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Stephen Larsen and Co

TAX AND BUSINESS ACCOUNTANTS

TAXTALK

7 April: Tax payment reminder

This is a further reminder that payments for end-of-year income tax, student loans and over-paid Working for Families Tax Credits for the 2015-16 tax year are due April 7 for all customers with an extension of time.

IRD will be sending reminders such as:

- letters to some customers from 16 March onwards that will direct them to the 7 April information page on our website
- a message in letters to some customers about unpaid provisional tax and the interest that can add up when this remains unpaid
- a message in letters to some customers with a 7 April due date that explains they already have outstanding balances
- text messages to some customers the week starting 13 March to prompt them payment is due on 7 April
- social media messaging to provide reminders of the 7 April due date.

Pay on time to prevent penalties and interest from adding up. If you are having trouble paying in full and on time, contact IRD before the due date to set up a payment arrangement.

You can pay by Internet Banking, Cheque, Debit or Credit Card. IRD's preferred method of payment is by Internet Banking. You can also pay by EFTPOS or cash (but not a cheque) at any Westpac branch. Ensure you choose the Correct Tax Type and the correct Tax Date Period and enter your correct IRD Number to ensure it goes to the correct account.

If you are paying by cheque please ensure you send your cheque well before the due date as the mail is becoming quite slow now. Your cheque needs to be at the IRD by 7th April 2017 otherwise late payment penalties will be charged. Posting your cheque on the 7th April is no longer acceptable.

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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.

Seeking feedback doesn't need to be pushy

How often do you dine out and get interrupted during an interesting conversation by the waiter/waitress wanting to know if you are enjoying your meal?

Apart from causing some irritation, does the question really do anything for either the customer or the business?

Norman stayed at a Quest apartment. When he got home he received this personalised email:

Dear Norman,
Colin, Lisa and the team would like to take this opportunity to thank you for choosing to stay with us at Quest Rotorua Central.

It was a pleasure to host you and your wife in Rotorua. It was great to hear that you had a nice stay. We hope that you have a great time in Taupo and safe travels till you are home in Upper Hutt.

We would be grateful if you could take a few moments of your time and complete our online guest satisfaction survey.

Please click on the following link http://www.surveygizmo.com/s3/1216163/2013-Guest-Feedback-Survey
If the link does not open, please copy and paste onto an internet page.
If you are a reviewer on Trip Advisor you may wish to place your feedback here: Review Quest Rotorua Central on Trip Advisor

We welcome all comments as a means to continuously improve the services and facilities we offer to you and future guests.

We look forward to welcoming you back to Quest Rotorua Central, the next time that you are visiting the city. For your next stay we will always guarantee the best available rate at:
www.questrotoruacentral.co.nz

If you want feedback, do something different from everyone else. Make sure your request is genuine (as opposed to being just a routine enquiry) and you will value the response. In this way, you should get valuable feedback as well as helping to create an advocate for your business.

Beware the tax 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 AEOI, an acronym for Automatic Exchange of Information. Soon there'll be nowhere to hide.

question time >>

Q: Can a retiring trustee avoid GST liability?

A: *No, a retiring trustee cannot avoid GST liability*

If a trustee has a liability for goods and services tax (GST), can this be avoided by the trustee retiring? In answering this please presume that Inland Revenue has been given notice of the trustee's retirement as is required by s 573B of the Goods and Services Tax Act 1985.

No, a retiring trustee cannot avoid GST liability. While the trustee may be able to recover the GST liability pursuant to the trustee's rights of indemnity (provided that these have not been voided), the liability remains with the trustee who incurred the debt.

The recent decision in C of IR v Robertson sets out a number of general propositions at [29] that usefully canvass trustee liability when there has been a change of trustee. The Court noted that:

* A trust is not an independent entity.
* A trustee who incurs liability is personally liable for the debt - this includes tax debts.
* A trustee has a right of indemnity for liability incurred as a trustee that is secured by an equitable lien - this right includes rights of realisation, retention, exoneration and reimbursement from trust assets.
* Trust assets vest on new trustees when a trustee is removed or retired - see s 47 of the Trustee Act 1956.
* Retirement does not extinguish any liability incurred before retirement or impose liability on the new trustee for those debts - but the new trustee takes the trust assets subject to the former trustee's rights of indemnity for that liability.
* A trustee's liability for GST does not cease on retirement but continues until the Commissioner is notified of the retirement.

REFERENCE:
C of IR v Robertson (2017) 4 NZTR ¶27-002; [2017] NZHC 31.
Trustee Act 1956, s 47.
Goods and Services Tax Act 1985, s 573B.

Source: CCH/TEO Question & Answer Service

TAX SOLUTIONS

Tax deductions on food and drink - Inland Revenue has informed 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.

WEB SOLUTIONS

Save data even with cloud accounting. Although a third party provider may be used to store business records, tax-payers remain responsible for their tax obligations including retaining business records for the retention period (usually seven years) required under the Tax Administration Act. If you stop subscribing to a cloud accounting software package, will the supplier give you access to your records should you require this in the future? If the answer is no, be sure to save all your data on to your own computer each year.

PROHUB SOLUTIONS

Looking for a way to record notes with customers who are slow payers and want a reminder system so that you can follow them up if they're not paying? Prohub Online offers you such a solution. Prohub Online allows you to create notes of phone calls with slow payers and then allows you to allocate a follow-up date and follow-up person so that they get regular reminders that you want your money. Visit our website to find out how Prohub online can help your business prosper.

Look-through company (LTC) elections

For existing companies to use the LTC rules, IRD must receive completed election forms before the beginning of the income year that the election relates to.

New companies have until the date their first return is due (including any extension of time if applicable) to file the election.

Go to IRD's Look-through company election (IR862) form to find out more about Look-through company elections.

The Taxation (Annual Rates for 2016-17, Closely Held Companies, and Remedial Matters) Bill currently before Parliament proposes changes to the LTC rules. If the Bill is enacted, the changes would apply for the 2017-18 and later income years.

Applying for an IRD number

If you need to get an IRD number for a new club, trust, society or other company entity, there is now a simpler and faster way to do this.

Registration can now be done online. The streamlined process allows you to get your IRD number within 48 hours, attaching all required documents in myIR through the Inland Revenue website instead of having to post or fax documentation.

Online registration can also be completed for GST, PAYE, FBT, RWT, LTC and Māori Authority.

Go to IRD's 'IRD numbers - businesses and organisations page' at www.ird.govt.nz to register.

Quick Quote

Summer ends, and Autumn comes, and he who would have it otherwise would have high tide always and a full moon every night; and thus he would never know the rhythms that are at the heart of life. ~ Hal Borland

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."

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