

# Self-Employed Persons

## Deductible Expenditure



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# Self-Employed Persons

## Deductible Expenditure

### (a) General Principles

Expenditure is deductible if it is incurred in gaining assessable income or is necessarily incurred in carrying on a business for the purposes of gaining or producing assessable income.

- (b) Retain all invoices, cash sale docket, credit card vouchers.

## 1. Vehicle Expenses

- (a) Claim business portion of:

- (i) Actual running costs, including fuel, repairs, insurance, registration, cleaning and hire of parking space.
- (ii) Interest on hire purchase agreement or loan to purchase car.
- (iii) Depreciation.

- (b) Changing vehicles – will need full details of purchase and sale/trade-in. Please discuss trade-in prior to vehicle changes.

- (c) Hire purchase agreement or loan – will need documentation.

- (d) Log book required for ninety consecutive days minimum – should represent a typical period – details to include:

- Reason for trip
- Distance travelled
- Date
- Total distance over full period

The log book will apply for three years unless significant change in usage. If no log book or detailed expenditure is kept, then 25% claim is the maximum.

- (e) If a privately owned motor vehicle, eg. second family vehicle (ie. not one shown in the business accounts) is used for business, public service rates may be applied, provided total use does not exceed 5,000 km for the year, and each trip is recorded.

- (f) Home to work travel is not deductible, however, travel between places of business (including home) is deductible.

## 2. Home Telephone

- (a) Home phone accounts except for private toll calls and one half of the phone rental are deductible.

- (b) Mobile phone costs:

- The unit is capital expenditure (which we claim depreciation, or a defined proportion of the cost over its useful life)
- Phone calls are deductible (excluding private calls)

### 3. Home Office

- (a) Either separate room or part of a room which is also available for private use, but is primarily business use.
- (b) Claim based on a percentage of total area.
- (c) Relevant expenses:
  - Rates
  - Insurance
  - Interest
  - Power
  - Repairs

### 4. Entertainment

#### 100% Claimable:

- (a) Morning and afternoon teas, and food and beverages consumed while travelling in the course of business.

#### 50% Deductible:

- (a) When the expenditure is incurred predominantly in connection with specific business transactions.
- (b) When the entertainment is in connection with an existing or prospective client.
- (c) When circumstances make it necessary to discuss business in conjunction with the entertainment, eg. Business-luncheon appointment in which the prime purpose was business.
- (d) When entertainment of business and professional associates (not partners) where the promotion of the business is involved as distinct from mere socialising.

#### When Not Allowable:

- (a) The entertainment is of a regular and primarily social nature, eg. club or restaurant luncheons with professional or business associates.
- (b) The entertaining etc undertaken is of a general nature with a view to promoting business or professional interests generally.
- (c) Private entertainment or social activities where the business or professional aspect is merely incidental.
- (d) Claims based upon estimates or an annual allowance.

### 5. Subscriptions

- (a) Membership of clubs – deductible if it is in a business club or similar (NOT a sporting club) used by professional and business people generally, and you use the clubs frequently and regularly for business purposes, eg. to meet and entertain clients (both existing and prospective) or for business lunches or discussion.
- (b) Newspaper and selected trade magazines that deal with business related matters.

## 6. Advertising

- (a) Specific advertising is totally deductible.
- (b) Gifts made as a result of a successful deal are also likely to be deductible. Food and liquor will be classified as entertainment and only 50% deductible.

## 7. Equipment and Other Supplies

- (a) Deductible if complying with the general principle, eg. stationery, freight (including capital items of less than \$500).
- (b) For capital items eg. computers or calculators, depreciation is claimed over the life of the asset.

## 8. Accountancy Fees

Accountancy fees are deductible.

## 9. ACC Levies

ACC levies are deductible (calculated based upon industry risk class).

## 10. Clothing

Only deductible if a uniform or protective clothing is worn.

## GST

1. If total sales are greater than \$60,000 per annum, you must become registered for GST.
2. If less than \$60,000, GST registration is optional.
3. GST returns can be filed on a payments or invoice basis for either one, two or six monthly periods.

## Withholding Tax

1. If an independent contractor, you are subject to withholding tax at a rate of 20% unless you have a Certificate of Exemption.
2. If your residual income tax (ie. tax after withholding tax is deducted) is greater than \$2,500, you are subject to provisional tax for the ensuing year.

## ACC Levies

As a self-employed person you are liable to pay your own ACC Earner/Employer premiums.

The earner premium relates to any injury outside your workplace and is calculated at \$2.00 GST inclusive in every \$100 earned (1.2%).

The employer premium covers any injury during working hours. Your levy is calculated on your net self-employed income.

Both the above premiums are invoiced to you by the ACC.

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