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Newsletter No. 8 February 2004

Introduction

Important: Provisional tax is due on 7 March 2004 and any final tax from 2003 is due on 7 April 2004.

Topics in this Newsletter

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New Contact details:

My contact details have changed. My phone number is now: **Phone: 971 1600**

And my fax number is now: **Fax: 976 6451.**

My mobile remains 025 389 972 and my email: Baubre@baubremurray.co.nz

Provisional Tax

The third and final instalment of 2004 provisional tax is due on 7 March 2004. As this is a Sunday you should aim to make your payment by Friday 5 March. IRD will accept posted payments as long as they are postmarked before or on the due date.

Stock Takes

If you are holding stock for resale then you will need to do a stock take at 31 March 2004 for tax purposes.

You can either perform a manual count or test a sample of a computerised record.

Manual:

On 31 March, or after the last working day before 31 March, you will need to count all the individual stock items. Then you need to assign the cost of those items to the number of items counted and this gives the total cost of the stock or inventory.

Complications arise when the stock was purchased at different prices.

For example you may be holding 32 clocks at 31 March. Looking back through your records you may see that your last order was for 25 clocks and these cost $8.00 each and in your previous order, also for 25 clocks the cost was $7.50 each. Therefore the cost of your stock at 31 March is $252.50 ie 25 clocks at $8 and 7 clocks at $7.50.

This follows the FIFO principle (First In First Out) where the earliest stock sold is valued at the cost of the earliest stock purchased.

Computerised

With a computerised stock take you should have detailed stock records held on your computer including the item costs.

You can print out the report at 31 March and you can check a sample of the stock listed against the stock actually held.

Accounting Systems / Packages

Deciding on a suitable accounting system/ package depends on your needs.

For example if you operate in a service industry, only have a small number of transactions and don't employ staff then a simple cashbook may be all that is needed. A simple cashbook can range from a multi-column exercise book with the details entered in pencil to an Excel spreadsheet kept up to date on your computer.

Advantages of spreadsheets over more complex systems are the low cost, transactions can be

If you have a large number of transactions each month, hold stock or you have staff then a manual cashbook or spreadsheet may just not be enough. A simple computerised accounting package may be more appropriate. Examples are Quicken, Quickbooks, Easybooks etc. These are database systems designed for home use, they are generally quite cheap to purchase and install and are easy to use. They cost as little as $195 for Quickbooks Lite.

The main things that you should be looking for in an accounting package are:

- That it includes GST
- Ease of use
- Ability to easily format reports
- Ease of making changes to records
- Support for problems and upgrades.

One of the most popular larger accounting packages for small to medium sized businesses is Mind Your Own Business, MYOB. A lot of accountants use MYOB and it interfaces with IRD. In theory this means that if you use MYOB, your accountant can electronically file your tax returns, although it is often just as easy to complete IRD's fill in forms which is what I do.

Another option is a bank related package such as Smartbooks or Banklink. These systems, for a monthly cost of between $20 and $60 will download your bank statement details to the associated accounting package eg Banklink. Many of the obvious or easily identifiable transactions will have already been coded eg bank charges, interest, electricity, phone, rates etc. You then only need to code the remaining bank statement entries. With some of these systems you can also code a cheque when written and this will code the information automatically for your accounting reports.

There is a lot of information on the internet on accounting packages and often there is not a lot between them.

Deductibility of Travel Expenses

To what extent are travel costs deductible?

Leaving aside daily motor vehicle costs, travel to other cities or countries is deductible under certain circumstances.

If your travel is principally to earn tax assessable income then the costs are fully deductible. For example, if you travel to Sydney for a 3 day conference

easily changed (if errors are made) and the "big picture" can usually be seen at a glance.

and stay an extra day in Sydney, then the whole cost of the airfare and accommodation is deductible. The extra day should be considered "incidental" to the whole trip. If however you combine the conference with a week long holiday in Australia then it would be reasonable to claim the airfare and the accommodation while attending the conference but no other costs.

If your trip was a combined business/ pleasure trip then you should apportion the costs and only claim those that relate to the time involved in the business portion. So for example if you want to go to Sydney for a week for your sister's wedding and you decide to combine the trip with a 3 day conference the you could reasonably claim 3/10 of the airfare costs and the accommodation costs while attending the conference.

Remember though that the onus of proof is on the taxpayer, ie you, and you would need to be able to demonstrate the relevance of the conference on your income earning ability.

Similar deductible expenses would be for attending corporate AGMs if you were earning significant dividend income.

A not so obvious situtaion when you cannot deduct travel costs are the costs of visiting an area where you may be considering purchasing rental property. IRD can consider the travel costs to secure the purchase of an asset, in this case, a property, as part of the cost of the asset, in which case the travel cost would be added to the cost of the asset and would have to be capitalised and depreciated along with the cost of the asset.

I guess without a ruling like this everyone would claim every holiday cost as a tax deduction!

Travel however to inspect your property would be tax deductible.

Future Topics

If there are topics you would like covered in my newsletters please let me know.

End of Year Checklists

I have attached End of Year Checklists so you can get together all the information you need for your 2004 tax returns.