Money

Auditing is the process of independently reviewing and checking that the year-end financial statements reflect a true and fair view of the financial activities of the year. If accounts are audited accounts, this means that the financial records have been checked by a chartered accountant as being a true and correct record of the financial operations and position of your organisation.

Anyone can audit your accounts, but if you want an Auditor's Declaration signed then that person must be registered with the Institute of Chartered Accountants. The Institute will be able to help you find an auditor.

The auditor will need to review:

- the cash and petty-cash books
- bank statements
- suppliers invoices (in order as paid)
- cheque butts
- receipts
- bank pay-in books
- amounts owed to the organisation (e.g. outstanding user fees)
- lists of amounts owing
- list of any equipment purchased and when
- the previous year's accounts and audit file.

Statutory audit and review requirements

If a charity's total operating expenditure for each of the previous two accounting periods was:

- **over $500,000** (medium) – financial statements **must be either audited or reviewed** by a

qualified auditor

- **over $1 million** (large) – financial statements **must be audited** by a qualified auditor

Registered Charities with total operating expenditure of less than $500,000 are not required by law to have an audit or review. However, they may be required by their rules (e.g. trust deed, constitution, or charter) or as a condition of receiving a grant to have their financial statements audited or reviewed.

Both an audit and a review require financial statements to be prepared in full compliance with Generally Accepted Accounting Principles (GAAP). For Registered Charities, compliance with the financial standards issued by the External Reporting Board (XRB) is considered compliance with GAAP. For those charities using the Tier 3 reporting standards, their non-financial information will be included in an audit or review. Click here to find out more.

Reporting to Charities Services

If your community organisation is a registered charity you must complete annual reports to Charities Services. The Charities Act 2005 requires all charities registered with Charities Services to file an Annual Return within 6 months of their balance date (financial year end).

Charities Services have four tiers of reporting to allow each charity to prepare financial statements based on their situation. This involves three steps:

1. Preparing a Performance Report (Tiers 3 and 4) or Financial Statements (Tiers 1 and 2) that comply with the reporting standards
2. Completing an Annual Return form (it's easier and cheaper to do this online, by logging into your charity's dashboard)
3. Submitting the Performance Report/Financial Statements AND Annual Return form to us, and paying the Annual Return fee (if your charity's gross income is $10,000 or more)

Which tier to use?

Your community organisation should make a decision about which tier you report under, or by default you will have to report under Tier 1 which has the highest reporting standards. Your reporting tier is determined by your annual expenses or operating payments over the previous two financial years. Whether you have public accountability is also considered. A charity may have public accountability if they hold cash or assets on behalf of others as one of their main activities. Having public accountability means you have to report under Tier 1. For a full list and

more information, visit the Charities Services website.

Tier 1

- full standards
- more than $30 million annual expenses
- or has public accountability

Tier 2

- reduced disclosure regime
- ess than $30 million annual expenses
- without public accountability

Tier 3

- Simple Format Report – accrual
- less than $2 million annual expenses
- without public accountability

Tier 4

- Simple Format Report – cash
- less than $125,000 annual operating payments
- without public accountability

Financial reporting

Financial reporting needs to outline what a charity does, the resources used in doing this, and how well positioned the charity is to continue doing this. Tier 1 and tier 2 charities must provide financial statements, including profits and loss and a balance sheet that lists all assets and liabilities. Tier 3 and tier 4 charities must provide a performance report which includes non-financial information. This can include information about your mission statement and strategic purpose alongside financial information. A performance report may be similar to your annual report.

Control relationships with other legal entities

If your community venue has governance power over another legal entity and receives benefit from this entity they may have a "control relationship". An example of a control relationship is where a charity establishes an incorporated society to run a second hand shop on their behalf, with profits returning to the charity.

Whether there is a control relationship is dependent on a context based assessment that takes into account the power relationship between the two entities and the benefits each receives from the other.

If a tier 1, tier 2 or tier 3 registered charity has control relationships with other organisations, these organisations are considered part of the charity's 'reporting entity'. They will need to include consolidated financial statements in their reporting. These statements combine information about a charity and the organisation it controls.

Tier 4 registered charities do not need to prepare consolidated financial statements and control relationships will not affect their reporting tier. A tier 4 charity needs to describe its structure in the performance report, including the nature of any control relationships it has.

Charities Services has further information on their website and can be contacted to answer questions about the new reporting standards.

Types of taxes

There are three types of taxes that are paid to the IRD: PAYE, Tax on schedular payments and GST. ACC levies are also collected by the IRD on behalf of the Accident Compensation Corporation. The IRD also collects both the employee and the resultant employer contributions to the Kiwisaver Scheme.

PAYE – 'pay as you earn'

There is no requirement that your organisation use an automated payroll system; however you may find that programmes such as ACE, MYOB, Datacom etc may make the task a lot easier and less time consuming. Thankyou payroll offers a free payroll option that could be well suited to community venues.

The employer collects PAYE on behalf of IRD by deducting this tax from employee salaries or

wages. The PAYE calculator at www.ird.govt.nz calculates how much to deduct from each employee's salary or wages. The employer will need to know the employee's tax code in order to calculate this. The employer then sends the payment to IRD by the 20th of each month.

The employer must keep full and accurate records of all salaries and wages paid and the amounts deducted as PAYE (wages book or computer records) for at least seven years.

ACC and any student loan or child support deductions are paid with PAYE and any deductions should be listed on the employee's payslip.

There is no legal requirement (unless stated in the employment contract) for an employer to provide a PAYE staff member with a payslip. However the information that would be contained in a payslip must be recorded in the employer's wage and time records. It is a good idea to provide payslips as this stops confusion occurring and avoids creating extra paperwork in future.

A payslip should include:

- total hours worked in that period
- total gross income from that period
- total net income deposited into the employee's bank account
- any deductions made from the gross income, such as PAYE tax, student loan repayments, Kiwisaver etc
- the amount of sick leave and holiday pay remaining

Tax on schedular payments

Schedular payments are payments made to contractors. Subject to some exemptions, employers must deduct tax on schedular payments from contractors performing activities outlined in Schedule 4 of the Income Tax Act 2007. There are a range of activities that are liable for tax on schedular payments. The tax rate differs according to the activity. For more information on rates, refer to Schedule 4 of the Income Tax Act 2007. Tax on scheduler deductions is included with PAYE deductions on the form sent to the IRD.

GST – Goods and services tax

GST is a tax on most goods and services in New Zealand (including imported goods). You must

register for GST if your income (sales, service provided) exceeded $60,000 for the last 12 months, or is expected to go over $60,000 in the next 12 months. If you are required to register for GST, you must apply within 21 days of becoming liable. Interest, sales of donated goods sold by a non-profit body, donations (no reciprocal benefit), and financial services are exempt.

The current rate of GST is 15%. If registered, you charge 15% GST on all taxable (not exempt) sales and income. You can claim GST for purchases and expenses for which you hold a valid tax invoice.

GST returns are due to be filed on the 28th of the month following the end of your GST period. Subject to certain eligibility requirements, you may apply for a monthly, two-monthly or a six-monthly filing period.

ACC – Accident Compensation Corporation

Every employee is required to make payments towards ACC to cover the cost of work and non-work related injuries. These payments are deducted from an employee's wages by their employer.

Kiwisaver

Employers must automatically enrol all new employees who are eligible to join Kiwisaver. Employers contribute to 3% of the employee's pay. Employers must give the Kiwisaver employee information pack to all new employees who qualify for automatic enrolment and to all existing employees who wish to opt into Kiwisaver. Employers must make employer contributions as required and claim the eligible employer tax credit. Both the employee and employer Kiwisaver contributions are paid to IRD at the same time and on the same form as PAYE.

Tax obligations and exemptions

Note: Tax is a complex area that changes frequently. You should get advice from a tax specialist about your organisation's specific tax obligations.

Tax obligations for different types of organisations

This section explains the tax obligations that apply to different types of organisations, if they aren't exempted (for information about exemptions, see "Tax exemptions available to

community organisations” below).

Incorporated societies and charitable trust boards

Incorporated societies and charitable trust boards are liable for tax on all income unless they come within a specific exemption (see “Tax exemptions available to community organisations” below).

The tax rate that generally applies to these organisations is 28 percent.

Companies

Income Tax Act 2007, ss CD15

A company is taxed at 28 percent on all taxable income, unless it comes within a specific exemption (see “Tax exemptions available to community organisations” below).

A number of complex rules apply to the taxation of companies. The “dividend imputation” regime allows New Zealand companies to attach tax credits to dividends paid to shareholders. This prevents company profits being taxed twice, at both the company and shareholder levels.

Companies can also take advantage of rules that allow them to group and carry forward losses. For these rules to apply, the company must meet certain requirements about shareholder continuity. (For more information, consult a tax adviser.)

Trusts

Income Tax Act 2007, ss HC5-7

The income of a trust that is not tax-exempt as a charity is separated into two parts for tax purposes: beneficiary income and trustee income. The tax on these two parts is then worked out separately, to arrive at the total tax payable on the trust’s income.

“Beneficiary income” is all income derived by a trustee of the trust during any income year that either:

- vests absolutely in the beneficiaries during that income year, or
- is paid or applied for the benefit of the beneficiaries within six months after the end of that income year.

“Trustee income” is all income the trust earns in its income year that:

- doesn’t vest absolutely in the beneficiaries during that income year, or
- is not paid or applied for the benefit of the beneficiaries within six months after the end of that income year.

Trustee income is taxed at 33 per cent. Beneficiaries (if they’re not resident in New Zealand) pay tax on beneficiary income at their personal tax rate.

These general rules only apply to “qualifying trusts” – that is, where all trustee income derived by the trustee has been subject to New Zealand income tax and the trustees have satisfied their New Zealand tax obligations. Most New Zealand trusts are qualifying trusts. The rules for non-qualifying trusts are less advantageous.

Tax exemptions available to community organisations

Income tax exemptions for charitable organisations

Income Tax Act 2007, ss CW41, CW42

Depending on the nature and scope of a charitable organisation, the following exemptions may be available to it if the Inland Revenue Department (IRD) grants it tax-exempt status:

- an exemption for non-business income derived by an organisation established exclusively for charitable purposes or by the trustees of a charitable trust
- an exemption for income from businesses carried on in New Zealand by an organisation established exclusively for charitable purposes or by the trustees of a charitable trust.

Income tax exemptions for non-charitable, non-profit organisations

Income Tax Act 2007, s DV8

If a non-charitable organisation does not carry on business for the profit of any member and its rules prohibit it from making distributions to members, a deduction of up to $1,000 a year may be available.

Amateur sports exemption

Income Tax Act 2007, s CW46

Your group's income will be tax-exempt if its main purpose is promoting an amateur game or sport for the recreation or entertainment of the general public, and if none of the group's funds are used for the private profit of any member of the group.

Applying for tax exemptions

Tax exemptions aren't automatic. You'll need to apply to Inland Revenue in writing (unless you have charitable status, in which case Charities Services at the Department of Internal Affairs will automatically notify IRD), and you'll need to include with your application a copy of the certificate of incorporation or trust deed (where appropriate) and a copy of the group's rules and constitution.

Other tax obligations not affected

The exemptions for charitable and other non-profit organisations described above apply only to income tax. Your organisation may still be liable for other taxes, such as PAYE, goods and services tax (GST), fringe benefit tax (FBT), and a tax on net assets for deregistered charities (see "Your tax obligations as an employer" below).

Your tax obligations as an employer

Employment

Organisations that employ staff must register with Inland Revenue as an employer, and must establish whether their staff are employees or independent contractors, as these two categories are treated differently for tax purposes (see "Your people: Volunteers, employees and contractors" below).

Employers must make the following deductions from payments made to employees (but not independent contractors):

- PAYE
- ACC earners levy (included as part of PAYE)
- fringe benefit tax (FBT).

Employers may also be required to deduct:

- student loan repayments
- child support payments
- KiwiSaver contributions.

Organisations employing independent contractors may need to deduct “scheduler payments” (previously called “withholding payments”), but this will depend on the contractor’s particular status. Employers aren’t required to deduct ACC levies, KiwiSaver or student loan repayments from payments made to contractors.

Employees can also ask their employer to make donations to charitable organisations directly from their pay. Called “payroll giving”, this scheme allows the employer to deduct the amount of the donation from the employee’s wage or salary, and to calculate the tax credit for the donation and deduct this from the employee’s PAYE. However, employers don’t have to offer this service to employees. Further, this scheme is only available to employers who file their monthly schedules (IR348s) and employer deductions (IR345s) electronically. (For more information visit: www.ird.govt.nz)

Fringe benefit tax (FBT)

Income Tax Act 2007, s CX25

Charitable organisations are exempt from paying FBT on any benefits provided to employees while they’re carrying out the organisation’s charitable activities. (See Inland Revenue’s booklet “Fringe Benefit Tax Guide” (IR409), available at www.ird.govt.nz)

Other tax issues

“Donee” status

Income Tax Act 2007, ss DB41, LD1-8

If IRD considers an organisation to be a “donee organisation” for tax purposes, then individuals and public companies who donate money to the organisation qualify for a tax credit.

To be a donee organisation, your organisation’s funds must be applied wholly or mainly to charitable, benevolent, philanthropic or cultural purposes within New Zealand (there are some exceptions to this). This means the organisation’s aims or purposes should be carried out in New Zealand, even if this results in paying money overseas to achieve these purposes.

Organisations don’t have to be registered on the Charities Register to get donee status.

Goods and services tax (GST)

Goods and Services Tax Act 1985, s 51

Any organisation carrying out a “taxable activity” with an actual or likely turnover of more than $60,000 in any 12-month period must register with Inland Revenue for GST. Any organisation conducting taxable activities may register voluntarily. (See IRD’s “GST Guide” (IR375), available at www.ird.govt.nz)

Gaming machine duty

Income Tax Act 2007, s CW48

This is a levy on profits that an organisation makes from its gaming machines. A duty of 20 percent on gaming machine profits must be paid each month to IRD.

Income from gaming machines is exempt from income tax if the organisation is licensed under the Gambling Act 2003 and complies with the requirements for applying and distributing gaming proceeds.

Honorariums and reimbursements for volunteers

Income Tax Act 2007, s CW62B

Community organisations frequently make two types of payments to their volunteers, and these are treated differently for tax purposes:

- Honorariums paid to volunteers are treated as “schedular payments” (payments made to a person who is not an employee) and are taxed at 33 percent.
- Reimbursement payments made to volunteers for expenses incurred in the course of their work are treated as tax-exempt income, provided they’re based on either actual expenditure or a reasonable estimate of the likely cost of the expense.

If a payment is part reimbursement and part honorarium, only the part that is honorarium will be taxed. However, if the two parts can’t be clearly identified, the whole payment will be treated as an honorarium and will therefore be taxed.

Honorariums paid to members of school Boards of Trustees for attending board meetings are treated as a reimbursement of expenditure for tax purposes.

KiwiSaver

KiwiSaver Act 2006

KiwiSaver is a voluntary long-term saving initiative, set up by government through private scheme providers. KiwiSaver is open to anyone who normally lives in New Zealand, is a New Zealand citizen (or entitled to stay here indefinitely) and is under 65 years old.

Through PAYE and existing payroll systems, employers are required to:

- automatically enrol all new eligible employees (who have the right to opt out)
- deduct KiwiSaver contributions from gross salary or wages for those who join the scheme, at the rate (3%, 4% or 8%) set by the employee
- make employer contributions at 3% of the gross salary or wage.

For more information, visit IRD's Kiwisaver website.

Audited accounts

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Grants

When does an organisation have to pay tax on grants?

An organisation will have to pay income tax if:

- it has received a grant or subsidy based on 'income received, income foregone or an income deficiency'
- the payment was made towards expenses incurred in an earning gross income (except

government grants)
- surplus from a grant or subsidy become part of the organisation’s general funds

An organisation is not liable for income tax if:

- a grant or subsidy was paid to offset any capital expenses that don’t produce an income
- payment was made to offset the cost of a capital asset or to reinstate an asset
- claims for depreciation must be based on the cost of the asset, less the amount of the grant or subsidy