



crunch

20 TOP TAX TIPS FOR
TRADESPEOPLE

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Tradespeople

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. 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.

3. 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 don't have an invoice! We recommend that you keep them. Note you must keep business records for 7 years.

4. 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. e.g. If you pay your husband or wife a directors 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.
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5. 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.

6. Do you have employees or contractors working for you?

The IRD are not fond of people who say they are self employed so that they avoid having tax deducted from their income. Just because they are registered for GST and provide invoices does not make them self employed. Whether or not a person is registered for GST has nothing to do with whether or not PAYE should have been deducted. This can be a trap for employers as well as trouble for the employee.

An IRD publication the "IR 336 – Self employed or an employee" may be useful here. The decision as to whether a person is employed or self employed is based on looking at the work done, and how it is done. The decision is not made by an employer calling their employee an employee

or self employed person. Often the decision as to what a person is will be obvious, but sometimes it can be a little more complicated.

The IRD say that if you can answer yes to most of these questions then it will most probably be that you are self employed:

- Do you decide how you do the work?
- Do you have your own money invested in the activity?
- Do you provide the assets or equipment needed for your job?
- Do you pay for any training you might need?
- Are you the one responsible for getting the work done?

And in contrast to that list, if you answer yes to most of these questions then you are more likely to be an employee:

- Do you do the work rather than hiring someone to do it?
- Does someone else tell you what to do and when to do it?
- Are you paid at a set rate? Eg. An hourly rate
- Do you work a set or given number of hours?
- Does someone else set your standards of work?
- Do you work at a place that someone else tells you to?
- Are other people who do the same job as you employees?
- Do you have an employment contract or are subject to any law that states how the relationship between you and your employer should run?
- Do you have to follow someone else's rules?

You can be employed and self employed at the same time. e.g. You might work mornings as an employee for someone else, and run your own business from home in the afternoons.

Where you are self employed you are responsible for your own tax. Withholding tax (WT) may also have to be deducted from your income. The IR330 details a list of occupations that are subject to WT. This also means that if the type of work you do is listed here that you can claim work related expenses against your income for that job.

Where you are an employee your employer will be responsible for deducting PAYE from your wages or salary.

7. Withholding Tax (WT)

Sometimes certain businesses are not considered as full self employment. An example of this would be a labour only contract in the building industry. In this case you would be required to deduct WT from your payments to these people, and then return it to the IRD on a monthly basis.

If the contractor is registered for GST the calculation gets slightly more tricky as because of the WT the GST no longer works out to be 1/9th of the payment. If you find yourself in this situation and are not sure how to do the calculation, give us a call!

8. Wages paid to yourself

Sometimes people get it into their heads that they can reduce their tax by paying themselves for services to their own business. Not true! Think about it. If you paid yourself, the money you received would be taxable income to you.

For example say you are a builder and decide to renovate your own office. In this case you would most likely to be creating an asset, which would then not be fully expensed in the first year but capitalized and depreciated. If you paid yourself for the work, you would be taxed on the amount but only be able to claim in your business a small percentage of this amount by way of depreciation.

Tax is paid on your "profit". If you are not a company, then this is sales less expenses. If you are set up as a company then you pay tax on any wages you might have received, or salary plus any remaining profit left in the company. This is what your accountant works out for you when they prepare your annual accounts. We work out how the income should be best allocated so that your tax bill is kept as realistic as possible.

A common misconception by clients is that they think they are taxed on the amount drawn out of the business by way of drawings. Again, not true! They effectively think of their drawings as wages which is not the case. Tax is charged on "business profit".

If you have a company, you might be allocated a salary from that company. That salary is deducted from the company profit. The company pays tax on what is left, and you would pay tax in your own name on the salary received.

9. Retentions

You may well be in the type of business where there are retentions. You need to remember not to overlook deducting retentions forming part of your debtors at the end of your financial year.

e.g. Lets say you are a builder who is owed \$100,000 at the end of the year. Part of this amount includes an amount for which you will not be paid until the retention period is expired. Say your financial year ends on the 31st of March, but that you will not get your retentions until later in the year. Effectively you can not make your client pay that retention amount at the 31st of March, so it does not form part of your debtors figure and needs to be taken out.

10. 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: rate, 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.

11. Telephone

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 if you identify your business calls, and in fact go so far as suggesting that you highlight them on your phone bill so 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!

12. Entertainment

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:

(Just a little note: under the entertainment rules, the term "business premises" also includes temporary workplaces such as building sites!)

Entertainment Expenses Table	50% Deductible	100% Deductible
Friday night drinks for staff or clients in the office	✓	
Friday night drinks for staff or clients in 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	✓	
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	✓	
Corporate boxes, marquees, tents etc at sporting, cultural or recreational activities	✓	
Accommodation in a holiday home, time share or similar	✓	
Donating food to a Christmas party in a children's hospital		✓
Employee's salary package includes a taxable allowance for entertaining clients		✓
Golf club subscription for business owner paid by the Company		✓
Gym membership for team member paid by employer		✓
Providing a meal for a journalist while reviewing your business for their column		✓
Providing morning and afternoon tea for your staff		✓
Sponsoring a local sports team.		✓
Taking a client out to dinner while you are out of town on business outside New Zealand.		✓
Meals while travelling on business		✓
Food & drink at conferences, staff training or business course (as long as the course last for at least 4 hours)		✓
Meal allowances		✓
Entertainment provided at a promotion open to the public and trade displays		✓

13. Thinking of borrowing money? Let us know before you do ...

Depending on how you go about it, money borrowed for your business is not always tax deductible. Quite often we see people who have companies borrowing money in their own names, and not in the name of the company. The idea is that your company borrows the money so the interest is then claimable in the company's name.

The key point here is if you are thinking of borrowing money make a phone call to us first, by structuring it correctly you can make the most of the situation.

14. Fringe Benefit Tax – do you need to know about it?

A **fringe benefit** is a "perk" that is given to employees in addition to their wages or salaries.

Fringe benefit tax (FBT) is tax on that perk or benefit that employees receive and enjoy as a result of their employment. In a sense FBT is instead of PAYE that would have been deducted, had you given your employee money instead of a perk or benefit.

There are four main groups of fringe benefits:

- Motor vehicles; - as detailed below
- Low interest loans;
- Free, subsidized or discounted goods and services; or
- Employer contributions to various funds, super schemes and insurance policies.

General principles for motor vehicles: As long as a vehicle is "available" for private use (e.g. Travel between home and work) by your employees (including shareholder employees!) you must pay FBT. The liability does not depend on whether the employees actually use the vehicle.

Sole traders and partners in a partnership are not required to pay FBT on a business vehicle they use privately. Usually they would record their business use of the vehicle so they can make the appropriate adjustment in their GST and income tax returns.

There are some exemptions from FBT on motor vehicles:

General exemptions: (daily exemptions may apply to vehicles that do not qualify under this general section)

- Work related vehicles not available for general private use – this is where an employer doesn't have to pay FBT for a motor vehicle:
 - That an employee (shareholder/employee) store at home;

- That the employee (shareholder/employee) may not use it for private purposes; and

- Meets all four conditions (below) to qualify as a "work related vehicle" for FBT purposes:

- (i) The principal design of the vehicle cannot be for carrying passengers. (Qualifying vehicles include: utes, vehicles with rear doors that are permanently without rear seats, taxis, minibuses).
- (ii) The exterior of the vehicle must "permanently & prominently" display: the name of the employer or the business logo. Magnetic or removable signs such as on a wheel cover will not be enough to satisfy this requirement.
- (iii) An employer needs to notify the employee that the vehicle is available only for private use: for travel between home and work and for travel incidental to business travel. E.g. going to the bank on the way home from work.
- (iv) The employer needs to "conduct and record" that employees are following the restrictions.

• **Work related vehicles with limited private use**

This is where you get a partial exemption from FBT for a work related vehicle that:

Meets all four conditions (as above) is not available for private use "most" of the week and is available for private use on certain days (e.g. Weekends and stat holidays).

In this situation you pay FBT on the vehicle for the days when the vehicle is available for private use. You need to specify which days it is going to be available for private use, you can not just say any two days of the week. This is useful when employees are on call.

• **Vehicles stored on the employer's premises**

Here a vehicle is not subject to FBT if it is stored on the business premises i.e. the vehicle is not available for private use.

• **Vehicles over 3,500kgs**

This exemption includes larger trucks and buses.

As your accountants we generally try and consider your fringe benefit situation and assess whether there is a liability for it or not. We handle the FBT returns for quite a number of clients so if you think we can help your business in this area, let us know.

Sole Traders & partnerships - Log book – when did you last keep one?

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.

If you operate a **company** all vehicle expenses are claimed without personal adjustment but FBT must be paid if the vehicle is available 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 three 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 claim percentage.

The alternative is to use the **IRD 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.

15. Tools under \$500 and protective clothing/uniforms

The total cost of the asset must be under \$500. If buying low value assets from the same supplier on the same day make sure the total doesn't exceed \$500 so you can claim these assets as a 100% expense.

Protective Gear such as steel cap boots, hard hats, visibility vests, overalls etc are treated as an expense as these items are considered to be consumables and not assets.

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 business due to its style, colour scheme, pattern and the business's logo.

16. Wages paid to a spouse – or your children

If you are a sole trader and you want to pay your spouse a wage for being your office administrator/bookkeeper, 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 is your name, IRD number, current address, the full name of your spouse, the nature of your business, details 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 and details of other workers employed and wages paid.

For other entities; if employing staff, including family members, you should have an employment agreement; the Department of Labour can impose a hefty fine if you don't have employment contracts for each member of your staff.

If employing your own kids (under 15 or under 18 & still at school) they must actually be paid for performing genuine work in your business and the pay must be at a market rate; however you may not need to deduct PAYE if the child's total wages are no more than \$2,340, this is because of the child taxpayer credit of \$321.75.

17. 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

18. 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 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 withdrawal savings for the purchase of your first home.
- First home deposit subsidy, after being in the scheme for three years you maybe 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!)

19. ACC (CoverPlus Extra)

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

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.

20. Travel Expenses

To claim for travel expenses it must be work related, travel between home and work is not considered work related travel, unless of course your home is your work base, it is a good business practice to keep records of the details of your business trips.

If the travel is in regard to the purchase of a business asset it will not be treated as an expense but part of the cost of the equipment bought.

Business related Overseas Travel can be claimed but the IRD require a higher level of proof, we recommend you keep a diary of your trip, a detailed travel itinerary, business cards, names of firms visited, an outline of the business carried out, a schedule of all expenditure in regard to the travel and copies of all receipts, also a description of any incidental private travel. Note the main purpose of the trip must be for business to be able get a 100% claim.



Our full range of services can be viewed at

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