



Auckland Office

Level 7, 57 Symonds Street
Grafton, Auckland 1010
P O Box 750, Shortland Street
Auckland 1010
Ph: (09) 303-2200

Pukekohe Office

3/23 Manukau Road
Pukekohe 2120
P O Box 456,
Pukekohe 2340
Ph: (09) 238-8077

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Tax payable on rewards for buying from a supplier

Gift cards and rewards given for buying from a supplier are considered taxable income by the Inland Revenue Department.

Just before Christmas, IRD shared its view on how these incentives should be taxed. To keep this article straightforward, we're assuming you're running a regular limited liability company. The same rules apply to sole traders, partnerships, and Look-through companies, except fringe benefits do not apply to the owners – these rewards are simply taxable income.

Trading trusts are a bit different since they don't have working owners. Instead, employees (including beneficiaries or settlors) get incomes subject to PAYE.

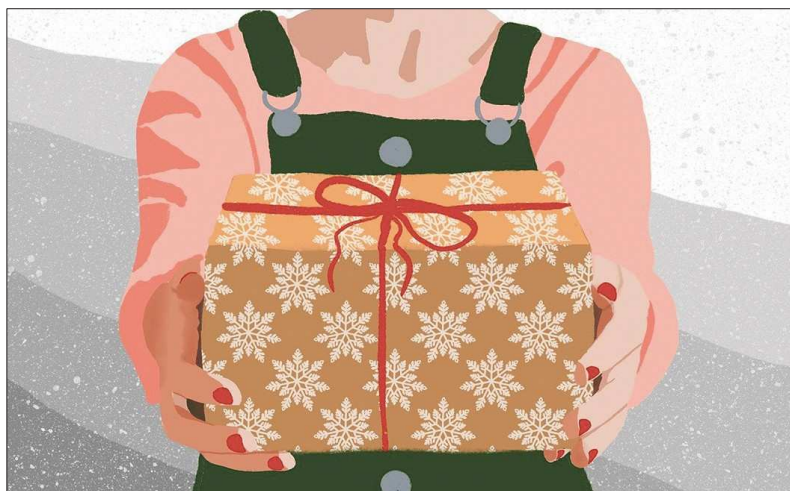
Gift cards

If you're given a gift card that can be used almost anywhere (an open-loop card), it's treated like cash because of its flexibility to be used anywhere.

Taxable Income

If you give the card to an employee, it's like giving them a bonus.

You'll need to deduct PAYE on the "grossed-up" amount. For example, if the card is worth \$200, you'd calculate how much you'd need to pay to give \$200 after PAYE deductions and include this in your PAYE return.



If the card can be used only in specific places (a closed-loop card), the rules are different. It's considered a fringe benefit, so the \$300 per person per quarter limit applies.

If you're a shareholder-employee and keep the card, it's treated as an unclassified fringe benefit **Products from suppliers**

If you get a spending reward like a barbecue, its taxable income based on how much you could sell it for. If you use it in your business, it becomes a business asset. Currently the Inland Revenue is saying you cannot claim depreciation. We are hoping this policy will change. The department is also saying that if you use the rewards to reduce your

debt to the supplier, you don't get a deduction for the cost. Again, we hope that this will also change.

If you give it to an employee, it's an unclassified fringe benefit and follows the same rules as closed-loop cards.

GST

Rewards include GST, so you'll need to pay GST on them.

For the supplier

Businesses giving out these rewards can usually treat the cost as tax-deductible.

Points

Some suppliers offer points instead of gifts. IRD hasn't clarified how to treat these, but it's likely the income will apply only once the points are redeemed for a gift.

TAX

Prepare now for annual accounts

March 31 is approaching – which is the tax balance date for most people. “Get your house in order”, to minimize hassles and tax.

Bad debts

If someone owes you money and you don't think they'll pay, you need to write it off as a bad debt before your balance date. You can't decide later, it's against the rules. Check your debtor's ledger, and if you've done everything reasonable to collect the money but it's still unpaid, write it off. Remove it from your ledger.

If you use a simple system, like keeping unpaid invoices, make it clear the debt was written off before balance date. For instance, write “Written off 20 February 2025” on the invoice, sign it, and scan it back into your records. You can still try to recover the debt later.

If you do get paid, treat it as income under a name like “bad debts recovered”.

Stock-take

Organise your stock and get rid of anything you can't sell. If you still have it at balance date, include it in your stock-take at cost price.

If you want to value stocks below cost, you'll need proof that its market value is lower. For example, show a competitor selling the same product for less, and keep a record.

Make sure you don't double-count or miss anything. For instance, if you've paid for stock that hasn't turned up yet, include it in your stock numbers since you've already paid for it.

Logbooks for motor vehicles

If you need a logbook for your vehicle, remember it must be updated every three years. At some point, Inland Revenue could want to see the logbook, so it's better to stay compliant.

You need to track your travel for three months to calculate how much it is for business versus personal use. We recommend recording both business and personal travel – it's easy to forget a trip, and anything unrecorded will default to personal use.

Take an odometer reading after work on the last day of your financial year and note it down. If you're running a limited liability company and were accounting for private vehicle, use as a fringe benefit (usually 20 percent of the GST-inclusive cost), you don't need a logbook.

Maintenance of equipment

If you've got maintenance work planned and want to reduce your taxable income for the year, get it done before balance date.

Holiday pay

If you pay holiday pay within 63 days of the end of the financial year (by 2 June for March balance dates), you can claim it as an expense in the previous year. Just include it as a creditor on your list of bills owing at balance date.

Split online and direct income

Some people earn part of their income through platforms like Airbnb and part through direct sales.

These people need to split their expenses between income from the online platform and direct income, which adds extra administration. To make things easier, the latest Budget suggests the 8.5 percent GST tax credit provided by the platform could be treated as taxable income. This way, there's no need to split expenses.

Beware the May 7 tax trap

Inland Revenue charges 10.88 percent interest on short paid tax where the year-end tax figure exceeds \$60,000.

Clients often get caught when they get a surge in income.

For example, a medical practitioner might have had tax for the year ended 31 March 2024 of \$80,000. They pay provisional tax based on this figure, increased by 5 percent – \$84,000. But they became a partner during the year and they now get partnership income as well as their normal income.

Let's suppose the total tax for the year ending 31 March 2025 comes out at \$124,000. There's a \$40,000 shortfall (\$124,000-\$84,000) and this is subject to Use of Money Interest charged at 10.88 percent.

Assuming the shortfall of tax is paid six months after 7 May 2025 the interest charge works out as follows: 10.88 percent on \$40,000 for six months = \$2176. By the way, this extra \$2176 is tax-deductible (because it's interest) so don't forget to claim this when you put in your tax return.

If your accounts cannot be done by 7 May 2025, you could guess your income for the year and top up the third instalment of provisional tax. In the example above, You would usually pay \$28,000 on 7 May 2025 but you could avoid the interest charge if you increased this to \$68,000.

Obviously, most people won't know how much to guess, but a best guess is probably going to be cheaper than doing nothing at all.

Keep a close eye on who owes you

In tough times, stay on top of your debts.

Keep a close watch on your debtor's ledger.

Prevention is better than cure
Don't offer credit unless it's necessary. If you do, make sure you check out new customers thoroughly:

- ask for references and get their permission to follow up
- request the business's financial statements
- check public records for any legal judgements against them
- look up their website and read customer reviews online.

If issues arise

Keep detailed records of every follow-up – date, time, and what the customer promised.

When speaking with a customer, get a firm commitment, even if it's to pay in instalments and get specific dates and amounts.

Remind them of their promises each time: "On [date], you said . . . On [another date], you said. . ."

If they still don't pay, send a formal



demand letter outlining the amount owed, a deadline for payment, and the consequences of not paying.

Depending on the amount owed, consider hiring a lawyer or a debt collection agency.

Tip

If a business is going broke, those who have the best chance of being paid are the ones who are the quickest and most persistent.

Double-check your work the smart way

When double-checking your work, use a different method than the one you used to calculate the figures in the first place.

For example, back in the day before advanced computing, you might have added up figures from a bank statement to prepare a GST return. To check it, you'd work backward – compare the totals on your adding machine tape back to the bank statements.

Use common sense, too. Does the number look reasonable? Is it close to what you'd expect?

Sometimes, you just need a rough idea to know your total is likely to be accurate. For instance, if you have a column of numbers ranging from \$1 to \$5000, you can estimate like this:

- if it's \$500 or less, count it as \$0
- between \$500 and \$1499, count it as \$1000
- from \$1500 to \$2499, count it as \$2000, and so on.

With this method, you can quickly get a rough total in your head without needing an adding machine.

BRIEFS

Bitcoin profits taxable Just a reminder – if you make a profit out of investing in a crypto currency, that profit is taxable income. Inland Revenue's rationale is that the only reason you could possibly have for investing in a crypto currency is to make a profit. There's generally no other form of income. Unlike a rental property, you don't get a combination of income and capital gain.

However, some crypto currencies are paying a return on crypto held in the form of more crypto. In those cases, there is an argument that it is purchased for that purpose not sale.

KiwiSaver can start earlier

The Budget proposes to allow people under the age of 16 to be enrolled in KiwiSaver if one of their guardians' contracts directly with the provider in the name of the young person. This is expected to come into effect from 1 July 2025.

Make a guarantee & mean it

When you give a guarantee on a product or service, make it mean something. Saying "we guarantee the highest quality" doesn't mean anything. We noticed an advertisement recently on the wall at Mitre10 saying: "We will replace any plant you buy from us if it fails to thrive. Just return it within 12 months with proof of purchase." This is a clear guarantee.

Take back your receipt and the dead plant and they'll replace it. Mitre10 might get a customer or two who don't take care of a plant, but the risk is a small price to pay for honoring a real guarantee.

Expect 2025 to bring more technology changes

After the emergence of AI as a viable business tool in 2024, companies in 2025 can expect even more groundbreaking advancements in technology.

These advancements are reshaping industries and redefining how work is done. Small businesses can't afford to be left behind.

Leading authorities in artificial intelligence (AI) and machine learning (ML) say these innovations will allow customer experiences to be more personalized, automation to be enhanced, and analytics to become more predictive. Generative AI will expand its applications, from creating content to designing products, giving businesses new tools to boost efficiency and creativity.

Will it mean the loss of jobs? Yes and no. All new technology has the ability to reduce work tasks and jobs and do someone out of work somewhere, but it also provides work in new areas.

Adaptability in the workforce is key, and employers should encourage it. The Internet of Things (IoT) devices will likely become more prominent, offering deeper insights into operational efficiencies, supply chain management and customer behaviour. While most people's eyes glaze over

at the concept of quantum computing (look it up), it's likely to advance further to solve complex problems in industries such as finance, healthcare and logistics.

Blockchain technology will probably evolve beyond cryptocurrencies, becoming pivotal in secure transactions, supply chain transparency and management of people's identity.

As we become more reliant on technology, cybersecurity will become a top priority, especially for businesses. Zero-trust architecture and AI-driven threat detection systems will be crucial for safeguarding data and infrastructure. How can small businesses keep up? The trick is to be informed. Think about what happens in your business, especially the time-consuming tasks. See if there's a new tool to do the job better, whether it's customer relations software for a restaurant or technology that will detect water leaks better for a plumber.

Whatever your business, there are almost always better ways of doing what you do now. Find out what they are, and make sure your business is operating as efficiently as it can.



TAX CALENDAR

7 April 2025

Terminal tax for 2024 (March, April, May balance dates). For all clients except those who have lost their extension of time privilege.

7 May 2025

Third instalment of 2025 Provisional Tax (March balance date).

28 May 2025

First instalment 2026 Provisional Tax (December balance date).

31 May 2025

Deadline for Fringe Benefits Tax returns.

Emergency events

The government is looking at creating a standard tax response to emergency events. It would involve amending primary legislation to include generic tax measures to be worked out based on past emergencies, such as tax rollover relief and turning off the bright-line test.

Don't make trusting home apps a leap of faith

The case of a woman who was left stranded because she couldn't access an app to open her car door highlights the pitfalls of trusting too much in technology.

Just like car apps, there are apps to operate business equipment and home appliances – often called smart home apps. They can usually be trusted to work, but their reliability depends on several factors.

Here's a few tips to help you work out if you should trust them to work properly:

Manufacturer reputation

Trusted brands – Apps from reputable appliance manufacturers (such as Samsung, LG, Philips etc.) or smart home platforms (such as Google Home, Amazon Alexa) are generally reliable and secure.

Unknown brands – Be cautious about apps from lesser-known manufacturers or third-party developers.

Connectivity

Wifi stability – Many smart home apps rely on stable wifi. If your network is inconsistent, the app's performance might not work well.

The Cloud – Some apps rely on cloud services, meaning outages on the manufacturer's servers can disrupt functionality.

App design and updates

User-friendly interface – Well-designed apps with regular updates are more likely to work smoothly.

Bug fixes – Frequent updates indicate the developer actively resolves issues.

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