



THE “DEDUCTIBLES”

Claiming business tax deductible expenses doesn't have to be difficult. But knowing which expenses you can claim is key to minimising the amount of tax you have to pay. To help you make a confident choice we've put together a complete list of expense categories with a short description for each that includes the relevant tax rules.

Business expenses often have specific rules that need to be applied to them, e.g. differing GST treatments on use of home office components. As you've probably noticed the IRD doesn't provide a lot of in-depth information when it comes to tax deductible expenses. As a result it can be difficult to know which expenses you can claim and the specific rules that need to be applied.

Below you'll find a detailed range of business expense categories. Each category has been specifically designed to match the New Zealand tax system and the needs of the self-employed business person.

HOME OFFICE EXPENSES



If you use an area of your home for your business, such as your home office, garage or a workshop, you can claim a portion of the household expenses and reduce your tax bill. How much you can claim of each expense depends on the portion of the home you use for work. E.g if your home is 100 square metres and your working space is 10 square metres — 10% of the total area — you can claim 10% of expenses.

Water Rates – Water rates bill for the property.

Home Insurance – House or contents insurance for the property.

Cleaner – Commercial cleaning fees or cleaning products for the property. You cannot claim for your time if you are doing the cleaning yourself.

Security – Security/alarm system installation or monitoring. You cannot claim the cost of the alarm system itself if this is over \$1,000 as it is a capital cost.

Rates – Council rates on your property if you own the home.

Rent – Rent you've paid to live at the property. Rent does not include GST.

Power/Gas/Firewood – Power or gas bill for the property.

Internet & Phone – Internet or landline for the property or your mobile phone bill. Internet and phone is claimed at a standard rate of 50%. If you have a phone that is only used for business you can claim 100% of the cost by using the 'Telephone Expense' category.

Mortgage Interest – Mortgage interest only, and not the principal portion of your repayments. Mortgage interest does not include GST.

Repairs & Maintenance – Commercial labour or material costs to repair and maintain the property. You cannot claim for your time if you are doing the work yourself. And you cannot claim any alterations that add value to the property, such as adding an extension.

BUSINESS VEHICLE EXPENSES

OPTION ONE

If you use your own vehicle for business, you can claim part of the running costs and reduce your tax bill. You can claim up to 25% before you need to keep a logbook. To claim over 25% you need to keep a logbook for 3 months every 3 years. If you use your vehicle only for business you can claim 100% of the costs, unless your home is also your primary workplace (special rules apply), in this case Inland Revenue would expect that you have an alternative vehicle available you for private use. Travel between home and work is generally not considered business use.



For more detailed information on your vehicle please discuss this with your client support person at Perriams as your business structure will also have an impact on your vehicle expense claims.

Depreciation – Calculated annually.

Fuel – Fuel for your business related vehicle.

Registration & WOF – Vehicle registration or warrant of fitness fees.

Maintenance & Tyres – Commercial labour or material costs to maintain your vehicle. If you're doing the maintenance yourself, you can't claim for your labour.

Parking & Tolls – Parking or tolls related to a work trip. But you can't claim fines or tickets.

Car Insurance – Insurance on your work related vehicle.

Road User Charges – Road user charges for your work related vehicle.

OPTION TWO

As an alternative you can claim your vehicle costs based on the Inland Revenue mileage rate (currently 0.79c per kilometre) based on the actual business kilometres travelled. No GST claim is available when using this option.

This option will save you keeping receipts of the costs claimable under option one above but will require you to keep a logbook as evidence of the business kilometres travelled.

GENERAL BUSINESS EXPENSES



All of the general expense categories listed below are claimed at 100%. Apart from your ACC levy which has its own specific conditions. If you're unsure exactly which category to use, don't worry, they're all claimed at 100% so selecting one category or the other won't have an effect on your tax calculations.

General Merchandise – General items you purchased for use in your business.

Digital Products & Services – Work related digital products or service subscriptions.

Printing & Stationery – Work related printing or stationery.

Tools & Materials – Tools or materials you purchased for use in your business. If tools purchased are over \$1,000 they are capitalised and then depreciated.

Postage/Shipping – Sending goods for business.

Advertising/Marketing – Advertising or marketing your business.

Education & Training – Professional development costs (not obtaining a degree). Post graduate university fees may be deductible if there are undertaken whilst trading.

Depreciation – on assets required for business purposes.

Subcontractor – Payments to subcontractors who assist with your business. Watch out to see if the subcontractor is GST registered or not.

General Services – Business related service fees (subject to limitations).

Legal & Accounting – Business related legal and accounting fees (subject to limitations).

Equipment Repairs – Repair costs for business related equipment.

Business/Income Insurance – Income or business related insurance costs.

Business Registration – Business or intellectual property registration fees.

Manufacturing – Manufacturing costs related to your business.

Hirage – Hiring items to help you generate income.

Licences – Work related licence or permit fees.

Clubs & Memberships – Professional membership fees. You can't claim your gym membership.

Bank Fees – Business related bank account or merchant service fees. Bank fees don't include GST.

Clothing & Apparel – Business branded clothing or protective work clothing. You can't claim general clothing that you wear to work or even clothing that you bought specifically for work such as suits.

Gifts – Gifts for employees or clients **other** than food or drink. You can't give gifts of cash and any gifts for employees must have a maximum value of \$300 per quarter per employee (up to \$22,500 per annum). Staff discounts are considered a gift.

ACC Levy – Payment of your ACC levy invoice. Note, you can't claim the Earners' Levy portion of your ACC invoice (we will adjust this for you).

Travel (business related) – Flights, accommodation, and meals (whilst travelling out of town). Not all costs will be deductible if out of town travel also had a significant private purpose (e.g. out of town travel for a week with only two business related days).

Office related expenses – Including the cost of coffee, tea, milo, and milk provided for morning teas at an office location.

Feasibility expenses – Feasibility expenses under \$10,000 is immediately deductible (unless relating to shares, goodwill, and land). Feasibility expenses in excess of \$10,000 can be claimed (spread over 5 years) only if it related to a potential depreciable asset which is later "abandoned".

MEAL AND ENTERTAINMENT EXPENSES

Work related meals and entertainment expenses are categorised in the following categories and are claimed at 50% by default. If you're unsure what to claim, a good rule of thumb is if it's helping you earn your income it's usually claimable.

Food & Drink – Food or drink with/for current or potential clients, staff or suppliers. Claimed at 50%.

Entertainment & Recreation – Entertaining current or potential clients, staff or suppliers. Claimed at 50%.

We have **attached** our example guide to claiming entertainment expenses.

EXPENSES THAT ARE NOT TAX DEDUCTIBLE

- Childcare costs.
- Private expenditure (obviously), including home to work travel.
- Fines. Generally, although in some circumstances these can be claimed. (For example, a courier incurring a double-parking infringement notice while delivering an urgent package).
- Life insurance – unless is required for financing from the bank (however if deductible, all claims received will be taxable).
- Medical insurance
- Feasibility expenditure – relating to goodwill, shares and land.
- Lunches and private meals – unless these are incurred travelling for business. Non-deductible means include meals "in town" whilst travelling between local clients.
- Unsuccessful software development. Software development is generally required to be capitalized but can be depreciated at 50%
- Legal expenses - \$10,000 per annum, need to be analyzed to see if any are of a capital nature.

GENERAL RULE ON DEDUCTIBILITY

The general rule is that a taxpayer is allowed a deduction for expenditure to the extent to which it is:

- Incurred in deriving your taxable income
- Incurred in the course of carrying on a business for the purposes of deriving your taxable income

THE TEST OF DEDUCTIBILITY

The test of deductibility becomes a matter of degree and so a question of fact, to determine whether there is **sufficient relationship** between the expenditure incurred on the one hand and the income earning process on the other.



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ENTERTAINMENT EXPENSES

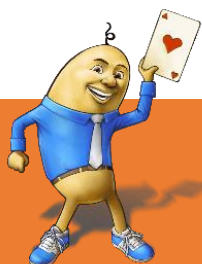
If you provide entertainment for staff or clients some of these business entertainment expenses are tax deductible. What follows are some examples of what is and is not claimable:

ENTERTAINMENT EXPENSES TABLE 50% DEDUCTIBLE		
	50% Deductible	100% Deductible
Friday night drinks for team members or clients in the office	✓	
Friday night drinks for team members or clients in the pub	✓	
Hire of a launch to entertain clients	✓	
Restaurants providing food and drinks to team members at a social function in their restaurant	✓	
Sponsoring local sports team by providing a meal for the team at their grounds after each game	✓	
Staff Christmas party on or off the business premises	✓	
Taking a client out to dinner while you are out of town on business in New Zealand	✓	
Taking a client out to dinner	✓	

ENTERTAINMENT EXPENSES TABLE 100% DEDUCTIBLE

	50% Deductible	100% Deductible
Dinner for Sales Rep while out of town selling and no client present		✓
Donating food to a Christmas Party in a Children's Hospital		✓
Providing a meal for a Journalist while reviewing your business for their column		✓
Providing morning and afternoon tea for your team		✓
Sandwiches provided at a lunchtime meeting of Supervisors		✓
Sponsoring a local sports team		✓

To support your claims for business entertainment expenses you should keep invoices and receipts. In particular, make a note as to whom the client was that was entertained and what the purpose of the meeting/get together was.



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