



81 Tax Tips

This report contains some of the advice regularly given to clients to help them save by no means an exhaustive list and is just the tip of the iceberg for what can be done to minimise tax. If you have any questions get in touch with us on (09) 912 2676 or email at info@acornsolutions.co.nz.

End of Financial Year Tax Tips

1. Make sure you write off any bad debts before the end of the year, and have the paperwork to support this. You can still keep trying to recover the money, but a reasonable effort must have been made to recover this prior to year-end. If any debt is subsequently recovered this must be declared as income.
2. Review your stock on hand carefully for obsolete, damaged or sale stock. Not doing this may mean your stock is over-valued which will inflate your profit, meaning you will pay more tax than you should. Take action to treat the stock accordingly, such as disposing of it or selling it as damaged stock before year-end.
3. Also review your work-in-progress to ensure you are only counting what can reasonably be sold. Any work-in-progress that can't be sold should be written off as it will directly impact on your final stock figure which impacts on your final profit.
4. Always do a physical stock take at year end, rather than relying on computer records. This may uncover stock shrinkage and will directly impact on your final stock figure.
5. Even though you may not have received an invoice for goods or services used before the end of the financial year (e.g. advertising, ACC levies), you can accrue these expenses if you can reasonably work out the cost.
6. Income protection insurance is deductible to both wage and salary earners as well as those who are self-employed.
7. It's worth claiming all the expenses that you pay for out of your own pocket. While each expense may be small, together over a year, all of those receipts can add up to a sizeable amount.
8. Holiday pay accruals are only tax deductible if staff take their holidays in the 63 days after balance date. If you know that a staff member is taking a holiday after balance date within 63 days ensure you keep a note for your accountant as this will be deductible.
9. If you know you are going to be paying out bonuses to staff after balance date, based on that year's result, accrue the bonuses. From a staff member's point of view, they are not affected by it until they actually receive it.
10. Keep an eye on your current account – if it's overdrawn, interest will be calculated using the FBT interest rates prescribed by IRD, so consider paying it off before the end of the year.

Loss Attributing Qualifying Companies (LAQC's)

1. Shareholders in an LAQC are able to claim the losses from an LAQC and set them off against their personal income.
2. An LAQC can only have up to five shareholders.
3. In the first year when you set up a company and start trading, you have until you file the first income tax return to apply for LAQC status or the due date for filing of your first tax return, whichever is earlier.
4. There are continuity rules for share ownership that must be met in order to continue qualifying for LAQC status. Any changes to the shareholding must be advised to IRD.
5. Tax returns for LAQC's must be filed within 12 months of balance date. Failure to do so may mean that losses cannot be passed out to the shareholders to offset against their personal income.

Depreciation

1. You can claim depreciation for an asset starting from the month you own it, regardless of the actual date in the month on the invoice.
2. If you buy a residential rental property, consider getting a chattel valuation done. It breaks out the cost of the property into the various components you are buying which you are then able to apply to the appropriate depreciation rate to. This is often much higher than the 3% you are allowed to claim on the building.
3. Put plenty of information on your assets into the fixed asset register. The more information you have on the breakdown of assets, such as the number of desks ('Desks x 5' versus just a description of 'desks'), the more chance you have of writing off an obsolete or damaged asset or an asset that is no longer being used.
4. When selling a rental property, it also pays to check with the purchaser what they are going to do with the property. If they are going to knock the building down, offer to do it for them and you will not have any depreciation recovered.
5. There have been quite a few changes to depreciation rates in recent times. Check out the latest depreciation rates on the IRD website to make sure you get the correct rate.

You and IRD

1. You must keep all of your accounting records for a period for seven years. This is very important in case of an IRD investigate or audit to support the claims you are making in your tax return.
2. Pay all of your taxes on time to avoid late payment penalties and interest.
3. If you are paying provisional tax and know that your tax bill is going to be higher than the previous year, consider making voluntary tax payments to reduce use of money interest. At 13.08%, it's an expensive form of financing.
4. The same goes for terminal tax. Pay it early to avoid paying use of money interest.
5. It is easier to use the standard basis for provisional tax which is looking at the previous year's tax and adding 5%, and then make voluntary tax payments if necessary. If you go to the estimated basis for provisional tax, the penalties of getting it wrong can be quite severe.
6. If you know you are not going to be able to pay tax, enter into a payment arrangement with IRD before the tax is due to save you penalties. Ignoring the problem will just make the penalties worse.
7. If you do enter into a payment arrangement, do everything you can to follow it so that your penalties are reduced.
8. By entering into a payment arrangement, IRD may look at reducing the late payment penalties by up to 60%.
9. Penalties charged by IRD are not tax deductible. However, interest is.
10. Watch out for the attribution rule. If 80% or more of your company's income comes from a single source, for the provision of your personal services, the net income of the company will be attributed to you personally and taxed at the marginal individual rates.

General Business Expenses

1. The general rule is that any expense incurred in earning an assessable income is tax deductible. Think carefully about your expenses, there may be some that are tax deductible that you thought might not be.
2. There are personal expenses that may be tax deductible, such as subscriptions for magazines, periodicals and newspapers, education and training and resources such as books.
3. You do not need to keep receipts for expenses under \$50.00.
4. However, if you're claiming GST on expenses, you need to have tax invoices for any expense over \$50. Under \$50 a receipt will be enough.
5. Any fixed asset purchases that are under \$500.00 can be written off in the year of purchase.
6. If buying a group of assets that individually are less than \$500.00 but when buying them together are greater than \$500.00, the assets must be capitalised and depreciated. Therefore, consider buying the assets separately over a period of time.
7. Be clear about the difference between repairs and maintenance and capital improvements. If expenditure is for repairs and maintenance, make sure it is clearly stated on the invoice to ensure your

- deductibility.
8. Entertainment expenses are only 50% deductible – make sure you keep good records of why the entertainment was incurred such as who you were out to dinner with.
 9. When away from home for more than a day, meals as an entertainment expense are 100% tax deductible.
 10. If going overseas for business, keep detailed records of the expenses incurred and the reasons for why you were overseas, including correspondence, people visited and the business transacted. IRD looks closely at travel expenses to ensure they are legitimate.
 11. And if you are taking someone with you who is not related to the business, make sure you allocate a reasonable amount for the private expenditure – the alternative is an audit or review which will be much more expensive than the travel costs incurred.
 12. Clothing is only tax deductible when incurred for uniforms or protective clothing such as overalls or aprons.
 13. Portfolio management fees can be deductible for tax purposes.
 14. Interest is tax deductible as long as it was incurred for the purpose of earning an assessable income, so if you borrow money against your home for the purpose of your business or rental property, that interest will be tax deductible.
 15. If you do any work from home, you can claim a portion of your home expenses as your home office if you have an area that is principally set aside for business.
 16. Expenses that can be claimed include electricity, phone, repairs and maintenance, gardening, rates, rent or interest on the mortgage, cleaning and insurance. Make sure you keep your receipts.
 17. You can claim depreciation on your home. However, as your home is more likely to go up in value, if you sell your home, you will have depreciation recovered.
 18. Website setup costs must be capitalised. However, the ongoing maintenance costs of the website are tax deductible.
 19. Legal costs are an area that is closely scrutinised. Make sure that any invoices from lawyers provide a detailed breakdown of what the invoice is for so that you can separate out the tax deductible portion from any capital portion.
 20. Most insurance premiums are tax deductible. However, if the insurance policy is claimed on and the resulting payment is not subject to income tax such as life insurance, then the insurance premium is not tax deductible.

Employees and FBT

1. All phone calls on mobile phones are now exempt from FBT, so providing a mobile phone for employees may be an effective way of providing a perk.
2. You can provide benefits of up to \$2,000 per quarter without incurring FBT.
3. FBT is calculated on the GST inclusive amount.
4. Owning a rental property is an effective way for wage and salary earners to legitimately reduce the amount of tax they pay.
5. Leased car parks do not attract FBT.
6. Not all payments to employees are deductible, so make sure you check first.

Motor Vehicles

1. A motor vehicle that is a work related vehicle (e.g. a Ute, van or taxi), is exempt from FBT as long as the employee is not allowed to use it privately and it has been sign-written. The employer also needs to do checks on a quarterly basis to ensure that the employee is not using it privately.
2. If you own your car personally, you can still make a claim for business use by keeping a log book for three months each three years.
3. Alternatively, you can keep a log book for each business trip you make and claim 62c for each kilometre travelled. This is best used when the kilometres total less than 3,000 for the year.
4. Nine to five leases are no longer applicable and should be reviewed for tax effectiveness.
5. There are different tax implications for either owning or leasing a vehicle. Get advice before you buy your next vehicle.
6. Travel away from the office and home for longer than 24 hours is exempt from FBT.

Rental Properties

1. A property valuation for the purpose of borrowing money is tax deductible, but a property valuation for the purpose of buying a property is not.
2. New Zealanders with property in Australia must file a tax return for the property in Australia, as well as in New Zealand.
3. Any loss from an Australian rental property, after being stated under New Zealand tax law, will be able to be offset against New Zealand income if owned in your personal name.
4. Mortgage payments made to an Australian lender for an Australian property may attract 2% Approved Issuer Levy which is tax deductible. If the Australian lender is not an approved lender, 10% must be paid.
5. Getting a chattel valuation at the time of purchase will help in the future in case of having to replace chattels such as a stove – the old stove will be written off bringing about a deductible loss on sale.
6. Be clear in all communication about why you are purchasing a rental property for long term investment. This will ensure any capital gains are not taxed.
7. As long as a property is available for rent, any expenses incurred will be tax deductible.
8. If you are buying a new family home, and are going to keep your old home as a rental property, you will need to transfer the house (at market value) into a company, LAQC or trust in order to make the interest on the mortgage tax deductible. You should also consider whether this is the best investment available to you by comparing it with other rental properties available for purchase.

Family Trusts

1. If you expect you are going to inherit assets and you have a family trust, ask the benefactor to change their will so that your trust can inherit instead of you personally. This avoids the need for you to gift your inheritance across to the trust.
2. Beneficiaries under the age of 16 can receive up to \$1,000 in income from a trust and be taxed at their marginal tax rate which would probably be 19.5%, instead of leaving the income in the trust to be taxed at 33%.
3. Beneficiaries over the age of 16 will be taxed at their marginal tax rate, meaning that they can receive an income distribution of up to \$38,000 and be taxed at 19.5%.
4. When selling your home into a family trust, make sure it is done at market value and that that market valuation is less than six months old. A sliding value clause is also useful to ensure that the possibility of gift duty does not arise.
5. While a License to Occupy can reduce the amount to be gifted, it can also lead to the situation where the amount gifted is insufficient. If the house is sold, the License to Occupy is recalculated and often found to have increased in value, meaning there is still an amount to be gifted. As gifting is time driven, this can mean time has gone by when no gifting was done.
6. Gift Statements for gifts greater than \$12,000 must be filed with IRD within three months of making the gift.
7. Ensure that any loans by the Settlor to the Trust are 'repayable on demand' and that 'interest is payable if demanded'.

GST

1. The statute of limitations on GST transactions is two years, unless you have been involved in an illegal transaction.
2. You have two years to claim GST on an expense, but GST on sales must be paid in the GST period it is made or received.
3. When buying or selling a business or commercial property, ensure you are GST registered, as well as the party on the other side of transaction, to avoid any issues with GST.
4. Any transaction over \$225,000.00 must be accounted for on an invoice basis regardless of how you are registered for GST – watch this as it can have serious cashflow implications if you have to pay GST before you have received any payment from the customer.

Disclaimer

Every reasonable effort has been made to ensure the accuracy of the information in this report and to the best of our knowledge accurate at the time of printing. This information is of a general nature and professional advice should be sought in relation to specific situations.