April 2012 Newsletter

This Issue

A New Financial Year – Don't let the impending audit get you down;
Kiwisaver Update - Employers need to get ready;
Accounting in the Cloud—Make sure you understand the risks of cloud computing.

Coming Up

Kiwisaver Workshop—90 minutes or so, if there is enough interest. email: cca.coordinator@gmail.com.

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A new financial year (for some)

31 March marks the end of the financial year for a lot of non-profits, and the beginning of a headache for many. It's audit season again, where non-profits are scrambling to get their accounts verified without paying an arm and a leg for that.

Most of the time is spent on creating the Financial Statements in the first place, however, and often accountants are asked to 'audit' an organisation's finances without being given any Statements. It also puts them in a bit of a tight spot: since an audit is essentially about verifying the Financial Statements, you'd be auditing your own work if you have to create them yourself.

Creating your Financial Statements (like any financial information) is about understanding the basics of accounting, which is not rocket science. Accounting software like MYOB, Xero, Quickbooks or others can create these statements for you, as can a good spreadsheet, but it all depends on whether the information was entered correctly over the year. Chances are that if the Statements are not correct, your reports to your governing body through the year would also have been out.

This is where we can help. We will actually sit down with you and help work out what information exactly you want to get out of your system, and talk you through the challenges you may have. We are also planning to put on some workshops about accounting for non-profits, to help both staff and committee members understand the information they're looking at.

We're looking forward to being able to work with more groups over the next year. This is very rewarding work for us and, from the feeback so far, non-profits are getting a lot out of it as well.

Harald

Kiwisaver Update

In the last newsletter we wrote that the compulsory Kiwisaver contribution for employers increases to 3% as of 1st of April 2012. **This is incorrect**: the increase does not happen before April **2013**. Our sincere apologies.

The **taxation** of the employers' contribution of Kiwisaver comes into force this year, however, and we are a little concerned that non-profits (and small businesses as well) are not sufficiently informed about the changes and will be confused in May when it is time to do the first PAYE return under the new regime.

The forms (IR345 and IR348) will actually still look the same, and we suspect that many organisations will simply continue to put the gross Kiwisaver Employer Contribution amount into the respective fields, without making the tax deduction. *This will result in a tax bill for the **employee** at the end of the year* – something they won't thank you for. IRD may also decide to impose penalties on organisations that continue to fail deducting this tax.

What employers need to do NOW: Find out your employee's marginal tax rate (=ESCT rate) according to the table below (from the IRD web site):

Total Earnings per Year from all wages and salaries from all jobs	Tax rate (ESCT)
$0 - $16,800	0.105 (10.5%)
$16,801 - $57,600	0.175 (17.5%)
$57,601 - $84,000	0.300 (30%)
$84,001 and above	0.330 (33%)

The PAYE deduction forms (IR 345 and IR 348) ask for the **net** employer contribution and the tax amount.

Example:

Sarah's employer contributes 2% of her salary to Kiwisaver, which works out at $30 per pay. Sarah has told her boss that she works another job, and her total earnings are $39,000.

Her ESCT rate therefore is 17.5%, and her ESCT amount is $30 x 17.5% = $5.25 per pay.

The net employer's contribution is $30 - $5.25 = $ 24.75.

The employer enters **$24.75** in **field 7** of the Employer Monthly Schedule (IR 348).

The employer enters **$24.75** in **field 7** of the Employer Deductions form (IR 345) and **$5.25** in **field 8** (ESCT). **The $30 figure is not entered anywhere!**

Let us know if you think you need help with this, if there is interest we will put on a short workshop.

Accounting in the Cloud

Cloud computing has really taken off amongst non-profits, especially the smaller ones, as it is a convenient way to share documents by simply using an internet service. Some accounting software providers are exclusively internet-based and others usually have at least a Cloud option.

There's some things to consider, though, before you move all your computing into the Cloud. 'Cloud' computing simply means that your data is stored on a computer other than your own that you connect to via the internet. Your data is much safer there from computer failure as they would have much more robust backup systems than you could ever come up with. But there are other risks that you do not have when using your own computer.

The two biggest ones are internet failure and corporate failure. The internet does not have limitless capacity, and there are bottlenecks. For example, all of New Zealand's international internet traffic is routed through two cable systems, the main one of which (Pacific cable) has only one local access point (Auckland). As more and more services are offered via internet, more and more people are experiencing problems with down- and upload speeds. Some experts have also pointed out that the internet is very vulnerable to sabotage.

Corporate failure is a further risk. The Dotcom saga has shown that one way to lose access to your data is if the authorities decide to investigate the business you are storing them with and shut down their servers. Companies can fail for a variety of reasons – and it is your data that gets switched off if your host can no longer pay their electricity bill.

Another big disadvantage of Cloud computing is that you have no control over software upgrades. This may especially become an issue where you employ several staff, not all of which are very tech-savvy and who might be struggling with any such changes. Check the terms and conditions, too. Most host companies exclude any liability for any data loss or economic damage you suffer as a result of anything that is happening at their end, such as corporate failure, natural disasters, hackers or terrorist attacks. If hosted overseas, the laws of the country the server is running in apply, not New Zealand law. If it's a free service, any terms and conditions may not even be a legal contract and therefore not binding.

It pays to have a think about how important permanent access to your data is for your organisation and weigh up the risks and benefits of Cloud computing. Ask yourself: how would it affect your organisation to lose access to the internet or your data for a week, four weeks, permanently? The more dependent on your data you are, the more you will need at least a local backup solution that can be restored onto a local computer.