January 2013 Newsletter

This Issue

New Year, New Look – CCA in 2013.
New Accounting Standards – Important to make a submission.
Taxing Presenters - IRD clarifies Withholding Tax for us.

Coming Up

19 February: CCA Workshop: Financial Statements – what do they mean? 9.30-11am.

5 March: CCA Workshop: Using CCA Spreadsheets for Your Organisation. 9.30-10.30 am.

19 March: CCA Workshop: Accounting for Grants and Government Contracts. 9.30-11.30 am.

More info here. To register click here.

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New Year, New Look

The quieter time after New Year gave me a chance to work on the long overdue overhaul of the web site. While I also added some new content, the main purpose was easier navigability, searchability and, if possible, allowing online registration for our events (which is, indeed, now possible). Considering that it cost nothing other than my time I am fairly pleased with the result…

The new content consists mainly of the new version of our accounting spreadsheets and some more detail on some of our services. I have also added links to some parts of the IRD web site we are often asked about.

Our plans for this year received a bit of a dampener when our main funding support came in very much lower than expected. This means that fee increases are on the cards. The actual amounts are being finalised at the moment, but they won't cause any pain.

We are especially encouraging larger organisations (more than $200,000 income per year) to use our accounting services not just for the audit. Even our unsubsidised rates are well below market rates and still help us to keep services for small non-profits free, or at very minimal cost.

As you know we are not Chartered Accountants (CA), but both Teresa and I are hoping to become Associate Certified Professional Accountants (CPA) this year. CPA is a more internationally recognised qualification out of Australia, and fully recognised as an equivalent to CA in New Zealand. While this has little bearing on our work, it does give us more clout when representing the not-for-profit sector in the business-oriented accounting world.

Happy Accounting in 2013!

Harald

More on Regulation for Non-Profit Financial Reporting

We have reported on the proposed new accounting standards for Public Benefit Entities (PBEs), which now include non-profits, in a couple of previous newsletters. The issue is somewhat confused by the fact that there is also another, unrelated proposal to tighten audit standards for non-profits. The former is brought forward by the External Review Board (XRB), our local accounting standards body, the latter by the Ministry of Business and Innovation (formerly Ministry of Economic Development).

To recap: the new accounting standards, expecting to come into force for reporting periods starting on or after 1 July 2014, require *all* non-profits, regardless of size, to produce Financial Statements. For organisations with expenditure of more than $40,000 these will have to be on an accrual basis. Both will have to meet certain standards that before only applied to organisations with income of over $2m, and as a result many more organisations will need professional accounting services to meet those standards which they did not need before.

The XRB has developed templates to make such reporting easier, and these are up for comment at the moment. There is a proposed Tier 4, which encompasses all organisations with expenses of under $40,000, and a Tier 3, which goes between $40,000 and $2m. (There are no significant changes for Tiers 1 and 2).

We encourage you to make submissions (which close 28 March 2013). The new standards and templates can be found here. The guidance notes contain questions for submissions, but they are a particularly hard read. Nevertheless, we think it is really important that as many non-profits as possible look at the templates and comment on them.

They contain some embarrassing mistakes, such as asking for ‘owners contributions’ in equity, when not-for-profits do not have ‘owners’ and any contributions would be considered donations, therefore income; or asking about *accrual* accounting items (Payables and Receivables) in the *cash* accounting template. But there are a couple of other concerns that really need to be addressed:

For Tier 3 organisations, the standards now require a Statement of Cash Flows. Very few, if any, smaller not-for-profits would have produced one of those in the past, and such extra requirements have not been made clear in previous consultation rounds. There is very little use for a Cash Flow Statement in the not-for-profit sector, as income can vary so widely from year to year depending on fundraising efforts. The statement has relevance in the business world where cash has to be generated either from sales or from loans, but non-profits have access to donations/grants and unpaid labour (volunteers) and can generate cash without expenditure. This makes any analysis of a non-profit’s financial stability on the basis of a Cash Flow statement meaningless. Figures about what cash the organisation has at its disposal are also disclosed in the Balance Sheet, so this Statement simply adds unnecessary compliance effort and, probably, costs.

Our other concerns are with the templates as such, which are not compulsory. It will be difficult to satisfy some funders' requirements with these templates. Even though individual grants can be listed in the Notes, it is difficult to fit the kind of reporting most non-profits do on grants (i.e. disclosing unspent amounts and recognizing these as liabilities) into the template.

The templates also have a mandatory service performance statement, even though this statement is *optional* in the standards (except for the more unusual cases where an organisation is required by law to have one). We believe this is unlikely to generate any useful information in this place. Organisations that receive public funding already report on their services in a number of places which are publicly accessible. Many, such as sports or hobby clubs, are not really interested in producing 'outputs' or 'outcomes' at all. There are better alternatives, such as encouraging organisations to attach their Annual Report or Chairpersons Report to the template.

We are also unsure why the templates ask for reporting on budgets (even though this is optional). This mixes up management accounting (projections, analysis, internal reporting) with financial accounting (external reporting) and has the potential to tempt organisations into drawing up bogus budgets that make them look good.

We think the XRB genuinely wants to help here, but we believe the templates should focus on the minimum that is required.

Presenters: When to Deduct Tax.

At a recent meeting with a community relationships advisor from IRD we popped the question: when do and when don't you deduct Withholding Tax from payments to other people?

The answer, in a nutshell, was: sometimes you do and sometimes you don't. We'll make the call on a case-to-case basis, depending on what we had for breakfast that day…

In earnest: it all depends on the person you are paying and what the payment is for, but not so much on the amount. Here's the rundown on our understanding of it:

- Presenters (even of the dry stuff) are 'entertainers' for Withholding Tax purposes. Anyone you pay to give a talk, run a workshop or similar is potentially liable for Withholding Tax. The onus is on the organiser to deduct this: this means that if you have paid someone without deducting the tax, IRD audits the taxes of the recipient and find they haven't declared this income, they will come back to ***you*** and ask for the Withholding Tax ***on top of*** what you already paid them!
- If the payment is intended as compensation for expenditure incurred then, as long as it is reasonable, no Withholding Tax applies. This would apply, for example, if you gave a small 'Koha' to a presenter you invited to a meeting or workshop, BUT
- If giving presentations is a significant income source for the presenter overall, then Withholding Tax has to be applied regardless of how small the amount is and what your intentions for the payment are. The presenter can claim his expenses in his tax return.
- If the presenter is part of a business then no Withholding Tax applies if payment is made to the business (rather than the presenter as a person).

The rate of Withholding Tax for these kinds of engagement is **20%** (or 35% if no tax code was declared by the recipient) and it is returned **through your PAYE** return.

If you are in the habit of giving Koha to presenters, our advice is to classify this as reimbursement for the presenter's expenses in your accounts (as long as it is a reasonable amount).