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Newsletter	No. 2 March 2002

Intro

Welcome to my second newsletter! Its the end of the financial year and therefore tax time so I have included some topical matters below.

Again, please let me know if there are topics you would like explained via this newsletter.

Topics:

Reminder – terminal tax payments and ACC
Update to ACC
Timing of an asset purchase
Paying your children and reducing your tax
Claiming Motor Vehicle Expenses – Self - employed
Late payment penalties
Timeline for 2002/3
End of year checklist for tax and accounts

Reminder – 2001 terminal Tax

If you had tax to pay at the end of the 2000/1 financial year, and you are registered with me as your tax agent (or another agent) your payment was due by 7 April 2002.

Similarly, ACC due for the 2000/1 financial year was due 7 April 2002.

If you haven't made these payments please contact me.

Update to ACC

In 2002/3 you will only receive one invoice for ACC and it will include the Residual Claims Levy previously collected by IRD.

This invoice will include a "wash-up" of 2001/2 levies based on the difference between the amount estimated and invoiced earlier in the year and the amount due based on actual earnings as sent to IRD during the annual tax return process.

Invoices will include an estimate of 2002/3 levies. These will be based on:

- Liable earnings (sent by IRD to ACC
- Premium classification: this will be determined by ACC based on historical information or, if a new entity, on the description of your work specified in your GST registration or information supplied by your accountant. **It pays to be quite clear when describing your work activity.**

Invoices will be sent as follows:

- Employers – from July 2002
- Shareholder-employees – from August 2002
- Self-employed – from November 2002.

Timing of an asset purchase

I am often asked if there is a "best" time in the financial year to buy an asset. In short the answer is "No" – buy it when you need it (and can afford it).
You can claim depreciation for every month you own it and then if you sell it later at a higher value than its depreciated value you have to pay tax on the difference.

Correspondingly, if you sell it for less, then you can claim the loss on sale as an expense for the year. So it evens out over time.

IRD will not allow a depreciation deduction in the year of sale.

Remember that if the asset cost less than $200 (excluding GST) you can claim the total cost in the year of purchase. For larger value assets you must depreciate, or allocate, the cost of the asset over its useful life.

However, there may be GST implications. For example if you are registered for GST on a 6 monthly payments basis and you purchase a major asset (such as a car or a building) in April, then you may not want to wait 6 months to get your GST refund (if any).

In this case you can change your GST period to 1 monthly, claim the refund, and then change back based on earnings information you provide in your IR3 or IR4 tax return),

Paying your children and reducing your tax.

Children (generally those under 15, but including children under 18 if still at school) can earn up to $1,000 a year effectively tax free because the child rebate covers the tax due on income up to $1,040.

It is therefore accepted practice to pay children for the work they do in your business – it may be for simple things such as stuffing and stamping envelopes or filing through to maintaining your financial records. You can either pay the children directly or you can offset the $1,040 cost per child against actual expenses (eg their school fees, after school activities, clothes, musical instruments etc). If you choose the latter you will need to keep records as to how each $1,040 has been spent on each child.

You should make the payments for 2001/2 by the end of the financial year ie 31 March 2002 (or very soon thereafter) and you can then deduct them as an expense against your 2001/2 income.

IRD requires that details be kept with your wages records so that ACC levies may be paid.

If you have 3 children and earn $38,000 per annum you could save $1,000 in tax.

Claiming Motor Vehicle Expenses – Self - Employed

If you are self-employed you either need to:

- Have a dedicated work vehicle or
- Operate a logbook.

It is very difficult to make an ordinary car a dedicated work vehicle as it needs signage as well as having the back seats removed to allow for goods transportation. (Trucks are much easier to show as work vehicles!)

Logbook:

In a logbook (which may be a simple exercise book or an Excel spreadsheet) you need to record your starting vehicle odometer reading and details of the amount of kms travelled (beginning and ending odometer readings) for each business trip. You need to keep the logbook going for 3 months and at the end you can calculate the % of kms travelled for business compared with the total kms travelled in the 3 month period. This % of all petrol, motor

to the 6 monthly period.

For example if your starting odometer reading on 1 May 2001 was 60,436 and you did 16,242 kms business in the 3 month period to 31 July 2001 and your odometer reading at that date was 92,432 then your business % is 51% ie 16,242 / (92,432-60,436).

Therefore 51% of all petrol etc costs may be claimed as a deductible expense. If the business has already claimed for the total of these amounts or they have been paid for from a business bank account the remaining 49% should be allocated to drawings.

Your three-month logbook period will last for 3 years unless there is a significant change in activity (in which case it should be re-done).

Late Payment Penalties

Up until 31 March 2002 there was an immediate standard late payment penalty of 5% added to any unpaid taxes.

From 1 April 2002 only 1% will be charged on the first day overdue. If the tax remains unpaid 7 days after its due date the remaining 4% penalty will be imposed.

For most clients this will have greatest impact on GST and income tax payments.

This approach will be fairer on those who are only a few days late with a payment.

Timeline

I have attached a generic timeline for tax payments over the coming year.

It is in a Word Table format so you can standardise it for your own needs / payments.

End of year checklist

I have also attached an end of year checklist to help you get everything ready for your tax return. Good luck!

Contact details:

Phone: 971 1500

vehicle registration, insurance and repair costs for the year can then be claimed as a tax deduction.	Email: Baubre@baubremurray.co.nz