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Briefly

All information in this newsletter is to the best of the authors' knowledge true and accurate. No liability is assumed by the authors, or publishers, for any losses suffered by any person relying directly or indirectly upon this newsletter. It is recommended that clients should consult a senior representative of the firm before acting upon this information.

BEWARE TERMS AND CONDITIONS

MANY large suppliers seem to be using their terms and conditions in ingenious ways to take advantage of their customers.

It's been reported that TrustPower advertised unlimited broadband for \$49 a month. However, customers needed to sign up for a minimum of two years and in the small print it stated that the second 12 months was to be charged at \$79 a month. The Commerce Commission has filed charges under the Fair Trading Act.

Magazine publishers sometimes include a clause in their terms and conditions which

says unless you explicitly state you do not wish to renew your subscription, the company automatically renews it for a further year. Be selective in choosing who you are going to allow to direct debit your bank account. If there is a dispute, you might find it hard to get your money back.

Unfortunately, none of us has enough time to read all the terms and conditions. About the best we can do is be aware they can be badly skewed against the customer, and to always be suspicious of offers exceptionally better than expected.

WHAT CAN I CLAIM?

A PENSIONER got remarried and decided to rent out her former home. It was one of a group of houses. A tradesman made an offer to a group of house owners, including hers, to clean all their windows for \$100 each.

"I gave a neighbour \$100 to pass on to the tradesman, but since I didn't get a receipt I assume I can't claim it," she said.

Tax law does not say anything about the need for a receipt. Claiming expenditure is perfectly simple. Generally speaking you can claim any expense which relates directly to deriving income. That's the end of it.

If the IRD ever asks you to prove you spent the money, you need to be ready to do so. So it's always advisable to get some form of written acknowledgement, such as an invoice, to support your expenditure. It's a convenient way to provide proof to satisfy the IRD.

In our example, the house owner could probably get confirmation from the window cleaner or even from her neighbour, if needed. The trouble is they might not be around when the proof is requested.

Incidentally, if you are in business and are registered for GST then you do have to have a "Tax invoice" for any payment you make of \$50 or more, to claim the GST.

TAX CALENDAR

January 16 2017

2nd instalment of 2017

Provisional Tax (March balance date)

Pay GST for period ended 30

November 2016.

April 7 2017

Terminal tax for 2016

(March April, May and June balance dates)

For all clients except those who have lost their extension of time privilege

NEW RULES FOR MILEAGE RATES



A BILL is before Parliament which has a section dealing with tax deductions based on mileage.

The calculation at present is easy. The rate is 72c a kilometre and the maximum number of kilometres you can claim for if you are self-employed is 5000. The new system proposed will be a two-tiered system. You'll have to use a logbook and keep it for three months once every three years. Those who have relatively high business mileage should take advantage of this change.

It's probably easiest to explain the system with an example. X travels 30,000km for both business and personal running in one

year. His tier 1 calculation applies to the first 10,000km. Fifty-five percent of his running costs are for business. This means he can base his claim for tier 1 on 5500km. If the rate were 75c a kilometre his claim would be \$4125. He's still got 20,000km of mileage left. Supposing the tier 2 rate is 25c per kilometre, his claim is based on 11,000km which entitles him to another \$2750. That makes a total claim of \$6875, which is much better than the maximum available under the old rules of \$3600. The Government plans to bring in these new rules from 1 April 2017. The actual mileage rates are likely to be announced sometime after 31 March 2018.

This new system provides a more accurate way of calculating mileage, but it is going to add to the amount of record-keeping. You're going to need to tell us the total number of kilometres you travel in each year. Therefore, please start now. Make a diary note to record your odometer reading when you finish work on 31 March 2017. Then make another diary note to do the same on 31 March 2018 and so on. If you change vehicles, you'll need to get your odometer reading before you trade in your old vehicle and then make a note of the reading on the new vehicle. We hope you've got a good memory for this.

FBT ON COMPANY MOTOR VEHICLES - WELCOME CHANGES

The Government is looking to simplify fringe benefit tax compliance for small companies, specifically in relation to motor vehicles. The change intends to align the treatment of motor vehicles for small companies with that of partnerships and sole traders.

The proposed change will remove the compliance costs incurred by a small company having to register for and pay fringe benefit tax where motor vehicles are used by one or two shareholder-employees.

Under the proposed changes to the tax regime, vehicles owned in a company and provided to shareholder-employees would be treated in much the same way as a sole trader or partnership, with apportioned expenditure and depreciation.

The new legislation will only apply to vehicles purchased after 1 April 2017. i.e. existing Company cars will continue to incur Fringe Benefit Costs.

This is a major win in tax simplification and helps to resolve a longstanding tax anomaly.

DON'T GRAB ALL THE MONEY



IF you sell your business, which you run through a company, the money does not belong to you. It belongs to the company.

You can only take it out if you are entitled to do so. If there is money owing to you, according to the balance sheet of the company, then that money can be paid out. However, any more than this becomes a loan to you or may even be an illegal distribution.

A problem often arises when a business is sold. The seller gets paid for "goodwill". This is the value of the customers who have been built up over the years. It is a payment for the potential to get a higher income.

The sale of goodwill in excess of what was paid for it (if anything) is usually a capital gain. This capital belongs to the company.

You can get it out if your company happens to be a Look-through company or one of those old qualifying companies. Otherwise, it must stay there until the company is wound up. If you take the cash out prematurely it has to be

treated as a loan from the company to you. There are tax consequences as a result. If you want the capital gain paid out to you, without tax consequences, you must first have a signed special resolution of shareholders resolving to wind up the company.

SOME CONTRACTORS TO CHOOSE THEIR OWN TAX RATE

IFROM 1 April 2017, the Government is proposing to allow contractors whose income is subject to withholding tax deductions, to choose their own tax rates.

Those who have typically been over-taxed might want to choose a lower rate. The minimum for New Zealand residents has been set at 10%. Others, who have a lot of year-end tax, might be more comfortable having higher deductions.

The maximum number of times you will be entitled to change your rate during the year is twice. After that, the payer will have to agree to your request to make the change. If you haven't been complying with your tax obligations, you might not be allowed to choose your own tax rate.

HOW TO REDUCE BAD DEBTS

PREVENTION is better than cure when reducing the number of bad debts.

- Avoid giving credit to a stranger, without undertaking a credit check.
- If you have to give credit without doing a proper check, be sparing.
- Giving credit can help you gain customer loyalty, but be careful.
- There is no obligation to give credit to anyone. Try to make it a habit, if your type of business will permit, to assume you will be paid on the spot.

If it can't prevent bad debts then:

- Jump on new customers who start to abuse your credit arrangement.
- Make notes of every conversation you have with a debtor.
- If you have to make follow up calls, quote back to the customer what he/she undertook to do.
- Immediately after you have made a call, make a note in your diary of the day on which you will next call if the money has

not been received and keep a record of what was said.

- Discontinue giving credit to the chronically bad payers. The time you put into them will destroy your profitability. You could be doing better things with the same time.

What about the big customer who will not pay on time? Small businesses often find their biggest customer is their worst payer. You feel you can't afford to be too demanding, in spite of the fact you're entitled to your money. What should you do?

The answer is not to have one major customer that dominates your business. You will always be vulnerable while you let this continue. Set a maximum percentage of total sales from any customer and do your utmost to see this is not exceeded. If your big customer goes broke it could take your business with it.



ALWAYS CHECK YOUR ACC ACCOUNT

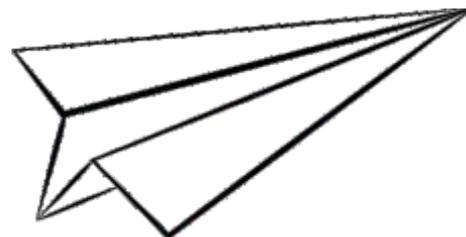
YOUR ACC account could easily be wrong. Always check it. Typical areas where the wrong premium can be charged include:

- Selecting the wrong industry for your type of work.
- Levying ACC payments in excess of the maximum threshold. Currently, you should not be paying ACC on earnings of more than about \$120,000. Sometimes, people receive a PAYE salary and then a non-taxed salary on top of this. These are the type of people who can be overcharged.

Some activities are what is known as passive. However, the income from them sometimes sneaks into ACC files and is treated like earnings.

Rental income from a partnership is an example. If it is recorded in the tax return as partnership income, it can get through to ACC and be levied by mistake.

We read in a recent publication by another accounting practice that 30% of clients in a sample were paying too much ACC.



TRUSTEES NEED TO MINUTE THEIR DECISIONS

IF you have a family trust, be fussy about recording trustees' decisions.

One problem that arises is taking money out of the trust for your own use. This can be:

- a reduction of money owing to you
- a distribution of some of the trust income
- a payment out of the capital of the trust
- reimbursement for trust expenses paid by you
- a beneficiary loan

It's important to clarify these withdrawals. This is done by means of a trustee minute. If there could be any doubt about the reason for a transaction, be sure to prepare a trustee minute and make sure all trustees sign it before it is actioned.

GET THE FLIGHT RIGHT

Be careful when booking flights on line, as you have full responsibility for any errors made.

John and his wife were going from Wellington to Christchurch and had booked airfares there and back. It was late at night and John accidentally booked to go on 21 May and back on the 22nd instead of going on the 28th and back on the 29th.

The next day his wife discovered the error and he rang the airline. The extra cost of changing the flights was \$200.

Another way of getting it wrong for overseas flights is to have a different name on your ticket from that which is on your passport. This applies particularly to married women who might have a passport in one name but accidentally book their airfares in their new name. The cost of correcting this is another \$50.

The lesson: make an effort to understand.

INTRODUCING LUKE WATTS - NEW TEAM MEMBER

Born and raised locally in Wanganui, where I attended Cullinane College and took up competitive rowing. In 2015 I graduated with a Bachelor of Commerce degree from Victoria University of Wellington, majoring in Accounting and minor in Commercial Law. I have thoroughly enjoyed what I have experienced so far in my new role as an accountant & client advisor with Stephen Lace & Associates over the past five months.

In my spare time, I enjoy a lot of running, with a personal best of 1:18:39 on my second attempt at the Saint Clair Vineyard Half Marathon to finish second. I also enjoy keeping up to date with many different sporting codes and horse racing while socializing with friends and family.

Outside of my studies I have been an active rower for the past 10 years. Represented

New Zealand as an Under 21 Lightweight Rower in 2012 and competed that same year at the World University Rowing Championships in Kazan, Russia as the New Zealand Lightweight Men's Single Sculler. Over last summer I had my first opportunity as a volunteer rowing coach where I trained and coached several senior Nga Tawa and Wanganui High School students.

In 2012 I was awarded the Sportsperson of the Year at the Victoria University of Wellington Blue Awards for my success in rowing, along with University Blue Awards for rowing in 2011, 2012, 2014 and 2015. Since joining Stephen Lace & Associates, I have been accepted as a Provisional Member of Chartered Accountants Australia and New Zealand as I work towards full Chartered Accountant

Registration.



RANSOMWARE – YOUR COMPUTER IS AT RISK

Computer attacks using Ransomware are on the rise. Ransomware is a type of software that locks individuals' data by blocking access to files, unless they agree to pay a ransom. This is a very sophisticated generation of malicious software. Where small groups of anonymous hackers once hit individual consumers, the hackers have now organized into crime syndicates that boldly launch attacks against entire companies. We have heard of 3 Wanganui firms recently being targeted.

While ransomware criminals used to accept pre-paid cards and other familiar forms of payment, they're now moving into so-called "cryptocurrency," electronic

currencies that are impossible to trace. Some rings only take Bitcoin, the electronic cash that's popular among hedge fund investors and online drug traders.

In most instances ransomware is automatically downloaded when you visit a malicious website or a website that's been hacked. It can get on your PC from nearly any source that any other malware (including viruses) can come from. This includes:

- Visiting unsafe, suspicious, or fake websites.
- Opening emails and email attachments from people you don't know, or that

you weren't expecting. If you can, contact the person via another means you know isn't compromised, such as telephone, to verify the sender.

- Clicking on malicious or bad links in emails, Facebook, Twitter, other social media posts, and instant messenger chats like Skype. If in doubt, don't risk it.
- Inserting someone else's USB drive into your computer. Make sure you trust the person giving you the drive.

We recommend you consult a very competent IT professional and take their advice on how to protect your system.

BRIEFLY

VOLUNTARY WITHHOLDING AGREEMENTS

SOME contractors don't have to have withholding tax deducted from their income. As a consequence, they have substantial provisional tax liabilities. Some people prefer to have some tax deducted as

they go. It's proposed that from 1 April 2017 they will be entitled to require the payer to deduct withholding tax at a rate they choose, so long as it's at least 10%.

COMPUTER BACKUPS

HERE'S a checklist to help you keep your data safe.

- Are you backing up your computer at

least daily, either manually or through automatic software?

- Are you sending data off-site to protect against fire?
- Do you know you can retrieve information from your backup? Do you test your backups regularly?
- Are the files you keep in your email system also being backed up?



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