Paul Duggan & Associates Limited
Chartered Accountants
tax + business newsletter

## Autumn 2016

236 Clyde Road
PO Box 29352
Christchurch

Phone (03) 351 9402
Fax (03) 351 9352
office@pduggan.co.nz
www.pduggan.co.nz

# Risk and Reward

## Targeting the cash economy

Inland Revenue's crackdown on 'cashies' continues with their focus on undeclared cash in the construction and hospitality sectors. Last year, the Auckland region saw the most activity. Inland Revenue are now widening their reach. They've been trying to change attitudes among tradies and subcontracting businesses and their efforts seem to be getting results.

Inland Revenue acknowledge people trying to cheat on tax are in the minority but stress that they're a very expensive minority. The so-called 'hidden economy' is a cost to all New Zealand taxpayers, who carry more than their fair share because of it. There's another hidden cost too, as business owners who are meeting their tax obligations find it hard to compete with operators who can undercut on quotes because they don't pay tax.

What's this have to do with you, you may ask. Because we're sure you're up to date with your tax obligations. In which case: sweet.

However, if you are in the situation of having under-reported – or unreported – income, now is a great time to straighten it all out. We want to help you make sure your returns are accurate and timely and, as far as possible, help you avoid penalties and use of money interest on any tax owing.

If you think you might have got yourself into a mess with your tax, declaring it early and taking action to correct it goes a long way toward setting you apart from deliberate tax evaders. You may have made a mistake or filed an incorrect tax return, left out some income from your return or incorrectly claimed expenses. We can help you make a voluntary disclosure which may reduce shortfall penalties by up to 100% and protect you from prosecution.

## Setting the record straight

Inland Revenue have signalled they will be looking at businesses' record keeping systems. Key targets will be that all jobs and all income are being recorded and that GST is being handled properly. Recent prosecutions indicate that PAYE records are another hot topic, along with the corresponding employment records. If sketchy records are a quick way to set off the IRD alarm bells, this could be a great time to do a sense check on your records and systems.

As a business owner you're required by law to keep certain records. Poor record keeping lets you down just in terms of the penalties that apply for record keeping failures (up to $12,000). Inadequate systems also make it harder for you to keep track of what you owe, how much you have already paid, to whom and what for and who owes what to you. You lose track of things, miss key deadlines and your costs increase in proportion to how much of a nightmare it is to straighten it out.

With the advances in online systems of recent years, many businesses have overhauled their systems and are in good shape to pull out regular management reports that detail their position clearly. However, there may still be areas where things fall through the cracks.

This applies particularly in industries such as construction where large amounts stay on the table as retentions until the job is completed and it is difficult to keep track potentially across several tax years. At the other end of the scale, the high volume and high speed cash transactions of the hospitality sector can also punch holes in the records.

If you are still making do with the basic systems you started out with, it is possible that your business has outgrown them and they now constitute a business risk. We can help you to look at this and do something about it, if necessary.

## Paid parental leave

From 1 April 2016, there are further changes to paid parental leave.

The amount of paid parental leave that eligible people can take will be extended from 16 weeks to 18 weeks.

Parental leave payments will also apply to more workers. Eligibility will be extended to people in less-regular jobs, in particular to people who have recently changed jobs, seasonal and casual workers, and workers with more than one employer. 'Home for Life' caregivers and people with similar permanent care arrangements will also be eligible.

## News from ACC

### No more residual levies

From April, employers, earners, and motor vehicle owners no longer have to pay residual ACC levies. However it won't mean reductions across the board.

The residual levy rate calculation was based on old injury rates which have become out-dated, going back 10 years or more. The residual levies themselves were a kind of catch up to make sure there were enough funds set aside to pay for ongoing claims predating 1999.

Now, all businesses will have their levies calculated on the most recent data around injuries and the likelihood of injury in their particular industries. Hence, while most will pay less, some will pay more. The removal of residual levies alone would have seen decreases in their ACC contributions for around 53 per cent of Kiwi businesses, while 47 per cent would be paying more.

### Levy reductions

The Government has agreed to the following changes to levies in 2016/17:

- 11% reduction to the average work levy taking it to 80 cents per $100 of liable earnings
- 4% reduction to earners' levy, taking it to $1.21 per $100 of liable earnings
- 33% reduction to combined average motor vehicle levies (the petrol levy and annual licence levy), from an average of $194.25 currently, to $130.26 per vehicle

However, with other levy reductions (see above), the number of businesses paying more may come down to around 21 per cent. We'll keep you updated.

### Requesting ACC Adjustments

Do you receive PAYE or Shareholder Remuneration that exceeds the maximum earnings liable for ACC; or are your earnings sourced from one or more companies? If so, we can request that ACC reassess your liability and make a Multiple Employer Adjustment. This may affect how much you pay in ACC levies.

ACC cannot identify eligible customers from the information Inland Revenue provides, so levies are charged on all income. ACC rely on customers and tax agents advising that they need to reassess your liability so that you do not overpay. They then complete a Multiple Employer Adjustment.

Let us know if you think this applies to you and we can contact ACC on your behalf.

## Noticed anything?

You might have noticed we've changed the logo relating to our professional membership. Some time ago, the New Zealand and Australian institutes of Chartered Accountants amalgamated to become Chartered Accountants Australia and New Zealand. There's a new logo to go with it which you may see on our website and in future communications from us. While our professional ethics and high standards remain the same, we feel the combining of the Institutes creates a stronger organisation with greater resources and more opportunities. We're committed to maintaining (and where possible, improving) the high quality of our service to you.

## Profit – the nuts and bolts

When you look at your accounts, can you read your profitability? Here are some things to look for.

### Gross profit

Gross Profit = Net Sales – Cost of Goods Sold

On your trading statement, **gross profit** is the difference between revenue and the cost of goods sold (or services provided). It generally appears before administrative expenses and general overheads are accounted for. Ideally, gross profit covers your overheads as well as generating your targeted profit, your net profit.

### Net profit

Net Profit = Total Revenue – Total Expenses

**Net profit** is what you're going for – it is the actual profit after all expenses and overheads have been paid. Net profit is the bottom line. When you are assessing your business' actual profitability, bottom line tells you a lot (it is, after all, the bottom line).

They're the basics. But there are other indicators worth analysing. Gross profit percentage is one.

### Gross profit percentage

**Gross profit percentage** is a percentage of sales and it's a valuable metric to keep hold of. It is the ratio of your gross profit in proportion to your sales:

$$\text{Gross profit \%} = \frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$$

Now that you've calculated it, what are you going to do with it? For a start, calculate your breakeven point:


### Breakeven point

$$\text{Breakeven} = \frac{\text{Total Expenses}}{\text{Gross Profit \%}} \times \frac{100}{1}$$

### What does your gross profit percentage tell you?

Gross profit percentage is a useful indicator of production efficiency and financial health. Ideally, it is fairly stable, barring drastic upheavals in your business or industry. A drop might mean one of a number of factors which need to be corrected, such as a rise in costs, waste or bad debts.

In a competitive market, where benchmarking data is available, you might compare your business' gross profit percentage to that of your competitors and take steps to make sure you keep your edge. Gross profit percentage can vary widely across different industries. For food and beverage businesses, for example, it's a very thin margin while for software businesses it tends towards the high end.

Changes in gross profit percentage might also mean increased competition in the market or increasing demand from customers for discounted products or services. It could be a response to changes in the business, such as expansion driving increased production costs or a higher wages bill.

Keeping track of your profitability gives you the big picture on your business. The key metrics that indicate profitability are all windows onto the big picture. Understanding them will help you set goals and drive growth.

## Mileage rates

If you're self-employed you can use the Inland Revenue mileage rate to calculate the cost of using your motor vehicle for business purposes. Last year the commissioner reviewed the mileage rate for the 2015 tax year and decreased it from 77 to 74 cents per kilometre.

## Timely Reminders

Note: these dates apply to those clients for whom we prepare tax returns. Different dates will apply for those clients for whom we don't prepare returns. Please ask us if you'd like more information.

| **Tax Type** | **Who / What** | **When it's due** |
|---|---|---|
| PAYE | large and small employers return and payment | 21 March (due to 20th falling on a weekend)<br>20 April<br>20 May |
| GST | return and payment | 29 March(due to 28th falling on Easter Monday)<br>30 May (due to 28th falling on a weekend) |
| FBT | quarterly return and payment (if you pay it quarterly) | 31 May |
| | annual return and payment (if you pay it annually) | 31 May |

### Provisional and Terminal Tax

| **I pay provisional tax…** | **And my balance date is…** | **So my provisional tax is due next…** |
|---|---|---|
| 2 monthly<br>(6 times a year) | February, April, June, August, October or December | 29 March (due to 28th falling on Easter Monday)<br>AND 30 May (due to 28th falling on a weekend) |
| | January, March, May, July, September or November | 9 May (due to 7th falling on a weekend) |
| 4 monthly<br>(3 times a year) | February , June or October | 29 March (due to 28th falling on Easter Monday) |
| | March, July or November | 9 May (due to 7th falling on a weekend) |
| | April, August or December | 30 May (due to 28th falling on a weekend) |
| 6 monthly<br>(twice a year) | February or August | 29 March (due to 28th falling on Easter Monday) |
| | March or September | 9 May (due to 7th falling on a weekend) |
| | April or October | 30 May (due to 28th falling on a weekend) |
| Terminal tax | between 1 March and 30 September | **Terminal tax payment due 7 April** |



236 Clyde Road
PO Box 29352
Christchurch

Phone (03) 351 9402
Fax (03) 351 9352
office@pduggan.co.nz
www.pduggan.co.nz