



2017 Year End Tax Alert

Your essential 2017 tax planning guide

31 March is the equivalent of New Year's Eve for accountants (minus the champagne and pre-requisite hangover). For most clients, 1 April signals the start of the New Year for business and tax purposes.

When you are ready to assemble your information, we ask that you complete the checklist and declaration attached with this email or available under the Resources and Bulletin section of our website www.wwauckland.co.nz. If you would like us to send you a copy of the Annual Questionnaire, please phone Stella on (09) 968 4440.

Year end tax planning checklist

1. Prepaid expenses

Some expenses can be prepaid in March and claimed as a tax deduction in the year to 31 March 2017, regardless of their amount. These include stationery, postage and courier charges, vehicle registration and road user charges, rates, subscriptions for papers or journals, and even audit and accounting fees!

Other expenses have limits on the extent to which they can be claimed if prepaid. These include rent, consumables, insurance premiums, professional or trade subscriptions, travel and accommodation, advertising, periodic charges and other services.

2. Trading stock

Trading stock (excluding livestock) must be valued at the lower of cost or realisable value. General adjustments for obsolete stock are not acceptable to Inland Revenue. It's important therefore to perform a physical stock take at year end and actually dispose of any obsolete lines or alternatively write that stock down to its net realisable value.

Clients with an annual turnover of less than \$1.3m can value their closing stock at the opening stock value, but only where closing stock can be reliably estimated to be less than \$10,000.

3. Bad Debts

To claim a deduction for a bad debt you need to physically write the debt off in your debtors' ledger prior to the end of your financial year. For most clients that's 31 March 2016. There should also be evidence that you have taken reasonable steps to recover the debt prior to writing it off.



4. Employee expenses

Any amounts owing to employees at year end (such as holiday pay, bonuses, long service leave, redundancy payments) can be claimed for tax purposes in the current year as long as they are paid within 63 days of balance date. Bonus payments should also be formally documented so that there is a written agreement with staff which has legal effect. The board should also prepare a resolution before 31 March 2017 resolving to pay the bonuses and the quantum of the bonus to be paid.

5. Review last year's fixed asset register

The book value of assets can be written off for tax purposes if the asset is no longer in use by the business, the business has no intention of using that asset in the future and the cost of disposing that asset is expected to be greater than the proceeds from its sale. Actually, it's simpler than that. Scan your asset schedule from last year's accounts and you'll probably notice assets that no longer exist (the mobile phone that you dropped in the tide at Christmas time), or simply don't work.

Year end tax planning checklist (cont.)

6. Retentions

Retention on building contracts are generally taxable in the year the contractor becomes legally entitled to receive them. This can result in significant deferral of income.



7. Discount reserves

A deduction for a discount reserve, to cover for example prompt payment discounts, is allowable where debtors are entitled to such a discount. In the first year a deduction of the actual discount percentage is allowed and in subsequent years a calculation is made to maintain the discount reserve at that percentage level. If the credit period offered to customers exceeds 93 days, different rules apply.

8. Repairs and maintenance

General adjustments for repairs and maintenance reserves are not allowed as a tax deduction. Instead it may be worthwhile to undertake any necessary repairs and maintenance on key assets prior to the end of the financial year to ensure a full deduction. Assets purchased for \$500 or less (excluding GST if registered) are regarded as deductible expenses. Deciding whether expenditure on an asset is deductible as repairs or maintenance or should be capitalised is not always cut and dried, so please contact us if you aren't sure.

9. Imputation credits and dividends

Companies that have imputation credits are able to pay dividends with 28% tax credits attached.

We realise the subject of imputation credits is complex for many of our clients. We will contact you regarding any necessary dividend and taxation planning before 20 April 2017.

10. Income

Be sure to review any credit notes issued to customers following balance date that can be applied to the previous year, i.e. 31 March 2016. In doing so, you will be entitled to effectively reduce your current year's taxable income.

Some tips on minimising income tax

Entertainment expenses: As a general rule, if you provide entertainment for your team or clients, some of your business entertainment expenses are tax deductible.

The following tables help indicate which expenses are 100% deductible and which are only 50% deductible. For unusual entertainment items, contact our team for advice.

	50% deductible	100% deductible
Entertainment Expenses Table : 50% DEDUCTIBLE		
Friday night drinks for team members or clients in the office.	✓	
Friday night drinks for team members or clients in the pub.	✓	
Hire of a launch to entertain clients.	✓	
Restaurants providing food and drinks to team members at a social function in their restaurant.	✓	
Sponsoring local sports teams and receiving tickets to their corporate box in return. 50% of the value of the tickets would be deducted from the total sponsorship.	✓	
Sponsoring a sports team by providing a meal for the team at their grounds after each game.	✓	
Staff Christmas party on or off the business premises.	✓	
Taking a client out to dinner while you are out of town on business in New Zealand.	✓	
Taking a client out to dinner.	✓	

Entertainment Expenses Table : 100% DEDUCTIBLE	50% deductible	100% deductible
Dinner for Sales Rep while out of town selling and no client present.		✓
Donating food to a Christmas party in a children's hospital.		✓
Employee's salary package includes a taxable allowance for entertaining clients.		✓
Golf club subscription for business owner paid by the Company.		✓
Gym membership for team member paid by employer.		✓
Providing a meal for a journalist while reviewing your business for their column.		✓
Providing morning and afternoon tea for your team.		✓
Sandwiches provided at a lunchtime meeting of supervisors.		✓
Sponsoring a local sports team.		✓
Taking a client out to dinner while you are out of town on business outside New Zealand.		✓

Home office expenses

Where a self-employed taxpayer uses his or her home partly to further the conduct of a business, he or she is entitled to a partial deduction for the outgoings which relate to the use of the home for the work related activities.

These include:

- Heating
- Lighting
- Rates
- Insurance
- Mortgage interest
- House and contents insurance
- Repairs and maintenance
- Telephone rental
- Depreciation



The portion of outgoings deductible is based on the area used for the business, expressed as a percentage of the total area of the home. It is not absolutely necessary to set aside a specific room for business purposes, nor is it necessary for your home to be physically changed to suit the business.

However in cases where a separate room is not set aside, it may be appropriate to apportion the outgoings based on criteria such as the amount of time spent on income-earning activities at home as well as the area used.

Examples of areas likely to be used for business purposes include:

- An office or office area
- A storeroom or storage area
- A workshop
- A garage or part of a garage which is used to house a business vehicle

Our advice? Do the maths and think laterally. Most people who are self employed find that it is impossible to completely separate business from home life.

Paying wages to spouses and children

If you are a sole trader, no deduction is permitted for wages paid to a spouse, unless the Inland Revenue Department consents in writing to that deduction. There are no special rules for payments to spouses if you are trading as a partnership, trust or company.

Where your children work for you or your business, and you pay them, you are required to deduct PAYE and your children will need to file a tax return.

IRD can make adjustments to such wages if payments are considered to be excessive.