

CONTENTS

Annual Accounts Questionnaire for 2007 Income tax Returns

TAX & BALANCE DATE MILESTONES

TAX PAYMENTS

PROVISIONAL TAX

Reward for Good Behaviour

WAYS TO SAVE ON YOUR ACCOUNTANCY FEES

And Finally ...

Annual Accounts Questionnaire for 2007 Income tax Returns

Please download this file [Annual Accounts Questionnaire](#) if you have not received a newsletter from us in the post. Complete & Return with all your Income Tax documents

TAX & BALANCE DATE MILESTONES

These dates are reminders to plan for the 2007 accounting year end and the year ahead.

Each year we send out an Annual Questionnaire. The questions are designed to prompt you to think about key business areas. Please pay particular attention to: bad debts, fixed assets, holiday pay, inventory and work in progress. Some key areas require action before your balance date arrives.

Bad Debts: In order to claim a tax deduction bad debt must be written out of your ledger before the year end, and all practical efforts taken to collect the debt.

Fixed Assets: Fixed assets should be reviewed. Where a fixed asset is no longer in use and not intended for use in the future, it should be scrapped or sold unless the cost of disposal outweighs the value of the asset. Once this action is taken, the asset can be written out of your ledger and a tax deduction obtained.

Inventory and Work in Progress (WIP): A stock take should be undertaken and WIP involving a labour element should be valued based on the labour cost at balance date. Taxpayers with a turnover of less than \$1.3m who estimate the value of their closing stock at less than \$5,000 may be able to use a specific provision in the stock rules to avoid carrying out a stock take.

Holiday Pay: Holiday and bonus payments made within 63 days of your balance date are deductible in the 2003/4 year where the payments are related to the 2003/4 financial year.

Subvention Payments: 31 March is a critical date for completion of subvention payments between commonly owned companies.

Qualifying Company Election Paperwork: Certain election paperwork for companies wishing to enter or exit the regime must be lodged with the IRD before year end.

PROVISIONAL TAX

For any customers who may think they may have to pay Provisional Tax (Profit over \$15,000), please get your books into us before the middle of June 2005, and let us know. Your accounts will be completed as a priority.

KNOWING TRUST "JARGON"

With the rise in use of trusts comes "jargon" that is peculiar to trusts. Increasingly clients ask about trusts and how they operate. Simple explanations follow for words and phrases that are part of trust jargon.

“Trust - a legal relationship where a person or persons (the trustees), holds property for the benefit of another person or persons (the beneficiaries).

“Trustee - the person or persons appointed to look after the assets that belong to the trust. The trustee's powers are outlined in the Trust Deed.

“Settler - the person who creates a trust.

“Discretionary beneficiaries - a group of people who have been nominated to share in the trust income, and where specified in the Trust Deed, also in the trust's capital. The trustees decide who gets what from the trust.

“Final beneficiaries - a group of people nominated to share in the assets left in the trust at the time the trust is wound up.

“Settlement sum - This can be a nominal amount, say \$10.

"Trust deed - the document creating a trust. Its contents indicate who created the trust (settlor), who the trustees are, what the settlement sum is, the powers of the trustees, the group of people who may be able to share in the income and capital earned by the trust, and the group of people who are to share in the trust assets on wind up.

The creation of a trust can be explained as follows: A person (the settlor) creates a document (the trust deed) which entrusts the management of certain assets (the settlement sum, to begin with) to a person or persons (the trustees) for the benefit of people (the

beneficiaries) that the settlor nominates within the trust deed. The ability of the trustees to "grow" the trust is defined within the powers given to them by the trust deed.

The main reason for creating a trust is to set aside and maintain assets for specific people (the beneficiaries). The assets may generate an income that can also be allocated to the beneficiaries.

Another area which creates some confusion is the difference between an estate and a trust.

“Estate - when someone dies, all their assets and liabilities go into an estate. An estate is a trust which administers the assets of a deceased person. The estate has a trustee (referred to as an executor) appointed (usually by the will) to administer the estate. The estate is a special type of trust that is created only at the time of a person's death.

“Trust - usually an entity that is created by a living person who contributes a sum (settlement sum) to start the entity.

Who "owns" the trust's assets? All the assets of the trust are legally held in the joint names of all the trustees. If "A" and "B" are the trustees, then any shares owned by the trust will be in the name of "A & B". However, the assets do not belong to the trustees. The trustees are holding the assets for the beneficiaries, until the time those assets are distributed to the beneficiaries.

Trustees must act with diligence and prudence. This means that they must act in a manner that any prudent person would, if dealing with his/her own assets. Trustees are personally liable for their actions.

DEALING WITH EMPLOYEES ON A BUSINESS SALE

Often, when a business is sold, the employees in the business are "taken over" by the purchaser as part of the whole business purchase. When the purchaser takes over the business, the employment relationship between the employees and the employer (vendor) is effectively at an end. The vendor of the business needs to give notice to employees that they will no longer be employed from the date of the business takeover.

If the purchaser wishes to re-employ certain employees, there must be a new offer of employment made to those employees. The employees can then choose whether or not to accept the purchaser's offer. The purchaser cannot assume that all the employees will want to continue to be employed by the business.

However, the situation for a purchaser considering re-employment of existing employees may change if certain provisions in the new Employment Relations Law Reform Bill are adopted. These provisions aim to protect the position of employees who are deemed to be "vulnerable" in a restructuring situation. "Vulnerable" employees include cleaning, catering and laundry staff. The nature of the protection is the right of the affected

"vulnerable" employees to elect to transfer to the new employer on their existing terms and conditions of employment. Alternatives to transfer may be negotiated.

Non-trading Trusts

In the past, the Inland Revenue required all trusts to file annual tax returns, whether or not the trust had been active or earning income. Inland Revenue has now changed its stance, so that where a trust clearly has no prospect or intention of earning income; it will not be required to file a tax return. It will be up to the trustees to demonstrate that the trust is inactive.

However, if the trust starts to receive income, e.g., interest, the trustees of the trust must file a tax return regardless of the amount of income earned.

To stop filing trust tax returns, the trustees will need to contact the Inland Revenue to advise the name and IRD number of the trust, and confirm that the trust will not be filing tax returns. If the trust has a tax agent, then the advice and confirmation can be made by the tax agent. If, in the future, the trust receives income, tax returns will be required from the year in which income is received

Reward for Good Behaviour

Hidden in the depths of the tax penalties regime is a provision which rewards taxpayers for "good behaviour". What does this provision do? The gist of it is that if you are stung with a shortfall penalty, you will be able to get a 50% "discount" on the penalty if you have exhibited "good behaviour" within a "probation" period. The discount generally does not apply to tax evasion offences.

The discount applies if:

“For income tax purposes, there has been no penalty for a breach of the same type within the last four years.

“For GST, PAYE, fringe benefit tax and resident withholding tax purposes, there has been no penalty for a breach of a similar type within the last two years.

Therefore, if you are on the receiving end of a penalty, and you have been behaving yourself, you should remind the Inland Revenue that you are entitled to a 50% discount.

WAYS TO SAVE ON YOUR ACCOUNTANCY FEES

Maintaining your records accurately (see surviving an IRD audit) will also reduce the amount of time it takes for us to complete your end-of-Year accounts and TIME IS MONEY!

1. Use a separate banks Account for each business
2. Ask us for a Chart of Accounts and code up your cheque books
3. Simply go through each bank transaction and put the amount of GST alongside each transaction, keeping the withdrawal and deposit columns separate.
4. At the end of the 2 monthly period, simply add up the 2 columns and transfer to the GST return form
5. If you have VISA transactions, either write a cheque to reimburse from the Business account to your credit card, or keep a separate record (remembering to put the costs on your GST return)
6. Cash transactions also require a separate list to be kept with the rest of the 2 months information
7. Invoices should be filed behind your Bank Statements and VISA statements to save us even more time.
8. Use software-importing transactions from compatible software saves us even more time-we recommend MYOB or Easy Books, and can get you a Cash-Book system, or a Cash-Book and Invoicing System for \$295+GST.
9. We can do it all for you so you can concentrate on the analysis of your business, not the Cash Books!
10. Call us for a Quote.
11. Oh Yes....if you need any advice, we offer a free email service as part of your annual fee. Email us at any time and we will endeavour to reply within 24 hours

And Finally.....

We hope you are happy with the service that you receive from Ezebiz tax.

If there is anything which is troubling you then LET US KNOW. IF there is anything you like then let your FRIENDS know!

To any of you who have not brought in your Stuff to us yet, we are looking forward to it- even more if you follow the instructions above (how to save on your accountancy fees!

Previous Newsletters

Dec 03

If you have any questions about the newsletter items please contact us, we're only too happy to help

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