

Greer & Wong Ltd

CHARTERED ACCOUNTANTS



Changes to Clarify When Accommodation and Employee Allowances are Non-Taxable

The Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Act 2014 enacted late June 2014 has introduced a number of changes to the tax treatment of employee allowances. These changes clarify the tax treatment of employer-provided accommodation, accommodation allowances and other payments provided to employees as reimbursement for expenses.

Key features

The following key features are subject to certain conditions:

- Accommodation and accommodation payments provided to employees on out-of-town secondments of up to two years or while on out-of-town capital projects of up to three years, are exempt from tax. These time periods are extended under specific transitional rules for people working on Canterbury earthquake recovery projects.
- Accommodation payments provided to employees who are required to work regularly in more than one location are exempt from tax.
- Accommodation and meals when employees attend a conference or training course are exempt from tax.

When accommodation is taxable, it is generally taxable on its market rental value.

Accommodation provided to New Zealand Defence Force personnel, ministers of religion and people working overseas is treated under the rules that apply specifically to these people.

Other features include meal costs linked to work-related travel, which will not be taxed for up to three months, and distinctive clothing used for work purposes now being tax exempt in specific circumstances.

When do the new rules come into effect?

Most of the new rules will take effect from 1 April 2015. However, employers may have the option to apply some of the new rules from 1 January 2011 provided they meet certain criteria.

Welcome to the third Greer & Wong Newsletter for the year. We have gone through a few more staff changes with **Rosie** leaving on her OE to Paris. We'd like to welcome **Saasha** who started recently & **Jacqueline** who will start on the 8th of September.

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If you have any questions about the newsletter items, please contact us, we are here to help.

Income Tax - Motor Vehicle Expenses

The deductibility of motor vehicle expenses is given special treatment by the IRD reflecting the widespread use of the motor vehicle as a business asset and the ease with which usage can be switched between business and private purposes.

Records needed to be kept to ensure accurate claims are made

Self-employed individuals need to keep complete and accurate details of motor vehicle mileage and running expenses incurred. Such details should include invoices for:

- The purchase of the vehicle;
- Any permanent extras added to the vehicle;
- Lease agreements where applicable;
- All running costs including details of petrol and maintenance; and
- The types of expenses that are likely to be deductible including fuel, oil, repairs and maintenance (tyres, servicing, parts, panel beating, cleaning, and so on), insurance, warrant of fitness fees, registration fees, road user charges, and parking.

Car parks

The IRD has confirmed that the cost of leasing a parking space for a business vehicle is deductible.

According to the IRD, if a car is used extensively for business purposes, a deduction will be allowed for the cost of using a parking space. However, merely using a car as a matter of convenience for travel between home and place of business, is private usage and not deductible.

Deductible expenses

If you use your motor vehicle partly for business purposes and partly for other purposes, only the proportion of the total motor vehicle expenditure (including depreciation) that relates to the business use may be claimed as a deduction.

The business proportion must be determined by either maintaining a record of all business use, or

keeping a logbook of business use for a three-month test period every three years

You may choose between these two options.

If a motor vehicle is not used for private or other non-business use or is not providing a fringe benefit, then no apportionment is required. Apportionment is required from self-employed individuals and partners in a partnership. Companies and employees are not required to apportion their motor vehicle expenditure for deduction purposes. **Any non-business use of company motor vehicles will be subject to FBT or give rise to a non-cash dividend.**

Log book and recordkeeping

There are two options available to ensure that all motor vehicle expenses are claimed

Log book for full year

One option for determining the business use proportion of a motor vehicle is for you to keep a record of all business trips made in the vehicle during the income year. You must maintain a complete and accurate record of the reasons for and the distances of all business trips, and any other details that may be required by the IRD.

The business use proportion for the income year is the total distance of all business trips during the year divided by the total distance travelled by the vehicle during the year.

Three-month test period

Another option, where you use a vehicle for a combination of business and non-business purposes, is to keep a logbook for 90 consecutive days only, generally starting on the first day of the income year in which you commence to keep the logbook.

A record of the total distance travelled in the motor vehicle during the 90-day or three-month period must be kept. The business use during the three-month test period is treated as representative of business use for the whole of the income year.

The maintaining of a log book does not remove the requirement to keep records verifying the expenditure incurred, but simply apportions the use of the vehicle between business and private purposes, in order to determine the deductible expenditure. Under this option, a logbook must:

- As noted above, be kept for a period of 90 consecutive days, commencing on a date elected by you;
- Record complete and accurate details of the reasons for and the distance of business trips, and any other details required by the CIR;
- Record the total distance travelled by the motor vehicle during the period the logbook is maintained; and
- Be kept for a period that represents or is likely to represent the average proportion of travel, for business and non-business purposes, of that motor vehicle for the logbook application period.

The 'logbook application period' is the period for which the business-use proportion established by a logbook will be used for apportioning motor vehicle expenses. **The logbook application period cannot exceed three years.**

Note: If there are no records that can be used to establish actual business use, no deduction will be allowed.

Tax planning

Much of the tax planning effort in relation to motor vehicles involves attempts to minimise the exposure to FBT.

Motor vehicles may be 'acquired' as business assets in a number of different ways including outright purchase, hire purchase, operating lease, and finance lease. Alternatively, employers could reimburse the running costs of vehicles owned by employees. Each option has different tax consequences which can be quite complex, involving income tax, FBT, and GST considerations.

Example: A company has two shareholders and directors who are a married couple. The husband is employed by the company. For some years the company leased four motor vehicles for use in its business. The husband then decided to purchase four motor vehicles privately and lease them to the company at market rates. As a shareholder-employee, can he claim depreciation on the leased vehicles? He must claim a deduction for depreciation on depreciable property owned during an income year. As a shareholder-employee he incurred the depreciation expense as a result of leasing the motor vehicles to the company. The expense is

deductible because the depreciable property owned is used in deriving assessable income.

See Us First

- Before making any decisions regarding motor vehicles purchases.
- We can assist you in understanding the legal or financial implications.
- If you consider that any of the issues contained in this fact sheet may affect you.

(Source: Thomson Reuters – Brookers - Hardfacts)

Changes to IRD Payment Options

Inland Revenue are making a few changes to the way you're able to make payments with them.

Limited payment services at Westpac

From 1 October 2014, you'll no longer be able to make cheque payments or drop off returns and forms at Westpac.

You can still make cash and eftpos payments at Westpac or use online banking, credit/debit cards and international money transfers, or post cheques to IRD.

Cheque payments must arrive on time

From 1 October 2014, cheque payments posted to IRD must arrive **on or before** the due date to avoid interest and late payment penalties.

For more information about the changes please go to www.ird.govt.nz (search keywords: payment changes).

(Source: Community Wise - June '14 & Business Tax Update issue no.53)

Are bad email habits wasting your time?

Are bad email habits distracting you, wasting your time, and causing miscommunications with clients, employees and others? Making a few simple changes to the way you handle email will help you improve focus, save time, and communicate more effectively.

Here are five bad email habits that could be holding you back—and positive alternatives to get you moving forward

Bad habit #1: Sending emails late at night, early in the morning, and on weekends. This sends clients the message that you're on call 24/7, so they treat you that way—which ultimately stresses you out. It also sends employees the message that you expect them to be on call 24/7—which stresses *them* out. **Instead, try:** Limiting the hours during which you and your employees send work-related emails. Prohibiting email from, say, 10 p.m. to 6 a.m., will give everyone time to unplug, rest, and recharge.

Bad habit #2: Using email to discuss topics best suited to other means of communication. Overly complicated emails lead to confusion, while scheduling meetings by email leads to endless chains of “reply all.” **Instead, try:** Finding alternate ways to communicate complex or sensitive subjects. Use calendar tools to plan meetings, IM or chat to discuss simple topics, and phone or in-person conversations to deliver bad news or hash out complex issues.

Bad habit #3: Setting alerts to be notified of every incoming email. Getting pinged every time you receive an email is distracting and makes you less efficient and productive.

Instead, try: Turning off alerts (unless you're waiting for a very urgent email). Set specific times to check email, such as in the morning, before and after lunch and in the late afternoon.

Bad habit #4: Using vague, unclear subject lines. Generic subject lines like “Hey” or “Meeting” or “Question” require recipients to open the email to see what it's about and makes it harder to search for relevant emails later on.

Instead, try: Using specific, detailed subject lines to speed comprehension and save time.

Bad habit #5: Sending overly long and complex emails. With more users checking email on their mobile phones, an email that's too long will likely never get read—it will just get ignored. **Instead, try:** Limiting email length to five brief sentences, max. When more detail is necessary, use attachments.

Also consider using email rules to automatically sort incoming messages so you can focus on the most important ones first, and unsubscribing to emails you no longer want to receive (instead of just deleting them every day). By changing your bad habits, you'll gain control of your email, become more productive, and communicate more clearly with employees, partners, and customers.

(Source: HP Technology at Work)

Differences Between Contractors and Employees

With many companies in the construction sector taking on extra workers, as in the Canterbury rebuild, it's a good time to think about the differences between contractors and employees.

The tax obligations are different for employees and self-employed contractors, so it's important to get it right from the start. In general, if you control what your worker does, how and where the work is done, and whether your worker must follow your rules, then usually that person is an employee.

A self-employed contractor will typically control the hours they work. Be responsible for sourcing and getting the work done, be free to work for other people and provide the main working equipment needed for the job.

(Source: Business Tax Update issue no 53)