

Business Basics

BUSINESS EXPENSES: WHAT'S CLAIMABLE?

Almost every business incurs expenses during the normal course of doing business and many of these can be claimed as business expenses. Claimable business expenses effectively reduce the amount of income tax you need to pay, as they are deducted from the business' income to determine the net profit, or taxable income, which is used to calculate the income tax due. How much you can claim varies depending on the type of expense, and some types of expenses will need to be proportioned between private and business use. Although your accountant is an expert in claimable business expenses, it is important to be aware of which expenses can be claimed and what you need to do to keep track of them.

The main rule about claiming business deductions is that the expense must be incurred in deriving or earning assessable or business income. There is no definitive list of claimable business expenses because there must be a connection or relationship between the expenditure being claimed and the income being derived or earned. If there is no connection or relationship then there is no deduction.

Vehicle Expenses

If a vehicle is used for business you can claim a deduction for tax purposes. Expenses can include petrol, registration, insurance and repairs and maintenance.

If a vehicle is dedicated solely for business (i.e. no private usage) then 100% of the costs incurred will be deductible for tax purposes. If a vehicle is used for both business and private usage then an apportionment needs to be made between the business travel which is deductible for tax purposes and private expenditure which is not tax deductible. In this case a log book should be maintained for a representative 3-month period illustrating business and private travel, from which the percentage of business travel can be calculated and claimed.

Unless the home is a place of business, travel expenses cannot be claimed travelling from home to a job.

Travel Expenses

If you travel primarily for business purposes, the travel expenses can be claimed. You must provide proof that the travel was business related, for example by keeping detailed records of the trips that clearly illustrate the dates, purposes, people, costs incurred, and any related correspondence.

If travel is part business and part holiday – whether in New Zealand or overseas – the IRD look at the dominant purpose of the trip to determine deductibility of expenditure. If the purpose of the trip is principally for business then the travel expenditure (airfares, accommodation etc.) will be deductible with the exception of any expenses relating directly to the personal part of the holiday. Conversely if the purpose of the trip is principally for leisure the travel expenses won't be deductible, with the exception of costs directly incurred in carrying out business activities, such as a taxi to a conference or a meal with a supplier.

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Home Office

If your home is used for work purposes then a proportion of expenses relating to the property are deductible. To claim home office expenses, a specific part of the house must be set aside for business. The proportion of expenses claimable is based on the proportion of area used for business versus the total size of the area. Typical home office expenses that can be claimed include interest/rent, insurance, power and rates. Expenses incurred for repairs and maintenance can only be claimed in relation to the home office itself and their extension to communal areas, for example a leaky roof.

In all instances, invoices must be kept as proof.

Non-deductible Expenses

- Set-up costs incurred before your business has started operating, including registration fees with the Companies Office.
- The cost of plant and machinery (although these may be depreciated).
- Principle loan repayments.
- Costs incurred making capital improvements to equipment (although equipment repairs and maintenance are deductible).
- Costs incurred breaking the law, for example parking tickets or speeding fines.
- Private expenditure, such as drawings taken from the business or life insurance.
- Legal fees in excess of \$10,000 incurred when purchasing capital assets for the business.