



TAX PLANNING CHECKLIST

FOR THE YEAR ENDED 31 March 2022

TAX PLANNING CHECKLIST

FOR THE YEAR ENDED 31 MARCH 2022

This checklist will enable you to consider what options are available to minimise tax, as well as informing you of current and future taxation rates.

Year End Tax Planning Checklist

Below is a checklist of matters relevant to all business entities, some of which may help you reduce the amount of tax you have to pay for 2022.

1. Prepaid Expenditure

Certain expenditure incurred in advance for the 2022/2023 income year can be claimed as an expense in the 2022 income year provided the expenditure is not recorded in the balance sheet as a prepayment. Some expenses can be prepaid regardless of the amount or period which has been prepaid, for example:

- Stationery
- Rates
- Vehicle registration and road user charges
- Postage and courier charges

Other expenses can be paid in advance only up to a certain limit, for example:

	Max Amount \$	Max No of Months
Rent (if prepayment more than one month)	26,000	6
Rent (if prepayment less than one month)	Any amount	1
Rent or bailment of livestock	26,000	6
Consumables	58,000	Unlimited
Insurance (where each premium is no more than \$12,000)	N/A	12
Professional or Trade Association subscriptions (where each subscription is no more than \$6,000)	N/A	12
Advertising, accommodation, or travel	14,000	6
Other Services	14,000	6

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2. Accruals

Accruals of expenditure are deductible where a legal obligation to pay has arisen and a reasonable estimate of the expense can be made, e.g. phone, power and end of month creditors. General accruals are not deductible and accruals for expenditure where a legal obligation to pay has not arisen, or the services have not been performed, are also not deductible, e.g. accounting fee and audit accruals.

3. Holiday Pay and Bonuses for Employees

Amounts payable to employees for holidays or bonuses at balance date are deductible in the year to 31 March 2022, if paid to the employee within 63 days after balance date. If they are not paid within 63 days of balance date then the deduction can only be claimed in the tax year that the payments are actually made.

4. Discount Reserve

A deduction for a discount reserve, such as a prompt payment discount or a volume rebate, is allowed if debtors are customarily entitled to this discount at year end and a legal obligation has crystallised.

5. Guarantee / Warranty Provisions

A warranty provision is deductible in the year that defective goods are sold provided that a definite commitment is able to be established and the amount of the liability can be reliably calculated as at balance date. Please contact us if you are considering claiming a deduction for guarantee or warranty provisions.

6. Valuation of Trading Stock (Not Including Livestock)

For low value trading stock, taxpayers are not required to value their closing stock or include any change in the value if:

- Their turnover is \$1.3m or less for the year; and
- They reasonably estimate their trading stock on hand at balance date is less than \$10,000.

Taxpayers may simply use the same figure for closing stock as the opening stock figure. This method of valuation is optional.

Otherwise, trading stock is required to be valued using a cost valuation method.

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No deduction for income tax purposes is available for provisions or write downs of stock of a general nature. Therefore, to reduce the value of these items in stock on hand, they should be physically disposed of.

7. Repairs and Maintenance

Generally, no deductions are allowed for a repairs and maintenance reserve. It may be worthwhile to undertake repairs and maintenance prior to year-end to obtain a deduction in the current year.

Note: Capital items under \$1000 can be written off as repairs

8. Bad Debts

To claim a deduction for a bad debt in the year to 31 March, the debt must be bad, and must actually be written off the debtors ledger during the year.

Any doubtful debt provision will not be deductible.

9. Retentions

Retentions on building contracts are generally taxable in the year the contractor becomes legally entitled to receive them. Therefore if retentions are outstanding at the year end, they usually do not form part of your income for tax purposes for that year and are only taxed when they become due. This can result in a significant deferral of income.

10. Legal Fees

Where legal fees incurred do not exceed \$10,000 in total for the year, they can be claimed as a deduction provided that they have been incurred in deriving income or carrying on a business to derive income. If total legal fees exceed \$10,000, they need to be reviewed to determine the capital/revenue distinction.

11. Shareholder Salary

There are certain rules that apply to the payment of a shareholder salary to a shareholder employee without deduction of PAYE. Such a shareholder salary can only be paid where a share is held in the relevant company. If a Trust holds 100% of the shares, a shareholder salary cannot be paid without deduction of PAYE. Holding a share allows the company the discretion to pay a shareholder salary to a shareholder employee without deducting PAYE.

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12. Wages

Wages can be paid to your spouse, your children and relatives who work in your business, but Inland Revenue can make adjustments if payments are considered excessive.

If self-employed and making payments to your spouse, you must obtain approval from Inland Revenue in order to claim a deduction, and you must be able to show that your spouse will be working and that the wage is commensurate with the work done. This approval is required prior to the deduction being claimed.

Certain wage income derived by children and which is not subject to PAYE is treated as exempt income to a maximum of \$2,340 (\$45 per week).

If you have made any payments to children, we recommend that you provide us with the relevant information.

13. Tax Deductions Available to Wage Earners

Deductions available include:

- Fees paid for the preparation of a tax return.
- Premiums for income protection insurance where the proceeds receivable under the policy are calculated according to loss of earnings. The proceeds of such policies are taxable income.

Tax Rebates and Tax Credits Available

Common tax rebates and tax credits available are:

- Independent Earner Tax Credit (IETC) where income between \$24,000 and \$48,000 is derived.
- Charitable donations and gifts – limited to taxable income.
- Working for Families tax credits.

Claims for the donations rebate must be made on a separate rebate claim form. Inland Revenue will forward claim forms to every taxpayer (or their agent) who has claimed either of these rebates in the last two years. The IETC can be claimed via your tax return but eligibility is subject to certain income-tested benefits or New Zealand superannuation not being received.

14. Home Office Expenses

If you use an area in your home principally as an office or storage area for your business, then you may be able to claim part of the overall costs of running your house as a business expense.

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Floor area is the most common basis used for calculating the portion claimable. For example, if the area you use amounts to 10% of the house's total floor area, then you can claim 10% of expenses such as annual rates, house insurance premium, power, and mortgage interest. It may also be possible to claim a portion of your home telephone rental.

15. Claim Your Vehicle Expenses

If you have a vehicle (not a company vehicle) which is used for business and private purposes, there are several options for claiming the business portion of the expenses:

- i. You can use pre-determined Inland Revenue Department rates as the basis of your claim. The current rates are:

Vehicle Type	First 14,000kms	After 14,000kms
Petrol or diesel	79 cents	27 cents
Petrol hybrid	79 cents	16 cents
Electric	79 cents	9 cents

You must keep a record of all business journeys to substantiate your claim. The IRD will also accept the use of rates published by other sources e.g. the AA. No GST can be claimed if using this method

- ii. Keep a logbook for 90 consecutive days recording all journeys. Based on the business use percentage from the logbook, you can claim this proportion of all vehicle expenses including any depreciation loss. You can continue to use this percentage for three years, provided that the actual business use in any month does not vary by 20% or more than the percentage established by the logbook.

This method can also be used where vehicle ownership is in a close company and the only fringe benefits provided are one or two motor vehicles to shareholder employees, and the company has elected to use this method rather than applying the FBT rules. Note once elected, this method will need to be continued to be applied to the vehicle.

Shareholder employees can also maintain a logbook to support any reimbursement of business related expenditure.

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16. Scrapping Unused Assets

A taxpayer may write-off a depreciable asset where the cost of disposing of the asset is expected to be greater than the proceeds from its sale.

17. Shareholder Continuity

It is important to discuss any proposed changes in shareholding with us. To retain imputation credits, 66% continuity is required. To carry forward losses, 49% continuity is required. For group loss offsets, 66% common shareholding from the time the losses are incurred is needed. A change from an individual to a trust is a new shareholder and may breach these thresholds.

18. Dividends

Where dividends are distributed it is likely that a resident withholding tax (RWT) liability will result. We note for the 2022 income year the company tax rate is 28%. The RWT rate however remains at 33%. This will result in a 5% deduction of RWT on payment of a dividend which is payable to IRD on the 20th of the month following the date the dividend is paid.

A company paying a fully imputed dividend has the option of not deducting RWT on dividends paid to corporate shareholders.

A fully imputed dividend declared before 31 March 2022 can be applied as a credit on 1 April 2021 when calculating interest on overdrawn shareholder current accounts.

19. Capital Contributions

A "capital contribution" is defined as a payment under an agreement that is paid by the landlord as a contribution towards depreciable property of the tenant. Such payments must either be recorded as income and spread over ten years or netted off against the cost of the depreciable property.

20. Entertainment

For gifts consisting of food and drink only 50% of the costs are deductible. If gifts of food and drink have been made in conjunction with non-food items, the cost relating to the food and drink portion must be identified and subject to the 50% limitation.

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Help Us to Process Your Records Efficiently and Quickly

By completing the Business Questionnaire, we send to you, you can ensure that all the information needed to complete your accounts is provided to us before we begin.

Some further items which may help us are:

- GST returns and worksheets – including these with your annual information ensures that we can follow up any GST issues during the process of completing your accounts.
- Highlighting any repairs and maintenance costs over \$ 1000 and noting on your records what the payment was for e.g. 'repairs to cash register'. Asset purchases and sales must be separately recorded on your Fixed Asset Schedule if the cost exceeds \$ 1000.
- Identify in your records any entertainment costs (including gifts of food and drink). Generally expenses are 50% deductible if they are enjoyed by staff at a staff function, but are subject to Fringe Benefit Tax if available for enjoyment at staff discretion.
- Identifying all accrued holiday pay, bonuses or other remuneration that has been paid out within 63 days after balance date.
- Where a vehicle is not a company vehicle liable for FBT, expenses relating to vehicles used partly for private use should be separately identified in your records to enable us to calculate the total expenses for that vehicle, and the respective non-deductible portion.

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Help Yourself – Keep Your Records

To prove your deductions are legitimate you must keep all relevant records for at least seven years and they must be in English. The following records must be kept (this is not an exhaustive list):

- All income received (copies of invoices issued etc).
- All tax invoices and receipts for purchases, insurance, power, phone and all other costs incurred.
- Bank statements.
- Cash books or computerised accounting records.
- Wage records for any employees.
- Interest and dividend payments.
- A list of business assets and liabilities.
- End of year stocktake records.
- Credit and debit notes.
- Motor-vehicle logbooks.

Keeping records in order makes good sense. If you are investigated by Inland Revenue you should be able to justify all your claims with a minimum of time and effort.

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Penalties Regime

Under the current penalties regime, errors in tax returns discovered by Inland Revenue during an audit will result in:

- Use of money interest charged from the original due date to date of payment.
- Possible shortfall penalties depending on the reason for the error.

Penalties are levied if Inland Revenue consider the taxpayer is guilty of:

All errors

Lack of reasonable care	20%
Gross carelessness	40%
Abusive tax position	100%
Tax evasion	150%

Errors over \$50,000 in tax

Unacceptable tax position 20%*

Reductions may be available for previous good behaviour, voluntary disclosure and temporary shortfalls.

These penalties also apply to all other tax types including GST, PAYE and FBT.

We can review your systems if requested to ensure that you are paying the correct amount of tax and to reduce the risk of penalties.

It is important for you to ensure that all relevant issues are brought to our attention when we are preparing your financial statements so that your exposure to penalties can be minimised.

*For the unacceptable tax position penalty to apply, the shortfall must be greater than \$50,000 and 1% of the total tax figure in the relevant return period. This penalty does not apply to GST shortfalls.

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Current Taxation Rates

Income Tax

Individuals 2022

Income to \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30%
\$70,001- \$180,000	33%
\$180,000 and over	39%

Income Tax- Other Entities

Trusts	33%
Companies	28%

Resident Withholding Tax

For individuals the RWT rates will range from 10.5% to 33% based on the above marginal tax rates. Where no rate is chosen 33% will apply. Trustees can use the 17.5%, 30% or 33% RWT rates (although a testamentary trust can elect a 10.5% rate).

Companies can use a 28% rate unless an IRD number is not supplied. The default rate where no IRD number is provided is 45%.

Prescribed Investor Rates (for PIE Investments)

It is important that the correct PIR rate is advised to your investment manager. An incorrect rate that is too high means additional tax has been paid that cannot be refunded, and for an incorrect rate that is too low, your PIE income would need to be included in your income tax return and tax paid at your marginal tax rate.

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For individuals, the rates are based on the two preceding income years:

NZ Tax Resident – Individual		
Taxable Income	Taxable + PIE Income	PIE Tax Rate
\$0 - \$14,000	\$0 - \$48,000	10.5%
\$0 - \$48,000	\$0 - \$70,000	17.5%
-	\$70,001 and over	28%

NZ Non Tax Resident - Individual

Generally 28%, although 0% can apply in limited circumstances.

Entities

For partnerships the investment should be split and each partner apply their own Prescribed Investor Rate ("PIR"). Otherwise if the investment is held at the partnership level, the higher individual PIR will apply.

Trustees can choose either 0%, 17.5%, or 28%.

A trustee of a testamentary trust can also choose 10.5%.

For companies and charities a rate of 0% applies.