Year End Tax Tips

This post is by Sheral Reddy, Associate Director at GECA Chartered Accountants. If you need help with Tax advice including end of financial year preparation, then Sheral and the GECA team can help.

The end of financial year deadline

As the end of the financial year approaches, it always pays to spend a little extra time examining your financial records and considering ways to increase your after-tax income.

There is a high chance that you will find a couple of extra savings from 2017-18, which can add up to reduce your tax bill by a significant amount. It is also a good time of year to reflect on your financial position, and think about tax minimisation strategies and goals for 2018-19. Here are a couple of our top tax tips for preparing for the end of financial year:

Write off bad debts

Businesses with outstanding amounts owed, no matter the size, that are unlikely to be recovered in full should consider writing these off as bad debts. Bad debts can be used as a tax deduction, effectively reducing your taxable income for the relevant year.

In order for a debt to be considered bad, you must have formally written the debt off in your accounts, and be able to prove to Inland Revenue that you have taken reasonable steps to recover the amount.

Pre-pay expenses

By pre-paying for tax deductible expenses before March 31, you will be able to minimise your tax bill. Some categories of business expenses can be pre-paid without any limitations, meaning that you can claim as much as you like. Examples include stationery, vehicle registration, accounting and auditing fees and postal charges. Most other expense categories have caps that limit the amount that can be claimed in a year.

Split business income

In some circumstances, it may be possible to minimise your tax liability by redistributing the flow of income from your business. For example, if your partner is a low income earner, it may be advisable for you to split the business income with them. It may also be possible for you to redirect some of your income towards your children.

However, if your family members are employed in your business as wage earners, you should be aware that Inland Revenue may elect to make tax adjustments if they consider the remuneration to be excessive.

Discount reserve

You are able to claim a deduction for a discount reserve, for example a discount for speedy payments, if your debtors are traditionally entitled to this discount. In the years following on from the first year that you are allowed you claim a discount reserve deduction, adjustments will be made to maintain the discount level at a consistent level.

Trading stock valuation

Trading stock must be valued using a cost valuation method, unless the market selling value is lower than the cost. Therefore, in order to lower the value of your stock before the end of financial year you should either physically dispose of it or sell it at market price (if market price is lower than cost).

Work In Progress (WIP)

It is recommended that on 31 March you assess all the jobs in progress. Make a list of these jobs and add up the costs associated with these jobs (exclusive of GST). The costs will include any stock items used and employee/contractor time on these jobs. These costs are treated as closing Work In Progress as at 31 March and are costs yet to be billed to the customers. These won't be deductible as an expense at the end of the financial year.

Fixed Asset Schedules

We suggest reviewing your fixed asset registers and assess whether any assets are no longer in use by the business, not working or stolen or disposed off during the year. By writing off these assets (only if they meet the write off criteria) a deduction will be allowed in respect to those assets.

Bonuses and holiday pay

It is possibly to claim amounts payable to your employees as a deduction for the current financial year, so long as the full amount is paid to the employee within 63 days of the balance date. Amounts that are paid more than 63 days from the balance date can only be claimed in the following financial year.

Got a tricky tax problem, call us now on 0800 758 766 to see what we can do to assist. Alternatively, you can find other ways to contact us here.