

# Newsletter

September 2009

DB CHARTERED  
ACCOUNTANTS LTD

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*In this newsletter we cover off vehicle log books and remind taxpayers about planning ahead for tax payments. We look at monitoring business income and include some updates from the Inland Revenue Department. "From Our Files" looks at ACC and rental properties and we again include a book review and two jokes (if you don't like our jokes you can send one in to us!).*

## **MOTOR VEHICLE EXPENSES**

Remember, that if you claim a percentage of your vehicle running costs against your taxable income, you need to have a valid log book to calculate your business usage. This log book needs to be kept for a 90 day period with the proportion of business use correctly recorded and needs to be reflective of a normal business/private use period.



If you need to confirm how to calculate your business use percentage, refer to our March 2008 newsletter. The business use adjustment is valid for three years. After that time a new log book needs to be completed.



For current clients, if you need a new log book contact us and we will mail out one to you for free.

## **PREVIOUS NEWSLETTERS ...**

*You can view our previous newsletters on our website*

[www.dbchartered.co.nz](http://www.dbchartered.co.nz)

*and click on "Newsletters".*

*"You are never too old to set another goal or dream a new dream."*

## **FROM OUR FILES ...**

1. **ACC** – As part of attending to GST Returns for a new partnership client, we discovered that one of the partners had been invoiced under an incorrect ACC classification. Both partners were classified as “Contractors”. In this case one of the partners was able to use the “Business Administration” classification. (*This classification difference is only available to a partner in a partnership – not a shareholder in a Company*).

**Result:** We advised ACC of the error and our client was refunded \$3,000 in overpaid ACC levies for the past 2-3 years.

**Lesson:** When you receive an invoice from ACC, check that the classification under which the ACC levy is charged is correct. If it isn't, let ACC know. If you are unsure, contact us and we can check it for you.

2. **Rental Property** – A client had a rental property owned by a family trust. Unfortunately, the rental property ran at a loss but the Trust was unable to use the losses as it did not have significant income to offset against the rental loss. We suggested that the trustees look to transfer the property out of the Trust to another entity.

**Result:** The rental losses of the property can now be used to offset against other taxable income.

**Lesson:** Contact us before you enter into a property or other major transaction. We can then discuss your options in regards to taxation and your long term objectives and advise you accordingly.

## **PROVISIONAL TAX**

For March balance dates, the next Provisional Tax instalment will be due on 15 January 2010. This payment will be based on your 2009 taxable income.

Remember, for **Companies and Trusts**, if your 2010 income is likely to be higher than 2009 income, you will be subject to IRD Use Of Money Interest (UOMI) if your final tax due for 2010 is less than you have paid for Provisional Tax. This also applies to individuals whose untaxed income exceeds \$130,000.



We recommend that if the above applies to you and your 2010 year is trading better than the year ended 31 March 2009, you may look to pay additional tax on 15 January 2010 to reduce your IRD Use of Money Interest costs.

If you need to discuss this further, or need assistance with calculating your year to date position, make sure you contact us.

### ***Joke #1***

A photographer for a national magazine was assigned to take pictures of a great forest fire. He was advised that a small plane would be waiting to fly him over the fire.

The photographer arrived at the airstrip just an hour before sundown. Sure enough, a small Cessna airplane was waiting. He jumped in with his equipment and shouted, “Let’s go!” The tense man sitting in the pilot’s seat swung the plane into the wind and soon they were in the air, though flying erratically.

“Fly over the north side of the fire,” said the photographer, and make several low-level passes.” “Why?” asked the nervous pilot. “Because I’m going to take pictures!” yelled the photographer. “I’m a photographer, and photographers take pictures.”

The pilot replied, “You mean you’re not the flight instructor?”

## **ARE YOU ON 6 MONTHLY GST RETURNS?**

If you are an individual, Trust or Company and prepare GST Returns on a 6 monthly basis, your Provisional Tax payments are due 50% on 28 October 2009 and 50% due on 7 May 2010. (For other tax payers with a March balance date, the Provisional Tax due dates are 28 August (1/3), 15 January (1/3) and 7 May (1/3).)

If we do not have your correct details, we may incorrectly send you three letters a year instead of two (and the chance that you will under pay your tax as at 28 October).

For clients, if you are 6 monthly registered for GST, please let Maree at our office know so we can ensure our records are correct (ph 847-8154 or e-mail maree@dbchartered.co.nz).

## **BUSINESS INCOME** (aka Revenue, Turnover, Sales)

Many businesses will keep an eye on their annual year to date sales figures and compare them against the same time the previous year with the expectation that if sales are up on last year, they are better off. While this is a good indicator to measure, it is also important to keep an eye on the gross margin and gross profits (i.e. sales less the direct costs of purchases and direct wages) as this is what will determine your profitability.

As an example:

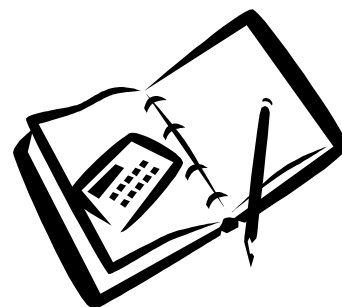
|  | <u>YTD 30/9/08</u> | <u>YTD 30/9/09</u> |
|--|--------------------|--------------------|
| Sales                                      | 500,000            | 550,000            |
| Freight/Fuel/Purchases/ Stock/Direct Wages | 300,000            | 400,000            |
| Gross Profit                               | 200,000            | 150,000            |
| Gross Margin                               | 40%                | 27%                |

In this example, the business has increased their turnover by 10%. However, their actual gross profit has decreased by \$50,000. This could have occurred because they have not increased their selling price as their direct costs increased or they are selling more product quantities with a lower margin affecting their overall margin and profits. Staff wage costs could also have impacted on profitability with excess staff being retained or cost recovery per hour or charge out hours being less than in the previous year.

This can also work the other way, in that a business can have a reduction in sales from the previous year, but still have increased profits. This comes about due to improved gross margins and selling more of higher margin goods or services or reducing the direct costs through purchasing and operational efficiency to achieve an increase in profit.

So, as a business owner, as well as keeping an eye on the sales figures year to date, also keep an eye on the profit margin.

If you need assistance calculating your profitability, give us a call.



## **BOOK REVIEW**

### **“YOUR LAST FENCEPOST” – Joan Baker (2008)**

This book provides a guide for farmers wanting to plan ahead for their retirement. The book covers planning for whom the farm is likely to be sold to, how to prepare the purchaser (if a family member), how to go about investing money from a farm sale and receiving an income. It covers other estate matters, including wills, loans and Trusts and distribution of wealth amongst family.



It gets the reader to look at what they want to achieve after they have dug their “last fencepost”. While the book is targeted at farmers, it is also relevant to anyone with a business that they have invested their life savings into and how they can plan for a gradual or total retirement.

## **ELECTRONIC TAX PAYMENTS**

Remember to include the correct details if making your tax payments electronically. Make sure you include your IRD No, Tax type and period that the payment relates to, e.g.

“Particulars” Field - IRD No. “12345678”

“Payee” Field – Details “Inc 31032010” (for a tax payment for the 2010 income year), or  
“GST 30092009” (For a GST payment for the Aug/Sept GST Return)

Clients, if you pay **Provisional Tax** electronically, please let Maree know (ph 847-8154 or email [maree@dbchartered.co.nz](mailto:maree@dbchartered.co.nz)), so we do not think that you have forgotten to send a cheque in.

## **IRD SEMINARS**

The Hamilton IRD office are running GST and PAYE seminars (2 hours) to assist those new to business about their GST and PAYE obligations and record keeping requirements.



GST Seminar Dates: 13 Oct & 15 Oct  
PAYE Seminar Dates: 14 Oct and 11 Nov

For more information, phone (07) 959-6328 or e-mail [advisory.hamilton@ird.govt.nz](mailto:advisory.hamilton@ird.govt.nz)

### **JOKE # 2**

Delivering a sermon on the evils of drink, the minister declared, “We have 20 hotels in this city and I can honestly say I have never been in one of them.”

A parishioner called out from the back of the church, “Which one is that?”

## **DB CHARTERED ACCOUNTANTS ...**

*Assisting business owners and individuals in their business and personal affairs by providing quality accounting, taxation and planning services.*

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**HAMILTON**

### **GIVE US YOUR FEEDBACK**

Remember to let us know what topics you would like covered in the future, and if you need to discuss anything mentioned in the newsletter, give us a call.

Contact us at:

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