CLIENT UPDATE FEBRUARY 2014

Hopefully you all will have had some form of break over the past couple of months. If we believe the economists, 2014 will be a good year for business and employment. So its time to start thinking of ways you can improve your business and take advantage of the economic uplift.

Unsure when your various tax payment dates are?
Check our website at www.jcrb.co.nz. This updates tax due dates every month.

7 April Terminal Tax.
2013 terminal tax letters will be posted to clients around mid March. If you have not got your 2013 financial information to us yet, please do so quickly. We need to have these finalised by 31 March 2014.

2014 Pre-balance date checklists.
2014 pre-balance date checklists will be posted early March. Please read these and take appropriate action e.g. write off bad debts etc. before 31 March 2014.

Saving.
It is better to save a dollar than earn a dollar! Have you heard this saying before? What does it mean and why is it true? If you earn a dollar you will be taxed on it at 10.5%, 17.5%, 30.0% or 33%. So a dollar earned nets in your hand 89.5 cents, 82.5 cents, 70.0 cents or 67 cents. Whereas if you save a dollar then the whole $1.00 is yours.

These days it seems that everyone wants everything now and a great deal of advertising is geared with a message that if you want it, you can have it, you simply have to borrow. The art of saving for what we want is almost forgotten. As a general rule borrowing should be used for buying appreciating assets e.g. property, whereas depreciating assets e.g. cars, holidays etc, should be saved for.

How to save?
It is probably timely (given we are emerging from the global financial crisis) for the art of saving to be resurrected.

Saving can be approached in two ways. Firstly from the perspective of setting aside a portion of after tax income. To do this, firstly decide how much you wish to save over a given period of time. Divide the amount to be saved by the number of pay periods during the saving period, to determine how much to save each pay to reach your savings goal. Deposit this amount in an interest bearing account every pay day. The balance of your earnings is then available to spend, or save more money, see below.

The other savings method is to approach the matter from an expenditure perspective. Review all your expenses and see where savings can be made without impacting your lifestyle too much. e.g. reduce lattes purchased each week, take your lunch from home for work, car pool or walk etc. These savings can also create the weekly amount required to meet your savings goals.
Please note the above two approaches to savings are not mutually exclusive i.e. they can be done together.

The point is that there needs to be some postponement of pleasures now to achieve your long term goals.

Saving now also affects retirement income. As we all get older, retirement becomes more imminent. Do you know how much you need to save for retirement? How much will you want to spend annually in retirement? At current interest rates $1 million saved will give you about $660 after tax per week to spend. Quite sobering, although you would still have the $1 million at your disposal.

Employee or contractor – take care
It's very tempting to try and make someone working for you a contractor rather than an employee.

The reason for doing so is to bypass the obligations of the Employment Relations Act and avoid tax complications, e.g. PAYE, Kiwisaver etc. As accountants, we don't advise you on the Employment Relations Act, but we

do comment on tax.
Simply signing up a contract for service between you and the "employee" will not necessarily mean the person about to work for you is an independent contractor. Particularly if the contract does not reflect the true relationship.

You need to be particularly careful when it comes to tax. If you fail to make PAYE deductions when you should have done, the IRD can make you pay the PAYE and charge you a penalty. There could also be use of money interest and ACC premiums to be paid on the wages. In these cases the IRD treat the payments to contractors as a net amount. i.e. they then add tax on top.

IRD sets out five tests. None of them is black and white and judgment is required. The five tests are:

- Do you control the "employee"?
- What is the intention of the parties?
- Is the contractor truly independent?
- Is the type of work being done near enough to the same as that being done by other staff?
- Does what the contractor is doing look like an independent business?

Travel between home and work.
Generally, the cost of travelling between home and work is not a tax-deductible cost. Some people think if they do some work at home or have a home office set aside, it is a second place of business and therefore the cost of getting to their normal workplace is tax-deductible. To qualify, the home has to be a significant place of work so that it in fact constitutes a second work place. Some of the factors making it significant include:

- A large percentage of the time is spent working at home, say 30-40%;
- Files are kept at home;
- There's a good business reason why you would work at home;
- The work produces a significant amount of income;
- The work at home is integral to the business.

Not all factors need to be present and it will inevitably be a matter of weighing up those that are to make a judgment.

Tax and life insurance.
Beware of life insurance agents who claim premiums on a life insurance policy can be tax deductible to a company. While this may be true, depending on who is going to get the proceeds of the policy (it needs to be an indefeasible – unable to be overturned – right of the employee) the premiums will nevertheless be subject to fringe benefit tax. This negates the benefit of having them tax deductible.

Income protection insurance premiums paid by an employer for an employee will be deductible and not subject to FBT if any future payout to the employee is taxable.

IRD Audit Insurance.
Some time ago we wrote about an insurance product called Audit Shield. Essentially for a small premium businesses can insure for the professional fees incurred from having an IRD audit or review.
After some careful deliberation and discussion with clients we have decided to offer this product to all of our clients. This is not obligatory nor does it indicate that our clients will be any more or less likely than any other firms clients to receive an IRD enquiry or audit. It is merely a conservative approach to risk management.

Letters of introduction and offer from Audit Shield will be posted to most clients in the next couple of weeks.

Overseas Pensions/Superannuation ACT NOW!
If you have an overseas pension or super scheme, then by applying to have it transferred to New Zealand before 1 April 2014 you will be taxed on 15% of the transferred amount. Contact Grant Hodder now if you have such a scheme.

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