

Financial Year End Appendix

The following is a summary of matters to consider to help you prepare and claim the deductions that are available to you.

ACC LEVY

ACC is deductible in the year in which it is due and payable. This means that if you pay the ACC invoice dated April 2014 (due after year-end), it cannot be deducted in the March 2014 financial year, even if the expense relates to that period.

ACCOUNT BALANCES & ACCRUALS

On 31 March 2014 at close of business, you will need the following (snapshots):

- A list of outstanding debtors and amounts owed to you by each one (debtors ledger).
- A list of outstanding creditors and amounts you owe each one (creditors ledger).
- Closing balances on your bank statements.
- A list of cheques written but not yet cleared.
- A wages summary.
- An estimate of wages accrued to 31 March but paid at the end of the week.
- An estimate of Holiday Pay and Long Service Leave owing to employees – see also Other Expenses below.
- Interest portion on debt repayments to 31 March 2014.

ADVERTISING

If the period of the advertising relates to no more than six months after balance date and the prepaid portion is less than \$14,000 per contract, then it is fully deductible in the current year.

ASSETS ACQUISITIONS

- Depreciation can be claimed from the 1st day of the month that the asset was acquired so be sure to keep an accurate record of the date of purchase
- Assets acquired singly or along with other assets in the same depreciation category may be written off immediately if the total purchase cost is \$500 or less (excl GST), providing the assets do not become part of a larger depreciable asset
- Consider whether asset splitting is possible. For example, if you have purchased a residential property for investment purposes you can get a deduction for the chattels such as carpets, fridge and curtains if you can separately identify the costs

- Check depreciation rates are in agreement with the Inland Revenue Department prescribed rates. Refer to the IRD depreciation finder at www.ird.govt.nz.
- If a trade-in is involved then ensure that the asset is capitalized as its full cost (before deducting the trade in).
- If the asset is purchased on hire purchase or other borrowings, you will need to include the outstanding debt.
- Identify whether any assets should be subject to a private use adjustment for personal use.
- Include depreciation for intangibles such as patents.

DISPOSALS

- Adjustments will need to be made for any assets sold, destroyed, traded in, stolen or scrapped. Retain records of dates and costs.

SCRAPPED ASSETS

- Review your register for assets no longer used and where necessary, consider applying to the Inland Revenue Department to have these assets written off.

BAD DEBTS

Bad debts are no deductible unless they are written off in the accounting records prior to the end of the financial year. In addition you must have sufficient documentation to prove that the debt is irrecoverable. This includes copies of any correspondence and a record of efforts made to recover the debts.

CONSUMABLE AIDS

Consumables used in conjunction with, but not forming part of, the final product can be deducted in the year of purchase, provided the unused stocks at year end do not exceed \$58,000.

DISCOUNT PROVISIONS

If a prompt payment discount is offered to debtors, then a provision for the potential discount can be made and claimed at balance date.

DIVIDENDS

Ensure 2013-14 dividends are declared before 31 March 2014 and pay the withholding tax by 20 April.

DONATIONS

Companies can claim all donations made to charitable organizations, up to a maximum of their taxable income for the year.

ENTERTAINMENT

Certain types of entertainment are only 50% deductible. You will need to identify the non-deductible portion so that

it can be added back to your profit for tax purposes (see table below).

You will also need to make a GST adjustment in your GST return in the same month that you do your income tax return.

HOME BUSINESS EXPENSES

A portion of home occupancy costs can often be claimed and this is generally in proportion to the floor area of your dwelling used for business purposes. Records of the following expenses should be kept:

- Home telephone rental.
- Electricity and gas.
- Mortgage interest or rental.
- Insurance – home and contents.
- Rates – land and water.
- Repairs and maintenance.

Some self-employed people work from home and have visitors. On this basis, you should also be able to claim a portion of gardening costs.

IMPUTATION CREDIT ACCOUNT

If you are operating under a company structure, check the company's imputation credit account. If it is likely to have a debit balance at balance date, then you should make an extra payment of income tax to avoid penalties. A 10% penalty compounding 6 monthly applies if the shortfall is not paid by 20 June.

INSURANCE PREMIUMS

Insurance premiums are deductible provided they are not prepaid for more than 12 months and the total annual premium for each policy does not exceed \$12,000.

LEAVE PROVISIONS AND BONUSES

Amounts owing at balance date for bonuses, holiday pay and long service leave are only deductible if paid out within 63 days of year end, otherwise they are not deductible until the following year.

LEGAL FEES

These may be claimed in full if the total is up to \$10,000. If the total is greater, than all of your legal fees must be split between capital and deductible expenditure.

PHONE

Telephone and communication equipment may be prepaid and claimed up to 2 months in advance.

RENT

- Prepaid land and property rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than \$23,000.
- Prepaid livestock or bloodstock rental is deductible on the same basis.

REPAIRS AND MAINTENANCE

- If the work is carried out before year end then the amount will be deductible in the current year.
- The total cost of a service contract is deductible if it has less than three months to run at balance date and costs less than \$23,000 for a full year.
- If a warranty is purchased with a fixed asset, ensure the cost of the warranty is separately identified so it can be deducted rather than capitalised.

STOCK

If your turnover is less than \$1.3m and you can reasonably estimate that you have less than \$10,000 worth of trading stock, then you do not need to value it or include a change of stock value in the calculation of your annual income. Otherwise:

- Obtain an accurate stock count of all finished goods, goods in transit and work in progress at year end.
- Obtain an accurate stock count of any raw materials on hand at year end.
- Determine the appropriate valuation method (for tax purposes you can value stock at the lower of cost or market value, but whichever method you use must be supported by independent records or documentation. If turnover is less than \$3m you can use the Market Selling Value method).

It may be worth doing a stock take anyway if you have obsolete stock to write off or if you wish to confirm that your system and physical stock levels are in the agreement.

SUBSCRIPTIONS

- Newspapers, journals and periodicals are deductible without adding back unexpired amounts.
- Association memberships are deductible provided they extend no more than 12 months after balance date and the subscription does not exceed \$6,000.

TRAVEL

Travel and accommodation – advance bookings for business related travel and hotel or motel accommodation are deductible provided it is not more than six months in advance and the total does not exceed \$14,000.

OTHER

Prepaid services other than those mentioned may be expensed in the current year if the pre-payment is for no more than 6 months after balance date and the amount is up to \$14,000.

Some expenses are not deductible for tax purposes or require extra documentation. The main expenses to check are:

- Costs associated with starting a new business, eg you cannot claim legal or consulting expenses for establishing a business.
- Doubtful debts not written off in the current year.
- Expenses of a capital nature, eg acquiring a computer.
- Legal fees.
- Penalty taxes.
- Fines imposed by the Courts.
- Personal expenses (for employees or proprietor) paid by the business (may be subject to PAYE or FBT, or non deductible depending on company structure).
- Repairs and maintenance may have limitations.
- Research and development – special conditions apply.

In addition, if you have accrued expenses such as Holiday Pay or Long Service Leave, then these have to be added back (accrued) unless paid out within 63 days after the end of the income year. It is recommended for accounting purposes that such costs are accrued in any event to give you a true reflection of profit for the year.

Similarly, accruals from the previous year will need to be deducted.



Entertainment Expenditure Checklist	Deductible		Liable for FBT
	50%	100%	
Business lunch with client at restaurant	✓	✓	✓
Gifts of goods or alcohol for clients	✓		
Chocolate biscuits for morning tea		✓	
Friday night drinks for staff at work premises	✓		
Friday night drinks for clients at work premises	✓		
Gym membership for staff member		✓	✓
Dinner for sales rep while out of town on business		✓	
Dinner for sales rep and client while out of town on business	✓		
Season pass to Warriors home games given to client (corporate box)		✓	
Dinner for sales rep and client while out of NZ on business		✓	
Taxi fare for staff going home from Christmas Party	✓		
Golf sub paid for shareholder/employee		✓	✓
Light working lunches provided to employees at work premises	✓		