

BUSINESS TAX UPDATE

Inland Revenue's tax news for businesses

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Keeping records and claiming business expenses

You hear it time and time again—keeping good business records pays dividends. There are legal reasons for keeping accurate records, as well as good business reasons, such as supporting the expenses you've claimed against your business income.



With the end of the tax year fast approaching, you might be starting to prepare your tax returns. If you've kept good records it'll be a breeze, whether you do the return yourself or get a tax agent to do it for you. If you haven't made a good job of record keeping it might be difficult putting all the paperwork together. You could also miss out on claiming some expenses.

When's the best time to get a good record-keeping habit? Now is good.

From the beginning of a new tax year, start filing your statements, invoices, GST returns and interest statements. You can use a manual filing system or computer-based program, as long as you keep it in order and up to date, and you can retrieve information easily when you want to. Records you need to keep include:

- receipts or invoices for all claims
- interest and dividend statements
- a record of rental income and expenses
- purchase and sale agreements (for disposal of investment assets).

What you can claim

You can claim most of your business expenses, for example:

- running costs of using a vehicle for work purposes, transport costs and business travel
- rent paid on business premises
- depreciation on items such as your computer and office furniture
- part of any household expenses if you use your home for your business, eg, mortgage interest, telephone and electricity
- interest on borrowing money for the business
- some insurance premiums
- work-related journals and magazines
- membership of professional associations
- work-related mobile phone, stationery and uniforms
- tax agent's fees.

You'll save on fees if you complete your own return, but a tax agent will have a better knowledge of what you can and can't claim. Using their expertise may cover their fees and still get you ahead.

For more information about record keeping and claiming expenses, see our *Smart business (IR 320)* guide and record keeping factsheets IR 323 and IR 1008 at www.ird.govt.nz "Forms and guides".



Inland Revenue
Te Tari Taake

Welcome to Business Tax Update

In this issue: Keeping records and claiming business expenses, how to ensure you're correctly invoiced by ACC, employee start and finish dates are important, GST on entertainment expenses, child support deductions, seminars and workshops, making the right student loan deductions, do you need to know about FATCA, updating your email subscriptions, 7 April reminder.

If you have any suggestions for topics you'd like covered in this newsletter, email

BusinessTax.Update@ird.govt.nz



REMINDERS

28 March: GST return and payment due for the period ending 28 February.

31 March: 2014 end-of-year income tax returns are due (if you have a tax agent or accountant with a valid EOT).

1 April: Changes to benefit and reimbursing allowances paid to employees come into effect. Go to www.ird.govt.nz (search keywords: benefit allowances) for more information.

Note: If a due date falls on a weekend, public holiday or provincial anniversary day, we can receive your return and payment on the next working day without a penalty being applied.

How to ensure you're correctly invoiced by ACC

It's very important to choose the right business industry classification (BIC) when you apply for an IRD number, register for GST, register as an employer and file your tax return.

This information is passed on to ACC who uses it to calculate your ACC liability. Choosing the right BIC code means you will be invoiced correctly.

Choosing the correct BIC code

The BIC code is based on the **main** activity of your business. Activity can mean a business, industry, profession, trade or undertaking. In most cases, the activity will relate to the services provided or goods produced by the business.

Supporting functions (such as administration, management, marketing and distribution, technical support, maintenance and product development) are considered part of the main activity.

A BIC code must be alphanumeric.

Example

Tiny Toys Limited is a toy manufacturer but it also employs non-manufacturing staff. The goods produced are toys and the main activity of the business is manufacturing toys.

So the BIC code Tiny Toys Limited should use is C259280 Toy mfg.

How to find the appropriate BIC code

You can search for your business activity at www.businessdescription.co.nz

For best results use a single word that describes the product or service you provide to your customers.

Note: If the nature of your business changes, you can update your BIC code on your income tax return or phone us on 0800 377 774.

For more information, or if you need help choosing a business description, please contact ACC on 0800 222 991.

Employee start and finish dates are important

Make sure you complete an employee's start and finish dates on your *Employer monthly schedule (EMS/IR 348)*. These help us correctly calculate social policy entitlements and tax credits. We also use these dates to confirm if employees have multiple jobs or are simply moving from one employer to another.

If you've not entered these, or if they're incorrect, please call us on 0800 377 772 so we can get them updated.

GST on entertainment expenses

Once a year, you have to make an adjustment on your GST return to pay GST on the 50% non-deductible expenses you've previously claimed—these are supplies under the GST rules. You make this adjustment in the GST return that covers the earlier of:

- the date your income tax return is due to be filed, or
- the date you file your income tax return.

The GST adjustment is 3/23 of the non-deductible entertainment expenses, exclusive of GST (except non-taxable allowances). Include the adjustment on the *GST adjustments calculation sheet (IR 372)* under "Entertainment expenses" and in the adjustments total in Box 9 of your GST return.

Note: You can't claim this GST adjustment amount as a deduction for income tax purposes.

For more information, and an example, see our *Entertainment expenses (IR 268)* guide at www.ird.govt.nz (search keyword: IR268).



Child support deductions

In March we'll be issuing child support deduction notices to employers to notify them of the correct amount of child support to deduct from their employees. These are the first notices that will show the new deduction amounts for liable parents under the child support reform changes.

If you receive a notice for an employee who stops working for you, deduct child support only from the last full pay you gave them and for any holiday pay owed.

Make sure you enter "C" (for ceased) as the variation code field on your employee monthly schedule. This tells us that the employee no longer works for you and we can remove them from your records.

For more information, go to www.ird.govt.nz (search keywords: child support employer).

Seminars and workshops

We hold free tax seminars and workshops around the country for people in business, covering record keeping, income tax, GST, electronic filing and deductible expenses.

Find out what's on near you at www.ird.govt.nz/contact-us/seminars/

Making the right student loan deductions

Employees who have a student loan will need to have student loan deductions made from their pay when they use a tax code with the "SL" repayment code. If the right repayment deductions aren't made we may contact you to make extra deductions.

The current deduction rate is 12%. However, the figure you work that out from changes depending on their tax code. The following summary will help you make the correct student loan deductions and show them on your *Employer monthly schedule (EMS/IR 348)*.

Standard deductions

When your employee uses the M SL or ME SL tax code, you deduct the pay period threshold from their gross pay before calculating their 12% deduction. The current pay period thresholds are as follows.

Pay period	Pay period threshold
Weekly	\$367.00
Fortnightly	\$734.00
Four-weekly	\$1,468.00
Monthly	\$1,590.33

Example

Gross weekly pay	\$560.00
Minus weekly pay period threshold	\$367.00
Earnings liable for student loan deductions	\$193.00
12% of \$193 = student loan repayment	\$23.16

If your employee is using the S SL, SH SL or ST SL tax code, you deduct 12% of their gross earnings as their student loan deduction. You **don't** deduct the pay period threshold first.

Example

Gross weekly pay	\$560.00
12% of \$560 = student loan repayment	\$67.20

Show your employee's student loan deductions in the "student loan deductions" column on your EMS. The only exceptions to this are repayments made from a "Notice to deduct amounts owed to Inland Revenue". These are paid directly to us and aren't shown on your EMS.

Take all the work out of calculating your employees' deductions by using our "PAYE/KiwiSaver deductions calculator" at www.ird.govt.nz "Work it out".

Exceptions

Your employees may give you any of the following certificates or tax codes. These will change how much you deduct for their student loan. The certificate will include the period the new deduction rate applies for. Your employee must give you a new certificate when the current one expires. If they don't, start making deductions at the standard rate.

Certificate or tax code	Effect on deductions
Repayment deduction exemption certificate	No student loan deductions made from their pay. Don't use a tax code with the "SL" repayment code.
Special deduction rate certificate	Make student loan deductions at the rate shown on the certificate. Use a tax code with the "SL" repayment code.
Casual agricultural workers (CAE) Election day workers (EDW) Scholar payments (WT)	No student loan deductions made from their pay. Don't use a tax code with the "SL" repayment code.
Special tax code (STC)	Make tax and student loan deductions at the rates specified on the special tax code certificate. Use the "STC" tax code without the "SL" repayment code.

Extra deductions

You may be asked to make extra student loan deductions either by your employee or us.

These are shown on a separate line on your EMS (ie, not with the employee's gross income and other deductions).

Extra deduction code	What it means
SLBOR	Voluntary extra deductions requested by your employee. Can be any amount the employee requests.
SLCIR	Compulsory extra deductions that we've asked you to make. Deductions are made at a percentage of the employee's standard student loan deduction. Made only when the employee has standard student loan deductions from their pay.

Enter the employee's name and IRD number as usual, with the extra student loan deductions in the student loan column, and the appropriate extra deduction code as given in the table above.

Note: Compulsory extra deductions are different to the deductions we may ask you to make when we send you a "Notice to deduct amounts owed to Inland Revenue" to recover student loan arrears.

To find out more about student loan extra deductions and how to calculate compulsory extra deductions, visit www.ird.govt.nz (search keywords: compulsory extra deductions).

Do you need to know about FATCA?

Does your business provide financial services and have customers who are United States (US) citizens and US tax residents? If you do, you may need to know about the Foreign Accounts Tax Compliance Act (FATCA). While we expect FATCA to affect mostly large enterprises, it may apply to some of you.

How FATCA could affect your business

FATCA requires all foreign financial institutions that are not exempt, including New Zealand financial institutions (NZFIs), to register with and report to the US Internal Revenue Service (IRS) each year on US citizens and US tax residents who have specified foreign financial assets that exceed certain thresholds.

What you need to do

If you're unsure if this legislation applies to you, refer to our website www.ird.govt.nz (search keyword: FATCA) or contact your tax professional. You'll need to find out as soon as possible as the first disclosures for the 31 March 2015 year need to be sent to us by 30 June 2015.

If you establish that you need to send annual FATCA disclosures to us, you can send this through our new FATCA system—the International Data Exchange Portal (IDEP). The IDEP will be available on our website to all New Zealand reporting entities.

We'll act as an intermediary between NZFIs and the IRS and will provide services to collect and securely store FATCA-related information from NZFIs, sponsoring entities and third-party service providers (where permitted). We'll then forward this information to the IRS as required by the New Zealand/United States Intergovernmental Agreement.

Beginning in March 2015 you'll be able to enrol for this service on our website and check that you can create a disclosure and upload your XML files using IDEP. We'll be offering support for FATCA-related enquiries, from now until the "go-live" date of 1 April 2015. You're welcome to email queries and feedback to fatca@ird.govt.nz

Starting 1 April 2015 the system will be live and you'll be able to submit your first FATCA disclosures to us. We'll provide a dedicated 0800 number for FATCA-related enquiries.

For information on how to enrol and send data using IDEP refer to our "Foreign Account Tax Compliance Act (FATCA) Inland Revenue user guide", on our website www.ird.govt.nz (search keyword: FATCA).

Key dates to know about

The table below contains key dates for New Zealand financial institutions.

Date	Event
Past events	
12 June 2014	Intergovernmental Agreement (IGA) signed between United States and New Zealand
30 June 2014	Royal Assent for New Zealand legislation to allow NZFIs to collect and report data on their US customers
31 December 2014	Deadline to register with the IRS If you need to register with the IRS you should do this immediately Check with your tax/professional advisor what the consequences are for not registering by 31 December 2014
March 2015	Enrolment starts for IDEP
Coming events	
1 April 2015	NZFIs start providing FATCA data to us
30 September 2015	Last day for us to send FATCA data to the IRS for the period up to 31 March 2015

Updating your email subscriptions

Changing your email preferences for our e-newsletters and notifications is easy.

Every e-newsletter you receive has a link at the top "Update details". When you click on it you'll be sent to our preference centre, which will show you your subscriptions. This is where you can update your name and email address. You can also change your subscriptions here. Just tick which newsletters you want to receive or untick to opt out of them.

If you want to unsubscribe, use the link at the end of your e-newsletter where it says "unsubscribe here".

7 April reminder

2014 end-of-year income tax, Working for Families Tax Credits and student loan payments are due (if you have a tax agent or accountant with a valid extension of time).

If you think you'll have difficulty paying on time please contact us. Interest and penalties may be applied to overdue payments.

For more about 7 April payments, go to www.ird.govt.nz/7April