D&D FINANCIAL CONSULTANTS

TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

Spring 2024

Relieve the cramp with shared space

When your home office starts feeling cramped, you might think about renting a separate space.

This can be pricey and risky if you're stuck with a lease that doesn't work out.

One solution is shared office space, or co-working. Most towns and cities have these spots where you rent just what you need.

Sometimes it's a simple desk and internet access in a cubicle where you can work in peace. Other places offer private offices, meeting rooms and communal kitchens. Some spaces are more open and collaborative, perfect for groups of designers or IT geeks.

The perks include lower costs, flexible leases, keeping your work and home life separate, the chance to socialise instead of talking to your cat all day, and shared expenses for things like internet and power.

Common myths a trap for newcomers

Running a business can be challenging, and dealing with taxes can add to the complexity.

Here are some common myths that often confuse new entrepreneurs.

Myth #1: Taking less out means less tax

While the money you take out is considered income, it's not your taxable income. Taxes are based on your business profit, which is your sales minus your expenses.

Myth #2: Higher expenses equal lower taxes

It might seem like spending more reduces your tax bill, but Inland Revenue has specific rules about what counts as a deductible expense.

- *Advance purchases:* Buying lots of stock isn't an immediate expense. Inland Revenue sees it as an asset (money in a different form) until you sell it. The value of unsold stock reduces your claimable stock expense.
- *Car depreciation:* Cars are considered to have a multi-year lifespan, so the expense is spread out over time through depreciation, not all at once in the year of purchase.

Myth #3: You have to borrow personally for business loans secured by your home

While banks often prefer using homes as loan security, they can still lend directly to your company. The interest rate might be higher for a company loan, but the interest is tax-deductible.

If you borrow personally but the money is for your company, you can still claim a deduction for the interest. However, this requires legal documentation and extra administration. It's best to consult with us before borrowing in your own name for business purposes.

Make a will to ensure your wishes are fulfilled

Mrs X died intestate (without a will).

She was the mother of one child and her husband survived her. She and her husband owned a rental property, their home and various other assets.

What happens to her share of all this? It's likely the child will get a big chunk of the estate, whether this was what Mrs X wanted or not.

We strongly recommend you make a will so your assets are distributed according to your wishes. Remember too, if you remarry you will need to make a new will.

A will is not a do-it-yourself job. To get it right, get your solicitor involved.

TAX

Save time on expense claims

Tired of manually figuring out costs for your tax claims?

Inland Revenue has standard rates to make things easier. These preset amounts mean you don't have to hunt down receipts for common expenses, saving you a lot of time.

Here's what you can claim using standard costs:

- *Business use of home:* $53.10 per square metre of your home office space.
- *Homestay costs:* $61 per day if you own the property; $55 per day if you rent the property.
- *Boarders:* Claim $231 per week for each boarder you accommodate. Note this is only if you provide meals. It doesn't apply to ordinary flatmates.
- *Childcare providers:* $4.45 per child per day; $435 annual fixed administration fee.

The benefits of standard costs include:

- *Convenience:* No need to collect and store receipts for specific expenses.
- *Efficiency:* Saves time on expense calculations and record-keeping.

Image by FlyFin Inc from Pixabay

- *Simplicity:* Provides clear and readily available rates, which Inland Revenue revises every year.

Inland Revenue's standard rates are a quick and easy way to claim common business expenses. You don't have to use them if your actual costs work out better. Just do a quick check to see if it's worth the time and hassle of keeping all your receipts.

Simplify business travel expenses

If you're sick of tracking every car expense for your business, Inland Revenue's kilometre rates offer a simple way to claim vehicle use costs.

How it works

- Charge per kilometre: You charge your business a set amount per kilometre driven for business purposes.
- Rates depend on distance and car type:
  First 14,000km: $1.04 per kilometre (all vehicle types)
  More than 14,000km:
  - Petrol/diesel: 35c per kilometre
  - Hybrid: 21c per kilometre
  - Electric vehicle (EV): 12c per kilometre.

Thus if your business travel was say 12,000 km out of say 21,000 km you would take 12/21 of your 12,000 km = 6857 km and claim $1.04 per kilometre.

You would calculate your claim for the remaining 9000 km at the rate of $0.35 per kilometre If you had a petrol or diesel car.

Image by FlyFin Inc from Pixabay

Benefits of kilometre rates

Convenience: No need to track individual expenses like fuel and repairs.

Flexibility: Great for occasional business trips, like property visits.

Tracking kilometres

Record your odometer: Note your odometer reading on your business balance date (usually 31 March).

Check your distance: This helps determine if you've driven more than 14,000km in the year and need to use the two-tiered rate structure. Keep records of your business kilometres. A three-month logbook is allowed if it represents your annual travel, but you need to update it every three years.

Changing vehicles mid-year

Odometer readings: Record the readings when selling your old car and buying a new one to ensure accurate kilometre tracking for both vehicles.

Remember, kilometre rates simplify expense claims but might not match your exact expenses, which could be higher or lower. They make claiming business travel expenses easier and they're especially helpful for people with occasional business trips or who prefer simpler record-keeping.

A guide to winding up

Closing your company can be bittersweet.

Before you shut the doors for good, there are some important steps to take to ensure everything goes smoothly and legally.

The goal of winding up a company is to settle everything in an orderly way. Here are some key steps:

Settle debts: Pay off all creditors, including suppliers and employees, and any outstanding taxes, before dissolving the company.

Collect debts: If anyone owes your company money, collect it before closing. You might sell these debts to a collection agency or transfer them to another entity, but get legal advice on the proper procedures.

Distribute assets: After settling debts, distribute any remaining assets (cash, equipment, etc) according to your company's constitution or shareholder agreement. Ensure all director and shareholder resolutions are completed before taking any surplus cash. Talk to us first!

The winding-up process can vary based on your company's ability to pay its debts (solvency) and the reason for closure. If your company is insolvent, different rules apply, and you might need to enter liquidation.

Warning

If you overlook collecting a debt or leave an asset in the company after winding it up, you won't be entitled to it any more – it will belong to the government. Check carefully before you give instructions to wind up.

Conclusion

Winding up a company involves legal and financial complexities. Talk to us to ensure you comply with tax and legal requirements and handle everything in an orderly manner.

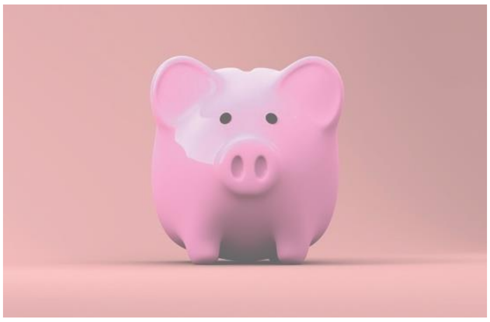
Understand your PIR to make the most of investments

Just what is a PIR?

If you're a New Zealand resident investing in KiwiSaver or PIEs (Portfolio Investment Entities), your Prescribed Investor Rate (PIR) determines the tax rate on your investment earnings. Providing your PIR to the investment organisation ensures the correct rate is used.

Finding your PIR

Your PIR is generally based on your highest income tax rate (marginal tax rate) from the past two income tax years. If your PIE income exceeds $22,000, it must be included in the calculation. Here's how it works:



- If your total income is over $48,000, your PIR is 28%.
- If your income is under $48,000 but adding PIE income pushes it over $70,000, your PIR is 28%.

For example:

- Income $45,000 + PIE income $23,000 = PIR is 17.5%.
- Income $45,000 + PIE income $28,000 = PIR is 28%.

How to find your PIR for the year ending 31 March 2025

Look at your income tax for the last two years: 31 March 2024, and 31 March 2023.

Choose the lower marginal tax rate to be your PIR.

Example:

- If your income for 31 March 2024 was $49,000, you'd be paying 30% tax on income over $48,000, so your PIR would be 28%.
- If your income for 31 March 2023 was $47,000, your highest tax rate would be 17.5%, so your PIR would be 17.5%.
- Choose the lower one, which is 17.5%.

What are PIEs?

PIEs are investment funds with specific criteria. They offer a maximum tax rate of 28%, encouraging investment. Common types include:

- *Multi-Rate PIEs:* The most common type.
- *Listed PIEs:* Shares or unit trusts on the stock exchange, which may include dividends with attached tax credits (imputation credits).

Imputation credits: A tax advantage

Listed PIEs may offer dividends with imputation credits, representing tax already paid by the company. If your tax rate is lower than the imputation credit rate, you can claim a tax refund by including them in your tax return.

Other considerations

- *Non-residents* generally use a PIR of 28%, with some exceptions.
- *Trusts* can choose a PIR suitable for the beneficiaries. If not using 28%, undistributed PIE income will be taxed at the higher trust income rate. A trust choosing the 28% rate can exclude PIE income from its tax return but can't distribute the PIE income to its beneficiaries.
- *Companies* should always use a PIR of 0% and include the income in the tax return.

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Planning critical for survival

Running a small business can be tough, especially when it comes to finding time to plan.

Planning for disasters can be even tougher. But planning is like plotting your course on a map – it helps you steer clear of panic when things go haywire.

It's crucial to have an emergency plan for stuff like natural disasters, cyberattacks, fires, or major financial hits. This plan can be a lifesaver when chaos strikes.

Equally important is having a business continuity plan (BCP). A BCP is your playbook for getting your business back on track after a crisis. The goal is to keep the wheels turning so you can keep your business afloat.

Imagine a flood wipes out all your stock, machinery, and office space. A solid BCP should answer questions like:

- How quickly can you restock from your usual suppliers or find new ones?
- Can you buy stock from your competitors to keep things going?
- How fast can you clean up or find a new workspace?
- Can you get your suppliers to step in and serve your customers directly?
- Are you and your staff able to work remotely?
- Can you access important documents and systems, like from the cloud?
- Do you have a manual to guide your team on what to do during a crisis?

A critical factor in your BCP should also be business interruption insurance. It could be the difference between shuttering your business or surviving for another day. When buying a policy, consider:

Cover for wages

Cover for financial loss

How much time your business might be interrupted.

Having a robust BCP isn't just good sense, it's good for business. Potential buyers will see you're serious about your business, and your staff will feel happier knowing their jobs are safer.

TAX CALENDAR

August 28 2024

First instalment of 2025 Provisional Tax for taxpayers with 31 March balance date, who pay provisional tax three times per year.

September 28, 2024

Second instalment of 2025 Provisional Tax (December balance dates).

October 28, 2024

First instalment of 2025 Provisional Tax for those with March balance dates, who paid GST twice a year

November 28, 2024

First instalment of 2025 Provisional Tax for those with June balance dates

Brainstorm with the assistance of AI

More and more small businesses are jumping on the artificial intelligence (AI) bandwagon to save time and streamline their operations.

AI can bring fresh and creative problem-solving techniques to the table, offering up potential solutions based on the info it's given. One cool way businesses are using AI is by tapping into tools like ChatGPT to kick their brainstorming sessions up a notch.

Picture this – you're brainstorming how to market a new product, let's say a fancy new carpet cleaning liquid. With a bit of input, AI can churn out ideas or collaborate with your team to polish up your own thoughts on how best to market your new cleaner.

Tools like ChatGPT can help tweak ideas, offer feedback, and suggest ways to make your ideas even better. It's like having a supercharged brainstorming buddy right at your fingertips!

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