

TAXTALK

Industry Benchmarks

Industry benchmarks are a useful tool to help assess and improve a taxpayer's business performance by comparing his business with others in the same industry.

Because of the enormous data Inland Revenue receives, it put together these industry benchmarks a couple of years ago and now regularly updates them. The benchmarks were calculated by Statistics New Zealand using information provided on financial statements and income tax returns by businesses that have an annual turnover between \$60,000 and \$10 million.

Inland Revenue published industry benchmarks for 16 industries earlier this year and these have now been updated with the latest financial data from 2010–2011.

Why would Inland Revenue provide benchmarks?

The Inland Revenue uses benchmarks as an indicator (along with other indicators) to identify businesses that may be:

- overstating their expenses.

Being within, above or below the benchmark range does not in itself indicate whether the business is compliant or non-compliant with its tax obligations, but it highlights the performance of the business and may alert Inland Revenue when selecting a business for a review.

How will the benchmarks help?

It can help a taxpayer to:

Manage its tax obligations by receiving useful information, self-assessment tools and online services.

Plan and budget if starting a new business especially if you are in the small and medium size range.

To find out how you compare with other businesses in your industry you can go to www.ird.govt.nz/industry-benchmarks.

- avoiding their tax obligations by not reporting some or all of their income; or

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Keeping records and claiming business expenses

This is the time of year when many of the taxpayers start collating information for their tax return preparation. If good records are kept during the year then it will be a breeze, whether the tax return is prepared by a tax agent or not. If one has not made a good job of record keeping, it might become stressful putting all the paperwork together. If proper records are not kept or they are incomplete, one might miss out on claiming some expenses.

Now is a good time as any other to start a system that works for you by filing your statements, invoices, GST returns and interest statements. It does not matter too much what system to use so long as the records are kept in order and up to date. One can use boxes, folders or computer-based programs, as long as they can retrieve information easily when need to. If a business activity is carried on by an individual earning taxable income, relevant expenses relating to that business activity can be claimed as tax deductible.

The Inland Revenue will expect the individual to keep the following records:

- receipts for all claims;
- interest statements;
- summaries of earnings from each employer;
- a record of rental income and expenses;
- purchase and sale agreements (for disposal of investment assets).

What can be claimed?

One can claim most expenses, for example:

- vehicle expenses, transport costs and travel for business purposes;
- rent paid on business premises;
- depreciation on items such as a computer and office furniture;
- part of any household expenses, eg, mortgage interest, telephone and electricity (if one has a home office);
- interest on borrowing money for the business;
- some insurance premiums;
- work-related journals and magazines;
- membership of professional associations;
- work-related mobile phone;
- stationery;
- work uniforms;
- tax agent's fees.

If you are unsure about whether you can claim a particular expense, get in touch! We're here to help you.



Payment for non-attendance

New Zealand has had natural disasters in recent times mostly from earthquakes. What happens when an employee is unable to go to work for reasons outside his control? Is the employer obliged to pay? Usually, one would look at the employment agreement first. However, the employment agreement may be silent on this issue as we are not in a country that is regularly affected by floods or snow which would prevent us from attending work.

The following general guidelines may assist employers:

- Wages have to be paid if the employee is ready and willing to work.
- If the employee does not turn up for work, he cannot expect to be paid.
- If the employee does turn up for work but the workplace is closed by his employer, he can expect to be paid.

KiwiSaver with Fly Buys

KiwiSaver was introduced to encourage New Zealanders to save for their own retirement. Contributions are generally "locked in" until a member reaches the New Zealand superannuation qualification age (currently being 65 years of age).

In tough financial times, many New Zealanders that joined KiwiSaver have found it financially difficult to put funds aside for their retirement and certainly have struggled to contribute more than the minimum amount.

Although there is a possibility of making a withdrawal in the case of significant financial hardship, or as a contribution to a first home, such exceptions are limited.

The Bank of New Zealand (BNZ) has entered into an agreement with Loyalty New Zealand Limited to allow members of the Fly Buys loyalty program to request the redemption of their Fly Buys points, for a contribution to their own or another person's members account in the BNZ KiwiSaver Scheme.

A person does not have to be a BNZ customer to request the redemption.

There is a separate agreement between the BNZ and Loyalty New Zealand Limited under which the BNZ will make payment to Loyalty New Zealand Limited in relation to each contribution made.

The IRD has issued a product ruling regarding the taxation treatment of the redemption of Fly Buys points for a contribution in a KiwiSaver account and a KiwiSaver scheme that the BNZ has established.

The IRD has advised that no income arises for a BNZ KiwiSaver member as a result of using Fly Buys points to obtain an interest in the BNZ KiwiSaver scheme. Equally, there is no income as a result of Fly Buys members entering into the arrangement.

This position is consistent with the approach taken by the IRD in relation to other loyalty reward schemes.

Effectively, therefore, the redemption of Fly Buys points to a contribution into the BNZ KiwiSaver scheme is tax neutral.

How it affects you

If you are a member of the Fly Buys program, you can use Fly Buys points to invest in the BNZ KiwiSaver Scheme with no unexpected or adverse tax consequence to you as a result.

This will, therefore, be a cost effective way of increasing retirement savings for anyone with excess Fly Buys points.

- From WHK's Sharp-As Tax



question time >>

Q: Do I need to be registered for GST?

A: You may have to be...

If your turnover (i.e. sales of products, fees charged etc etc) is greater than \$60,000 in a 12 month period you are required to be registered for GST.

If your turnover is less than \$60,000 you don't have to be registered for GST and you must not charge GST on the sales you make to your customers. If you are not registered for GST you must make no reference to GST on your invoices to your customers.

There are certain exemptions regarding being registered for GST and one such exemption is Taxi Drivers you must be registered for GST regardless of how much fares they charge per year.



PAYROLL SOLUTIONS

Are you finding it a hassle to do your own Payroll? We have a solution for you. We can prepare and complete your payroll either weekly or fortnightly using the latest payroll software ensuring you are 100% compliant with the ever changing employment legislation. We send you meaningful reports each pay run and assist you with all enquires you may have. Call us for a quote and more information.



WEB SOLUTIONS

Did you know that you can use Mail Chimp for free to help you manage your email blasts more successfully? This free service allows you create mailing lists to which you can market and communicate your products and services. Business's that have used this service have noticed considerable improvement in response rates to email blasts over against the traditional way of sending email blasts from your own email. Visit www.mailchimp.com to get yourself set up and utilise the many layouts to improve your email marketing today.



PROHUB SOLUTIONS

Do your salesmen have comprehensive reports of all a customer's contacts with your business that they can take with them when they go out to visit their customers? If they don't they should and PROHUB can help you with such reports. PROHUB allows you to create reports for your travelling salesmen to print off and take with them which will tell the salesman all of the contacts that there customer has had with your business. This is an invaluable tool for the salesman as it helps him to be able to ask intelligent questions and follow-up enquiries with all the information he needs right at his fingertips. Contact us today for more information on how this program can help your business prosper.

Current Inland Revenue Department Focus

On 10 July 2013, in a speech to the Trans-Tasman Business Circle in Wellington, the Minister of Finance, the Hon Bill English, reviewed the Government's programme and priorities for this term of Parliament. The Minister has suggested that an area of focus for the Government has been the fairness of the tax and income support systems. He said that over successive Budgets, the Government has made a number of changes to make the tax system fairer and to encourage more New Zealanders into work. These changes include:

- Removing the ability for people to shelter income in trusts;
- Raising the effective tax rate on property investment;
- Increasing funding for the Inland Revenue Department ("IRD") to target property speculators and others avoiding tax;
- Preventing people using investment losses, including from rental properties, to make themselves eligible for working for families and other Government support; and
- Bringing in stricter rules to ensure multinational companies contribute their fair share of tax in New Zealand.

The Minister stated that the Government has maintained a redistributive tax and income

support system that supports low and middle income families. He said that at any particular time, a large number of households effectively did not pay any tax. The reason for this is that the amount paid in income tax is exceeded by the amount received from welfare benefits, working for families, paid parental leave, and accommodation subsidies.

How it affects you

The IRD's continued focus on trusts is a matter that impacts upon many. New Zealand has a higher number of trusts per capita than many other countries. The review of trust law in New Zealand by the Law Commission is still on-going, with final recommendations to be released soon. The likely changes will not only affect the administration and operation of trusts, but will most likely also have an impact on the avenues available to the IRD to attack trust structures that are considered to be "sheltering income". Although this may no longer be such an issue because the tax rate for trusts and individuals (33%) is the same, there are historic matters that are still of concern.

The focus on property is also an issue for many taxpayers, as the IRD is approaching these cases in a careful and methodical manner.

If you want to understand how the IRD focus may affect you, please contact your advisor.

- From WHK's Sharp-As Tax

Quick Quote

There may be liberty and justice for all, but there are tax breaks only for some.

~ Martin A. Sullivan



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We care about your Business Prosperity



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