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## YEAR END TAX IMPLICATIONS

There are a number of issues that need to be considered when preparing year end financial statements. The timing and treatment of certain expense items can have tax implications, and in some cases the accounting treatments applied can result in tax efficiencies.

Typically accountants in conjunction with the business owners, need to consider the treatment of certain expenditure in particular whether it can be bought forward into the current period. The general rule is that business expenditure is deductible in the tax year that is incurred.

### PREPAID EXPENSES

#### Repairs and Maintenance

If 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 purchasing a fixed asset and there is a warranty or service contract, ensure the warranty or service contract is separately identified, as these are deductible.

#### Stationery

If re-stocking is about to occur in April or May, consider moving this forward to March. The total costs of stationery are deductible in the year these are paid.

#### 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 does not exceed \$14,000.

#### Subscriptions

Newspapers, journals and periodicals are deductible without adding back unexpired amounts. Associated memberships

are tax deductible provided they extend no more than 12 months after balance date and the subscription does not exceed \$6,000

#### Insurance

Insurance premiums are deductible provided they are not prepaid for more than 12 months and the total amount of such expenditure incurred in the income year in respect of the contract does not exceed \$12,000.

#### Advertising

If advertising is paid prior to year end and if the period of the advertising relates to no more than 6 months after balance date and the advanced portion is less than \$14,000, then it is fully deductible in the current year.

#### Rent

Prepaid rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than \$26,000.

#### Livestock

Prepaid expenses for the lease or bailment of livestock or bloodstock are deductible provided they are not prepaid for more than six months and the amount does not exceed \$26,000.

#### Consumables

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

#### Telephone

Payments for the use or maintenance of telephone and other communication equipment are deductible if not prepaid for more than two months.

#### Services

Prepaid costs for services, other than those mentioned above, of up to \$14,000 and for no more than six months are deductible in the current year.

#### Motor vehicles

Motor vehicle registration and driver licence fees paid in

advance are fully deductible in the current year.

#### Leave Provisions/Bonuses

Amounts owing at balance date for holiday pay and long service leave is only deductible if paid out within 63 days of year end. If you want to pay staff bonuses relating to the 2019 year, they must be paid within 63 days of the business's tax balance date to be claimable for that year.

#### Bad Debts

Bad debts are deductible only in the year that they are written off. Bad debts must be written off before balance date.

### Other items to consider at Balance Date:

#### Accounts Receivable

Every year we have clients who do not understand they must pay tax on all their earnings, including money not yet received. March invoices paid in April are part of year end income as are April Invoices for March work.

#### Stock and Work in Progress

You must count and value your trading stock at balance date, unless it is less than \$10,000 and your sales are less than \$1.3 million. Keep your stock sheets to show Inland Revenue if they ask for them. Dispose of obsolete stock now as it must be valued at its cost, unless you can prove it has a lower market price. A guess is not acceptable. You have to find evidence to support the price. This can be difficult. Work in progress must be valued unless your business is only providing services which cannot yet be billed.

#### Company Dividends

If you plan to pay a company dividend, you might be able to get a tax refund for a person whose income is less than \$48,000, if the dividend is declared by 31st March. If a family trust owns shares, you might be able to allocate the dividend to a low-income member of the family. The law is complicated so check with us.

#### Overseas Income

If you receive overseas income and are a tax resident in New Zealand, you will be taxed in New Zealand on your worldwide income. There is a temporary tax exemption available for those residents who are 'transitional tax residents' for a four year period (please contact RSM New Zealand for more details).

As the tax treatment of overseas income is quite specific it is important that you advise us of all the types and amounts of overseas income you have.

There are many issues to consider at year end. We strongly recommend you talk to your accountant/tax advisor before the year end to minimise negative consequences and avoid disappointments.

#### CONTACT DETAILS

For more information contact the team on 0800 774 623 or visit our website at [www.rsmnz.co.nz](http://www.rsmnz.co.nz)