MOORE Markhams

Accountants & Advisors

CREATING A THRIVING BUSINESS

HELPING YOU THRIVE IN A CHANGING WORLD

www.mooremarkhams.nz

FINANCIAL AND BUSINESS SERVICES

Our integrated financial and business services are designed to help clients grow, realise and protect both their businesses and their private wealth.

WHAT YOU CAN EXPECT

We are committed to providing dependable accounting and business services of the highest quality, maintaining our reputation for integrity and professional excellence as chartered accountants and business advisors.

And you'll get support from the top. Our principals and senior managers will work with you on the development and implementation of your business strategies.

We are local and independently owned and believe we offer greater passion, personal commitment and long-term partnerships to help our clients thrive in a rapidly changing world.

CONTENTS

BUYING A BUSINESS

Our partners and senior team work closely with you, assisting with important aspects of a proposed business purchase to ensure your success.

IS THE PRICE RIGHT?

How much should I offer for the business? We regularly assist clients with indicative business valuations. Based on financial information that has been provided, we help to establish an independent view of what the business is worth.

STRUCTURE OF THE TRANSACTION

What are the taxation issues relating to obtaining deductibility for interest costs on financing the purchase? Is it preferable to buy the business assets and goodwill or the shares in an existing company that owns these assets? We can address these issues and consult with you before recommending the most advantageous structure.

Purchase of a 'Going Concern' is usually zero rated for Goods and Services Tax (GST) if it is the sale of the entire business 'lock, stock and barrel'. Both the purchaser and vendor must be GST registered and both must agree in writing that the sale and purchase is of a going concern.

SALE AND PURCHASE AGREEMENT

We work with your solicitor to ensure various aspects of the agreement are suitable, such as consideration of GST and whether sufficient time has been provided for an appropriate financial due diligence programme to be undertaken.

Buying a business is usually a significant financial commitment. It is important that no matter how small the business, an appropriate level of financial due diligence is performed before proceeding. We can undertake a comprehensive due diligence process.

Asking the right questions and obtaining appropriate documented explanations to support the vendor's financial information is essential to ensure the correct purchase decision is made.

Our Assurance Services team has developed a comprehensive due diligence package that is then customised to suit your proposed transaction.

A financial due diligence programme usually examines the business' historical financial information to address key questions relevant to your purchase decision, such as:

- Is the cash flow of the business sustainable after purchase?
- What is the spread of the business' customers and is there considerable reliance on a single customer?
- What is the seasonality of the business? When is the best time to settle on the proposed purchase to maximise cash flow in year one?
- How transferable are the skills and role of the existing owner?
- Are there tax risks associated with the vendor's treatment of contentious items, such as use of consultants, FBT and transfer pricing issues?

BUSINESS STRUCTURES

A business in New Zealand may be operated by an individual, a trust, a company, a joint venture, a partnership (including a limited partnership) or a branch of a foreign company. Each has different legal and taxation implications. Our team will ensure the best structure is established for your business.

COMPANIES

A company is a separate legal entity that carries out trading, owns assets and incurs liabilities in its own name. Shareholders own the company but are not liable for the actions of the company unless they have specifically agreed to be liable. Directors are appointed by shareholders to run the company for them and can, in certain situations, become liable for consequences of their actions.

All profits are taxed at the company tax rate. Retained profits are distributed to shareholders by dividend. When a dividend is declared, the company tax already paid is attached to the dividend – these are called imputation credits and ensure tax is not paid twice.

New Zealand companies are governed by the Companies Act 1993, their constitution and common law.

TRUSTS

A trust is a relationship that exists when property or income is held in trust by a trustee for the beneficiaries. Any profits a trust generates can be allocated to beneficiaries, who will pay the tax at their marginal tax rate or remain in the trust at the trust tax rate. Retained profits and other trust capital can be distributed by the trustees. More specific details relating to trusts can be found on our website in the Services / Trusts section.

PARTNERSHIPS

A partnership is a relationship between two or more parties carrying on a business. Profits, losses and liability do not remain in the partnership but pass through to the partners themselves, which is also where the income is taxed.

JOINT VENTURES

A joint venture results when two businesses combine for a particular outcome.

The joint venture agreement specifies each participant's proportional share in the assets, liabilities and results. There are no specific regulations governing the establishment of a joint venture.

SELF-EMPLOYMENT

Being self employed simply means all income and expenses related to any trading activities are going to be taxed at that individual's marginal tax rate. There is no asset protection as the individual is liable for activities carried out under their own name.

LIMITED PARTNERSHIPS

Limited partnerships have limited partners and general partners. Limited partners who do not engage in the management of the limited partnership, are not responsible for the liabilities of the partnership.

General partners have unlimited liability and therefore the general partner of a limited partnership is often a limited company.

A limited partnership has tax look-through status, with profits or losses passing through and being returned at the partner level. It must file an annual return with the Companies Office each year just like a company.

RESPONSIBILITIES OF A COMPANY DIRECTOR

Directors of a company have a range of legal obligations to meet the current Companies Act. Failure to comply to these statutory requirements is an offence and can lead to substantial fines for both the company and each director of the company.

COMPANY RECORDS

These documents must be kept by at the registered office of the company, or elsewhere provided the Company Registrar is advised within 10 working days of the location change:

- the Constitution
- Minutes of all meetings and resolutions of all directors and shareholders within the last seven years
- an Interests' Register (of directors' interests including acquisitions and disposals, specific and general interests, remuneration, indemnities and insurance)
- certificates given by directors in the last seven years
- the full names and addresses of current directors
- copies of all written correspondence to all shareholders, or all holders of the same class of shares within the last seven years
- financial statements and accounting records required by the Companies Act or the current Financial Reporting Act for both the current and the last seven completed accounting periods
- a share register.

SHARE REGISTER

A company must maintain a share register that records the shares issued by the company along with other specific information relating to those shares. Each director of the company has a duty to ensure the share register is properly kept.

ACCOUNTING RECORDS

The Board of a company must ensure that accounting records are kept for the company. These records must:

- correctly record and explain the company's transactions
- enable the financial position to be determined with reasonable accuracy, at any time
- enable the directors to ensure that the financial statements comply with the appropriate Acts
- enable the financial statements to be readily and properly audited.

COMPLYING WITH THE ACT

It is important that all company records and registers are maintained and kept up to date. We can assist with maintaining these electronically as part of our corporate secretariat service.

TAXATION - GST

Moore Markhams provides a range of services to assist you with GST compliance, from full service processing of monthly transactions through to assistance in system implementation.

GST

GST (Goods and Services Tax) is a tax that is imposed on the supply of goods and services in New Zealand. GST registered businesses charge GST on their income and claim back GST on purchases and expenses incurred in deriving that income.

GST REGISTRATION

A taxpayer is required to register for GST if they are carrying on a taxable activity that turns over or is expected to turnover $60,000 or more a year (turnover is your total income before expenses and GST).

This equates to average sales of around $5000 per month. You can choose to register for GST even if your turn over is less than $60,000 per annum. This is termed voluntary registration.

Before you can register for GST you will need to:

- have an Inland Revenue Department (IRD) number. (You use your IRD number as your GST number.)
- decide on an accounting basis
- choose a taxable period.t.

ACCOUNTING BASIS

The way in which GST is accounted for, i.e. how it is claimed and charged, is mostly dependent on the business' annual turnover. If the annual turnover is less than $2 million then you can choose the GST invoice, payments or hybrid basis. If the annual turnover is over $2 million either the invoice or hybrid basis is to be adopted.

Invoice basis – GST is claimed and paid when you receive or issue an invoice and make a payment, whichever comes first.

Payments basis – GST is only accounted for in the period in which payment is either received or paid.

Hybrid basis – GST ion purchases is accounted for using the payments basis and GST on income is accounted for using the invoice basis.

TAXABLE PERIOD

The taxable GST periods available are as follows:

Two-monthly – this is the standard taxable period. The two-month period ends on the last day of January, March, May, July, September and November for a standard March balance date.

Monthly – You may wish to file GST returns monthly if you receive GST refunds. (This is often the case if you are an exporter) or to aid cash flow management.

Six-monthly – this option is only available to small businesses with sales less than $500,000 per annum.

While GST is a tax that is imposed on most goods and services supplied within New Zealand, there are some exceptions. GST is not charged on goods and services that are included within the definition of 'zero rated' or 'exempt supplies'.

ZERO-RATED SUPPLIES

Zero-rated supplies have GST charged at zero percent. The majority of zero-rated supplies are in relation to supplies of goods that are being exported, or goods or services supplied or performed offshore. If you have zero-rated supplies, you can claim GST on your expenses.

EXEMPT SUPPLIES

These are goods and services that are not subject to GST; therefore, GST cannot be levied or claimed on these in your GST return. For example:

- bank fees
- interest on bank loans and overdrafts
- residential rents
- interest and dividend receipts
- currency dealings
- wages / salaries.

You can't claim GST on expenses relating to exempt supplies.

TAXATION - INCOME TAX

Moore Markhams' tax specialists have the knowledge and experience to ensure you have most appropriate tax structure for your business.

PROVISIONAL TAX

This is a way of paying your income tax in instalments through the year. The amount you pay during the year is credited against your end-of-year tax to pay.

WHO MUST PAY PROVISIONAL TAX?

If your current year's residual income tax (RIT) is more than $5,000 you'll need to pay provisional tax for the following tax year.

Your RIT is calculated from your year-end tax return. It is the amount of tax to pay after the deduction of any source deduction payments such as PAYE or RWT, but before any provisional tax payments are allowed for.

If the provisional assessment is higher than you expect your tax liability for the coming year to be, you can estimate your provisional tax. However, care should be taken as any underestimated balance will incur interest charges.

HOW MANY INSTALMENTS DO I MAKE?

If you are not registered for GST:

You will make three instalments.

If you are registered for GST:

- Six-monthly; you will only need to make two provisional tax instalments.
- Monthly or bi-monthly and use the standard option; you will make three provisional tax instalments.
- Monthly or bi-monthly and use the ratio option; you will make six provisional tax instalments.

WHEN IS IT DUE TO BE PAID?

If you have a standard 31 March balance date, and you are required to make two payments, these will be due on 28 October and 7 May. If you are required to make three instalments these will be due on 28 August, 15 January and 7 May.

If six instalments are due, the due dates will be 28 June, 28 August, 28 October, 15 January, 28 February, and 7 May.

Terminal tax, which is your final tax for the year after adjusting for provisional tax paid during the year, is generally due on 7 April following the year of the tax assessment.

HOW MUCH WILL I NEED TO PAY?

Provisional tax is based on your expected profit for the year. There are four ways to calculate it - the standard option, the estimation option, the ratio option and the accounting income method (AIM).

Standard option

To calculate your provisional tax instalments, you add five percent to your RIT for the immediately preceding income year. If you have not filed your tax return for the immediately preceding income year, you can still use the standard option to calculate your provisional tax by increasing your last tax assessment by 10 percent.

Estimation option

To estimate your provisional tax, estimate your income and then calculate the tax on it. You can re-estimate your provisional tax as often as you like up to and including your Inland Revenue last provisional tax instalment due date for the year. At this date, your last estimate becomes final. Any underestimated tax balance will incur interest charges. This can be a good option if you expect your income to be lower than last year.

Ratio option

This option is only available to tax payers registered for GST. Using the ratio option, provisional tax instalments are based on your GST taxable supplies. Inland Revenue calculate a percentage based on your prior year's residual income tax, divided by your GST taxable supplies for the corresponding year. Provisional tax payments are then made with your GST returns by applying the Inland Revenue percentage to your GST taxable supplies. This can be a good option if your income fluctuates a lot.

AIM (accounting income method)

This is a new option that allows taxpayers to pay their provisional tax based on the amount of profit calculated by 'approved accounting software packages'. To put it simply your accounting software does all the calculations for you, at the same time as it works out your GST. AIM method can be complex but a good option if your income fluctuates.

Use of Money interest (UOMI) and late payment penalties

Inland Revenue charges late payment penalties and UOMI on all payments for all tax types that are not made on the due date. In some circumstances, Inland Revenue can remit late payment penalties but UOMI is never remitted.

DEDUCTIONS

A taxpayer is usually entitled to claim a deduction for any expense that is incurred in deriving taxable income or incurred in the course of carrying out a business activity.

DEPRECIATION

From 17 March 2020, if you purchase an asset with a cost greater than $5000, it must generally be added to the fixed asset schedule of the business and depreciation claimed over the asset's useful life at prescribed rates set by Inland Revenue. Any assets costing $5000 or less are classified as 'low-value assets' and a full deduction may be claimed in the year of purchase. This threshold will reduce to $1000 on 17 March 2021.

It should be noted that the total value of all purchases made on the same day from the same supplier must be $5000 or less to qualify for the full deduction, e.g. a taxpayer purchases five chairs at $1050 per chair as part of the same purchase. The total value of the purchase is $5250 so this does not qualify for the full tax deduction.

From 1 April 2020, commercial and industrial buildings will once again be able to be depreciated using the diminishing value method at a rate of 2 per cent per annum or the straight line rate of 1.5 per cent per annum.

DEPRECIATION RECOVERY

Disposal of a fixed asset will give rise to a gain or loss on sale. Any gain in excess of the asset's original cost will generally be a capital gain and not subject to income tax. Any gain over the asset's current depreciated value (book value) but less than that original cost is termed 'depreciation recovered' and is subject to income tax. Where an asset is sold for less than its current depreciated book value a further deduction is generally allowed for this shortfall.

REPAIRS AND MAINTENANCE

Expenditure that is remedying fair wear and tear is generally deductible in full. If significant improvement is made to an asset that is beyond merely restoring the asset to a previous standard, then the expenditure may need to be capitalised and depreciation claimed over the asset's useful life.

HOME OFFICE

You are entitled to claim a deduction if you use a part of your home for business activities or to store business goods or records. A fair appointment between business use and private use needs to be determined. The area of the home used for business is compared to the total area of the house to determine the percentage of home expenses which can be claimed. A deduction of this percentage is available for electricity, rates, insurance, mortgage interest and repairs and maintenance.

We usually assist with calculating the home office reimbursement and this forms part of the year-end adjustments made to your financial statements.

TELEPHONE EXPENSES

Where a mobile phone is required as part of your business activities the full amount of any rental charges and calls are deductible. A reimbursement or adjustment should be made for any calls of a private nature. Inland Revenue also accepts that where a taxpayer conducts

business activities from home that a deduction of 50 percent of the home line rental may be allowed. A deduction may also be made for home internet rental and usage. If there is an element of private internet usage, then the deduction should be reduced to reflect this private portion.

TRAVEL

Travel expenses incurred as part of business activities are deductible. Along with keeping all receipts and travel tickets, you will be required to keep details of the reason for the trip and the people visited while on the trip.

All food and entertainment expenses that are incurred while you are away from home are also deductible. If you take a spouse or partner on the business trip this may also be deductible if your spouse is an employee in the business, is providing some influence on business decisions, or is expected to be present.

DEDUCTIONS (continued)

A taxpayer is usually entitled to claim a deduction for any expense that is incurred in deriving taxable income or incurred in the course of carrying out a business activity.

ENTERTAINMENT

Entertainment is generally either fully deductible or 50 percent deductible. Entertainment that is regarded as having no private component is generally fully deductible while entertainment expenses that are regarded as having a private component are 50 percent deductible.

Fully deductible entertainment expenses include:

- Food or beverages consumed while travelling in the course of business activities.
- Food or beverages consumed at a conference, education course or similar event which lasts for at least four consecutive hours, unless the event is principally for the purposes of entertainment.
- A reasonable amount of food or beverages consumed by an employee by reason of an employee working overtime and a meal allowance or similar reimbursement payment would otherwise be required to be paid.
- A reasonable amount of food or beverage is provided as a morning or afternoon tea or as light refreshment at the person's business premises or at a conference, educational course or similar event.

Entertainment expenses that are 50 percent deductible include:

- Food or beverages consumed as part of a party, reception, celebration meal or other similar social function, e.g: a Christmas function that is not held at he employment premises.
- Corporate boxes, corporate marquees or tents or similar exclusive areas at sporting, cultural or other recreational events or activities occurring off the business premises of the taxpayer. Holiday accommodation or pleasure craft.

INTEREST

A deduction for interest can be claimed when it can be demonstrated that the interest cost was incurred in generating taxable income. When loan repayments comprise both principal and interest, the repayments are split, as it is only the interest cost that is deductible against taxable income.

STOCK

When compiling your financial statements, an adjustment is made for opening and closing stock to assist in deriving your taxable income for the year.

A stock take must be completed at the end of each financial year. Stock is always recognised at the lower of cost or net realisable value. Records of physical stock takes and other supporting documentation must be retained should Inland Revenue ever request copies of them.

Traders with turnover of less than $1,300,000 p.a. can utilise an unchanged stock figure each year provided they can reasonably estimate a total stock at less than $10,000.

INDEPENDENT CONTRACTORS

If you are using independent contractors in your business, you may be required to deduct Withholding Tax from the income you pay them in the same manner as PAYE.

Payments to freelance workers, cleaners, drivers, entertainers and commission payments are examples of payments subject to the Withholding Tax rules. These rules have been extended to include payments to companies as well as individuals.

MOTOR VEHICLES

One of the most common questions we're asked is "can I claim my motor vehicle expenses?" Motor vehicles are a common business asset and running costs can be significant.

SOLE TRADER AND PARTNERSHIPS

If you are a sole trader or partnership and you use a motor vehicle for business purposes, you can claim that portion of all associated costs such as fuel, repairs, insurance and leasing expense. You must keep a log book for three months every three years to justify the business use percentage. If you do not keep a log book, Inland Revenue policy is to reduce your claim to 25 percent or lower.

COMPANIES

More commonly trading takes place through a company. The apportionment rules above do not apply to companies.

Companies are entitled to claim in full all vehicle expenses incurred in owning and running the vehicle. However, if a company vehicle is available for private use by an employee, (such as taking it home at night) then Fringe Benefit Tax (FBT) must be paid on the value of the vehicle, whether leased or owned. The only way of avoiding FBT is for the vehicle to be:

1. not a car

2. work related, such as being a Ute (or twin cab) or if the back seats are permanently fixed down; and

3. the business name must be permanently affixed to the vehicle; and

4. a letter must be given to the employee advising that the vehicle is not to be used privately (copy to be kept).

Employers are deemed to be employees for FBT purposes. In other words, if the company owns the vehicle, and as shareholder the vehicle is available for your private use, the FBT rules above apply as if you are an employee.

FRINGE BENEFIT TAX

Fringe benefit tax is calculated based on either the vehicle's original cost or its current depreciated book value. It is paid to Inland Revenue either quarterly or annually. Fringe Benefit Tax is not payable on days when the vehicle is not available for private use, for example: the vehicle is in for service or the employee is out of town on business.

Generally, if your vehicle has a low value, it is often better for the company to own the vehicle and to pay FBT on the low value. The company then claims 100 percent of all costs relating to the vehicle. With higher value vehicles the FBT regime effectively reverses any taxation benefit from company ownership of a shareholder's vehicle.

From the 2017-18 income year onwards, some close companies can elect to opt out of the FBT rules for the private use of company motor vehicles by shareholder-employees. To qualify, they must have only one or two motor vehicles available for private use by their shareholder-employees and provide no further benefits.

If you choose not to use the FBT rules, you'll have to apply the rules for vehicle expenditure in your income tax return and make an adjustment for private use under the rules for motor vehicle expenditure. This involves either a logbook to work out the percentage of business use or a mileage calculation at the end of the year.

REIMBURSEMENT

If the company does not own the vehicle, an employee or shareholder employee can be reimbursed based on Commissioner's published mileage rates. From the 2017/18 income year onwards, Inland Revenue introduced a new kilometre rate method. The new method eliminates the 5000 km cap and introduces two tiers.

The first tier covers business travel up to 14,000 kms, and the second tier covers travel over 14,000 kms. Over 14,000 kms, the amount that can be claimed reduces and varies depending on your vehicle type. Once you elect to use this method, you must continue to use it for as long as you own the vehicle.

You could, however, use the alternative Cost Method with another vehicle as the method you elect to use is on a per vehicle basis. Inland Revenue sets new rates each year as third-party industry data becomes available.

A logbook or record must be kept to support the reimbursements made.

SALARIES, WAGES AND PAYE

The increasingly complex procedures required to prepare salaries, wages and PAYE can be a burden and can needlessly distract you from running your business.

EMPLOYING STAFF

If you employ people you will need to register as an employer with Inland Revenue and deduct PAYE (Pay As You Earn) from the wages you pay them. When an employee starts working for you it is important that they complete a tax code declaration form on which they will give you their appropriate tax code. You must then deduct PAYE from the gross wages paid to them using the rates relevant to the tax code given.

This PAYE is required to be forwarded to Inland Revenue on the 20th of the month following the wage payment. If the PAYE you pay to Inland Revenue each year is $500,000 or more, you must pay twice a month on the 5th and the 20th of the month. You may also be required to make other deductions from employees' wages such as for Student Loans or Child Support or as advised by the Inland Revenue or Department of Courts.

All employers must file employment information every payday electronically with Inland Revenue.

It is important to note that you are required by law to have an individual employment contract with all your employees. There are minimum holiday, statutory days and sick leave entitlements that you must provide your employees with. The Holidays Act 2003 comprehensively details how these entitlements must be applied and paid so it is important that you ensure you follow these rules correctly.

KIWISAVER

KiwiSaver is the Government's voluntary work based superannuation scheme. When an employee starts you must automatically start deducting KiwiSaver contributions from their pay.

You can only stop deducting KiwiSaver from their wages when they give you a KiwiSaver Opt Out form or when you are notified by Inland Revenue. You can then return any KiwiSaver deductions you have made to them. If you have already sent these contributions to Inland Revenue, then as long as Inland Revenue is advised that the employee wishes to Opt Out within eight weeks of the employee's employment commencing, Inland Revenue will return these to the employee directly.

As an employer you must also contribute to the employee's KiwiSaver account. This contribution is on top of the salary or wages you pay them. The compulsory minimum contribution rate is three percent, which must be matched by another three percent from the employee.

RECORD KEEPING / ACCOUNTING PACKAGES

Moore Markhams can advise you on the best record keeping and accounting options available to suit your business from the many software and cloud-based services on the market that make accounting for your business relatively simple.

SMALL BUSINESS PACKAGE

A small business package helps with invoicing and debtor management, recording and tracking creditor payments due, tracking your stock and preparing your GST returns. We can help you assess the factors that impact on which accounting package is best for your business, including whether you invoice clients or receive payments in cash, the number of suppliers you have and whether you have stock. We

Alternatively, we offer options that we administer from our office. For instance, BankLink provides us with an electronic copy of your business bank statement that you code when you make online payments or write cheques. This package can be extremely cost efficient for small business as we receive your data in an electronic format.

Whatever package you choose, it is important that you have a business bank account and that you try to keep your business transactions separated from your personal transactions. You must keep all invoices, receipts, bank statements, deposit book and Inland Revenue returns for a period of seven years in case Inland Revenue audit your records.

If you would like to discuss what method of record keeping is best for your business, then please contact us. A list of the options we support can be found on our website www.markhams.co.nz/ /services/accounting-tax/cloud-based-accounting/accounting-software-supported

MOORE MARKHAMS HELPS BUSINESSES THRIVE

Our aim is to help you maximise all available benefits and minimise any risk. Our services are tailored to meet your needs and delivered in a timely and proactive manner. At Moore Markhams our recommendations are actionable and are aligned to your objectives.

We provide assurance and accounting, tax, business advisory and business management services, while our specialist accountancy knowledge across a range of industries will add a commercial advantage to your decision making.

Our chartered accountancy and business advisory firms plus specialist audit firms are all locally owned. Together we form a New Zealand-wide network that has worked collaboratively for many years. We've both leaders in our fields and effective business people. Using knowledge built up over many years, you'll get practical and commercial financial solutions specific to your business sector.

We're here to help you thrive in a changing world.

MOORE Markhams

Accountants and Advisors

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