

NOTES TO ASSIST COMPLETION OF BUSINESS QUESTIONNAIRE

Never change company shareholding without conferring with us because there are tax implications.

Please note the following comments

1. Cars

If you sell your car or any private asset to your company, it can be taken by a liquidator if your company fails.

2. Protection

You can protect yourself from loss of assets owned by your company by taking a security over the company assets.

3. Shareholder remuneration

Company shareholder/employees must be able to justify remuneration credited to them. Unjustifiable income is a dividend which requires directors to comply with the "solvency test".

4. Fringe benefit tax

You can avoid the tax and putting in FBT returns by making an adjustment to your accounts for the value of the benefit. If you are liable for Fringe Benefit Tax, we recommend you discuss this with us. The FBT rules are being amended from 1 April 2017. For example, some companies may be able to avoid FBT on newly purchased cars completely by applying the new rules. Please talk to us regarding FBT for your company.

General advice

As you go through the questionnaire, make notes of any areas you have found difficult to follow or understand. Discuss these with us.

Accounts requiring analysis

It is best to trade with only one bank account. If we need to trace transactions between different accounts, it adds to our time and your costs.

If you have transactions through a credit card, we can either treat this as a bank account or you can supply us with a summary for each payment.

ACC

You will be billed by ACC based on information supplied to them by the Inland Revenue Department. Companies receive two bills for shareholder employees. One is a final for this year and the other is a provisional levy of employer premium for next year. The two bills are sent together.

Individuals and partners are not billed the provisional levy and get just the one bill each year.

If you are new in business, you will be covered for the minimum only. You should either get top up cover from an insurance company or ACC CoverPlus Extra if you want to be adequately covered.

You can negotiate your own deal each year for ACC CoverPlus Extra. In some cases this can be quite advantageous.

Assets purchased

Treat any asset costing \$500 or less as an expense (increased to \$5000 for the period 17 March 2020 – 16 March 2021. From 17 March 2021 onward it will be \$1,000) (inc GST if not registered, ex GST if registered) so long as you did not buy it at the same time as another asset.

If you think we may have difficulty determining depreciation rates, please ask for a manual and confer with us when you bring in the accounting records.

Identify each asset on bank statements.

If you have purchased a business, supply a breakdown of the cost:-

- stock
- assets, split if possible
- goodwill and how this is made up.
- any other details

The asset split should now be included in the sale and purchase agreement under new law introduced in 2021.

Attribution rules

Where 80% of the income earned by a company or trust through your own efforts arises from one customer or group of related businesses you are likely to be affected by this rule. The company or trust income is treated as your personal income if the effect is to push your income over \$70,000. There are exceptions to the rule.

Commitment for capital expenditure

If you have signed a contract for capital expenditure before the end of the financial year, you need to provide us with details. We may need to make a note at the back of your accounts.

Debts forgiven

If you have been forgiven a debt, it becomes income for tax purposes. There are a few exceptions. We need details of any debts forgiven.

Deposits

If you have received money for goods or services which you have not yet supplied, answer YES to the question and write adjustment required and the amount and we will adjust accordingly.

Entertainment Expenses

This is a complicated area. Generally, food and drink is only 50% tax deductible.

Fringe benefit

If you employ people and you provide them with the use of a vehicle, low interest loans or any other non taxable benefits then you may be liable to fringe benefit tax. If you are trading as a company, these rules apply to you as well as your employees.

We can account for fringe benefit tax in two ways. You can either pay the tax or we can make an adjustment by treating the value of the benefit as business income.

If you have been paying fringe benefit tax please provide us with copies of the statements you have sent to the IRD.

If you have provided benefits, including a car for your own use (in the case of companies and trusts) and not paid fringe benefit tax then provide us with details of these benefits and we will adjust.

Lawyers bills

Legal costs are sometimes not tax deductible. Please provide us with a copy of all lawyers bills.

Legal fees under \$10,000 per year are more easily claimable.

Loans

If you have borrowed from a bank, they will probably not have sent you a statement. Please ask them to send a bank statement to you showing all movements on your loan account. Also, ask them to send you bank statements up to your balance date in future years.

If you have entered into any lease arrangements or hire purchase this year please provide us with copies of documents for each.

If you have any other loans tell us how much is still owing in respect of each of them. If they were taken out during the year give us details of the amounts borrowed, interest rate and repayments.

Log Book

A new logbook is to be kept for three months every three years or when the business use changes substantially. This does not include company owned cars. FBT rules may apply to them. New rules coming in 1 April 2017 may provide opportunities to substantially reduce FBT for your company.

Money owing to you

This is variously named accounts receivable or sundry debtors. If you are providing services, IRD requires you to include all work which is billable. For example, if the charge could be made to a client for services at balance date, you are not allowed to defer invoicing. If you wish to defer the invoice, you must still include the earnings in your accounts receivable.

Rebates held by suppliers

Some wholesalers such as plumbers' merchants and pharmacy wholesalers grant rebates to customers, which are held as investments. These are your assets. We need details.

Shareholder Salaries and Directors' fees

You can often save tax by paying your spouse or life partner for their services to the business. Remember, you must be prepared to justify the quantum based on the time and the degree of skill provided. If the partner is a director, you can justify a director's fee

While allocating as much salary as possible to a low income spouse can save you tax, it will also reduce your income and consequential claim should you have an accident. There is a solution. Use ACC's Cover Plus Extra.

Your loss of income insurance could also be affected.

Significant events

If something happens after your balance date, which could reflect on the results for the year or is information which someone reading the results might need to know, we need to put a note in your accounts. Examples include a significant debtor which has turned bad or a grievance claim by an employee.

Spread of suppliers or customers

Businesses which depend on one or only a few suppliers or one or only a few customers are very much at risk. If this situation applies to you we need to make a note in the accounts.

Stock

If your stock is worth less than \$10,000 and your turnover less than \$1.3 Million, you are entitled to use the stock figure for the previous year.

The rules are complicated. The following is a brief guide for the smaller business - i.e. Less than \$3 million turnover.

Retailers with sales of less than \$1 million may use discounted selling price for the whole shop. They must recalculate their normal Gross Profit percentage each year. If turnover is greater than \$1 million you are required to use different Gross Profit percentage for each department or category. Cost of goods for resale is purchase price plus freight, insurance and duty.

Cost of manufacture is direct and indirect materials and labour, utilities like power and water, repairs and maintenance of factory, plant and plant depreciation or rental. You may use cost even if selling price is lower.

Valuation at selling price is permitted. If some lines are valued at a selling price above cost you are required to continue using selling price for these lines in all future years unless there is a justifiable reason to change (discuss with us) or turnover goes over \$3 million.

If you value below cost you must be able to substantiate the selling price figure. You may deduct transportation, insurance, sales commission and discounts to buyers.

If you choose replacement price, use market value at balance date or last price paid.

The rules for businesses with turnover greater than \$3 million are a little different. For example the cost of manufacture is more complicated and selling price is only permitted where it is below cost.

If you are in doubt it is prudent to discuss stock valuation with us.

Sundry Creditors

Please check your bank statement and identify any cheques drawn before the end of your financial year, which are appearing on your bank statements after the end of your financial year. Include these in the list of creditors. Make sure you do not double count your outstanding cheques with the other creditors. eg. Statement from supplier includes an account rendered for the previous month. You drew a cheque for the amount of the account rendered at the end of the month and this appears on your bank statement after balance date. Do not take up the full bill from your creditor as well as the payment you have made. You will be claiming for the amount of the account rendered twice.

Telephone

If you use your home telephone for business, IRD will allow you to claim 50% of the rental. If the telephone is registered for business you can claim 75%. If you wish to claim more than these proportions you have to be able to justify your claim.

Unbanked Sales

For a retailer this is the money in the till. Include the float. We adjust for this.

If there is unbanked money to be written off your debtors, provide us with the debtors figure after deducting the unbanked money.

Wages

This will include only payments from which PAYE or withholding tax has been deducted.

Work in progress

This has to be valued similarly to stock.