YOUR GUIDE TO

DEDUCTIBLE EXPENSES

WHAT YOU **ABSOLUTELY** NEED TO KNOW

Absolute
Accounting Solutions Ltd
OUR BUSINESS IS ABSOLUTELY YOUR BUSINESS

INTRODUCTION

In the day to day running of your business, you're likely to incur a number of expenses. Some of these can be claimed as tax deductible come tax time, which means they can be deducted from your income to arrive at your net profit or taxable income.

We've created this guide to help you determine what you can and cannot claim as a business expense either in full or partially.

This document provides information on:

- Client Gift Expenses Report
- Entertainment Expenses Report
- Entertainment Expenses Table
- Home Used as Office Expenses Report
- Travel Expenses, Domestic and International Report
- FBT on Company Vehicles Report

Absolute
Accounting Solutions Ltd
Accessible | Articulate | Accurate | Affordable

Client Gift Expenses and their Tax Deductibility

If you provide a gift to a client, depending on the type of gift it may be completely deductible or only 50% deductible.

If the gift is in the nature of 'entertainment', such as food and wine, it will be 50% deductible.

You may find the following table useful to determine the deductibility of your various client gifts.

Client Gift	**50% deductible**	**100% deductible**
Bottle of wine or six pack of beer	✓	
Meal voucher	✓	
Basket of gourmet food	✓	
Box of chocolates/biscuits	✓	
Christmas ham	✓	
Calendar		✓
Book or gift voucher		✓
Tickets to a rugby game (but not corporate box entertaining)		✓
Movie tickets		✓
Presents (not food or drink)		✓

Phone 07 349 0795 **Email** maria@absoluteaccounting.co.nz

Entertainment expenses
Income tax and GST treatment

If you provide entertainment for your team, clients or any other business contact, some of your business entertainment expenses are tax deductible.

FULLY DEDUCTIBLE EXPENSES

The following lists entertainment expenses that are fully deductible:

1. **Meals while travelling on business**
   The cost of a meal while travelling on business is fully deductible as long as there are no business contacts present.

2. **Conferences**
   The cost of food and drink at a conference or business course, which continues for four hours or more, is fully deductible.

3. **Meal allowances**
   A tax-free meal allowance paid by an employer to an employee working overtime is fully deductible.

4. **Executive dining facilities**
   The cost of a light meal provided to employees in an area reserved for senior management is fully deductible when the meal is provided during the course of the employees' normal duties.

5. **Morning and afternoon teas**
   Morning and afternoon teas in an executive dining facility or at a conference are fully deductible.

6. **Promotions open to the public and trade display**
   Entertainment provided by a business as part of a function open to the public, or at trade displays to advertise the business, are fully deductible.

   For example: The costs of crockery/glassware hire, food, room hire, equipment

7. **Off-shore entertainment**
   Entertainment enjoyed outside New Zealand is fully deductible.

8. **Monetary sponsorship**
   The cost of sponsoring entertainment is fully deductible where the sponsorship is principally for promotion or advertising to the public.

9. **Entertainment provided for market value**
   Providing entertainment for market value is fully deductible.

   For example: the cost incurred by a restaurant in providing meals to patrons.

10. **Samples**
    The cost of providing samples for advertising or promotional purposes is fully deductible.

11. **Charitable entertainment**
    Entertainment provided to members of the public for charitable purposes is fully deductible.

    For example: A business donates food to a Christmas party in a children's hospital.

12. **Reviewers**
    The cost of providing entertainment to a person to review your business for a paper, magazine, book or other medium, is fully deductible.
13. **Licensed premises operators**
    Costs incurred by a licensed premises operator in providing a special offer are fully deductible.

    For example: Happy hour of cheap drinks or two-for-one price meals.

50% DEDUCTIBLE ENTERTAINMENT EXPENSES

The following lists the types of entertainment where deductibility is limited to 50%:

- The cost of corporate boxes, corporate marquees or tents
- The cost of accommodation in a holiday home or time-share apartment
- The cost of hiring a pleasure craft
- The cost of food and beverages enjoyed in any of the three locations listed above, or food and beverages enjoyed on/off the business premises for a social event

GOODS AND SERVICES TAX (GST)

Where you are registered for GST, you can usually claim the full GST portion on all entertainment expenses you have incurred throughout the year. If the entertainment expenses are only 50% deductible, you need to make an adjustment once a year for the 50% non-deductible portion.

The GST adjustment is calculated by multiplying by 3 and dividing by 23 the non-deductible entertainment expenses, exclusive of GST. This needs to be returned in the GST return in the period your income tax return is filed or due to be filed.

Many clients find it easier to claim the correct portion as they go, throughout the year.

FRINGE BENEFIT TAX (FBT)

If employees (including shareholder-employees) can enjoy an entertainment benefit at their discretion, or if the benefit is enjoyed outside New Zealand, and the benefit is enjoyed outside their employment duties, this benefit will be subject to FBT.

Any entertainment expenses that come under the 50% deductibility rules are not liable for FBT.

GOOD RECORDS ARE IMPORTANT

To support your claims for business entertainment expenses, you should keep invoices/receipts, attaching a note recording the purpose of the expense, who was present and their relationship to your business.

ENTERTAINMENT EXPENSES THAT ARE NOT DEDUCTIBLE

There are some entertainment expenses that are not deductible. Where the expense is not related to generating income for your business, it will not be deductible. For instance, it would not be deductible if you take your family (who don't work with you in your business) out for dinner to thank them for being patient while you worked long hours and pay for this using the business credit card.

OUR RECOMMENDATION

The rules are complex. For big ticket items, ask for our advice.

Absolute
Accounting Solutions Ltd
Accessible | Articulate | Accurate | Affordable

Entertainment Expenses Table

		50% DEDUCTIBLE	100% DEDUCTIBLE
1.	Friday night drinks for team members or clients in the office.	✓	
2.	Friday night drinks for team members or clients in the pub.	✓	
3.	Hire of a launch to entertain clients.	✓	
4.	Restaurants providing food and drinks to team members at a social function in their restaurant.	✓	
5.	Sponsoring local sports teams and receiving tickets to their corporate box in return. 50% of the value of the tickets would be deducted from the total sponsorship.	✓	
6.	Sponsoring a sports team by providing a meal for the team at their grounds after each game.	✓	
7.	Staff Christmas party on or off the business premises.	✓	
8.	Taking a client out to dinner while you are out of town on business in New Zealand.	✓	
9.	Taking a client out to dinner.	✓	
10.	A weekend away for the team at holiday accommodation in New Zealand. Includes any food and drink provided.	✓	
11.	Dinner for Sales Rep while out of town selling and no client present.		✓
12.	Donating food to a Christmas party in a children's hospital.		✓
13.	Providing entertainment, including food and drink at your promotional stand for the local Christmas Festival open to the public.		✓
14.	Employee's salary package includes a taxable allowance for entertaining clients.		✓
15.	Golf club subscription for business owner paid by the Company.		✓
16.	Gym membership for team member paid by employer.		✓
17.	Providing a meal for a journalist while reviewing your business for their column.		✓
18.	Providing morning and afternoon tea for your team.		✓
19.	Sandwiches provided at a lunchtime meeting of supervisors.		✓
20.	Sponsoring a local sports team.		✓
21.	Taking a client out to dinner while you are out of town on business outside New Zealand.		✓
22.	Holding the team Christmas party in Fiji.		✓

Phone 07 349 0795 **Email** maria@absoluteaccounting.co.nz

Home Used as Office Expenses

NOTE: The Taxation (Business, Exchange of Information, and Remedial Matters) Bill has been passed and introduces a new option for self-employed taxpayers to calculate home office expenses. Under the new rules, self-employed taxpayers can elect to calculate the deduction for home office expenses on the following basis:

- Determining the area of the building that is separately identifiable and used for business purposes and calculating its ratio to the total area of the building, and
- Multiplying this ratio by a rate set by Inland Revenue

For example, a self-employed taxpayer who uses 10m2 out of a total building of 100m2 for business purposes such as a home office would multiply 10/100 x the Inland Revenue rate to determine their home office expense deduction.

GENERAL RULE

Where a self-employed taxpayer uses his or her home partly to further the conduct of a business, he or she is entitled to a partial deduction for the outgoings which relate to the use of the home for the work related activities. These include:

- Heating
- Lighting
- Rates
- Insurance
- Mortgage interest/rent
- House and contents insurance
- Repairs and maintenance
- Telephone rental

The portion of outgoings deductible is based on the area used for the business, expressed as a percentage of the total area of the home:

$$\frac{\text{Area used for business purposes}}{\text{Total area of home}}$$

It is not absolutely necessary to set aside a specific room for business purposes, nor is it necessary for your home to be physically changed to suit the business.

However, in cases where a separate room is not set aside, it may be appropriate to apportion the outgoings based on criteria such as the amount of time spent on income-earning activities as home as well as the area used. Examples of areas likely to be used for business purposes include:

- An office or office area
- A storeroom or storage area
- A workshop
- A garage or part of a garage which is used to house a business vehicle

Our Recommendation

Do the maths, and think laterally. Most people who are self-employed find it is impossible to completely separate business life from home life. Keep written workings of your calculations, and be sure to keep records of your outgoings in a safe place.

Travel Expenses, Domestic and International

A claim for travel expenses needs to satisfy the general deductibility test.

Generally, a deduction for travel expenses is calculated on a factual basis. That is to say, a deduction is allowed for work-related travel including:

- Travel between business places
- Travel overseas
- Travel to acquire plant

A deduction is not allowed for travel between your home and place of business, unless your residence is used as a work base.

Practically speaking, the best way to ensure that you have sufficient proof of the connection between the travel expense and your business is to record a memo of the nature of the trip and its relationship to your business with the expense invoice/receipt.

TRAVEL AND CAPITAL EXPENSES

Generally, travel expenses relating to the purchase of business assets is regarded as capital and looked upon as part of the cost of the machinery.

However, a deduction is allowed for travel expenses undertaken to study new machines or processes.

OVERSEAS TRAVEL EXPENSES

Overseas travel expenses are deductible to the extent that they are incurred in the course of the taxpayer's business. Any element of holiday expenditure is not deductible.

Given the Inland Revenue Department's approach to overseas travel expenses, the best advice we can give you is to complete a detailed travel itinerary and diary. You should record:

- Letters of introduction
- Business contacts/cards
- Firms visited
- Business conducted
- Diversions from the business itinerary for personal purposes
- All items of expenditure, as well as the total cost

WHAT IF I'M MIXING BUSINESS WITH THE CHANCE TO TAKE A HOLIDAY?

Where the trip contains a private or capital element, an apportionment of the costs may be necessary. Inland Revenue considers the facts of each case. However, in general terms, any apportionment will work as follows:

- 100% deduction – where the holiday aspect is incidental to the work element
- Apportionment – where there are two purposes for the trip, both truly separate
- No deduction – where the work aspect is really just incidental to the holiday

Where the travel is by group tour, it is common for the tour organiser to supply the IRD with the necessary details. In such cases, the Department usually gives overall approval in principle and the individual's travel expenses are generally accepted without further question.

TAXPAYER'S SPOUSE/FAMILY MEMBERS ACCOMPANYING

Where a taxpayer travels for business, accompanied by spouse or family members, in most cases, the companion's travel expenses will not be deductible. If the companion is accompanying the taxpayer simply for companionship or to attend social functions, then this expenditure will not have a sufficient nexus with the taxpayer's business or income-earning activity.

Expenses for a taxpayer's companion will be deductible if there is a sufficient connection between expenses incurred and the taxpayer's income-earning or ability to carry on the business. Inland Revenue will consider whether the companion has either knowledge of the business being undertaken or possess specialist skill or expertise to be able to provide support in a material way. If this exists, Inland Revenue will view the expenditure as having a sufficient nexus with the taxpayer's business or income-earning activity.

Any expenditure which is of a holiday or private nature should not be claimed.

INVESTOR'S TRAVEL EXPENSES

In some cases, an investor may be able to claim a deduction of the travel expenses incurred in connection with the management or administration of investments. The investor would need to show that there is a sufficient connection between the travel expenses and the business.

OUR RECOMMENDATION

It really is best to consider the taxation implications of such travel before the trip is planned rather than on your return to New Zealand!

We suggest that you make an appointment to see us so that we can go through your travel expenses claim.

FBT on Company Cars

Note: The Taxation (Business, Exchange of Information, and Remedial Matters) Bill has been passed and introduces a new option for close companies providing motor vehicle to shareholder-employees to opt between paying fringe benefit tax (as detailed below) or claiming expenses for business travel using the motor vehicle expenditure rules. Under the proposed new rules, a close company can elect to apply the motor vehicle deduction rules and therefore not have pay FBT on the benefit provided to shareholder- employees.

The election will apply only to new motor vehicle arrangements between close companies and shareholder-employees, and will continue to apply until the close company stops using the motor vehicle for business use or until the close company disposes of the motor vehicle.

GENERAL RULE

As long as the company makes a vehicle available for an employee (including a shareholder-employee), the company will be subject to fringe benefit tax (FBT). This applies whether or not the vehicle is actually used for private purposes.

EXEMPTIONS

Various exemptions from FBT apply. These are summarised below.

WORK-RELATED VEHICLES

It is important to understand that not all 'business' vehicles are 'work-related vehicles' for FBT purposes. In order to qualify as a work-related vehicle, all four of the following requirements must be met:

1. The principle design of the vehicle cannot be for carrying passengers. Vehicles that are likely to qualify include Utes, light pick-up trucks, vehicles that are permanently without rear seats such as vans, station wagons, hatchbacks, panel vans, and four wheel drives. This will also apply if the rear seats have been welded down or made unusable because of a permanent fixture such as shelving. Taxis are also included, as are minibuses.
2. The company's name or logo must be permanently and prominently displayed on the exterior of the vehicle. Magnetic or removable signs are not acceptable.
3. The company must notify affected employees or shareholder-employees in writing that the only private use allowable is travel between home and work, or travel incidental to business travel. It is advisable that this notification be by way of letter, rather than just referring to it in an employment agreement. We can help you prepare the right documentation here.
4. The company must record checks (which must be quarterly) on each vehicle, to ensure that the restriction is being followed. For example, the company might check the logbook and petrol purchases.

If a work-related vehicle meets the four conditions above but is available for private use on certain days, such as Saturdays and Sundays, a partial exemption is available.

If a vehicle is stored at a company shareholder's home which is also the company's premises, there must be no private use of the vehicle at all in order to qualify for the above exemption.

If the shareholder's home is a secondary place of business there must be a private use restriction to qualify for the exemption. The Company would have to show that the vehicle is not available for private use.

Vehicles with a gross laden weight of more than 3,500 kilograms are not subject to FBT. This tends to cover all larger trucks and buses.

DAILY EXEMPTIONS

Daily exemptions apply for certain emergency calls and some out of town travel and can reduce the amount of FBT payable for vehicles otherwise available for private use.

HOW IS THE FBT CALCULATED?

- FBT is calculated based on either the vehicle's cost price (including GST), or on the vehicle's tax value
- A motor vehicle's tax value is its value for tax depreciation purposes at the beginning of the relevant tax or income year
- Once you have chosen to use either the cost or tax value option you must continue that option until either the vehicle is sold, the vehicle lease ceases or five years have passed
- If you are using the cost price option, FBT is calculated at 5% per quarter of the GST inclusive cost price of the motor vehicle, multiplied by 49.25%, being the Fringe Benefit Tax
- If you are using the tax value option, FBT is calculated at 9% per quarter of the GST inclusive depreciated value of the motor vehicle, multiplied by 49.25% being the Fringe Benefit Tax
- The FBT liability is reduced by the number of the days the vehicle was not available for private use or was exempt from FBT
- FBT is normally payable quarterly

INLAND REVENUE DEPARTMENT'S POLICY ON RESTRICTED PRIVATE USE BY SHAREHOLDER EMPLOYEES

In order to claim that a shareholder-employee has restricted private use of a company vehicle, the company must:

- Show details of the restriction
- Confirm that the shareholder-employee is aware of the restriction
- Maintain a log book recording both business and private mileage on a daily basis or elect to maintain a three month test period to establish the use of a vehicle by an employee; and
- Produce a log book on request as evidence that the restriction has been complied with

DECIDING ON VEHICLE OWNERSHIP

In relation to a motor vehicle, a company must decide whether it is better that the vehicle in question be owned by the company or the shareholder-employee. We can help you to decide the best course of action here.

OUR RECOMMENDATION

Inland Revenue are quite strict in their policing of the FBT rules. If you fail to establish the right ownership structure, or do not have the right documentation, the FBT cost to your company could be significant. We suggest that we get together to find the best way to legally minimise your FBT exposure.

Absolute
Accounting Solutions Ltd
OUR BUSINESS IS ABSOLUTELY YOUR BUSINESS

Want to know more?

CONTACT US

Phone
07 349 0795

Email
maria@absoluteaccounting.co.nz