

# Get the accounts sorted now

**It's time to tidy up your accounts ready the end of the tax year. You need to consider the following points:**

- Write off bad debts before year end. It is not permitted to backdate a claim for a bad debt write-off performed after balance date. Leave a trail of evidence of when you performed the write-off. If your business is very small and you control your debtors by keeping a file of copies of unpaid invoices, write on the copy "written off on ..... (date)" and add your signature.
- At the end of the last day of the financial year, those who use a kilometre rate to claim for car running expenses need to get an odometer reading. Put a reminder in a place where you will not miss it.
- Small assets costing \$1000 or less

can be treated as expenses. If you buy more than one at the same time and they have the same depreciation rate, you need to add the amounts together for the purposes of the threshold.

- Bigger income earners – those who pay \$60,000 or more tax per year – should consider whether their incomes have risen significantly. If this is the case, they could save themselves Use of Money Interest, charged at 7 percent, by increasing their third instalment of provisional tax (7 May 2022 for March balance dates). You will hit the \$60,000 threshold at \$204,820 of income, assuming no income is taxed at source.

- If you need to keep a vehicle logbook, remember you are required to take a fresh three-months sample every three years. If the proportion of your business use has risen, you could do a fresh logbook earlier.

- Clients with a 31 March balance date should start organising their stock for stock-taking. All stock will need to be valued. If a line won't sell, you are entitled to value it at market value so long as you can show how you arrived at market value. It might be better to get rid of it in advance of balance date.

Any maintenance carried out and incurred before balance date will normally be an expense so long as it does not add value to an asset, but rather brings it back up to standard.

## Cost of working from home

**As a result of Covid-19, some employers and employees have decided to make working from home permanent.**

This raises the issue of what it costs the employee for the use of their home and the extent to which an employer can reimburse for this and have the payments tax free for the employee. Inland Revenue has considered this matter.

The general principle is an employer can reimburse the employee for a share of costs.

Jane works from home and pays rent of \$400 a week. Ten percent of the area of her home is used for work so she can be reimbursed \$40 a week.

Jane's office has a desk, chair, bookshelves, carpet, curtains and so on. Inland Revenue recognises it is probably impractical to reimburse for the depreciation of these assets. It has therefore set a one-off payment of \$400 as the maximum

amount an employer can reimburse an employee for equipment.

Once this has been paid it can never be paid again to that employee.

You should note you do not have to choose the \$400 option. You are entitled to work out an actual cost (or a reasonable estimate) of the assets and apply the depreciation rules if you wish.

If an employee uses an asset principally for business, the maximum claim permitted is 75 percent of the yearly depreciation loss on the asset, unless it costs less than \$1000, in which case you can take up to 75 percent of what it cost.

Use of the telephone is treated differently. You are entitled to work out a reasonable estimate of the share of the cost of using an employee's telephone, but



this could be impractical. Inland Revenue recognises this.

Two situations arise:

- Employee does not use their own phone or usage plan – maximum reimbursement up to \$15 a week.
- Employee does have their own equipment and/or usage plan – maximum reimbursement up to \$20 a week.

All reimbursements are exempt from tax.

## Property rules: Repairs or an asset?

Suppose you have a rental property and replace the carpet. Is the cost repairs or is it a new asset? Do the same rules apply to lino?

Determining how to treat some expenditure, particularly in relation to property, can be complex. The best thing to do is to provide us with full information about what you have done.

Some expenditure on property can be the creation of a new asset while other can be repairs or maintenance.

When considering repairs, Inland Revenue tells us to look at the asset. For example, if you buy some lino, you have to stick it to the floor of the house so it becomes part of the house. Therefore, if you replace the lino, the cost is fully tax deductible, because it is repairs to part of the house.

Carpet can be an asset in its own right, because it doesn't get stuck to the floor and could be pulled up and sold. Therefore, carpets could be either a separate asset and valued at the time you buy the house or it might have been ignored and therefore would form part of the house. If it has been treated as a separate asset and you replace it, you write off the old carpet and you depreciate the new carpet. If it has been treated as part of the house replacing it becomes repairs and is therefore fully tax



## Clearing up confusion over use of home costs

Many business people are confused about the use of home calculation.

### Outside expenses

Apportion any costs incurred on the outside of the house between the business use and the non-business use on an area basis. So if you have 10 percent of your house used for business, you can claim 10 percent of costs like mending the roof.

### Inside expenses

Any expenses not relating to the area used for business are not claimable. For example, if you carry out some maintenance work in the kitchen, which is not an area principally used for business, none of the cost is tax deductible. On the other hand, if maintenance work is carried out in the area where you work, it is fully tax deductible. If the expenditure relates to the whole house, it can be apportioned on a reasonable basis.

### Area used for work

To be entitled to a claim for the use of your home, you have to have an area, which is a **separately identifiable** part of the house, which is used **primarily** for

business purposes. So, if you work at the kitchen table and this area is used primarily for dining, you get no claim. However, if you use a corner of the dining room as an office, this share of the dining room could be a legitimate claim for use of home.

Also, if you choose to work at home but could as easily do the work at your business premises, but it simply suits you to work at home, you don't get a deduction. This is because, in this circumstance, working at home is merely a convenience and not a necessary expense in running your business.

### How to do the calculation

You are entitled to work out actual costs and take a share of these. However, there is a shortcut. Inland Revenue will provide a per square metre rate to use to cover all the costs except for your mortgage interest and rates (or rent). So you can just apportion these two expenses and then use the Inland Revenue metre rate for the rest of your claim – power, depreciation, repairs and so on.

## COVID: Refunds and leases

### Commercial leases

The Property Law Act is to have a clause inserted relating to commercial leases. It is to require a "fair proportion" of rent to be paid where a tenant has been unable to fully conduct their business in their premises due to Covid-19 restrictions.

Landlords and tenants will need to agree to an amount of rent that is fair. If they don't the matter will need to be settled by arbitration or mediation.

This new law was effective from 28 September 2021.

## Fringe Benefit Tax – annual registration

If your gross PAYE and ESCT is less than \$1 million you can apply to lodge annual fringe benefit tax returns instead of quarterly. Advantages:

- The \$300 limit per employee per quarter general employee exemption becomes \$1200 per year, enabling you to make gifts worth more than \$300
- Less administration

# Take action if you lose your cellphone

As business people, we rely on our cellphones for information as well as communication.

Losing a phone is serious. It's likely to contain all your useful information – including your passwords for apps and financial accounts. So if you know it's not simply mislaid in a jacket pocket or purse, you need to act fast to protect yourself, your business, and data about your clients and friends.

The first task should be to delete your device information and lock it. You can do this with Google's Find My Device for Android or Apple's **Find My iPhone**. These programs can track your phone, so it will tell if you've left it at work or dropped it in the garden. If it's somewhere strange, you'll probably want to just get the information off the device quick smart.

In Apple, log into your iCloud account; for Adroid users go to Google's Find My Device page. From there you will want to lock your phone and wipe its contents. We



## Telephone tips

- If the person answering doesn't recognise your voice, start by identifying yourself, including your business name.
- If you leave a message, don't forget to mention your phone number. Not everyone will note it down even if you're using a cell phone. Say it slowly and repeat it.
- When answering the phone, say who you are and state your business name.
- Answer the phone quickly – no more than three rings.
- Your voice reflects your mood. Be cheerful.
- Talk clearly. Some people have difficulty hearing.



won't go into how in this article, but if you haven't set it up already, your internet provider or phone manufacturer should be able to help.

Then tell your mobile service provider. They can take your phone off the network and make it harder for someone to steal information.

Of course if it's a work phone, there's likely to be business-related information on it, so tell the boss straight away.

Then there's the laborious job of changing passwords. Sorry, it has to be done. Start with the ones that could have the most dramatic effect if hacked – Google, Apple, Microsoft, your online banking.



## TAX CALENDAR

**7 April 2022**

Terminal tax for 2021 (March, April, May and June balance dates). For all clients except those who have lost their extension of time privilege.

**9 May 2022**

Third instalment of 2022 Provisional Tax (March balance date)

GST for March 2022

**30 May 2022**

First instalment 2023 Provisional Tax (December balance date)

**31 May 2022**

Deadline for Fringe Benefits Tax returns

## BRIEFLY

### Nowhere to hide

it is going to become more difficult for people to avoid paying child support by moving to another country. New Zealand has joined 43 other countries in ratifying the Child Support Convention. Our country will be able to request collection and enforcement of child support and domestic maintenance from any member of the 44 countries.

### GST and layby goods

Some businesses buy goods on layby. If you do, you should note you can't claim GST on the payments until the goods are yours. While they are on layby you don't own them. The same doesn't apply to hire purchase where GST can be claimed in full upfront.

### Tax by stealth

Bracket creep is where inflation ensures your income rises over time and if the tax thresholds are

not adjusted your income creeps up into a higher tax bracket. The Government progressively takes a greater proportion of it. In August last year Parliament rejected a Bill suggesting the tax rates be adjusted every three years to allow for bracket creep.

### Save on bookings

In our Spring 2021 edition we said savings could be made by avoiding online booking agents. We had it confirmed when we heard John had booked in a Queenstown hotel. A friend was going to be staying at the same place for a week, a few days later. John told the proprietor his friend was coming to stay. "Oh yes," the proprietor said. "They have booked through an online booking agency. Tell them to cancel the reservation and rebook with me. I can save them \$500." Which is exactly what happened.