

END-OF-YEAR TAX TIPS

With 31 March almost upon us, here is a checklist of key tax considerations for your business as the financial year draws to a close:

Bad Debt Write-Offs

You have to pay tax on any of your debtors- even if they haven't paid you yet. Therefore, it is always a good idea to regularly review your debtors- especially as we approach 31 March. You should write off any that are going to be uncollectable.

Where bad debts have been written off during the year, a tax deduction can only be claimed if:

- the debt is "bad"- i.e., there is no reasonable likelihood that the debt will be collected, and
- the appropriate accounting/bookkeeping entries recording the debt as written off have been carried out. **THIS NEEDS TO BE DONE IN REAL TIME.**

To work out whether the debt is "bad," several factors can be considered including whether reasonable steps have been taken to try and collect the debt. If you are unsure on whether any of your customer's debts are "bad," please engage us so that we can offer you advice on them.

No deduction can be claimed in respect of simply provisioning for doubtful debts.

If a bad debt is recovered and a previous deduction has been claimed for that particular bad debt, the amount recovered must be returned as assessable income for tax in the year it was recovered.

Imputation Credit Account

If you have a company (i.e. not a look-through company), its imputation credit accounts (ICA's) must not be in debit as at 31st March (regardless of your balance date). If it is in debit, you pay further income tax plus a 10% penalty tax.

If you have paid dividends during the year (and we were not involved in preparing the documentation) you may want to engage us to check the balance of the ICAs before the 31 March to ensure you don't run foul of this penalty tax.

Trading Stock

A stock take should be carried out at or close to 31 March to ensure that any obsolete stock is physically disposed of so that the value of trading stock is minimized at year-end, as more higher values of stock at year-end means more tax to pay.

The standard valuation methods for valuing stock at year-end are:

- Cost
- Discounted selling price

- Replacement price, or
- Market selling value

If there are stock items that would sell for less than their original cost, consider revaluing them to their market values so that the value of trading stock is minimized at year-end.

If you're unsure on how to value your business's stock at year-end and you would like to engage us to assist you with it, please let us know.

Employee Remuneration

If you're considering to pay your employee's bonuses sometime soon, we recommend that you account/accrue for them this month- even if you choose to pay them in the near future. As long as these bonuses are earned by employees prior to 31 March and are paid out to them by the 2nd of June (i.e. 63 days after 31 March), your business will be able to claim them as tax deductions for the 2024 tax year. Other types of employee pay that are covered by this rule include holiday pay and long-service leave. Redundancy payments on the other hand are not covered.

If you would like to take advantage of this but you're unsure on how to, please engage us so that we can assist you.

Look-Through Company Election

If you would like your company to become a look-through company ('LTC'), or if you like it to cease being an LTC....you have to notify the IRD of your intentions by 31 March for your election to take effect from 1 April. Miss this deadline, and you'll have to wait another year.

If you're considering the above but you're unsure on the next steps to take, please engage us so that we can assist you.

Work-In-Progress (Professional Services Business)

If you're running a business that offers professional services, ensure that work-in-progress is either billed out to your clients or written-off (if not recoverable) by 31 March.

If you're unsure on how you should value your business's work-in-progress on jobs or how to write them off, please engage us so that we can assist you.

Shareholder Current Accounts

If you have taken-out significant drawings from your Company between 1 April 2023 and 31 March 2024, chances are that your shareholder current account is overdrawn. This gives rise to deemed dividend or FBT issues for your Company. To manage this risk, we recommend:-

- Declaring and crediting dividends to clear-out any overdrawn current account balances by 31 March, or
- Charging interest on overdrawn balances.

If you require assistance in managing the above, please engage us so that we can assist you.

Fixed Assets

If you're considering to purchase an asset for your business, we recommend purchasing it prior to 31 March so that your business can claim a month's depreciation of the asset as a tax deduction for 2024. Please note that depreciation can only be claimed if the asset is in-use or being used this month.

If there are items on your business's fixed assets schedule that are no longer in-use, lost, or damaged, consider writing-them off and claiming a tax deduction for their write-off by 31 March. If you have identified those items, please let us know so that we can process their write-off.

Xero Bank Feeds Delay

The 31st of March falls on a Sunday this time round- over the Easter weekend and between two public holidays. As a result of this, certain bank feeds relating to the 2024 income year will not flow through to Xero until 3 April 2024. We suggest that you wait until all the 2024 income year's bank transactions have been imported into Xero before finalising your year-end reconciliations.

Filing On-Time

Finally, remember to file your tax return by 31 March so that you don't give Inland Revenue the opportunity of extending the "time bar" beyond the usual time limit of four years, after the end of the tax year in which the tax return was filed. We help manage this by scheduling the month we anticipate doing your accounting work. Watch for the email coming from Anna our practice manager shortly advising you which month. If you need to change from that month, please let us know as we are happy to accommodate!

If you have any questions regarding this information, please contact us on 09 636 3332.