

KNOW HOW

**THE YEAR
END IS
NIGH**

Pg 2

**CAN KIWISAVER
BE USED TO
PAY OFF YOUR
OVERDUE
TAXES?**

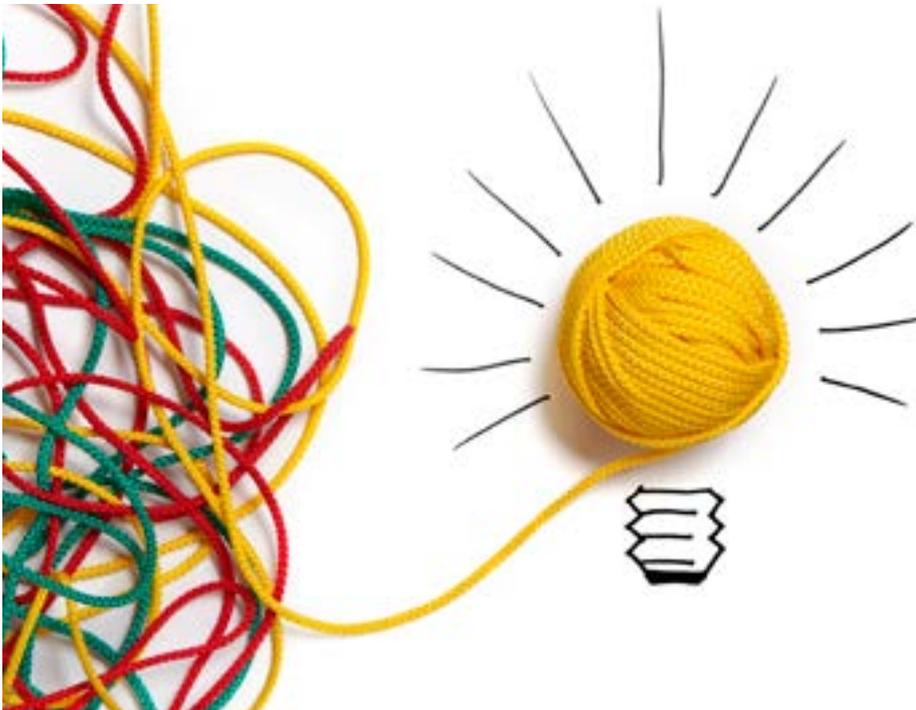
Pg 3

**THE
IMPORTANCE
OF BEING
CHARITABLE**

Pg 4



FEBRUARY 2015 ISSUE



CONTENTS

- ▶ The year end is nigh
- ▶ Can KiwiSaver be used to pay off your overdue taxes?
- ▶ The importance of being charitable
- ▶ A separate legal entity - Not always enough!
- ▶ Income Protection Insurance - tax deductible or not?
- ▶ CrunchBoards client offer

Welcome to our first edition of BDO Know How for 2015! With summer holidays coming to an end, we've all been thrown back into the reality of work! At BDO we like to be prepared and in this edition bring you updates on timely business issues and opportunities. We hope you find something of interest in this edition. Also look out for our fantastic client offer with Crunchboards, a financial intelligence accelerator for Xero.

If you have any feedback please email editor@bdo.co.nz.

**A SEPARATE
LEGAL ENTITY
- NOT ALWAYS
ENOUGH!**

Pg 4

**INCOME PROTECTION
INSURANCE - TAX
DEDUCTIBLE OR NOT?**

Pg 4



THE YEAR-END IS NIGH



With the end of the financial year fast approaching for many businesses with a 31 March balance date, there are a number of steps you may consider taking prior to balance date to minimise your final tax bill. Here are a few areas which every business owner should look into:

Have you written off all accounts receivable that are bad?

Have you had a customer go into liquidation? Is another refusing to pay an outstanding invoice? Have you had invoices sitting on the receivables ledger for more than twelve months? If so, now is a good time to individually assess each of your debtors. If you have taken all practical steps to collect a debt and it remains unpaid, in order to claim a tax deduction the debt must be written out of your debtors ledger prior to year end. No tax deduction is available for a provision for doubtful debts.

Imputation credit account

Irrespective of the company's balance date, it is essential to ensure your company's imputation credit account is in credit at 31 March 2015. A negative (or debit balance) will result in a 10% of the imputation credit account penalty. As a solution you may wish to consider accelerating provisional tax payments prior to due date or using a tax intermediary.

Donations

Companies are allowed a deduction for gifts of money to charitable organisations which are approved for donation tax credit purposes. Donations are deductible only to the extent of the company's taxable income for the year.

Is your income significantly higher than the previous year?

If so, you should consider whether an additional voluntary provisional tax payment may be appropriate. If you have underpaid your provisional tax for the year then it may be possible to use a provisional tax intermediary to save Inland Revenue use of money interest costs.

Repairs and Maintenance

Broadly, R&M expenditure is deductible only to the extent it has been incurred. There is also a fine line between a deductible R&M expense (deductible) and capital expenditure (non-deductible). You may wish to consider accelerating R&M expenditure to claim deductions.

A little bit of planning now can help save you money in the future.

CAN KIWISAVER BE USED TO PAY YOUR OVERDUE TAXES?



If you are part of the KiwiSaver scheme you're probably aware that your savings can be withdrawn on the basis of financial hardship. But can you use your KiwiSaver to pay your overdue tax bill?

The answer is "perhaps", although the withdrawal process is onerous, and genuine hardship must be proven.

The KiwiSaver Act 2006 governs the relationship between you, your KiwiSaver scheme provider and the independent trustee appointed to make decisions regarding your savings.

The KiwiSaver Act spells out the specific circumstances for significant financial hardship. A member must be suffering or likely to suffer from significant financial hardship, meaning an inability to meet minimum living expenses, or unable to meet mortgage re-payments on their principal residence.

Withdrawal of funds to pay an Inland Revenue debt will typically centre around the member's ability to meet day to day living expenses due to the re-payment terms imposed by either Inland Revenue or other lenders if further borrowing is required.

In the cases of tax fraud, the threat of prison or home detention and its resulting loss of income may be sufficient grounds for a withdrawal.

Withdrawals require an application form, statutory declarations, bank and credit card statements, and written evidence of income, expenditure, assets, liabilities and Work and Income entitlements. Applications are typically addressed to your scheme provider, however the decision will ultimately lie with the Trustee of the scheme.

The Act requires that withdrawal of KiwiSaver funds are an absolute last resort – all other alternatives should be have been considered and exhausted.

THE IMPORTANCE OF BEING CHARITABLE

A recent High Court case involving the National Council of Women will have wide implications for the charitable sector, and has raised concerns about the interpretation of the Charities Act and how it is being applied within the sector.

The Charities Act should be applied to facilitate charitable works, not frustrate them. This case determines that the nature and activities undertaken by NCWNZ that could be characterised as political did not come within the forms of political activity that disqualified it from having charitable purposes. The Court found in favour of NCWNZ relieving it from its exposure to taxation during its stand down time off the register. This reinforces a recent Supreme Court decision that held that Greenpeace's political purposes did not disqualify it from having a charitable status. This decision now forms part of the law that is considered when applying to meet the definition of a 'charitable purpose' asset out in the Act.



A SEPARATE LEGAL ENTITY – NOT ALWAYS ENOUGH!

A recent Court case found the parent company responsible for the debt of its subsidiary. Some of you will have set up a group structure for many business reasons, including the protection of other group company assets, should something go awry. The lesson is to maintain the independence of the subsidiary from its parent. Basically if the subsidiary is "devoid of any capacity to conduct its own affairs" or if the level of involvement of the parent is so large as to compromise the subsidiary's independence then the liability may not be limited. Short cuts in record keeping and documentation could prove to be false economy.

INCOME PROTECTION INSURANCE – TAX DEDUCTIBLE OR NOT?

Protecting your income by taking out an Income Protection policy is an important decision for many Kiwis to make. The threat of illness, disability or injury (which may not be covered by ACC) preventing you from working can have significant financial consequences.

There are a variety of policies available, however they are not all the same when it comes to claiming a tax deduction.

An indemnity or a loss of earnings contract is generally tax deductible, the flip side being that any payment made by the insurer will normally be treated as taxable income. These policies pay based on a proportion of your income at the time of the claim.

An agreed value contract provides a fixed level of cover which is agreed at the time the policy is setup. These policies are generally not tax deductible and any payment received from the insurer is 'tax-free'.

Deciding on the type of policy that best suits you and your family's circumstances is well worth a discussion with an insurance broker. They can help you choose the right policy and ensure that all relevant information is disclosed to the insurer.

Please provide your local BDO adviser details of your income protection policy, along with your usual year-end tax information, so they can ensure you are entitled to the correct tax deduction.

CRUNCHBOARDS - PERSONALISED INSIGHTS AT NO EXTRA COST



From the middle of March this year, we are excited to be able to offer BDO Xero clients a six month free trial of a brand new cloud-based business dashboard called CrunchBoards.

BDO CrunchBoards is unlike any business reporting tool you've ever seen. It gives you freedom to explore and focus on the key drivers in your business, using real-time information. Using simple, user-friendly dashboards, we will provide you with a powerful tool to help you bring your data to life and monitor your business performance more closely.

CrunchBoards also has the flexibility to tailor to your requirements, so you can:

- ▶ compare your key performance indicators with your other operations, making it ideal for franchisors or large groups
 - ▶ forecast more effectively with forward looking data like 3-way cashflow, profit and loss and balance sheet forecasts
- Plus, you'll be supported by your local business adviser to make sure your dashboards meet your needs.

The BDO CrunchBoards experience helps you take control of your business performance. Stay tuned - you'll be hearing from your local office about how you can get personalised business insights through CrunchBoards over the next few months.



To find out more about BDO, please
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