

Know entertainment traps

Entertainment and other employee related expenses could be either fully deductible, only 50 percent deductible as entertainment, subject to FBT or PAYE depending on the circumstances. It helps if you know which is which.

XYZ Ltd is a limited liability company involved in the building industry. It is seldom practical to return to the company base for morning and afternoon tea so the directors buy coffee and snacks (light refreshments) for their staff when they are out on the job. The cost is 100 percent tax deductible.

They have also decided to **reimburse** their workers for the cost of their lunches. The cost would only be 100% tax-deductible if it were a meal while travelling on business. Otherwise, it forms part of wages and would be taxable (see below). The employer also needs to be careful, if paying a regular allowance to cover morning teas and/or lunches, that the payments are not just for tax avoidance. They have to be for reimbursement.

Due to the high price of petrol, a director offers to reimburse one of his staff \$20 per week as a contribution to the cost of getting to work. Since this is a cost which she would have incurred out of her tax-paid income, it should be treated as part of her wages. The value of the petrol needs to be adjusted upwards for tax before being added to her taxable income. It should be treated as an



extra emolument.

Another director has decided as there are two office staff it would be fair to give the other person petrol vouchers of an equivalent amount. So long as the petrol vouchers cannot be redeemed for cash, this is a fringe benefit and is subject to fringe benefit tax payable by the company. However, there is a \$300 threshold per quarter for each employee for unclassified benefits like this. Provided the value of the petrol vouchers is equal to or less than \$300, no fringe benefit tax has to be paid, assuming the company does not exceed the total exemption for a business, which is \$22,500.

One of the staff is leaving so the directors decide to buy him an expensive box of chocolates from a supermarket. This is an entertainment cost and 50 percent tax deductible. However, just before they do this they discover if they were to provide a gift voucher, the cost would be 100 percent tax deductible, so they give a gift voucher instead. The \$300 limit for fringe benefit

tax purposes applies.

The owner of a construction company (an ordinary company for tax purposes) visits a building site to meet the client. Both of them are away from home on business. The owner invites the client to lunch to discuss the project. Both meals are 50% tax-deductible because this is an ordinary entertainment expense. However, if the owner were to dine alone the meal would be 100% tax-deductible to the company because this is an expense incurred while travelling on business. If the client were a self-employed person, the cost of the meal when dining alone would not be tax deductible because it is deemed a personal cost.

If you incur entertainment expenses overseas, instead of them being 50% tax-deductible they are 100% tax-deductible. Entertainment expenses are only tax deductible so long as they are completely business-related. In other words, the purpose of the meal together is to discuss business.

Non-taxable allowance for transport costs

Some employers provide a non-taxable allowance for their employees who incur additional transport costs.

Inland Revenue is planning to clarify its existing rules for providing a tax-exempt allowance for these costs.

To ensure you pay an allowance, which would be acceptable to Inland Revenue, you need to follow their rules.

This is what Inland Revenue says at the moment:

“You can pay a cash allowance to an employee for travel between home and work. This is tax free if it reimburses their additional transport costs and they:

- are working outside their normal hours of work, such as overtime, shift or weekend work
- need to carry work related tools or equipment, for example, they might usually take the bus but on a particular day they need to carry a large toolbox
- are travelling to fulfil a statutory obligation
- have a temporary change in workplace
- have some other condition of

their job

- cannot access adequate public transport.”

The tax free amount is the actual cost of travelling between home and work, less the employee's usual travel costs. “This applies to all circumstances except the lack of adequate public transport.”

You will notice the allowance is the actual **extra** cost, which means the allowance would change depending on where the employee lived.

Among the proposed rule refinements to the rules are:

- the additional cost has to be for the benefit of the employer not the employee
- if it is difficult to get to the employer's premises because the nearest public transport is too far away then an allowance could apply
- if it is difficult for the employee to get to public transport from their home because the nearest transport is too far away, that's their bad luck and no allowance can be paid
- the maximum distance an employee can be paid for is 70km (35km each way).

History shows meddling with savings

History shows promises can easily be broken, especially in regard to retirement savings.

When Social Security was first introduced, everyone had to pay an extra 7.5 percent tax. In return, the Government promised Universal Superannuation as of right. There would be no means testing, we were told.

In 1985 a 20 percent tax surcharge was introduced on any extra income of superannuitants. The extra tax was limited to the amount of National Superannuation. This meant about 10 percent of superannuitants had to pay all their superannuation back. Others had to repay part of it. The surcharge was later increased to 25 percent, and finally abolished in 1998.

Will KiwiSaver remain as it is now?

Rate option for FBT

The introduction of the 39 percent tax threshold has also lifted the top rate for FBT purposes to 63.93 percent.

Instead of having to apply this rate to all fringe benefits for all employees, you can select your employees who get gross cash payments over \$160,000 or receive more than \$13,400 in attributed benefits over a year and apply this rate to them only.

For all other employees the employer can use the flat rate of 49.25 percent on attributed benefits. Typical attributed benefits are the supply of a motor vehicle and/or a low interest loan to a specific employee. There are others.

You could have a situation where an employee receives fringe benefit inclusive cash remuneration of less than \$129,681. Cash remuneration is the after-tax money received by the employee. In this situation, either the gross salary could exceed \$160,000 or the fringe benefit could exceed \$13,400, but you could still apply the 49.25 percent rate. This is because, overall, the employee's gross salary plus benefits would not exceed the value of \$180,000.

You can save fringe benefit tax by attributing the benefit employee by employee and doing a calculation for each employee when you do the last FBT return for the year. Some people receiving lower incomes could give rise to fringe benefit tax at a lower rate than 49.25 percent. However a lot of work might be needed and it might be more economical to accept a flat rate of 49.25 percent for everyone who qualifies.

Keeping your business alive in difficult times

Networking is investing

We have been offered the following story for our newsletter. It illustrates the benefit of investing time into networking.

When business is buoyant most people put their heads down and work hard to make a good income. They don't look to the future, which inevitably comes with trade cycles; the time when business will be bad and they will want their loyal customers. This is the story of a firm which focuses on keeping loyal customers through thick and thin.

If you are not in the habit of networking, get started as soon as possible.

The owner of a small community newspaper told us recently it was going to be a tough time ahead in the business.

Newspapers throughout the country are facing big price rises for newsprint, which now has to come from Australia after the last plant in New Zealand closed last year. Costs are also rising for aluminium plates and ink, both integral parts of the printing process. And, of course, getting the papers from the plant and to readers is more expensive as freight costs rise.

But editor Ian Carson is not too worried, even though he and wife Debbi established the Ōtaki paper only four years ago. He's confident advertisers in the small town will stick with him, despite competition from another local paper and regional papers.

"We've put a lot of work in during the past few years building trust," he says. "I would urge any business to put that high on their priorities."

Part of that effort was to continue producing a newspaper

"It's the reputation and relationships we've built that will get us through . . . if you do everything with integrity, you'll always be rewarded in the long term."

Newspaper editor Ian Carson

and publishing it online during the 2020 Covid lockdowns.

"We could have withdrawn and pottered around the house for two months, but we knew readers still wanted to know what was going on. I think they appreciated that someone was putting some effort into keeping them up to date."

Ian believes the paper will survive despite the current difficulties because he's worked on building strong relationships with customers, which includes advertisers and readers. He and Debbi have also got involved in the community.

"We've established business network meetings here, I speak at Amicus and Rotary etc every now and then, and I was until recently chair of the local promotions group.

"It's the reputation and relationships we've built that will get us through."

He's had interest from other journalists about how they could start a new newspaper, but he says it will be a waste of time if they can't make strong connections in the community.

"Networking is not everyone's cup of tea, but business owners should always look at how they can engage in community affairs so they can build trust. It doesn't mean you have to get into local politics, but if you do everything with integrity, you'll always be rewarded in the long term."

Stop dealing with the bad payers

The best thing to do with bad payers is to stop dealing with them.

All the time you put into collecting money you are entitled to could be better used to generate income.

- When you get a bad payer, be systematic with your follow-up (every Wednesday, for example).
- If you ring them, make notes of what they say and quote them if needed next time.
- If you can't get through by telephone, use emails and text messages.
- When you contact a bad payer, your objective should be to get a commitment to pay.
- Confirm the commitment by email.
- Keep the time you allow for credit as short as possible. For many businesses a request to pay within seven days of the date of the invoice is reasonable.
- Some large organisations have made it a practice to use their suppliers' money. When you quote or invoice one of these customers, try to build in a premium to cover your costs of collection. Many big businesses are not particularly price sensitive because they are not spending their own money.
- If it is going to be a large bill, get agreement for progress payments.
- Insist on a credit check before you give credit to someone you don't know.

Get with the Zoom revolution

Zoom became a byword for communication during the 2020 Covid lockdown.

Since then the platform has had huge growth as remote work becomes the new normal. The number of daily users shot from 10 million in 2019 to more than 300 million today.

The Government's Digital Boost asks: Are you using it to its full potential? It also suggests three top tips to make online communication easier:

Mute/unmute yourself with the spacebar

"You're on mute" quickly became one of the most common sayings in the pandemic, and we're still saying it! Making sure others can hear you when you're speaking is a constant challenge for many. Luckily, Zoom has a handy feature that allows you to unmute and mute yourself in an instant - the space bar.

Quick invite

To quickly invite someone to a meeting, use Command+I on an



Apple device, or Alt+I on Microsoft Windows to open the invite window. From there, simply copy the unique meeting URL and send it to anyone you would like to attend.

Record meetings

Rewatching meetings is a great way to ensure you accurately capture information and makes it possible to share the meeting with those unable to attend. To begin recording a meeting, press Command+Shift+R on an Apple device, or Alt+R on Microsoft Windows.

Our note: If it's impractical to meet with one of your staff, set up a Zoom meeting rather than a telephone call. Communication is not only by word of mouth. The expression on a person's face can also convey a message.



TAX CALENDAR

August 29

First instalment of 2023 Provisional Tax for those with March balance dates who pay provisional tax three times a year

September 28

Second instalment of 2023 Provisional Tax (December balance dates)

October 28

First instalment of 2023 Provisional Tax for those with March balance dates, who pay GST twice a year.

November 28

First instalment of 2023 Provisional Tax for those with June balance dates

Cost of living allowance introduced

A cost of living payment has been introduced.

The main points are:

- There is no application process. Inland Revenue will automatically make the payments into the taxpayer's bank account.
- The taxpayer must have a bank account.
- It applies to almost everybody whose income is less than \$70,000.
- To qualify, the individual will need to have lodged an IR3 tax return or have received their individual income tax assessment from the Inland Revenue.
- Individuals who qualify and lodge their tax returns later in the year will still be able to get the money. However, there is a deadline of 31 March 2023. Clients who are habitually late giving us the information to do their accounts

run the risk of not being able to lodge their tax return on time. Inland Revenue says: "If a return is filed on, or after 1 April 2023, your client will miss out on this payment."

- The cost of living payment doesn't go to people who are in jail or those who get the winter energy payment.
- Payments will be made in three monthly instalments starting from 1 August 2022.
- Minimum qualifying age is 18. Inland Revenue says: "You will get the payment if on the day we check for eligibility we confirm you . . . are aged 18 or older." We therefore conclude if you become 18 any time during the current financial year to 31 March 2023, you should get Inland Revenue to check your eligibility as soon as you reach your birthday, if you think you will qualify.

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