

# DAA Bulletin

## Quote

“Nothing is impossible, the word itself says ‘I am possible’”

- Audrey Hepburn



DODD AND ASSOCIATES LTD  
CHARTERED ACCOUNTANTS

## Website

With the Super 15 underway so too are Kerry's weekly rugby diaries.

Be sure to check our website each week for the latest provoking entry!

Stay tuned also for further changes to our website as we look to bring in the new financial year in style!

## Pre 31 March Tax Positioning

31st of March represents the end of the financial year for most New Zealand taxpayers. For many of our Canterbury clients the 2011/12 year will produce indifferent results for the business proprietors concerned and terminal (final) income tax payments are not likely to be a problem for those in this situation provided they have been making the regular provisional tax payments. If you have not been making the regular provisional tax payments then you need to give us a call (see following article).

For those businesses fortunate enough to have had a normal or better than normal year now is the time to be thinking about the legal moves that can be made between now and March 31 that will help reduce the taxable income for the 2011/12 year and in doing so reduce the income tax burden that results from such a year.

Most of our clients are familiar with what moves are and are not possible as far as their individual business is concerned. If you are new to DAA or have not yet taken the trouble to get a briefing from us on this subject we strongly recommend that you book an appointment with us right away so that there is still time after we have gone through the possible options available for you to implement the actions that might help control your income tax obligation.

## Terminal Tax Due 7<sup>th</sup> April

Terminal tax for the 2010/11 year is due on 7<sup>th</sup> April which falls this year in the middle of Easter. We are currently working our way through the list of clients who have terminal tax to pay and preparing the necessary paperwork to accompany the payment. Because it falls in the middle of Easter you need to be thinking about when you lodge the payment if you use online banking or put the payment in the mail. We recommend doing it prior to Easter so that you do not fall foul of Inland Revenue.

If you are unable to pay your terminal tax on 7<sup>th</sup> April for whatever reason you need to be talking to us **now**. If you take no action, 7<sup>th</sup> April passes and then you advise that you are unable to pay Inland Revenue will automatically levy penalties and interest on the unpaid balance. That could prove to be extremely costly.

Inland Revenue are open to taxpayers entering into an arrangement to pay the terminal tax over a period of time but you need to be talking to us. We can then approach Inland Revenue on your behalf, provide them the necessary details and currently within 5 to 7 days we can come back to you with an answer from Inland Revenue. It is important to note that the arrangement is solely at Inland Revenue's discretion but for those completed so far we have been extremely successful.

## To Fix or Not To Fix – That is the question

There has been a lot of speculation for the last year or so on when it will be the “right” time to fix the interest rate on mortgages. The expected time frame for the Official Cash Rate to start increasing is being pushed further and further out – possibly to the end of this calendar year now. In the meantime however the banks are getting edgy that hardly anyone is paying the premium of the fixed rates in order to gain the resulting consistency.

Obviously we can't speak for the rest of the country but those of us in Christchurch just have a lot more important things on our minds still than a possible change in interest rates and unless we hear of a change in the Official Cash Rate we probably won't pay this issue much attention for another six months or so.

A couple of banks have tried to force the issue recently by reminding people that the Official Cash Rate isn't the only thing that could lead to increases in interest rates but other banks aren't as convinced that this will happen quickly and aren't encouraging people to fix just for the sake of it. We find this commendable as they are forgoing immediate profit for themselves by advising clients to stay on floating rates for the present time rather than fixing at a slightly higher rate.

Judging by the fact that the one to two year fixed rates are only slightly lower than floating rates and even the three year fixed rate is only about 0.15% higher it still appears that expectations are cautious for the next three years. The danger of course is that if you fix now for three years you have no control over where the rates will be in three years time – you could be facing 8 – 9% rates then. If you don't fix now though (or soon) and rates start increasing quickly you could be paying much higher rates all the way through the next three years.

As usual, until someone finds the elusive crystal ball we all need, this is all guesswork and the best anyone can do is ensure they understand the situation fully and are in a position to cope whatever the eventual outcome. If you feel you need to discuss your personal situation more fully then feel free to make a time to come in and go through it with us.

## Sales Made For Cash

Some recent discussions with Australian business associates have alerted us to a development over there whereby the Australian Tax Office (ATO) which is the equivalent of New Zealand's Inland Revenue Department have begun a policing campaign focused on businesses who have the opportunity to make sales for cash and who might choose not to declare as taxable income some or all of the cash received. In itself this is not particularly new but it is apparently producing a lot of additional tax for Australia with a bonus of a greater amount in penalty payments. Inland Revenue here are always alert for businesses that have the opportunity to "pocket cash". However, it is sure that they will take note of and act on the success of the current Australian campaign.

If you have been in the habit of doing this then now might be an appropriate time to wean yourself off that source of "tax-free" income. It isn't really tax-free. The reality is that if you have done this in the past you are guilty of the greatest tax offence; that is tax evasion. If detected this inevitably attracts the highest penalties. Under New Zealand law that can include jail time of up to 5 years. It will certainly include penalties. The penalties mean that you will pay the tax that should have been paid plus an automatic penalty equal to 150% of the tax and in addition you will pay late payment penalties and interest charges. We have seen instances where collectively this is more than double the amount of money that was diverted into the "back pocket" in the first place.

## Looking for a new employee?

WINZ have developed a special wage subsidy scheme called “Job For A Local” that provides employers with help to employ job seekers in the Canterbury region. It is important to note that there is an expectation that the job will continue when the subsidy ends. Under the scheme for each eligible Canterbury job seeker that is employed the employer will receive:

- \$3000 when the job seeker starts work
- \$2000 on completion of 26 weeks continuous employment.

There are some criteria in terms of the job position that must be met first. The criteria are:

- Be a permanent position that has not been previously advertised (WINZ are flexible on this);
- Be a full time position of 30 hours per week;
- Have an hourly rate equal to or higher than the adult minimum wage; and
- Be located in the Canterbury region.

This is a good opportunity for those wanting to employ someone but concerned about the cost of the initial training period. This subsidy will help cover that cost. If you are looking for an employee and believe that the “Job For A Local” scheme could be the answer then please contact us and we will put you in touch with the appropriate persons from WINZ.

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