



What Expenses Can I Claim Against My Business Income?

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CAN I CLAIM MY CLOTHING AGAINST MY INCOME?

You can claim:

- A uniform (it must advertise your business name on the clothing).
- Health and safety clothing e.g. high visibility vests, waterproof pants, hair nets, gumboots & wet weather gear (for farmers).
- Protective clothing (with no private element), e.g. steel capped boots, helmets, steel gloves, overalls, surgical scrubs, hard hats.
- Normal clothing for employees, providing FBT or PAYE has been paid/dealt with.

You cannot claim:

- Sunglasses (prescription or otherwise), socks, jeans, t-shirts.
- Business suits.
- Shoes.
- Haircuts (unless you are in the beauty/film/TV industry and then you can only claim excess costs over and above a normal person e.g. you get your haircut every 3 weeks instead of every 6 weeks like usual, then you are likely to be able to claim every second haircut).
- Makeup (unless you are in the beauty industry and then you can claim a portion).
- Personal medical services – e.g. physiotherapy, osteopath.

Note: clothing, eyewear and footwear is very seldom deductible unless it is 'specific' or 'peculiar.' There are numerous cases involving taxpayers claiming hair dressing, wrist watches, spectacles, hearing aid batteries, private medical expenses and child care costs. In every case taxpayers were unsuccessful as there was no relationship between the expenditure and generating income for the business. The items were not specific enough to their occupation and had an element of private benefit.

MOTOR VEHICLES & INTEREST

Generally motor vehicle expenses and interest are deductible, if they are related to business. However, the rules for calculating your deduction are complex and can vary for different entities and people. Come and talk to us about the options that will best suit you.

WHEN CAN I CLAIM TRAVEL EXPENSES?

It's not uncommon to travel around the country or overseas to attend a conference, to view potential capital assets or to purchase or sell a property. It is also not uncommon to mix a little business with pleasure and tack on a few days holiday at the end of such a trip. If the predominant purpose of the trip is for business, the expenditure on the airfares is almost certainly deductible. Accommodation a day either side of the conference is probably deductible as well. However, the accommodation and cocktails at the resort after the conference are not.

CAN I CLAIM MY DOG EXPENSES?

It really depends on what the dog is used for. For example: a GP was able to claim the cost of keeping guard dogs as he held drugs on his premises and the dogs provided security. He was able to claim 50% of the costs.

Another example: a trade person had a workshop at home. He purchased a dog and claimed the costs as the dog lived outside near the workshop and guarded it. The taxpayer was able to claim a portion of the dog as security (50%). To claim even 50%, you need to be able to prove and substantiate that the dog is primarily used for security purposes.

CAN I CLAIM AN ASSET IMMEDIATELY TO REDUCE TAX?

Yes - but only some of it. If an item costs more than \$1,000 + GST and has a useful life of more than one year, then only depreciation on that asset can be claimed each year. Depreciation is the total cost of the asset spread over the asset's estimated life. Depreciation is calculated using a depreciation rate, which is provided by the IRD.

Usually an asset is purchased partway through the financial year. Therefore, when you buy an asset, you usually will be able to claim a portion of the full year's depreciation deduction in the first year.

For example, you buy a vehicle in January, and the end of your financial year is 31 March. You may claim three months (a quarter) of the full depreciation for that financial year. So if the depreciation rate on your asset is 20%, you will only be able to claim a quarter of that (5%). The balance of the asset's cost will be claimed in the following financial years.



WHEN CAN I CLAIM SOME OF MY HOME COSTS?

If you are self-employed and have an area set aside in the family home for work purposes, you are able to claim for that proportion of the household expenses. The area set aside must be used principally for business. For example: an office, storage of stock or a vehicle. You must keep records of the expenses to claim.

Expenses include:

- Repairs and maintenance.
- Rates.
- Insurance (house & contents).
- Power.
- Gas.
- Mortgage interest.
- Security System.
- Depreciation on capital items used in the home for business purposes, e.g. computer, office furniture and fittings, shelving.
- Rubbish disposal.
- Rent (if you rent rather than own the premises). Note: mortgage interest and rates won't apply.

Check out page 12 with the IRD Home Expenses table for a full breakdown of home office expenses that can be claimed and how to work it out.

WHAT INSURANCE CAN I CLAIM?

Claimable in Personal Tax Returns:

It depends on the Insurance Cover. Income Protection insurance policies are claimable in your personal income tax return (whether you are in business or in paid employment) as long as any proceeds upon making a claim are treated as taxable income.

Claimable against Rental Income:

- Rental dwelling replacement insurance.
- Loss of income (i.e. landlord, natural disasters, loss of rent etc).
- Lender's mortgage insurance (low equity insurance fees).
- Business Fixed Asset Insurance.

Not Claimable:

- Personal home & car insurance.
- Life Insurance.
- Health/Medical Insurance.
- Permanent Disability Insurance.
- Trauma Insurance (critical illness).
- Mortgage Repayment Insurance.

WHAT LEGAL FEES CAN I CLAIM?

If your total business-related legal expenses for the year are \$10,000 or less, you can deduct them even if the legal expenses are capital in nature (relating to land or assets).

- The legal expenses must be connected to earning assessable income.
- The legal services must be performed by a person who holds a practising certificate issued by the New Zealand Law Society or an Australian equivalent.
- If your legal expenses exceed \$10,000, then all of the legal fees need to be analysed. Any legal fees that are capital in nature (e.g. purchase of an asset) then do not become immediately tax deductible and more often than not, can never be claimed for tax purposes.

CAN I CLAIM A DONATION?

You can claim a tax credit for your donations if you:

- Made a donation of \$5 or more to an approved donee organisation where there is no identifiable direct benefit to you or your family.
- Earned taxable income during the year you're claiming for.
- Were a resident in New Zealand at any time during that tax year.
- Are an individual (not a company, trust or partnership).
- Have a valid receipt.
- Note: From 1 April 2014 you can only claim donation tax credits within a period of four years, following the year when the gift was made.

You can get a tax credit for donations made to:

- Approved donee organisations listed on the IRD website.
- Approved New Zealand religious organisations.
- Medical research schools and universities.
- Approved overseas aid funds.
- Kindergarten associations (excludes private kindergartens or other early childcare fees).
- State and state integrated schools, or their board of trustees (the payments can either be "donations" or payment of "school fees" if they go to the school's general fund).
- Other schools who have been approved as donee organisations (the payments must be "donations").
- Parent-teacher associations (the payments must be "donations").

UNCLASSIFIED BENEFITS FOR EMPLOYEES

If you are an employer or a business providing fringe benefits to an employee, then you usually need to pay Fringe Benefit Tax (FBT). FBT returns are filed either quarterly or annually.

However, FBT isn't payable on free, subsidised or discounted goods and services provided to an employee, under the following thresholds:

- \$300 exemption per employee per quarter, if you file quarterly FBT returns; OR
- \$1,200 exemption per employee per year, if you file annually.

The maximum exemption an employer can claim is \$22,500 per annum. If the value of the benefits goes over the exemption thresholds, the full value of the benefit is subject to FBT.

Note: This exemption does not apply to cash, motor vehicles available for private use, low interest loans, or employer contributions to sickness, accident or death benefit funds, superannuation schemes and specified insurance policies. There are specific FBT rules that apply to these types of fringe benefits.

Examples of free, subsidised or discounted goods :

- Free transport.
- Reimbursement for education.
- Employee discounts.
- Employee gifts.



WHAT CAN I CLAIM FOR ENTERTAINMENT?

Examples of common entertainment expenses	50% Claimable	100% Claimable	FBT Payable
Staff Christmas Party costs	√		
Gifts for New Zealand clients (if food or alcohol)	√		
Gifts for New Zealand clients (if not food or alcohol)		√	
Business lunches in New Zealand	√		
Morning tea 'shout' on employer's premises (for all employees)		√	
Transport costs provided to employees to attend the Staff Christmas Party		√	√
Any entertainment consumed overseas by employees (see unclassified benefits for certain exemptions)		√	√
Gifts to Staff		√	√
Light refreshments provided to employees at meetings/education courses (four hours or shorter)		√	
All food & drink provided to employees at meeting/education courses (four hours or longer)		√	
Friday night drinks for employees	√		
Sales staff's meal costs while out of town		√	
Corporate box costs or season passes	√		
Subscriptions to sporting clubs e.g. golf club		√	√

The above list does not cover every situation. Please contact us if you have queries on other types of entertainment. Please also see “unclassified benefits for employees” section.

Be careful with 'working lunches.' These are not deductible so don't get into the habit of claiming your daily lunch. There is a case where the taxpayer argued that the company paid for their daily lunches to enable them to keep working. If they had to leave their premises, they would have to stop working. The court didn't agree, viewing the daily lunch as private in nature. Of course, if you are meeting with a customer over lunch, this is tax deductible at a rate of 50%.



Work from home? Make sure you claim these expenses



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nz

If you use your home for business — whether you're a contractor, sole trader, in partnership or own a company — you can claim a portion of household expenses. You can claim 100% of expenses that are solely for business purposes eg a business phone line. For the rest, you can claim the proportion of your house that you use for work. In this example, the house is 100 square metres and the office is 10 square metres — 10% of the total area. So the owner can claim 10% of expenses not solely for business, eg a power bill. Whatever you claim, remember to keep a record of each item.

