

MONEY MATTERS

by Shane Storey



CRACKING DOWN ON THE HIDDEN CASH ECONOMY

In the 2012 Budget, IRD was given an extra \$120 million a year to crack down on the 'hidden cash economy'; that means cash jobs, or undeclared income, which is estimated at \$7 billion per year.

The IRD have always been interested in finding businesses that take a lot of cash jobs. But this increased funding signals a lot more attention will be paid to tracking down 'tax cheats'.

The trades are an expected target area, as an industry where under-the-table cash jobs are considered to be a widespread practice.

Taking a job and not putting the income through your books can be an expensive choice – an IRD investigation is a hassle at the best of times. If your books are straight, it can be handled relatively easily. But if you've undeclared income showing up, it gets messy, and may lead to prosecution.

IRD's key mechanism for identifying this kind of tax avoidance is industry benchmarks. These are figures expected to be standard for a typical business in each industry classification – financial ratios such as gross profit compared to sales, or wages divided by sales and other income. These are calculated separately for small, medium and large businesses.

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IRD builds these benchmarks every year from the previous year's tax returns. They've also worked with Statistics New Zealand to create industry benchmarks published on the IRD website in April 2012: www.ird.govt.nz/industry-benchmarks. The 16 currently listed include electrical services, landscape construction services, and painting and decorating services. Following this pilot IRD will review whether it lists more – the likely next release date is November.

It's worth having a handle on these benchmarks. If your business performs under these benchmarks you may be investigated by the IRD. At the same time, you can use them to strengthen your own business practice.

You can talk to your accountant to carry out the analysis. Most accountancy firms have their own industry benchmark data, purchased from research firms.

There are some legitimate reasons for reporting under a benchmark:

- Your competitors may be sourcing products at a lower cost than you
- You have high wastage

- Insufficient markup
- You may be starting up
- You have incorrectly recorded expenses
- You have not recorded all your sales (cash transactions)

The benchmarks provide an opportunity to compare your business to your competitors' in a number of areas. You can identify weaknesses and make positive changes to increase your profits. This might involve:

- Development of a new markup strategy
 - Reviewing internal processes to eliminate wastage
 - Correcting your recordkeeping process
- This is a critical aspect of any business. Correct recordkeeping will ensure that correct figures are reported to the IRD and in the event of being investigated by the IRD, they will easily see that all transactions are accounted for.

An accountant can calculate your ratios for you as part of completing your year-end accounts, show you the areas that you are not performing in and assist with your business strategies and recordkeeping.

GOT A MONEY QUESTION?

Email it to: tradeleader@carters.co.nz

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