
The Special Bulletin

April / May 2011

End-of-year tax information checklist

It's that time of the year again when you'll need to start gathering together your accounting and tax information for the year ended 31 March 2011.

Set out below is a list of items that will assist you with this process, and remind you of some of your tax obligations.

Penalties regime

There is a mandatory 'shortfall' penalties regime in place – the penalties range from 20-150%. These penalties cannot be remitted.

Examples of where automatic penalties will be applied include when:

- Motor vehicle logbooks are not kept. (If you are self-employed, a logbook must be kept for a 3-month period every 3 years).

Please check that your work-related vehicles still meet the criteria, otherwise fringe benefit tax may be applicable.

- Stocksheets are not kept, or a stocktake is not physically taken.
- Bad debts are not physically written off before 31 March 2011.
- Withholding tax (usually 20%) is not deducted from subcontractors, unless they are operating as a company or have a certificate of exemption issued by Inland Revenue.
- Resident withholding tax on interest (10.5%, 17.5%, 30% or 33% on election) is not deducted when paying interest of \$5,000 or more per annum to a non-financial institution/individual (unless a certificate of exemption is supplied).

This tax is usually due on the 20th of the following month.

Deductions

Deductible expenses may be claimed in the year in which they are incurred, even though payment may be made in the following year. Following are some special expenses which are either deductible in full or in part when they are incurred, but are related to the next income year.

The following expenses have no restrictions on the amount deductible:

- Stationery;
- Subscriptions to newspapers, journals, and other periodicals;
- Postage and courier costs;
- Rates;
- Road user charges; and
- Audit and accounting fees.

Advertising

Prepaid amount less than 6 months and under \$12,000.

Bad debts

To be deductible, bad debts **must** be written off **during** the income year. A mere provision or reserve is not deductible.

Consumable aids

Amount on hand under \$58,000.

Depreciation

- Taxpayers have the option of depreciating fixed assets on either a diminishing value or straight-line basis.
- Fixed assets can only be depreciated from the month of purchase, eg plant and machinery purchased on 25 March 2009 is depreciated for one month.
- Items costing up to \$500 (net of GST) may be written off in the year of purchase if certain criteria are met.

Disability/loss of profits insurance

Premiums are deductible in full where the taxpayers are in business on their own account, or are employees.

Discount reserve

A deduction for a discount reserve, such as a prompt payment discount reserve, is allowed if debtors are entitled to this discount.

In the first year, a deduction of 2.5% of the debtors' amount is allowed, and in subsequent years adjustments are made which maintain the discount level at 2.5% of the debtors' amount. If a higher discount is generally given, this could be used instead of the 2.5%.

Equipment service contracts or warranties

The full amount is deductible, provided it forms part of the consideration for the assets.

Holiday pay

The amount accrued at balance date is deductible, if paid within 63 days of the balance date.

Prepaid insurance premiums

Where the total insurance expense in the year does not exceed \$12,000, a 12-month prepayment is claimable.

Lease or bailment of livestock

Prepaid amount less than 6 months and under \$23,000.

Other services

Prepaid amount less than 6 months and under \$12,000.

Rent for land and buildings

Prepaid amount less than 6 months and under \$23,000.

Repairs and maintenance

Generally no deductions are allowed for a repairs and maintenance reserve, except for the periodic overhaul of business aircraft and the maintenance obligations of a construction firm under its building contracts.

Royalties

Royalties accrued to balance date are fully deductible.

Service or maintenance contracts

A prepayment of 3 months' expenses is deductible, provided the total expense on the contract does not exceed \$23,000 in the income year.

Subscriptions for trade professional associations

A prepayment of 12 months is deductible provided the total amount for that association in the year does not exceed \$6,000.

Telephone and other communication equipment expenses

A prepayment of 2 months is deductible.

Trading stock valuation

Don't forget to do a stocktake!

New stock and work-in-progress valuation rules were introduced from the 1998-99 income year, and have applied since.

The valuation methods differ depending on whether or not you are a 'small taxpayer'. Small taxpayers are those who, together with their associates, have an annual turnover of \$3m or less.

If the turnover is less than \$1.3m and a reasonable estimate of the true value of stock is made to be under \$10,000 then a physical stockcount at year-end is not required and the opening stock value may be used.

Please contact us to establish the valuation rules that apply to your situation.

Travel and accommodation expenses

Prepaid amount less than 6 months and under \$12,000.

Income

Review credit notes in the months following balance date for any credits which are able to be taken back into the previous financial year.

Records required

- Cash books/bank statements;
- Cheque butts, deposit butts;
- Documents relating to the purchase of fixed assets;
- Hire purchase/lease agreements;
- Solicitors' settlement statements;
- GST returns and workpapers;
- Wages reconciliation;
- Term loan statements;
- FBT return copies;
- Log books;
- Stock sheets;
- Debtors list; and
- Creditors list.