

Year-end tax tips

With 31 March almost upon us, here is a last minute checklist of key items to consider:

Bad debt write-offs

Ensure that debtors are reviewed and bad debts written off where appropriate.

A bad debt can be deducted in the current income year only if:

- it has been written off as bad during the income year, or
- it has been remitted by operation of law (ie the debtor has been liquidated or made bankrupt), or the debtor has been released from making all remaining payments under an agreement of composition.

Declare a dividend now?

Look at drawings during the year, if Current Accounts are overdrawn it may be more tax-effective doing the paperwork for a dividend as well as or instead of declaring a Salary after the accounts are completed. For dividends to be included in the March financial statements, most companies have to pay the 5% DWT “catch-up tax” on the dividend to the IRD by 20th April.

Imputation credit account

Ensure the imputation credit account (ICA) balance is not in debit at 31 March.

Companies with a debit balance in the ICA at 31 March will have to pay further income tax and an imputation penalty of 10%.

Tax losses

If carrying forward losses, you should review any shareholder changes to ensure that the shareholder continuity test has not been breached (ie 49% continuity of ownership).

Loss offsets

An election to offset losses within group companies must be made by 31 March in the year following the year of offset.

Trading stock

A stock take should be carried out to ensure that any obsolete stock is physically disposed of — ensuring that the value of trading stock is minimised at year-end, and your stock system updated to show any write-offs.

The standard valuation methods for valuing closing stock are:

- cost
- discounted selling price
- replacement price, or
- market selling value.

Employee remuneration

To be deductible, payments to employees (other than shareholder-employees) must be incurred in the income year the deduction is claimed and paid within 63 days of balance date. Payments covered by the 63-day rule include bonuses, holiday pay and long-service leave.

The 63-day rule does not apply to redundancy payments.