST period. This means the lines between what is a "GST return" and what we do at "Annual Accounts" time is more and more blurred. We are not doing extra work – just the timing of when we do it. Things that we traditionally did at Annual Accounts time is now happening at GST time.

For this reason, we are moving to a fixed monthly fee for most clients where we do GST and Annual Accounts.

Over the next month or two, you will receive a proposal by email (if you don't have email we will send it via snail mail). This will include a price for your GST, Annual Accounts and any other standard

services that we usually do for you (e.g. ACC, Company Annual Return, etc.) Please review the proposal and feel free to ask questions.

If you are happy, "sign" it by typing your name into the acceptance box. You will also be given the option to pay by monthly direct debit via your credit card (we will offer direct debit to your normal bank account later in the year).

This will assist your cash flow in that there will be no more "lumpy" accounting bills and it will also give you some certainty around what your fees will be for the next 12 months.

Please note that if "extra" work turns up during the year, there will be a separate bill issued for this work.

## TAX CALENDAR

### Mar 28 2017

2nd installment of 2017 provisional tax (June balance date)

3rd installment of 2017 provisional tax (February balance date)

GST for February 2017

### April 7 2017

Terminal tax for 2016 (March April, May and June balance dates).

### May 8 2017

3rd installment of 2017 provisional tax (March balance date)

GST for March 2017

**DON'T BE LATE**

## Watch out for our Xero Drop in Clinics

Shannon and Nicholas from Ledge Bookkeeping run regular, free Xero Drop in Clinics. These are open to all clients and are a great way to brush up on a bit of knowledge about how to use Xero more efficiently. NO need to make an appointment – just pop along during this time and hopefully they will be able to help you.

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# Newsletter

Autumn 2017



## Write off bad debts

With 31 March looming as the end of many businesses' financial year, there's always the prospect of paying too much tax. It doesn't need to be this way.

One of the biggest issues is the importance of writing off bad debts. It seems almost every year we have a client for whom we prepare the annual financial statements, who has a large amount of money owing to them.

When we get the results for the year we find there is a big profit, which has been inflated by an excessive accounts receivable figure. Discussion reveals some of this money is never going to be collected.

Can we fix the problem?

No. The law will not permit us to write off bad debts back-dated to the previous year.

The client has to pay the tax and wait until next year to get these bad debts written off.

In the end the result is the same but in the meantime our client has to pay his tax earlier than would have been necessary.

Look at the debts owing to you. Are there some you have been pursuing and who won't pay you? Have you taken every reasonable step to get paid?

If yes, you must physically write off the bad debt before balance date, if you want to reduce your accounts receivable and hence your profit and tax. It depends on the system you are using as to how you go about this. If

it's a very basic system like keeping copies of the invoices you have sent out, just write on your copy the words "written off as a bad debt on..." and insert the date. Do this now. It is not something you want to overlook.

You should tell us the amount you have written off as Inland Revenue likes us to record this separately.

Can you continue to try to collect a bad debt? Definitely yes. If you're lucky enough to get some money it becomes part of your taxable income.

(See also 'Get your debtors right at 31 March, page 2)

## Deducting tax from payments to a contractor

Generally, if someone working for you appears to be an employee, they probably are for tax purposes.

There are a whole lot of tests you can apply but if you supply the equipment, premises, agree on hours of work etc you have probably got an employee. Ideally, if the person is a contractor you should have a "contract for service" prepared by an employment law specialist that reflects the actual arrangements. It is important to get this right because if you get it wrong not only would you be liable for the PAYE

and penalties etc you could have a claim for holiday pay and/or personal grievance!

Some clients also have problems determining whether they should deduct schedular tax. In this case the rule is simple. If the occupation is listed as being subject to schedular payments, you deduct tax. If it is not listed you don't deduct tax. You can find the list at this URL: <http://www.ird.govt.nz/payroll-employers/make-deductions/withholding-tax/emp-deductions-salaries-wt-activities.html>

If you are reading this and you are a contractor, don't forget if your income exceeds \$60,000 you have to register for GST. Inland Revenue is discovering lots of cases where this is being overlooked.

## Big changes to PAYE on the way

On 3 November 2016, Inland Revenue announced changes to PAYE effective from 1 April 2019.

- Monthly schedules are to be abolished.
- PAYE information is to be filed on a payday basis.
- Dates for payment of PAYE are to remain the same with the option of paying on a payday basis.
- All information is to be filed electronically unless total PAYE deductions are less than \$50,000.
- Payroll subsidy is to cease from 1 April 2018.

## BRG News

On 1st April four of the BRG team will be taking part in the Spirited Women's Adventure Race in Taupo.

Kate, Vicki, Lesley and Trudi have formed a BRG Team to participate in the short course. Over the space of three to six hours they will be stand up paddle boarding, running, hiking and mountain bike riding around Taupo using a map to find various check points as well as participating in a mystery activity.

The course will not be revealed until the evening prior to the race so it is all a bit of a mystery. At this stage we know there will be up to 2k Paddle boarding, 15-25k mountain biking and 4-8km Trekking. Every member of the team has to do everything – in fact all members of the team have to stay within 60 meters of each other at all times. No doubt there will be lots of challenges along the way but here's hoping there is lots of fun and enjoyment throughout. We are certainly not in it to win it – it is all about finishing it. There will be about 1200 women involved in this adventure race so Taupo is going to be pretty full during that weekend! We have all been doing a bit of training –

including a 2.5-hour mountain bike ride in the Redwoods on the weekend followed by a 50-minute hike. Here is a photo of Lesley and Kate during the walk.



## Undeclared cash jobs

Recently, Inland Revenue wrote to us to remind us “undeclared cash in the construction sector remains a high priority for us”.

Failing to declare cash jobs is, of course, illegal.

One way Inland Revenue can discover the extent of cash income is to re-construct the taxpayer's expenditure. Once they have a good idea of the extent of your expenditure, they can deduce your income. The system is surprisingly accurate. If they find a shortfall they then make their estimate of what the income ought to have been and you have to prove them wrong.

It should be obvious, anyone who has a cash business can be targeted by the Department. The simpler the business, the easier the target. Taxis and cafes would have to be sitting ducks. Tips must be included as taxable income.

Inland Revenue has asked us to remind our clients of the consequences of not declaring income. They say it “can include tax penalties, criminal convictions or their ability to contract for work – which could have a considerable impact on their business and personal circumstances. Let them [clients] know that IR is getting smarter at finding people who are not declaring all their income.”

## Get your debtors right at 31 March

Clients use all sorts of systems for keeping a tally on the money owing to them. From a tax perspective, the figure at balance date needs to be accurate.

### Please note:

Assuming a 31 March balance date, all work done up to 31 March which is capable of being charged must be included as income. For income tax purposes holding some of your invoicing over until April does not necessarily mean you can ignore it. You don't have to actually send out an invoice but you do have to add the amount into your accounts receivable figure for tax purposes. You won't be taxed twice because once we have put in a figure for the amount owing to you, we then deduct it in the next year's accounts. If work cannot be charged because it is not quite complete, it doesn't get included in your accounts receivable.

Some businesses have work in progress, which is partly completed work. They must value this on the basis of the amount of material which has gone into jobs in progress and the value of the wages they have paid to do that work. Any other direct costs should also be included such as hire of equipment.

### Cut off

Don't deduct money received in April, until you have finalised the total owing to you at the end of March.

### Professional services

Professionals, who have supplied partly completed work (not invoiced), do not need to include these services in their annual accounts unless there is a right to make progress claims.

# Beware the debt collector

Inland Revenue now has the power to disclose tax debts to debt collectors.

If the debt is more than 12 months old and greater than 30% of the taxpayer's gross income, the tax department can release the information.

These disclosures are going to be very dangerous. They will damage the credit rating of those who offend. If you are in this situation, be sure to make an arrangement with the Inland Revenue to catch up and make sure you stick to it.

Don't agree to anything you are not going to be able to sustain. Obviously, if you are in tax trouble, it might be wise to talk to us first.

### Nowhere to hide

Meanwhile, tax departments around the world are clubbing together to swap information about assets and incomes owned and derived by taxpayers in countries other than their home country. IRD calls this AEOL, an acronym for Automatic Exchange of Information. Soon there'll be nowhere to hide.

## BRIEFLY

### Tax deductions on food and drink

Inland Revenue has informed us it

considers the supply of all food and drink, whether in the course of entertainment or not, is tax deductible only to the extent of 50%. Thus, under this new interpretation, if you give your client a bottle of wine or a food hamper you can no longer treat this as a fully tax deductible cost. If you want a 100% deduction, think of something different such as a bunch of flowers or something else which cannot be consumed.

### Charities

Inland Revenue is concerned because some charities do more than just carry out their charitable works. They run businesses. The department has no trouble letting the charity off paying Fringe Benefit Tax when an employee gets a benefit such as a car. It is concerned when the employee is not actually working for the charity so much as working for a business run by the charity. In future, there is to be an apportionment between mileage used for the charity and mileage used for the business. The business arm is to pay FBT. This change to the law has not yet occurred.

### Body corporates

A lawyer's newsletter has drawn our attention to the personal liability of committee members of body corporates registered under the Unit Titles Act 2010. If you are asked to serve on one of these committees, we suggest you require the body corporate to take out insurance to cover your risk.

## Get control of donations

Get control if you're bombarded with donation requests.

If you put all your donations through your company, you can keep a record of each one. When your annual accounts are completed, you can get a list of all donations for the year past and this would tell you what you gave last year. Note: if the company makes a loss, you won't be able to claim that loss to the extent it is caused by making donations, so only do this if the company always makes profits.

Another way of keeping control is to save up all donation requests until one day each year, then pay them all out just the once.

## Update on Farm House deductible expenses

We are still waiting on IRD to rule on the changes to deductibility of expenses associated with farm and orchard houses.

Submissions closed before Christmas 2016 and since then IRD has been wading their way through the submissions and the issues that these raised. We understand there were some excellent submissions and we know that IRD has corresponded with all submitters and discussed the issues with a lot of people. Federated Farmers in particular put in a very comprehensive submission which we understand IRD found very valuable. We expect a ruling on this within the next few weeks.