



Tax on Christmas parties and presents

It's coming up to that time of year when you might be planning a staff Christmas party. It's great for morale and a chance to mark the end of the year. But what are the tax considerations?

You may be able to claim as business expenses events such as Christmas functions or giving gifts to employees.

However, you may not be able to claim all of the costs, and they may also be subject to fringe benefit tax (FBT). FBT is a tax paid on benefits that workers receive as a result of their employment.

You may be able to claim 50% of your party expenses in your GST and income tax returns if the expenses are related to your business. But there's also a significant private element.

Party expenses you can claim 50% of can include:

- venue hire
- food and drink
- entertainment

You can generally claim 100% of the cost of gifts, such as food baskets or event tickets, as a business expense. But you may need to pay FBT on such gifts.

If you provide other types of goodies, like accommodation in a holiday home, use of a corporate yacht or lunch at a restaurant, then these come under entertainment expenses – and are 50% deductible as long as they're business expenses.

Business entertainment rules are outlined in the Inland Revenue's Entertainment expenses guide (IR268).

If you give your employees some sort of entertainment – like a voucher to use at any time – you may need to pay FBT.

There are detailed rules about FBT, including for entertainment expenses. There are some thresholds, so you may not always have to pay FBT if you only provide minimal fringe benefits. Check Inland Revenue's Fringe benefit guide (IR409) to be sure.

If you provide Christmas food and drinks at a local venue, the cost is not subject to FBT – because employees can't choose when and where to enjoy the benefit. However, the rules for entertainment expenses will apply. Inland Revenue's Entertainment expenses guide (IR268) will help.

If you give employees vouchers for meals, entertainment or gifts and the employee can choose when or where to enjoy the benefit – and you're not giving the benefit as a necessary part of their work duties – then these are subject to FBT.

Charity at Christmas

Are you thinking about some Christmas charity? You can deduct 100% of the cost of entertainment you give to the general public for charitable purposes. For example, if your company donates food for a Christmas party at a children's hospital, that expense is 100% deductible.

And if you or an employee plans to use a business vehicle for a private trip over the festive period, check to see if you have to pay FBT on this benefit.

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Purchased second-hand goods for your business?



In some situations you may have purchased second-hand goods to use in your business but didn't pay GST on the purchase because the seller wasn't GST registered. The good news is you can still claim a GST credit as long as the goods were located in New Zealand at the time of purchase and the details of your purchase have been recorded.

You may consider buying second-hand items for your business to save money. Even if the seller isn't GST registered you can still make a claim for GST.

Regardless of which accounting basis you use, you must make a payment for the goods before you can claim a GST credit for the purchase.

Example

Alice purchased a second-hand sewing machine for her dressmaking business. She bought the sewing machine for \$160 at a garage sale. To calculate the GST amount to claim as a credit she would use the following formula:

purchase price x 3 divided by 23 = GST credit that can be claimed

$\$160 \times 3 \text{ divided by } 23 = \20.86

Alice can claim this amount on her GST return.

Second-hand goods are commonly defined as goods previously used and paid for by someone else. In the context of GST, second-hand goods don't include:

- new goods
- primary produce - unless previously used
- goods supplied under a lease or rental agreement
- livestock
- fine metal, or goods manufactured from fine metal of any degree of purity

Second-hand goods purchased from an associated person

When purchasing second-hand goods from associated people, the GST credit you can claim is treated differently.

Associated people are:

- companies controlled by the same persons
- companies and persons with a 25% or greater interest in the company
- partnerships and partners in the partnership
- relatives by blood, marriage or adoption, to the second degree (including people in a de-facto relationship)
- trustees of a trust and persons who have benefited or are eligible to benefit under the trust
- settlors of a trust and persons who have benefited or are eligible to benefit under the trust
- trustees and the settlor of a trust, except where the trustee is a charitable or non-profit body
- trustees of two trusts that have a common settlor
- two persons who are each associated with a third person.

If you purchase second-hand goods from an associated person who is not GST registered, the GST claim is based on the lowest of:

- purchase price
- current market value, or
- GST component (if any) of the original cost of the goods to the supplier.

Example

Alex bought a skill saw from his brother Nathan to use in his building business. The current market value of the skill saw is \$350, but Nathan sold it to Alex for \$250. Nathan is not GST registered and doesn't give Alex an invoice. Alex can claim GST on the purchase price (\$250) as he paid less than the current market value (\$350). Alex can claim \$32.60 ($\$250 \times 3 \text{ divided by } 23$) as a GST credit on his return.

Record keeping

When purchasing second-hand goods you may not always receive a tax invoice. In this case you must record the following:

- name and address of the supplier
- date of the purchase
- description of the goods
- quantity of goods
- price paid.

Specialise for success

Being a specialist gives you an edge. You'll be offering things few other people do.

You don't have to be a doctor to become a specialist. A cleaning contractor could specialise in getting rid of asbestos. A painter could specialises in textured coatings.

If you want to break out of the rat race, look for a specialty and make sure there's a demand. Look especially for something others don't want to do. Generally, the harder, nastier or more dangerous a job is, the fewer people will do it.

If you're an expert, the job might not be hard for you, and you can charge a premium for your expertise.

Look for specialisation in your industry and up will go your income. You might need to study to become specialised, but it's usually worth it.

question time >>

Q: Can I claim my Home Office Expenses for my business?

A: You can only claim expenses that relate to the area used for the business.

Many people who run a small business use an area in the home for work purposes. If you're doing this, you can make a claim for the area so long as you keep a full record of all expenses you wish to claim.

If there isn't a separate area for the business the apportionment will need to take into account criteria such as the amount of time spent on income-earning activities & the area used at home.

No deduction is permitted for any private or domestic expenditure.

The responsibility for keeping invoices & records for a home office is the same as for any other business expenses you're claiming.

You can claim a portion of the household expenses, such as the rates, power & insurance. You can also claim a portion of the mortgage interest if you own the house. You must keep invoices for these expenses.

Example

In a house of 100m² Mereana uses 10m² as an office (10% of the total floor area). House expenses (GST inclusive) for the full year were:

Rates: \$2,100.00

Insurance (house): \$700.00

Power \$1,680.00

Total cost (inc GST) \$4,480.00

Multiply costs by 3 and divide by 23 to get the GST content (\$584.35)

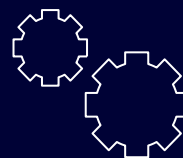
Total costs (ex GST) \$3,895.65

- If Mereana is not registered for GST, the amount to claim is 10% of the total costs including GST: $\$4,480 \times 10\% = \448

- If Mereana is registered for GST, the amount to claim is 10% of the total costs excluding GST: $\$3,895.65 \times 10\% = \389.56

Mereana can also claim 10% of the GST content on these items in the business's GST returns. This is claimed throughout the year as the bills are due or paid

You may claim a proportion of the mortgage interest (not principal) paid during the year. Since 1/4/11 you're no longer able to claim depreciation on the house itself. If you've claimed depreciation on the house in the past, depreciation recover will still apply. You can claim the depreciation on capital items such as a computer, office furniture & fittings, or shelving, used for business purposes in your home.



TAX SOLUTIONS

The mileage rate has been set at 74 cents per km for both petrol and diesel vehicles from 1 April 2014. This rate doesn't apply to motor cycles, hybrid and/or electric motor vehicles. In most cases returns won't be amended for taxpayers who have already filed their 2015 returns using the 2014 mileage rate.



WEB SOLUTIONS

Did you know you can now use online Accounting software for your business. Xero provides an excellent service whereby you can get Bank Feeds online which enable simple coding of the transactions. You can also do your invoicing to your customers. You can also grant us log-in access to your site which enables us to work closely with you to help you manage your tax and business matters. Contact us today for more information.



PROHUB SOLUTIONS

Looking for a way to record notes with customers who are slow payers and want a reminder system so that you can follow them up if they're not paying? Prohub Online offers you such a solution. Prohub Online allows you to create notes of phone calls with slow payers and then allows you to allocate a follow-up date and follow-up person so that they get regular reminders that you want your money. Visit our website to find out how Prohub online can help your business prosper.

Pointers for quoting



There are five basic mistakes you can make when putting in your price for work or products.

Some of the material for this article was found in business.co.nz. A couple of additional ideas have been added.

Spend your time quoting for only those jobs you have a reasonable chance of getting. Many clients of ours look at every job & then don't bother putting in a price for many of them. Why waste time going there, if you're not going to price the job?

Read the brief carefully. Do exactly what you're asked, otherwise don't quote.

Study your buyer. Their website is a good start. If you don't know them, they may be desperate to get your quote because they can't pay their bills. Check their credit rating.

Sell your firm's attributes. What can you do which is so special your firm should be chosen? Don't forget to send in references from customers who were delighted with your work. Blow your own trumpet. If you're great at what you do, tell them, but be specific. Generalised statements are useless.

Double-check your figures. Then proof read your quote. Is it clear & obvious what you are quoting for? You don't want an argument later. Make sure your terms & conditions are included. Every time you strike an argument with a customer, go back & rewrite your terms so that particular problem can't arise again. You should probably read through the quote three or four times before letting it go.

You'll find more hints for successful tendering on the Ministry of Business, Innovation & Employment's Procurement website. It includes videos of buyers talking about what they look for in tenders.

Quick Quote

Whether we want them or not, the New Year will bring new challenges; whether we seize them or not, the New Year will bring new opportunities. ~Michael Josephson

Email alerts from IRD

From time to time IRD send email alerts to customers telling them they have documents to view in their myIR account. Some of you have told IRD that you're concerned about these email alerts. You've asked IRD how customers can tell if the email is legitimate, could there be a privacy breach and could it be sent to the wrong address?

The following features confirm that this email is legitimately from Inland Revenue:

The sender is alerts@IRonline.ird.govt.nz

There is a unique identifier at the bottom of the email below the footer that starts with AID and contains a maximum of 16 characters both alphabetical and numerical.

IRD's disclaimer is specific and doesn't have any links.

You asked IRD if sending IRD numbers in the alert email is a privacy breach. Privacy is maintained in these emails. A breach only occurs when a customer's information is received by someone it doesn't belong to.

The email address the alert email is sent to has been provided by the customer. This makes it unlikely IRD would send a customer's information to another customer's email address. If the customer doesn't keep their contact details up to date with IRD the most likely scenario is that the email alert IRD sends will bounce back to IRD.

There is a further safeguard. When customers contact IRD, they must provide three points of validation, not including their IRD number, so their information remains confidential.

Stephen Larsen and Co
TAX AND BUSINESS ACCOUNTANTS

Important: This is not advice. Clients should not act solely on the basis of the material contained in the Tax Talk Newsletter. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Tax Talk Newsletter is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.

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We care about your Business Prosperity