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Newsletter

SUMMER 2022-23

Welcome to 2023!

Hoping that all our valued clients have had an enjoyable Christmas and New Year break with family and friends. Perhaps relaxing in the beautiful weather we have been blessed with.

This year we are trying a new format for a newsletters—hopefully more relevant to more clients.

Please feel free to contact us with any subjects you would like included in the newsletters.

Meet the Team



< Jeanette Gordon—
Managing Director,
Accountant



> Kim Boulton—
Admin support,
bookkeeper, Compa-
ny administration



< Hannah Radley,
Contractor,
Bookkeeper



> Pam Shipley,
Contractor, account-
ing support, Xero
conversion

About the Xero Assistance Programme

The Xero Assistance Programme (XAP) gives you free and confidential access to mental health resources, provided by our global partner Benestar. While counselling is available face-to-face, you can also choose to talk by telephone, live chat and online. There's also Benehub and the Benestar app for more advice, tips and activities.

These resources are available to our:

- Kiwi small business owners, their employees and families
- Accounting and bookkeeper partners

Never use expensive IRD money

Inland Revenue has hiked its interest rate twice so far this year, with it now at just under 8 percent.

You should never use Inland Revenue money.

If you're on a high income or your income suddenly jumps to a high figure, attracting tax for the year of at least \$60,000, you will be liable to pay interest to Inland

Revenue on any underpaid tax for the year.

But you can do something about it. Your first option is to top up the tax to the right figure by the due date for the third instalment of provisional tax, known as P3 (for most people 7 May). If you can't get your accounts done by then, you will just have to guess your income and

calculate the tax on the guess. Your next best option is to pay as soon as you can after P3. This might mean getting your accounts done early or at least getting a rough idea of your income and again taking a guess. You will now incur some interest but you can minimise it by paying tax early.

Know entertainment traps

Entertainment and other employee related expenses could be either fully deductible, only 50 percent deductible as entertainment, subject to FBT or PAYE depending on the circumstances. It helps if you know which is which.

XYZ Ltd is a limited liability company involved in the building industry. It is seldom practical to return to the company base for morning and afternoon tea so the directors buy coffee and snacks (light refreshments) for their staff when they are out on the job. The cost is 100 percent tax deductible.

They have also decided to **reimburse** their workers for the cost of their lunches. The cost would only be 100% tax-deductible if it were a meal while travelling on business. Otherwise, it forms part of wages and would be taxable (see below). The employer also needs to be careful, if paying a regular allowance to cover morning teas and/or lunches, that the payments are not just for tax avoidance. They have to be for reimbursement.



Due to the high price of petrol, a director offers to reimburse one of his staff \$20 per week as a contribution to the cost of getting to work. Since this is a cost which she would have incurred out of her tax-paid income, it should be treated as part of her wages. The value of the petrol needs to be adjusted upwards for tax before being added to her taxable income. It should be treated as an extra emolument.

Another director has decided as there are two office staff it would be fair to give the other person petrol vouchers of an equivalent amount. So long as the petrol vouchers cannot be redeemed for cash, this is a fringe benefit and is subject to fringe benefit tax payable by the company. However, there is a \$300 threshold per quarter for each employee for unclassified benefits like this. Provided the value of the petrol vouchers is equal to or less than \$300, no fringe benefit tax has to be paid, assuming the company does not exceed the total exemption for a business, which is \$22,500.

One of the staff is leaving so the directors decide to buy him an expensive box of chocolates from a supermarket. This is an entertainment cost and 50 percent tax deductible. However, just before they do this they discover if they were to provide a gift voucher, the cost would be 100 percent tax deductible, so they give a gift voucher instead. The \$300 limit for fringe benefit tax purposes applies.

The owner of a construction company (an ordinary company for tax purposes) visits a building site to meet the client. Both of them are away from home on business. The owner invites the client to lunch to discuss the project. Both meals are 50% tax-deductible because this is an ordinary entertainment expense. However, if the owner were to dine alone the meal would be 100% tax-deductible to the company because this is an expense incurred while travelling on business. If the client were a self-employed person, the cost of the meal when dining alone would not be tax deductible because it is deemed a personal cost.

If you incur entertainment expenses overseas, instead of them being 50% tax-deductible they are 100% tax-deductible. Entertainment expenses are only tax deductible so long as they are completely business-related. In other words, the purpose of the meal together is to discuss business.



Seven-year records might not be enough

Inland Revenue requires us to keep our business records for seven years. But it's not quite as simple as this.

The department also requires taxpayers to prove themselves innocent if ever they are challenged. So in 10 years, Inland Revenue might approach you with a question they want answered. You would need to be able to answer the question and if it was going to give rise to a tax issue, prove yourself to be right.

Let's look at an example. You buy a residential property and for good reason you sell it a short time later. A couple of years after you have destroyed records, Inland Revenue decides it wants to check on whether you had kept the property long enough to avoid tax on what it calls the bright line test. This requires the buyer of a residential rental property to keep it for a certain number of years. If you haven't got all the documents to show when the property was bought and when it was sold, you

might have a problem.

There can be several crucial dates: of purchase

- the date you signed the sale and purchase agreement
- the date the contracts went unconditional
- the date the property was transferred to you

Similarly, there are several dates needed for sale or disposal of the property. So here you have an example where holding on to documentation for more than seven years is important.

If you have a family trust, ignore the seven years rule because you need to comply with trust law as well as tax law. Keep all records for the life of the trust.

Be selective about what you throw out. Computers have enormous storage capacity so why not scan most of the documents and save them in your computer or on to a portable hard drive?

Changes proposed for portions of GST

A current tax Bill proposes not to require payments for goods or services up to \$10,000 to be split between business and personal if the principal purpose of buying the goods or services is business.

For example, if a car is bought for \$10,000 and it's used principally for business, the whole amount is treated as an asset of the business. One hundred percent GST could be claimed without the need for a personal use adjustment.

If the car's principal purpose is personal use (log book says private running more than 50%) the GST claim would be nil. Assuming it's passed by Parliament, the changes will take effect from 1 April 2023.

Some people use their home for business as well. For example, they might run an Air B&B from the home and 20 percent might be for business. Under the proposed new rules, when they buy a house they could elect not to claim a share of the GST at the time of purchase and treat the whole house as personal so there would be no GST on sale. People who have already claimed GST but would now prefer they hadn't will be allowed a transitional period of two years starting from 1 April 2023 to hand the GST back to Inland Revenue.

The changes are to be backdated to 1 April 2011.

"It's the reputation and relationships we've built that will get us through . . . if you do everything with integrity, you'll always be rewarded in the long term."

Newspaper editor Ian Carson



Cost of living allowance introduced

A cost of living payment has been introduced. The main points are:

- There is no application process. Inland Revenue will automatically make the payments into the taxpayer's bank account.
- The taxpayer must have a bank account.
- It applies to almost everybody whose income is less than \$70,000.
- To qualify, the individual will need to have lodged an IR3 tax return or have received their individual income tax assessment from the Inland Revenue.
- Individuals who qualify and lodge their tax returns later in the year will still be able to get the money. However, there is a deadline of 31 March 2023. Clients who are habitually late giving us the information to do their accounts run the risk of not being able to lodge their tax

return on time. Inland Revenue says: "If a return is filed on, or after 1 April 2023, your client will miss out on this payment."

- The cost of living payment doesn't go to people who are in jail or those who get the winter energy payment.
- Payments will be made in three monthly instalments starting from 1 August 2022.
- Minimum qualifying age is 18. Inland Revenue says: "You will get the payment if on the day we check for eligibility we confirm you . . . are aged 18 or older." We therefore conclude if you become 18 any time during the current financial year to 31 March 2023, you should get Inland Revenue to check your eligibility as soon as you reach your birthday, if you think you will qualify.



TAX CALENDAR

January 16 2023

Second instalment of 2023 Provisional Tax (March balance date except for those who pay Provisional Tax twice a year)

Pay GST for period ended 30 November 2022.

April 11 2023

Terminal tax for 2022 (March, April, May and June balance dates). For all clients except those who have lost their extension of time privilege.

May 8 2023

Second instalment of 2023 Provisional Tax (March balance date)

Flu, Covid vouchers and Fringe Benefit Tax

If a fringe benefit relates to the health or safety of an employee and is aimed at managing risks to health and safety in the workplace in accordance with the Health and Safety at Work Act 2017, it will be exempt from FBT.

Special deal for travel from home to work

The latest tax Bill proposes a subsidy by an employer – mainly for the purpose of an employee travelling on public transport between home and work – will not be subject to fringe benefit tax (FBT).

Public transport means bus, train, ferry, tram or cable car. It does not include airfares, taxis,

shuttles and E-scooters.

The Government plans to bring this law into effect from 1 April 2023. Obviously, if your business is a company, you can also subsidise yourself, as an employee, for public transport.