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BUSINESS CORNER

TAXING TIMES

There have been a host of tax changes that will impact on businesses associated with the road transport industry.

Depreciation rate changes are encouraging an investment in new equipment. The government signalled some time ago its intention to promote investment in new equipment to make the economy more productive. Transport operators will see some of the benefit of these changes as new trucks will have a depreciation rate of 24%, previously 21.6%. Almost a quarter of the truck cost can be written off in the year of purchase (adjusted for a number of months owned).

There needs to be further encouragement through the use of depreciation for investment in fuel efficient vehicles. With the diesel price sky rocketing vehicles that have greater fuel efficiency could be incentivised by providing a higher depreciation write-off to encourage the investment. This, in the current economic environment, could have a two fold effect. Less diesel used and better equipment on our roads. It is part of the government's desire to have more efficient equipment so that fuel usage improves. There are already examples of depreciation incentives e.g. vehicles used for short-term hire that have an additional amount in their depreciation rate to acknowledge their special nature. So why not fuel efficient vehicles receiving a higher depreciation rate?

In these taxing times there are a lot more changes that will be impacting on transport businesses. Some of these changes have been described as 'social engineering' which include many more thousands of people becoming state beneficiaries. The Working for Families package is a redistribution of wealth to many of your employees who have children. With transport companies, overtime is often necessary to achieve the workload (particularly as it is difficult to get drivers). In the Working for Families package, as employees income increases the government cash support declines. This abatement regime can have a negative effect on the overtime hours as the abatement can have an effective tax rate of 55 cents in the dollar which will provide a disincentive to work those overtime hours. For you it may be difficult to get your customer's job done.

As the TV advert says, there is more. Fringe Benefit Tax changes will capture cars that have previously been outside this tax regime. These arrangements to place vehicles outside the FBT regime were known as 9-5 or flip-flop leases. The FBT regime treats company cars that can at anytime be used for private use as subject to this tax. Fringe benefit tax is a blunt instrument that regardless of the quantum of business use it is charged. A calculation needs to be done to assess whether your vehicle should be included within or outside the FBT regime i.e. owned by the company or owned personally. For example a vehicle costing $90,000 including GST and assuming it is available for private use for the full year with an applicable FBT rate of 63.93% (the highest rate) the annual tax cost after paying FBT would be $9,050. If the running expenses are around $20,000 per annum (including depreciation) and are mostly private in nature the tax saving from being able to claim the private expenses would be $6,667. This basic calculation shows that the after tax cost of paying FBT is more than the tax saving you will get from being able to claim 100% of the running expenses and costs. On this basis it may be better to seek reimbursement from the company for any business related costs rather than paying FBT.

So what else is changing?

There are changes to shortfall penalties (a softening by the IRD!!), the treatment of excess Imputation credits (a technical change) and now ACC is to be paid on maximum earnings of $94,236 (the limit is up by a couple of thousand dollars). Provisional tax is changing in 2008 when there will be wholesale changes to the tax payment dates. These payment dates and the method of calculation can be based on the ratio of GST supplies made from that date.

Then there is the enhancement to the tax audit regime which is targeting high earning businesses with more in depth scrutiny. For example travel requirements include; costs of each trip, the dates of the trip, the destination and the names of people who undertook the trip along with the purpose and details of the firms with which business was conducted.

Also next year Kiwi Saver kicks in for new employees (at least those who elect to stay in the scheme) giving more revenue collection duties to businesses. There is a lot more noise about our personal savings record in New Zealand and while it might be helpful to retirees to do so with a nest egg, the burden of collection sits with businesses.

These are indeed 'taxing times' to be in business. Let's hope we don't tax out the spirit of our business people to take risks and employ.

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