trialbalance

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Attorney vs Executor

What is the difference?

It can sometimes be confusing when we talk about an attorney (for an Enduring Power of Attorney – EPA) and an executor who is appointed in your will and who looks after your estate when you die. The difference, as outlined below, is literally a matter of life and death.

An EPA

An EPA is used when you may not be able to make decisions for yourself. For example, you may become very unwell, or unable to communicate important decisions (you could be away from email or phone access for some time), leading in either case to an inability to make important decisions. Your attorney is the person you trust to act in your best interests – with your property and your wellbeing.

There are two types of EPA – property, and personal care and welfare. Your attorney can be the same person/s or you can choose different people for these two roles.

An attorney's role

Your property attorney can manage your finances, they can sell your house if necessary and even buy Christmas and birthday gifts for specific people. Your personal care and welfare attorney can make decisions about your medical care, help choose a rest home if you need to move, and consult with other family members about your health.

Most importantly, your attorney makes decisions in your best interests; they only have as much power as you give them in your EPA. Your personal care and welfare attorney cannot, for example, withhold life-saving medical treatment; it is absolutely up to you to decide what your attorney can, and cannot, do.

Who needs an EPA?

EPAs aren't just for the elderly. They are also for the young man who has had serious injuries in a car accident and struggles with his memory, and for the 50-year-old who is working offshore and wants her partner to sign documents on her behalf.

Without an EPA, nobody can make decisions on your behalf if you can't make them for yourself. Your parents, spouse or children don't automatically have this right. The only way around this is to spend thousands of dollars working through the Family Court to get an attorney appointed.

A will

A will is the document that states where you want your assets to go after you die. Your will appoints an executor, or several executors; they will carry out the wishes that are stated in your will.

Executor's role

An executor works with us to administer your estate and carry out the terms of your will.

Your executor calls in your assets and pays any money you may owe. They ensure, for example, that your daughter gets your engagement ring, your life insurance pays off your mortgage and they invest the rest of your money until your children turn a specified age and can get their inheritance.

Get your affairs in order

Without a will, your assets will be distributed according to the intestacy rules that govern who gets what from your estate. Without a will, your family may not get what they expect or what you want which could be very upsetting for them.

The only wrong time to get a will and an EPA is when it's too late. Take back the power to decide where your assets go when you die, and save yourself and your family much heartache.

Source: www.dglaw.co.nz

Tax Calendar

30 June 2023
Last day to apply for annual FBT returns

28 July 2023
3rd instalment 2023 Provisional Tax (June balance date)

28 August 2023
1st instalment 2024 Provisional Tax

Developing an employee career path. And, why it's good for business

Career path planning is essential for the growth and development of employees.

Without it an employee may become stagnant in their role; boredom will set in, and they'll start looking for more inspiring work and growth opportunities elsewhere. Can you afford to lose staff because you don't invest in the future of the excellent people you already employ?

The state of the current labour market tells us how critical it is to retain the people you have. Internal recruiting is a more effective and affordable way to fill a vacancy; it's cost effective and reduces turnover. Therefore, it is worth your while to consider career path planning for the people in your team.

Land purchase – when not to claim GST 2201

Do not claim GST on residential land purchased unless you are sure you are going to sell it. If you do claim GST and convert to a rental, the sale of the property will always be subject to income tax even if you sell it to an associated entity in the meantime. By claiming the GST you are notifying IRD that you purchased the property with an intention of resale.

Reimbursing employees working from home

Inland Revenue has released Determination EE004, which among other things determines that if you reimburse an employee who is working from home you may pay them only their extra costs.

This would include, for example, reimbursement for the extra power they use.

Oddly, you can't pay for a share of the rent, rates or insurance, which allow your staff member to work from home for your benefit. The department argues the employee is going to incur the cost anyway, so it's a private cost.

There is a perfectly legal solution if you want to contribute to the fixed costs. Your business can pay rent to an employee for the use of their home.

Pay off your mortgage early

4 ways to repay your mortgage sooner, but should you?

Don't want to be stuck in debt for the next 30 years? If you're like most people, paying off your mortgage might be one of the bigger financial goals you'll ever have. Unfortunately, it's also one of the most daunting. With New Zealand house prices the way they are, this might seem like an insurmountable task to pay off that amount of debt.

But fear not, there are several ways to pay off your mortgage early, and you don't have to be stuck with debt for 30 years. In this article, we'll discuss the benefits of paying off your mortgage early, some strategies for doing so, and some pitfalls to avoid along the way.

Benefits of Early Repayment

Paying off your mortgage early can have numerous benefits. These might include:

- You can save a lot of money on interest payments. By making extra payments towards your mortgage, you'll reduce the amount of interest you pay over the life of the loan. This equates to more money in your pocket over the long term.
- It can help you build equity in your home faster.
- It can free up money for other financial goals, such as retirement savings, the capacity to take a year to explore the world, or something else.
- Provide a legacy of financial security for future generations.
- Peace of mind knowing that you are no longer burdened with debt – you own your own home outright!

Strategies for Paying off the Mortgage Early

1. Make Extra Payments

The most obvious way is to make extra payments towards your loan. Many lenders offer flexible options that allow you to make additional payments, or even lump sum payments, towards your loan. You can do this in several ways, such as:

- Make a lump sum payment
- Increase your regular payments
- Make fortnightly payments instead of monthly payments

Naturally, your ability to do any of the options above will depend on the terms and conditions for your existing lending. In many cases, there may be a 'break fee' or penalty for making changes. Assuming there are no penalties involved, or the penalties are minor, every extra dollar you put towards your mortgage reduces the amount of interest you pay over the life of your loan and shortens the time it takes to pay off your mortgage.

To make more payments you might need to generate some extra cashflow. There's two ways of doing.

2. Refinance Your Mortgage

Refinancing your mortgage can be a smart move if you're looking to pay off your mortgage early. By refinancing to a lower interest rate, you can reduce your monthly payments and free up cash flow to put towards your mortgage.

Alternatively, you can refinance to a shorter loan term, such as a 15-year loan instead of a 30-year loan. Although your monthly payments will be higher, you'll pay off your mortgage faster and save money on interest payments.

3. Restructure

While the mortgage interest rate is important, it's not the only thing to consider. Mortgage restructuring is the process of rearranging a home loan into a winning combination of fixed and maybe floating interest rates, setting the right term or terms for fixed portions of the loan, and ensuring appropriate loan repayment amounts are set to suit you.

4. Mortgage Offset or Revolving Credit Account

A mortgage offset account is a savings account linked to your mortgage that reduces the amount of interest you pay on your mortgage. Any money you deposit into your offset account is offset against your mortgage balance, reducing the amount of interest charged.

For example, if you have a mortgage balance of $500,000 and $50,000 in your offset account, you'll only pay interest on $450,000. This can save you thousands of dollars in interest payments over the life of your loan.

On the other hand, revolving credit is a line of credit that is secured against a property.

It operates like a large overdraft, where borrowers can access funds up to a certain limit at any time. As they repay the funds, the credit limit becomes available again. Interest is charged on the outstanding balance of the revolving credit facility, and borrowers can make repayments at any time.

The main difference between the two is a mortgage offset account uses savings to reduce the interest charged on a home loan, while revolving credit allows borrowers to access funds up to a certain limit at any time. A mortgage offset account is a savings account, while revolving credit is a credit facility.

Mortgage offset accounts or revolving credit facilities often have different names depending on the bank (or non-bank lender) so if you're going to take this option take your time to fully understand what you're establishing!

source: www.become.nz

Director's fees and GST

The GST treatment of directors and board members fees has now been finalised. The main points are as follows:

- Professional directors are not eligible to be registered for GST. However, if the director is providing the service as part of his/her other taxable activity (eg HR consulting) then the fees are subject to GST. For example, the professional accountant on the board of a client.
- If a director provides his/her services as an employee, he/she does not register for GST. However, if the employer provides the services of the director, it could be registered for GST if that directorship is part of the taxable activity the employer carries on.
- Partners in a partnership are in a similar situation. They do not register for GST but if the services are provided through the partnership and are connected with the partnership's taxable activity (eg accounting practice) the fees charged by the partnership will be subject to GST.

If a board member's services are contracted to the company by a third-party, the board member may or may not have GST on those fees depending on whether the directorship is in connection with another taxable activity. However the third-party, which charges for the board members services is required to account for GST, if GST registered.

Calm or Chaos

Make some better choices!

Do you ever have weeks where things seem to go from calm to chaotic? It can be overwhelming when it feels like chaos is taking over, you've lost control and then work dominates your week. It's stressful, consuming and often not much fun!

We have learned over the years that focusing on what we can control can make all the difference. It helps you feel more in control and empowered to influence outcomes.

When things don't go our way, expectations aren't met, we suffer disappointment or we get caught up in the external world of events; it's easy to get caught up in negative thoughts.

We start worrying about what could go wrong and it can be hard to see our own power in shaping our reality and our ability to be in control.

We drift into spaces and ideas that are negative and we have no power over them.

We start ruminating on all the things that aren't working in our life and worrying about all the bad things or things that could go wrong. We sink into the worry and start predicting what the future is going to be like. We imagine it, and then we start living it, which leaves us feeling scared and stressed.

So let's engage in a different way! Because what we have learnt over time is: if you keep doing what you've always done, you'll keep getting what you've always got!

So, for a moment, think about what YOU can control. Make that a priority over what you can't. We know it's easier said than done, but it's definitely worth trying.

We usually will ask ourselves a few questions:

- What is worrying me?
- What is within my control?
- What can I do about it?

We should write it down because there is such a better cognitive connection when we put pen to paper – it also downloads it out of our head and takes power away from the rumination!

When we focus on what we can control, it empowers us and triggers positive emotions. We're in the driver's seat of our lives and being intentional about our attitude and energy. This keeps us positive, energized, and motivated. So next time you feel like things aren't working out or the world is against you, say to yourself …."

Well, this situation sucks, but let's see what I can make out of it. What can I influence, what can I control".

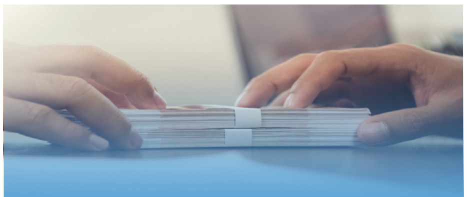
It's choosing to play with life to the best of your abilities. It's choosing to ride the waves of change, not crash head-on into it.

www.TheMentalFitnessCompany.com

New Staff: Kate Miller

Katie joined Brophy Knight in March. She graduated with a Diploma in Business in 2021, while working in local government. She is currently completing her Bachelor in Business, majoring in Accounting.

Outside of work Katie enjoys travel, attempting to renovate her home and spending time with friends and family.



Borrowing money for your company

Given a choice, it's safer for a company to borrow money than its shareholders.

Inland Revenue has argued, successfully, that interest paid on money borrowed by shareholders for their company is not a tax deductible cost for the company. This is because the company didn't borrow the money.

Many companies have been caught out by this and had the unpleasant surprise of discovering interest had not been a tax deductible cost for some years. Inland Revenue has disallowed the expense, increased the taxable income and collected extra tax, together with a hefty Use of Money Interest charge.

It's easy for an accountant not to notice the money has been borrowed by the wrong people.

So if your company needs to borrow money, make sure it's indeed the company that does the borrowing.

If you find a loan is in your name, you can still do something about it.

- Lend the money to the company and charge interest for the loan. The interest charged needs to be based on market and charging the same as the bank is charging is acceptable and the simplest. Unfortunately if the interest the company pays (excluding interest to banks) exceeds $5,000 in an income year RWT will have to be deducted and paid.
- An alternative is the money could have been borrowed as agent for the company.

In both cases the paperwork matters. Get professional help and get it right.

Flu vaccine vouchers and FBT

A non-cash benefit provided to an employee is usually subject to FBT. However, if it relates to health and safety it could be exempt under section CX 24 of the ITA 2007. Therefore, if you provide flu vaccine vouchers to your staff, these benefits are not subject to FBT.

Year end tax implications

There are a number of issues that need to be considered when preparing year end financial statements.

The timing and treatment of certain expense items can have tax implications, and in some cases the accounting treatments applied can result in tax efficiencies.

Typically accountants in conjunction with the business owners, need to consider the treatment of certain expenditure in particular whether it can be bought forward into the current period. The general rule is that business expenditure incurred.

PREPAID EXPENSES

Repairs and Maintenance

If carried out before year end, then the amount will be deductible in the current year. The total cost of a service contract is deductible if it has less than three months to run at balance date and costs less than $23,000 for a full year. If purchasing a fixed asset and there is a warranty or service contract, ensure the warranty or service contract is separately identified, as these are deductible.

Stationery

If re-stocking is about to occur in April or May, consider moving this forward to March. The total costs of stationery are deductible in the year these are paid. Travel and Accommodation.

Advance bookings for business related travel and hotel or motel accommodation are deductible provided it is not more than six months in advance and does not exceed $14,000.

Subscriptions

Newspapers, journals and periodicals are deductible without adding back unexpired amounts. Associated memberships are tax deductible provided they extend no more than 12 months after balance date and the subscription does not exceed $6,000 Insurance.

Insurance premiums are deductible provided they are not prepaid for more than 12 months and the total amount of such expenditure incurred in the income year in respect of the contract does not exceed $12,000.

Advertising

If advertising is paid prior to year-end and if the period of the advertising relates to no more than 6 months after balance date and the advanced portion is less than $14,000, then it is fully deductible in the current year.

Rent

Prepaid rent is deductible provided it is not prepaid for more than six months and the amount prepaid is less than $26,000.

Livestock

Prepaid expenses for the lease or bailment of livestock or bloodstock are deductible provided they are not prepaid for more than six months and the amount does not exceed $26,000.

Consumables

Consumables used in conjunction with but not forming part of the final product can be deducted in the year of purchase, provided total stocks at year end do not exceed $58,000.

Telephone

Payments for the use or maintenance of telephone and other communication equipment are deductible if not prepaid for more than two months.

Services

Prepaid costs for services, other than those mentioned above, of up to $14,000 and for no more than six months are deductible in the current year.

Motor vehicles

Motor vehicle registration and driver licence fees paid in advance are fully deductible in the current year.

Leave Provisions/Bonuses

Amounts owing at balance date for holiday pay and long service leave is only deductible if paid out within 63 days of year end. If you want to pay staff bonuses relating to the tax year, they must be paid within 63 days of the business's tax balance date to be claimable for that year.

Bad Debts

Bad debts are deductible only in the year that they are written off. Bad debts must be written off before balance date.

OTHER ITEMS TO CONSIDER AT BALANCE DATE:

Accounts Receivable

Every year we have clients who do not understand they must pay tax on all their earnings, including money not yet received. March invoices paid in April are part of year end income as are April Invoices for March work.

Stock and Work in Progress

You must count and value your trading stock at balance date, unless it is less than $10,000 and your sales are less than $1.3 million. Keep your stock sheets to show Inland Revenue if they ask for them. Dispose of obsolete stock now as it must be valued at its cost, unless you can prove it has a lower market price. A guess is not acceptable. You have to find evidence to support the price. This can be difficult. Work in progress must be valued unless your business is only providing services which cannot yet be billed.

Company Dividends

If you plan to pay a company dividend, you might be able to get a tax refund for a person whose income is less than $48,000, if the dividend is declared by 31st March. If a family trust owns shares, you might be able to allocate the dividend to a low-income member of the family. The law is complicated so check with us.

Overseas Income

If you receive overseas income and are a tax resident in New Zealand, you will be taxed in New Zealand on your worldwide income. There is a temporary tax exemption available for those residents who are 'transitional tax residents' for a four year period (please contact us for more details).

As the tax treatment of overseas income is quite specific it is important that you advise us of all the types and amounts of overseas income you have.

There are many issues to consider at year end. We strongly recommend you talk to your accountant/tax advisor before the year end to minimise negative consequences and avoid disappointments.

Kilometre rate

If you claim for the running costs of your motor vehicle on a kilometre rate basis, make a note to get an odometer reading on balance date. The rate is calculated based on the total number of kilometres travelled in the year and the proportion of them used for business. If the total number of kilometres exceeds 14,000 there is a two-step process for the calculation.

Vehicle logbook

If you need to keep a logbook you must do so for a consecutive three-month period at least once every three years.

Maintenance of equipment

Any maintenance you carry out before the end of your financial year is tax-deductible for that year. If you are planning maintenance in the short term, it might save you tax if you got on with it before the end of the financial year. Maintenance means bringing the asset back up to its original condition.

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chartered accountants and business advisers

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