

TAXING ISSUES



The average working New Zealander achieves tax freedom on about May 24 each year. By that time you have worked hard for up to five months to fulfil your tax requirements – but haven't received a cent yourself yet.

This can be hard to swallow for many struggling business owners who wonder where government surpluses are being spent. What are they getting for this investment?

A dollar of tax saved is the best dollar saved. For example, if you opt to not have a yellow pages advert, you save money. But spending that money could help you make more money. Paying tax, however, adds nothing to your business. It is simply a legal obligation with no immediate benefit to you – the tax-payer.

A tax minimisation strategy can help you identify ways to save on tax but it needs to focus on cashflow. With tax minimisation we are looking to do two things. Firstly, eliminate tax wherever possible; if you do not have to pay it, then don't. Secondly, if there is value in delaying tax payments then you should delay.

Some people think you should increase spending to save taxes. But if you spend \$1,000 dollars, your

business has a cash outflow of \$1,000, with a tax add-back of \$330. The net cashflow is still an outflow of \$670. If the money is spent on a capital expense, then the tax advantage is even smaller. Avoid spending money and thinking you are improving taxes.

Tax minimisation does not have to test the Inland Revenue's patience but you do need to note that in New Zealand we cannot make business decisions with only tax advantages in mind. This is called tax avoidance and carries significant penalties.

A good tax minimisation strategy starts by looking at your current situation, assesses the options available, implements changes, then reviews the plan and amends as necessary. There are three key areas to look at:

Maximise your allowable deductions. In other words, claim all the expenses that you can. You know your business best, so sit down

with your accountant and look at your expenses.

Ensure your business is structured in a tax-efficient manner. A good structure provides opportunities for income splitting on legitimate terms. It also means the offset of tax losses to a profit-making taxpayer are available.

There are many other benefits to a good business structure, including asset protection and the ability to engage professional investment advice. Getting the right business or investments into the right entity is essential. It is even more important to get this right as early as possible to decrease the likelihood of 'restructuring' being challenged as tax avoidance.

Review your investments and utilise legal tax advantages.

For example, residential property investments can provide excellent tax breaks if structured well. Most capital gains are still tax-free in New Zealand, so when investing, decide if you want income from your investments or the tax-free long-term capital gains.

Salary sacrifice is another good form of tax break, whereby part of your income is invested into a specified superannuation fund and that investment is taxed at a lower rate. This is a great choice if you are saving for retirement.

Good tax advice should improve your cashflow. If you ask a professional to help you minimise your taxes, then be sure that the tax savings will outweigh the ongoing time or financial costs. You also need to ensure that your affairs will pass a tax audit with no complications.

One of the best pieces of advice is to plan and save for tax - and always pay your taxes on time. Many businesses do not take the time to file returns when they are due and suffer when steep penalties are imposed.

To save for taxes, get your accountant to help you forecast your business tax liability, come up with a formula for saving a percentage of revenue and manage this cost effectively. Keep good quality records and document all business transactions. You must ensure that all tax claims are bullet-proof and good documentation is the key to backing these claims up.

And remember, a dollar saved in tax is the sweetest dollar of all. ■

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