



crunch

20 TOP TAX TIPS FOR
**REAL ESTATE
AGENTS**

(COMMISSION ONLY)

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Real Estate Agents

20 Top Tax Tips

1. Starting in business ...

Often clients own assets that they are going to use in their new business before they actually start out in business. These can be "sold" to the business. The "sale price" is the lower of what it cost or what it is worth now. To find out what it is worth now, the newspaper or second hand dealers can be used to get an idea of price. Often people buy assets in anticipation of starting business and as long as the time between the purchase date and start of business is "reasonable" (six months would seem to be a good indication) then this is fine. If the asset is a vehicle, you must have an independent valuation from a registered motor vehicle dealer.

2. GST Thresholds

You only need to register for GST if your annual turnover is more than \$60,000; however you can voluntarily register if you are under this amount, there are some advantages in doing this as you can claim GST on your business expenses (as long as you have a GST invoice). Generally the real estate agency you are associated with will prefer that you be GST registered.

3. Tax invoices – they are important!

If you are ever lucky enough to get a GST audit, one of the first things that will be looked at by the IRD are your tax invoices. You are required to have a tax invoice for purchases over \$50. Sometimes you may think what you have is a tax invoice, but they do not always have the correct detail on them that makes them a tax invoice.

For example: Sometimes the little chits you receive at the petrol station are not always tax invoices. They may have some of the detail required on them but you need to make sure that it is clear that the purchase was for fuel. They need to include the words "tax invoice" and the suppliers GST number as well as the other information required.

For tax invoices for more than \$1,000, they must show the name and address of the buyer, name and GST registration number of the seller, the words "tax invoice" in a prominent place, the quantity and description of goods or services supplied, the amount charged plus GST, or the statement that GST is included.

4. Claiming expenses for an income tax deduction ...

Income tax rules do differ slightly to the GST rules. It is not a requirement to produce a tax invoice to comply with the Income tax law. All you need to be able to show is that the money was spent for the business and that it was a proper business cost. The expense must "belong" to the business. However it may be difficult to prove that the expense does belong to the business if you do not have an invoice! We recommend that you keep them. Note that you need to keep all business records for 7 years.

5. The onus is on you the taxpayer ...

If it comes to a punch up with the IRD the onus is on you to prove that your way of thinking is right! Here are some hints that might help should that situation arise:

- Keep good documentation. e.g. If you travel overseas keep a travel diary, record peoples contact details. This way you can defend your business claim on the trip if ever called upon by the IRD. Note that it is a good idea to keep business cards from your overseas contacts.
- Take care of the details. e.g. If you sell your vehicle to your own company, actually sell it. Your accountant can help with this process and ensure that it is done properly.
- Any transactions that help reduce your tax need to be commercially realistic. Eg. If you pay your husband or wife a director's fee you need to be able to justify the amount. Once again your accountant will be able to show you what would be considered reasonable.

6. Do not always rely on what the IRD tells you ...

Scary but true! The IRD can be reluctant to take on responsibility for any of the mistakes they may have made in the advice they may have given a taxpayer. The onus is on you as a taxpayer to find the right answers and seek expert advice (from your accountant!) when you think you may need it. The IRD are not considered as being providers of "professional advice" so you do need to be careful on what information you choose to rely on.

A good example of this is what can be the fine line between personal and business expenditure. The IRD have a big staff and not all of them will be properly trained to answer questions like this. A much better option is to contact your accountant and check.

7. Withholding Tax (now called Schedular Payments)

Schedular payments are those payments that were formerly known as withholding tax payments. For all commission based salespeople withholding tax will be deducted; currently that rate is 20%. If you are having a year in which your income is up and want to avoid paying provisional tax you can increase this rate to 33% or 39%.

8. Gifts to clients

Giving gifts to clients is common practice in the real estate industry; but to ensure a 100% claim gifts of flowers and book vouchers are preferable to gifts of wine and meal vouchers (only 50% claim – as these are “entertainment” type gifts).

Refer to the table below to give you an idea of what is 100% deductible.

Client Gift	50% Deductible	100% Deductible
Bottle of wine or six pack of beer	✓	
Meal voucher	✓	
Basket of gourmet food	✓	
Box of chocolates/biscuits	✓	
Christmas ham	✓	
Calendar		✓
Book or gift voucher		✓
Tickets to a rugby game		✓
Movie tickets		✓
Other presents (not food or drink)		✓

9. Entertainment expenses

This area is actually quite involved, in fact the IRD have produced a lovely 19 page booklet (IR268) if you really want some bed time reading, if not here are the highlights: See table on right.

Entertainment Expenses Table	50% Deductible	100% Deductible
Friday night drinks for staff or clients in the office or at the building site	✓	
Friday night drinks for staff or clients at the pub	✓	
Restaurants providing food and drinks to staff at a social function in their own restaurant	✓	
Sponsoring local sports teams and receiving tickets to their corporate box in return. 50% of the value of the tickets would be deducted from the total sponsorship amount	✓	
Sponsoring a sports team by providing a meal for the team at their grounds after each game	✓	
Staff Christmas party on or off the business premises	✓	
Taking a client out to dinner while you are out of town on business in New Zealand	✓	
Taking a client out to dinner	✓	
Donating food to a Christmas party in a children’s hospital		✓
Providing a meal for a journalist while reviewing your business for their column		✓
Providing morning and afternoon tea for your staff		✓
Taking a client out to dinner while you are out of town on business outside New Zealand		✓

10. Motor Vehicles

If you are a **sole trader** or **partnership** and use a vehicle for both business and private running you must keep a log book unless all the running is for business only. When there is only one vehicle available for the business and the family the IRD will assume it will sometimes be used for private use.

The IRD allows you to use the logbook for the next three years providing the business use of the vehicle does not change by more than 20%. If there is some change in circumstance that changes this percentage then you would need to keep another log book for 3 months.

If you choose not to keep a logbook you may only claim up to 25% of your motor expenses and may be asked to justify this figure. The IRD detail what is required when a logbook is kept. It is reasonably important that this be done properly or you may find yourself unable to defend your percentage claimed.

The alternative is to use the **IRD mileage rates**, or other published mileage rates (e.g. AA mileage rates) and make a claim that way. It may prove easier than keeping a logbook by making a claim based on the number of business kms actually travelled. The first 5,000 kms can be charged at 70c a km. You will find this detail on the IRD website.

11. Uniforms

To be able to claim your "business clothes" as a tax deduction, the IRD must consider that it is a uniform. The item of clothing must be identifiable with your employer (agency) due to its style, colour scheme, pattern and the employer's logo.

12. Telephone and Tolls

If you use your **home phone** for both business and private use, you are able to claim 50% of the rental cost. The IRD like it if you identify your business calls and in fact go so far as suggesting that you highlight them on your phone bill, so that you can justify the claim you are making.

You might be in the situation of having two separate lines, one for business and one private. If this is the case you claim 100% of the business line and none of the private, unless of course you happened to make a business toll call on your private line.

Cell phones do not appear to be mentioned in the IRD literature but common thought is that a 100% deduction would be allowed for cell phone charges, so long as the cell phone was used primarily for business. As in other areas the onus of proof would be on you to prove that!

13. Use of home as office

Often people who run small to medium sized businesses use an area **set aside at home for work purposes**. This is often an office but may also be a storage area, shed or garage. You may make a claim relating to this area so long as:

- it is used principally for business use; and
- you keep proper records of the expenses being claimed.

A standard claim is based on the proportion of the area of your home that is used for business. This is generally something that your accountant will calculate at the end of your financial year but it does help to have some knowledge on what is required if nothing else as to have the information ready for your accountant when they ask!

Expenses that are usually used in this calculation include: rates, insurance (house and contents) mortgage interest (or rent paid) repairs and maintenance, power and depreciation.

It may even be that you have clients coming to your home on a regular basis and you may be able to justify claiming a portion of cleaning and gardening expenses but this would need to be considered on a case by case basis.

14. Training and Conferences

The costs of training courses and conferences are considered a deductible business expense; however you must show that these courses have a direct relationship to your business. (Refer also to entertainment expenses).

15. Licenses & Subscriptions

Annual industry membership, Real Estate registration expenses and other membership of other related professional bodies are deductible; however to be able to claim golf club and other club membership costs you have to be able to prove that there is a link between your membership of that club and your sales commissions.

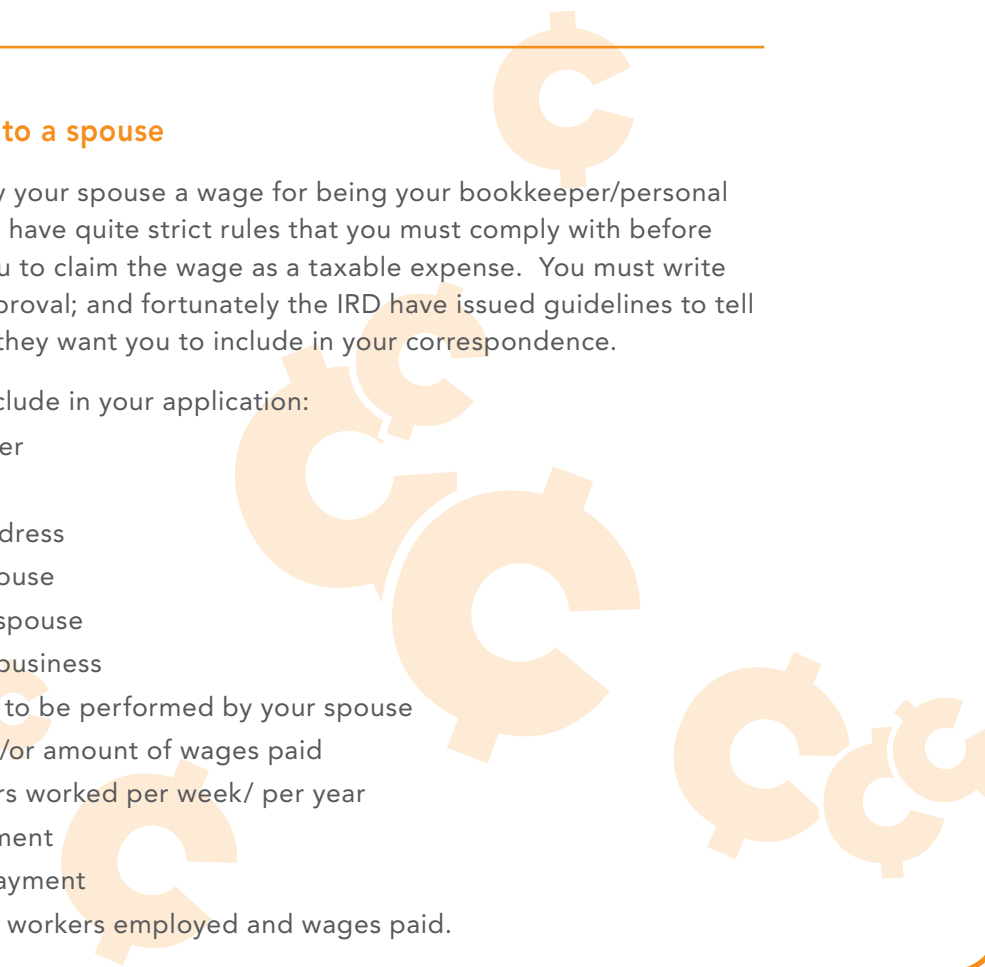
16. Assets under \$500

If buying low value assets, to claim these assets as a 100% expense, the total cost of each asset must be under \$500. If buying a number of low value assets from the same supplier on the same day, make sure the total of all the assets do not exceed \$500, otherwise you will not get that 100% claim.

17. Wages paid to a spouse

If you want to pay your spouse a wage for being your bookkeeper/personal assistant, the IRD have quite strict rules that you must comply with before they will allow you to claim the wage as a taxable expense. You must write to the IRD for approval; and fortunately the IRD have issued guidelines to tell you what details they want you to include in your correspondence.

Information to include in your application:

- Your IRD Number
 - Your name
 - Your current address
 - Full name of spouse
 - IRD number of spouse
 - Nature of your business
 - Detail of duties to be performed by your spouse
 - Hourly rate and/or amount of wages paid
 - Number of hours worked per week/ per year
 - Method of payment
 - Frequency of payment
 - Details of other workers employed and wages paid.
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18. Sponsorship and Advertising

Generally speaking if you provide sponsorship for a team or community event; and your business is being promoted it will be deductible. For example, your sponsorship money of \$1,500 is being put towards your local volleyball team's uniform and your business logo is displayed on the uniform.

Note if your sponsorship takes the form of a billboard it may not be fully deductible, especially if the cost exceeds \$500, you can however claim depreciation on this asset.

It would be advisable to have a sponsorship agreement drawn up and this should clearly set out what you will get for your advertising dollar; the IRD are less likely to disallow this expense if you have an agreement.

19. Kiwisaver

KiwiSaver is a voluntary retirement savings scheme initiated by the government to encourage New Zealanders to save for their retirement.

The benefits of joining the scheme are:

- \$1,000 kick-start, this is a one off payment the government makes into your savings scheme account and it is tax free.
- The government will match your savings up to \$1,042.86 per annum and credit this into your savings scheme account.
- Compulsory Employer contributions equal to 2% of your gross salary paid into your savings scheme account (This is only available to employees).
- Ability to withdraw savings for the purchase of your first home.
- First home deposit subsidy, after being in the scheme for three years you may be eligible for this subsidy (note the maximum subsidy for each individual is \$5,000 and for a couple this could mean a \$10,000 subsidy!)

20. ACC (CoverPlus Extra)

ACC Levies are one of those unavoidable expenses; but ACC do have an option that you can use to give you better cover and in some cases savings on the levies you are paying.

The **ACC CoverPlus Extra scheme** is where you and ACC agree the amount of cover you will receive should you have an accident and this is paid until you are able to return to fulltime work. Because the cover has been **agreed in advance** then you will know exactly what your weekly compensation will be should you have an accident. Like other insurances once the cover is agreed you will receive an invoice, not several months after your tax return is filed.



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