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HO HO HO! THE LOW DOWN ON ENTERTAINMENT

Christmas is a time for celebration but when considering that festive spending don't forget the potential tax costs – entertainment tax or fringe benefit tax (FBT) provisions may apply. Below is the tax treatment of some typical forms of Christmas entertainment.

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Entertainment Tax or FBT?

There are numerous exemptions from the entertainment tax rules but these are unlikely to apply to most cases of Christmas entertainment. One possible exemption is for entertainment that is subject to FBT. The FBT provisions will apply to any entertainment benefit that is enjoyed outside of employment duties and at the employee's discretion.

1. Staff Christmas party

The cost of food and drink for a staff party is 50% deductible (as well as incidental expenditure relating to catering, and music or other entertainment). This applies whether the party is held on the business premises or off-site.

2. Christmas meal for customers

The cost of taking customers out to a meal is generally 50% deductible.

3. Gifts of food and wine to staff

The cost of gifting food and wine to staff is fully deductible, but will be subject to FBT.

In most cases employees can choose when to consume the food and wine, therefore the gifts constitute fringe benefits. However, the \$75 per employee per quarter FBT exemption may apply. The exemption is non-cumulative and only applies where the total value of such benefits for all employees does not exceed \$450 per quarter.

4. Gifts of food and wine to customers

The cost of gifting food and wine to customers is generally 50% deductible.

5. Other gifts to staff

Generally, the cost of gifts (other than food and beverages) to staff does not fall within the entertainment tax provisions and is fully deductible. However, in the majority of cases, the gifts constitute fringe benefits. The \$75 per employee per quarter FBT exemption noted earlier may apply.

6. Other gifts to customers

The cost of gifts (other than food and beverages) to customers is generally fully deductible.

GST on non-deductible entertainment expenditure

Don't forget that the amount of any entertainment expenditure treated as 50% non-deductible triggers a GST output tax adjustment equal to 1/9th of the non-deductible amount. The GST adjustment should be made when you file your income tax return.

*"Happiness is like peeing your pants: everyone can see it,
but only you can feel its warmth!"*

PAY CAN BE A DEMOTIVATOR

Pay can be an effective way of undermining motivation, at every level in your business.

Be aware every pay packet sends a message – and employees are sensitive to nuances.

1. If you pay less than the competition, you can expect to have demotivated employees.
2. If you give rises only when people threaten to quit, you are rewarding disloyalty.
3. If you pay higher rates to attract new employees, current employees will resent it.
4. If you use year-end profit as a target for bonuses, employees will not see a direct link between their efforts and their bonuses.

A REMINDER ABOUT WORK VEHICLES

If you have a work related vehicle owned by your company (one not designed primarily to carry passengers) and need to garage it at home, IRD requires it to be sign written. This must not be detachable and must be easy to read.

DID YOU KNOW...

10% of New Zealand tax payers pay 46% of the tax take.

CHANGES TO GST ON IMPORTED SERVICES

From 1 January 2005 changes to GST on Imported Services come into effect. As a GST registered person, they may affect you.

GST will apply to certain supplies of services that are imported to New Zealand. Some of these services include legal and accounting services, management or products downloaded from the internet.

You may need to account for GST on the cost of services if you are receiving imported services from an overseas supplier. The reverse charge requires you to add GST (12.5%) to the price of the services you received. You will need to include that amount in your GST return and pay it to IRD if:

- the imported services would be subject to GST if supplied in New Zealand
- you make more than a minimal level of exempt or other non-taxable supplies, ie more than 5% or your total annual supplies are not subject to GST.

This means that if you are a GST registered person and are currently required to apportion between exempt and taxable supplies, the reverse charge is likely to apply to you. It will also apply if you are carrying on a taxable activity and the level of services that you import takes you over the \$40,000.00 per annum GST registration threshold.

If you have any questions or believe any of the changes may affect you, please call our office on 361 6701

INSURANCE ISSUES – AVOID THEM

Two insurance related issues that crop up with increasing frequency have the potential to cause a major problem if not properly addressed.

1. House Insurance

Many self-employed people claim a portion of their household expenditure on the basis of a home office/workshop, etc. A specified percentage of their household outgoings are deducted against their business income in the usual fashion.

The problem is that if damage or loss is sustained by the dwelling, or in the extreme case, a fire totally destroys the house, a claim could be declined on the house insurance policy on the grounds that the underwriter was not informed that a commercial activity was being conducted on the premises.

While this factor may not increase the insurance company's risk at all, the insurance company can still claim grounds for withholding the payment.

So, in all cases where household expenditure is deducted against business income, you should write to your insurer advising of these activities. (It is always sensible to have this record in writing).

This should not automatically lead to an increased premium.

2. Vehicles

If your vehicle is used for both private and commercial purposes it is essential that the insurance company is aware of its dual usage – especially if the usage of the vehicle changed after the original policy was issued. Again you will not automatically be asked to pay a higher premium but to avoid any controversy you should inform your insurance company in writing.

Positioning: These days doctors don't pronounce you dead..... Marketers do!

HANDY BUSINESS CONTACTS

Department of Labour

For information about any issues around Employment relations.

The Department of Labour website provides many useful links to other helpful websites for Employers and Employees.

www.dol.govt.nz or phone 04 915 4400

Occupational Safety and Health (OSH)

A division of the Department of Labour, covers legislation, injuries and illness, workplace inspections and information.

www.osh.govt.nz or phone 0800 20 90 20

Business Network International (BNI)

Structured and professional international business referral and networking. Phone NZ National Director on 09 817 1185

NZ Institute of Management

Training institute with courses at all levels for management development, networking events, library. Phone 0800 650 450 or email enquiries@nzim.co.nz

Business Information Zone

For any business information including ACC, Government tenders, tips on employing staff, growing a business, Industry organisations, general business tips and information go to www.biz.org.nz or phone 0800 424 946 for referrals and help

PAID PARENTAL LEAVE INCREASED

The Government plans to extend its paid parental leave programme to include women who are self-employed looks to be some way off.

At the moment, only female employees are given 12 weeks' paid leave to care for their newborn.

From this December, the Government is extending its paid parental leave for female employees to 13 weeks and that will be extended again to 14 weeks in December 2005.

Next on the agenda will be to ensure that self-employed women are given the same rights, however it is not that straight forward. There is no set date for when self-employed women will receive paid parental leave and it is still not known how it will be funded.

BENEFIT ALLOWANCES

Are payments made in addition to salary or wages which benefit the employee. A benefit allowance is taxed with the employee's wages in the pay period it is paid.

Food or accommodation provided to an employee may also be a benefit allowance. The taxable benefit is the difference between the market value of the benefit provided and any amount the employee pays.

Add the taxable value of the benefit to the employee's wages each pay period, and deduct PAYE from the total.

Example

Market value of accommodation	\$150 per week
Less rent paid	\$ 90 per week
Value to be added to wages and taxed	\$ 60 per week

If the employee paid no rent, the value to be taxed would be \$150 per week. Any allowance you pay to an employee instead of providing them with accommodation is fully taxable.

Reimbursing allowances

Payments made to employees to compensate them for expenses they have incurred while doing their job – such as meal allowances, mileage allowances or tool money.

Reimbursing allowances are not taxable. However, if the payment is more than the employment-related expenses, the excess is taxable.

Travelling allowances

A cash allowance paid to an employee for travel between home and work may be tax-free. It is tax-free if the amount paid reimburses an employee's additional transport cost and one or more of the following special circumstances exist:

- the employee is working outside the normal hours of work (eg. overtime, shift or weekend work)
- the employee needs to transport work-related tools and equipment, eg. the employee normally takes the bus to work but has to use some other type of transport in order to carry work-related gear
- there is a temporary change in the workplace
- the employee is traveling to fulfil an obligation for the employer
- there is no adequate public transport system serving the workplace

For all of the special circumstances above (except the lack of adequate transport) the tax free amount is the actual transport cost.

NB: The IRDs mileage rates can be used if the actual cost per km is not available. You can find these on the IRD website www.ird.govt.nz

WEBSITE UPDATE

The JACAL website is now live and fully functional. Be sure to check it out at www.jacal.co.nz

Below is just some of the information accessible on our website:

- **Forms** – Including our Annual Client Questionnaire; Engagement letter and Privacy Authorisation
- **Client Resources** – information for you regarding trusts, buying a business, travel expense claims and more
- **Useful Links** to IRD, Banks, Software Partners and more.

CONTACT DETAILS

Please remember to inform us of any changes to your contact details.

Phone Amanda on 09 361 6701 or email aashman@jacal.co.nz

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Visit us on the web:
www.jacal.co.nz

LATE PAYMENT PENALTIES

If you do not pay your tax in full and on time, IRD will charge you late payment penalties and interest.

The penalties are as follows:

- 1% of the unpaid tax, charged the day after it's due.
- 4% of the unpaid tax (plus the 1% penalty), charged seven days after it's due.
- 1% of the unpaid tax (plus penalties already charged) each month the amount remains unpaid.

Interest is charged daily on the unpaid amount, including penalties. Penalties and interest are charged on amounts greater than \$100.

If a payment due date falls on a weekend or public holiday, payment needs to be made prior to the due date.

Payments to IRD can be made by any of the following methods:

- Post (payments post-marked with the due date are accepted as being on time)
- Electronically via the IRD website or your bank's website
- Payments can be physically made at any branch of Westpac or directly to IRD offices

To avoid extra penalties on overdue tax payments contact the IRD to make payment arrangements before the payment is due or contact our office for further assistance.

OFFICE HOURS FOR CHRISTMAS

The Directors and team at Johnston Associates would like to wish you all the very best for the festive season.

Our office will be closed from midday Thursday 23rd December 2004 until Monday 17th January 2005. For urgent matters please contact Angie on 021 474 792.

We look forward to continuing our association with you in the New Year.

REMINDER: We need to receive GST and other urgent work no later than Friday 10th December otherwise it will not be attended to until after the due date or when we return in the New Year.

PLEASE NOTE: OCT/NOV GST RETURNS NEED TO BE FILED WITH THE IRD ON 15TH JANUARY 2005

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"Funds are tight right now. Instead of a bonus, I'll let you punch me in the arm as hard as you can."