

WHERE EXPERIENCE MEETS... AMBITION



Tax and the Practitioner

Presented by: Michael Turner – Tax Partner
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- Accelerate the Recognition of Tax Deductible Expenses
- Meet Obligations on Time
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- Questions

Tax and the Practitioner

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Taxation

- Tax is a business cost to be managed
- Tax is not definitive:
 - Amount
 - Timing
- Competent proactive advice
- Make commercial decisions with considered tax outcomes

Tax and the Practitioner

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Tax Planning Principles

- Decrease tax rates
- Permanently increase tax deductible expenses
- Permanently decrease taxable income
- Delay recognition of taxable income
- Accelerate the recognition of tax deductible expenses
- Meet obligations on time

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Tax Planning Principles

- Income splitting
 - Wages
 - Interest
 - Dividends
 - Trust Allocations
- Avoidance

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Decrease Tax Rates

Income Splitting

Individual	Current	Proposed	
		Labour 31/3/2010	National 31/3/2010
0-9,500	13.75%	12.5%	12.5%
9,501-14,000	16.75%	12.5%	12.5%
14,001-38,000	21.0%	21.0%	21.0%
38,001-40,000	27.0%	21.0%	21.0%
40,001-48,000	33.0%	33.0%	21.0%
48,001-60,000	36.0%	33.0%	33.0%
60,001-70,000	36.0%	33.0%	33.0%
70,000+	39.0%	39.0%	38.0%

Tax Planning Principles

- Company
 - 30%
 - May use individual rates
 - Need to pass income out at some stage
- Trust
 - 33%
 - May use beneficiary rates

Tax Planning Principles

- Maximum saving \$70,000 = \$9,462 (proposed \$10,450) per person/year
- Note TRA Case W33 & V20 – market salary

Tax Planning Principles

- Income splitting
 - Payment to spouses
 - DB57 – Advance Approval
 - Wages
 - Admin requirements
- Sole Trader
- Partnership
- Company
- Trust

Tax Planning Principles

- Increase Deductions
 - Vehicle Expenses
 - Interest on borrowing
 - Depreciation
 - Running expenses
 - 100% business
 - Log book 3 months
 - 25% otherwise
 - Home to work
 - IRD rates
 - Merc vs Mini

Tax Planning Principles

- Home Office
 - Business proportions
 - Floor area
 - All house costs
 - Interest
 - Rates
 - Repairs
 - Depreciation
 - Power
 - Heating
- } Rent

Tax Planning Principles

- Conference Costs
 - 100% airfares
 - Accommodation / meals – adjust for private
 - Also spouse/partner if:
 - Employed full-time in business & business while overseas
 - If accompanied because of ill health
 - It is “expected” spouse will attend
 - Spouse contributes to conference

Tax Planning Principles

- Entertainment
 - Business objective
 - Practice development/networking
 - 50% deductible only
 - Meals out
 - Entertainment at home

Tax Planning Principles

- Interest on borrowings
 - Use of funds relevant
 - Security irrelevant
 - Business use deductible
 - Car
 - Goodwill
 - Plant
 - Working capital

Tax Planning Principles

- Interest on borrowings
 - House 150,000
 - Mortgage @ 8% 75,000
 - Investments 75,000
 - Business Purchase 75,000
 - Appropriate structuring
 - Annual tax savings approx \$2,000 @ 33%

Permanently Decrease Taxable Income

- Difficult on day to day transactions
- One off transactions
 - Capital gain (ie business goodwill)
 - No capital gains tax
- Delay recognition of taxable income
 - Timing only
 - Cash v Accrual
 - Balance date

Permanently Decrease Taxable Income

- Accelerate the recognition of tax deductible expenses
 - Bring forward deduction – incurred
 - Planning around balance date
 - Part with money earlier?

Permanently Decrease Taxable Income

- Meet obligations on time
 - UOMI 14.24%
 - Late payments 1% + 4% (first month) + 1% per month
 - Provisional tax
 - 28 August
 - 15 January
 - 7 May
 - Terminal tax 7 April
 - Tax shortfalls 20% - 150% penalty

Structuring Options

- Alternatives
 - Direct Investment (Sole Trader)
 - Partnership
 - Trust
 - Company
- Structure generally does not affect how much is taxed but does affect rate

Structure – the Factors

	Sole Trader	P'ship	Coy	LAQC	Trust
Asset Planning	x	x	✓	✓	✓
Tax Rates	x	?	?	?	✓
Tax Payments	✓	✓	✓	✓	✓
Losses	✓	✓	x	✓	x
Distributions	✓	✓	x	✓	✓
Capital Gains	✓	✓	x	✓	✓
Income Splitting	x	?	?	?	✓

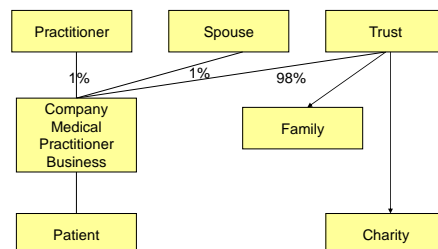
Structure – the Factors

	Sole Trader	P'ship	Coy	LAQC	Trust
Tax on Exit	✓	✓	x	x	x
GST	✓	✓	✓	✓	✓
Complexity / Cost	✓	✓	x	x	x
Liability / Risk	x	x	✓	✓	✓
Commercial Considerations					

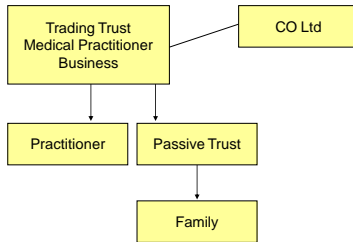
Asset Planning - Trust

- Sell growth assets (income or capital)
- Isolate risk
- Debt back
- Gift \$27,000 p.a. per person
- Gift duty
- Wills
- Start early

Structure – Company



Structure – Trust



Trading Company

- New “admissions” / retirement
- Pre-emptive rights
- Valuation
 - Fixed assets
 - Other tangibles
 - Goodwill

Trading Company

- Share transfer
 - No depreciation recoveries
- Multiple practitioners
 - Share classes
 - Multiple companies

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