

# YEAR END STRATEGIES

THE 2007/08 TAX GUIDE FOR YOU & YOUR BUSINESS

## THE 'TAX PIE' AND HOW TO KEEP AS MUCH OF IT AS POSSIBLE FOR YOU AND YOUR FAMILY

Tax planning is all about understanding the personal and business taxes you are liable to pay, and looking at ways to minimise them. In this way, you can help maximise your net income, creating opportunities to save for the current and future needs of your family and your business.

Albert Einstein once famously said that, 'the hardest thing in the world to understand is income tax'. But don't let complexity deter you from a simple goal: keeping your taxes as low as possible. As accountants our role includes not only preparing financial statements and tax returns but also working with you to ensure that taxes are at the lowest possible level. Only by achieving this can you retain the biggest slice of your wealth to spend or save.

This guide is designed to highlight a range of planning opportunities, some of which may expire on 31st March 2008. In particular, do please contact us to discuss:

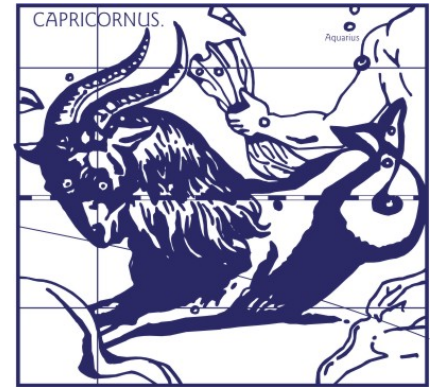
- keeping tax rates as low as possible across the family
- developing a plan for tax-efficient profit extraction
- keeping business taxes to a minimum
- tax efficient remuneration packages
- reducing the cost of company cars
- tax-efficient savings
- reducing the tax on your estate

## COMPULSORY CONTRIBUTIONS FOR EMPLOYERS

From 1 April 2008 businesses will be required to contribute to their employee's KiwiSaver account or complying fund at 1% of their gross salary or wage. This will rise to 4% during the transitional period to 2011.

A complying superannuation fund is part of a registered superannuation scheme that has been Government approved and meets specific criteria similar to KiwiSaver (for example lock-in rules and transferability). The \$1000 Government kick-start payments do not apply to complying superannuation funds.

Employers may make additional voluntary contributions raising the potential for more effective remuneration packaging through salary sacrifice.



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## TEN YEAR END TIPS FOR BUSINESS OWNERS

- 1 Deferral of income - Income can be deferred to 2008-09 if entitlement to income can be delayed. Deferral of earnings may reduce tax obligations as a result of the new 30% company tax rate.
- 2 Consumable aids - Consumable goods and items that are used in manufacture, but do not form part of trading stock, may be claimed provided the total value is not greater than \$55 000.
- 3 Obsolete stock – The year end stock-take should involve a review of all stock and a decision made in relation to its value from both a tax and commercial perspective. When reviewing inventory, be mindful of the age of the items, likelihood of future sales and their scrap value. You will need to have evidence of the cost of any stock that is written off.
- 4 Prepayments - Generally where a business prepays an expense prior to balance date (usually 31 March) no deduction is available in the current year. There are, however, a number of exceptions. For example, insurance, subscription, service contractor and prepaid rent.
- 5 Staff bonuses and employee holiday pay – Accrued holiday pay and bonuses paid within 63 days of balance date are deductible at 31 March 2008.
- 6 Trading stock - Trading stock must be counted and valued at 31 March 2008. Retain stock-take sheets. An exemption applies for taxpayers with gross revenues less than \$1.3m and stock value less than \$5 000.
- 7 Bad debts – Review all bad debts before year end. To claim a deduction the bad debt must be written off the debtors ledger before 31 March 2008.
- 8 Review private loans – Where a private company provides loans to shareholders, a review of the loan arrangement is necessary. Specific rules apply to loans which may have the effect of the loans being taxed as deemed dividends.
- 9 Fixed assets – Review last year's fixed asset register to determine if assets listed still exist. Assets can be written off provided that they are no longer in use, there is no intention of using the asset and the disposal value is less than the cost of disposal.
- 10 Repairs and maintenance – Review all spending during the year to determine if all items are deductible or if they are capital by nature and need to be depreciated. Low value assets (value \$500 or less) are deductible provided that they do not form part of another asset that is depreciable.

## DON'T LOSE IMPUTATION CREDITS

From the start of the 2009 tax year, the tax rate for companies will be reduced from 33% to 30%.

When dividends are declared, they will carry an imputation credit of 30% for company tax paid. Provided that taxpayers have a store of imputation credits generated under the 33% tax rate, they are able to pass these through to shareholders at 33%; however only until 31 March 2010.

After that time, shareholders will face the prospect of a level of double taxation to the extent that companies retain a balance of 33% imputation credits. There is also an argument that the change penalises companies in that it encourages distributions of profits that may not ordinarily be distributed, when it may be better to have profits reinvested back into the business.

If you are unsure how these changes may affect your business, or how you may take advantage of the changes, please contact our office well before year end.



## BUSINESS STRATEGIES

Before the year end, take a moment to take a step back from the routine of your daily business life. Ask yourself whether your business is in good shape. Make a list of good and bad points about your business and areas where improvements are possible.

Then make two more lists. One should contain your business goals and the other your personal goals. Compare the two and note any conflicts. You need to take account of any conflicting goals and decide how you will manage them. Now, why not sit down with us to talk through how you can reach your goals?

We can help you to consider:

- improved profit extraction
- a more tax-efficient business structure
- a business valuation
- grooming your business for sale
- selling your business, or passing it on to the next generation
- bringing partners into your business
- motivating and providing incentives for your staff
- improving cash flow and debt recovery.

## SAVING - THE SOONER, THE BETTER

Research shows that on a national level, New Zealanders have managed to save less than 2 percent of disposable income over the last year. That's a drop of around 50 percent since 2005 and well below the OECD median <sup>1</sup>.

It comes as no surprise that the wealth of the average New Zealander has grown, but this is primarily as a result of increased house prices. Concerned with the trend, the government has taken steps to remedy what some may consider a savings crisis, through the introduction of KiwiSavers. The approach of KiwiSavers has been largely to encourage individuals to accept some responsibility for their financial security. But why stop there?

The secret to financial security isn't a 'get rich quick' scheme, and it isn't particularly exciting.

It's up to you to make your financial security happen, using:

- a budget - identifying how much you earn and spend;
- a savings and investment plan - deciding how much you need to put away and where to invest it;
- discipline - adding to your savings regularly; and
- patience - building wealth takes time.

Talk to us about putting a plan in place to help you reach your financial goals.

<sup>1</sup> New Zealand Treasury

## NEW RULES FOR CHARITABLE GIVING

An estimated 30 percent of New Zealanders contribute financially to charities and other non-profit organisations. Charitable giving makes an invaluable contribution to our social, cultural, environmental and economic wellbeing.

There are significant changes to the tax rebates available to individual donors and tax deductions available to certain corporate donors with effect from the beginning of the 2008-2009 tax year.

For individuals, the rebate threshold of \$1890 will be removed. This means that individuals will be able to claim a 33 1/3% tax rebate on all charitable donations up to their taxable income. For example, if a person who has a taxable income of \$75 000 makes charitable donations of \$10 000 during the year, the tax rebate available will be \$3330, reducing the effective cost to the donor to \$6670.

There are two changes for companies. The deduction will be available to all companies, including unlisted closely held companies. Until now it has not been available to

## PIES AND REAL ESTATE

With the introduction of a new investment vehicle called a PIE (Portfolio Investment Entity), the government has changed the way tax is paid on investments for many investors in New Zealand managed funds. These changes came into effect from 1 October 2007. PIE investments have features that make them more attractive than traditional managed funds.

One of the key attractions is that PIE investments are not taxed on capital gains from New Zealand and most listed Australian share investments. In addition, investors in a PIE will have any taxable income earned within that PIE, taxed at 0%, 19.5% or 33% (that rate will drop to 30% in April 2008).

In addition, the top tax rate for PIEs, and the tax rate for most unit trusts and superannuation funds, will reduce from 33% to 30%. This will mean a lower tax rate on their investment and retirement savings for individuals, and a more consistent tax treatment for different types of managed funds. These changes come into effect from 1 April 2008.

The success of KiwiSavers and the coming reduction in tax on managed funds may have an impact on individuals' attitudes towards property investments.

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Only half of those joining KiwiSavers are taking an active role in their investment choices. Rather than making a decision they are allowing their employer or IRD to allocate them to a default provider.



closely held companies unless their shares were listed on a recognised exchange.

The 5% limit on deductions that companies can claim for cash donations to recipient organisations will be removed. This means that companies will be able to claim the deduction each year for gifts of money up to the amount of their net income. This change will also apply to Maori authorities.

## TEN YEAR END TIPS FOR PROPERTY OWNERS

- 1 Document your claim – You will need to make sure that you have the receipts to prove your deduction and show why the expense was incurred to derive assessable income.
- 2 Repairs and maintenance - Review expenditure on repairs. The cost of repairs on investment properties are deductible but care needs to be taken as expenditure that may be considered an improvement may not be treated as a deduction.
- 3 Rent in advance - If rent is received in advance, it is normally taxable in the period in which it is received.
- 4 Travel and car expense – If you have travelled to inspect, carry out maintenance or collect rent you may be able to claim the costs of travelling as a tax deduction.
- 5 Rental period - Reductions may only be claimed whilst the property is earning income. If a property is vacant or used for private purposes, costs incurred during this time are not deductible, except if the property was unoccupied in order to carry out repairs or improvement.
- 6 Rate and insurance - Property rates and payments and the cost of insurance are deductible.
- 7 Consider a chattels valuation - A professional chattels valuation will ensure that assets are valued and categorised accurately allowing the correct depreciation to be claimed. The cost of having one prepared may be tax deductible and may add a significant tax deduction for depreciation. It will also help substantiate your claim.
- 8 Below market arrangements - If property is rented out to family and friends for less than its true market rental value, property expenses incurred may not be deductible.
- 9 Interest - Interest can be deducted if borrowed funds have been used to purchase the property prepared to prove the interest claim where a loan has been used partly to purchase property and some other purpose.
- 10 Capital items - Capital expenditure incurred to buy or improve the value of a property is not deductible. This includes the capital part of a loan repayment, legal fees or accounting fees incurred as part of buying a property.

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Typically property investment has held a high degree of confidence, but these changes combined with the IRD's firmer approach to property speculators, may tip the scales.

Before embarking on a re-organisation away from a property portfolio, individuals should take into account aspects of property that make it attractive, including tangibility, ability to be used as leverage for further investments, and allowable deductions which determine taxable income. As with all decisions, an informed approach works best.

If you are unsure about how the introduction of PIEs affect you, or your investments planning please contact our office.



## FRESH START FOR STUDENTS IN DEBT

Inland Revenue is encouraging borrowers who are eligible for the student loan amnesty to apply by the deadline of 31 March 2008.

The amnesty is available to student loan borrowers who have been living overseas and have fallen behind in their repayments.

Borrowers that are eligible will either have late payment penalties reversed or not applied to their account. In order to be eligible, borrowers must have been overseas on 31 March 2006 and have fallen behind in their repayments. The amnesty must be applied for by 31 March 2008.

The amnesty provides an excellent opportunity for students to get a fresh start. If you are a student that may be eligible, do not leave things until the last minute.

## WE ARE HERE TO HELP

Make good use of us! This guide is merely a starting-point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us early for help in taking advantage of tax-saving opportunities and tax-efficient investments.