

Accountable News

December 2007

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CONGRATULATIONS

We begin this newsletter by sharing with you some exciting news concerning one of our team. Kerry has just successfully passed the final Professional Qualifying exam in order to become a Chartered Accountant.

Many of Kerry's clients may be surprised to learn that over the last eight months he has been putting in twenty to thirty hours or more of study each week on top of his usual work for Dodd and Associates. As well as that he has also had to give up six weekends to attend workshops before sitting the final exam lasting six hours.

This is one of the toughest exams to be found anywhere in the world and many accountants struggle to gain the required marks. This makes Kerry's achievement all the more rewarding.

We are extremely proud of Kerry's success and lucky to have him on our staff.



INCOME TAX BILL

The Income Tax Act 2007 (No 97 of 2007), which incorporates the historic 15 year re-write of the Income Tax Act, received the Royal assent on 1 November 2007.

The Bill, which is nearly 3,000 pages long, contains the rewritten Income Tax Act from Part F to the end of the Act, including Schedules. It also re-enacts and consolidates Parts A to E of the Act, and renumbers various sections contained in those Parts. Once enacted, the resulting Income Tax Act 2007 will apply from the 2008-09 income year. The fact that it has taken 15 years to rewrite is a wonderful indication of how complex our tax law is.

Over the years we have come to the strong opinion that Inland Revenue's overzealous approach to "protecting the revenue" (of the Government) is a major contributor to the compliance costs faced by small business throughout New Zealand. We wonder about the negative effect that all this has on New Zealand's economic growth and development.

The collective energy of New Zealand's

business people and professional community being diverted into satisfying the demands of Government and fending off the excesses of Inland Revenue and our politicians must have a negative impact on our national growth potential.

In this context it is interesting to reflect on a recent (Independent) study of compliance cost which indicates that compliance cost for businesses in New Zealand of 10 employees or less averages \$2400 per employee per year. Another, more revealing, study we saw suggested that Inland Revenue compliance for Tax, GST etc was costing the average small to medium enterprise over \$4000 per year.

Tax Management Fee

You may or may not be aware of the fact that Inland Revenue maintain a separate account for each revenue (income-tax, GST, FBT, PAYE etc etc) for each year for each taxpayer. At their whim they can and do make transfers from account to account and as you know a whole raft of penalties and charges can accrue on any account which is in debit. Commonly they will transfer some of a GST refund to offset an income-tax debit. The complications arising from this can be very significant and neither you nor we can afford to let it go unnoticed.

To protect the interests of all of our clients we routinely record as best we are able to get the data from Inland Revenue transactions in the income-tax accounts for each client for each year. Cost of us doing this has been significant. For the last two years we have charged an annual fee for the management of your income-tax accounts (Jan 06 & March 07).

This annual fee has been based on calculating half of the cost concerned and arbitrarily dividing that amount equally to each of our taxpayer clients. This was a simple and economical method of some recovery on a significant amount of our cost.

However, we have been very conscious of the fact that in several cases

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Business Tip

*Be prepared
to change anything
and everything.
The world will change
and if you do not
change with it
you will be
inevitably left
behind.*

there were injustices arising from charging the same amount to each client taxpayer. In some cases there was an element of slight overcharge but in many other cases there was a significant undercharge. We have been concerned that this was unfair or potentially unfair.

Because of that we have made some changes to the way in which we use our software. I'm sure you will be as pleased as us to hear that from now on we are able to invoice the actual cost incurred by each client individually for our management of your income-tax account rather than on the flat rate system. We will be invoicing this cost recovery on an annual basis around late February, early March each year. We are sure this will result in a much fairer system for all clients.

XERO

At Dodd and Associates we like to keep updated on the latest technology available and then where appropriate pass on our recommendations or opinions to you.

Xero is relatively new on the market and was started up with the hope of being an online equivalent to MYOB and perhaps the intentions of even surpassing it with the benefits of being online.

Benefits of online software include being able to be accessed from anywhere at anytime and you are also always using the latest version without going out to purchase the upgrade. You can invite other users to give them access to your data with different privileges. This has an added benefit that users with lower privileges can draft invoices and then you can come along and approve them.

To sign up with the Xero system the cost is \$50 a month and then a further \$25 dollars for each additional GST-registered organization that you use Xero for.

Xero is a good concept but lacks important features.

- No records can be produced in the event of an IRD audit of IRD quality.
- Insufficient records to provide the detail we need to produce annual financial statements.
- No checks to ensure accuracy and validity of data entered.

At this point in time after researching into Xero, we have decided that Xero is not an accounting package that we would recommend to our clients. We feel significant improvements are needed. Please contact us if you were considering joining Xero before doing so.

Tax Law Changes

You will have probably noticed some publicity about a number of changes relating to the tax law. We aim to keep you informed leading up to the introduction of these changes.

The most significant changes for business are the drop in the Company tax rate from 33% down to 30%, the new Ratio option for paying provisional tax in line with your GST return and the new Portfolio Investment Entity (PIE) rules.

These are just the more significant ones, there are many others such as changes to rebates for charitable donations, special credits for research and development expenditure and a raft of others.

GST and Provisional Tax

For those of you who file GST, you will have noticed a change in the appearance of the forms. This is in preparation of the new ratio method for paying your provisional tax due to be introduced in April 2008.

We will provide more information on the ins and outs of this method closer to April. Briefly, it will allow some tax payers to pay provisional tax based on your 'taxable supplies' in your GST return.

This will ideally be suited to anyone with seasonal changes, meaning that you will be able to pay more provisional tax in your busy months when you have more sales coming in, and pay less provisional tax in your quiet period.

CHRISTMAS HOURS

This year we will be closing on Friday 21st December at 4.00 p.m. and reopening on Thursday 3rd January.

Everyone at Dodd & Associates wishes you and your families a very happy and safe Christmas and a prosperous New Year, and we look forward to seeing you in 2008.

Quote

"Opportunity is missed by most people because it is dressed in overalls, and looks like work."

-Thomas A. Edison

