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Nurturing your business beyond numbers

Business Bites

July 2025

SOSA Proudly Sponsors

In June, the SOSA team enjoyed a visit from "Harold" and wore yellow to help support their efforts of the Life Education Trust

SOSA Farewells

When you next visit the office, you will see a new face on reception!

After 23 years as part of the SOSA team, we said farewell to Christine on the 6th of June. We wish her a happy, healthy and well-deserved retirement!

We will also be saying goodbye to Janis (9 years) and Vilna (4 years) at the end of July as they have both chosen to spend more time at home with family. These two powerhouse accountants leave a big gap in our accounting team. We wish them both all the best!



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AN ASSOCIATION OF INDEPENDENT CHARTERED ACCOUNTANTS

IRD Update - Investment Boost

Applies only to new assets or any imported second-hand asset, which has never been used in New Zealand.

• 20% of the cost to be written off immediately but you can decide not to do this.

• Balance to be depreciated in the usual way on the remaining 80%.

• If asset is sold for more than its original TBV, the 20% investment boost can also be clawed back as part of depreciation recovered.

• Commencement after 22 May 2025.

• Does not apply to residential buildings.

Assets for which the boost is allowed includes:

• Machinery, equipment and work vehicles.

• New commercial and industrial buildings.

• Buildings under construction at 23 May 2025 never used or available for use prior to that date.

• Improvements to farmland, planting of listed horticultural plants, improvements to Aqua cultural business and improvements to forestry land.

• Technology.

Tax Calendar 2025

28 July 2025

Third instalment of 2025 Provisional Tax (June balance date).

28 August 2025

First instalment 2026 Provisional Tax (March balance date).

IRD Kilometer Rates for the 2025 Financial Year

The Tier 1 rate is a combination of your vehicle's fixed and running costs. Use it for the business portion of the first 14,000 kilometres travelled by the vehicle in a year. This includes private use travel.

The Tier 2 rate is for running costs only. Use it for the business portion of any travel over 14,000 kilometres in a year.

Vehicle type	Tier 1 rate per km	Tier 2 rate per km
Petrol	$1.17 cents	37 cents
Diesel	$1.26 cents	35 cents
Petrol hybrid	86 cents	21 cents
Electric	$1.08 cents	19 cents

Customers don't like smart alecs

Business competitors can sometimes get carried away with how they promote themselves as better than you.

Especially when times are tough, it's tempting to try to discredit a rival, but it rarely succeeds in the long run. One recent example was very public. A local newspaper owner published an article that said a competitor's newsprint was environmentally dodgy. What he failed to consider was that the print process was the same as for his own paper.

The competitor didn't engage in the argument, but their printer did. It resulted in a correction and apology If you're going to compete, do it on the basis of what you do best. Promote your positive points of difference, not what a rival might do badly.

Customers don't like smart alecs.

Using a company to circumvent paying trust tax

Inland Revenue's GA 24/01 confirms that setting up a company to hold income-earning assets—primarily to benefit from the lower 28% corporate tax rate—is generally **not considered tax avoidance**, unless the arrangement includes **artificial or contrived features**

If a trust owns a company that holds inherited funds, the company pays 28% tax on income. However, there are important factors to consider:

- **Loan vs. Share Capital**: Funds transferred to the company are treated as a loan unless used as share capital. Forgiving the loan later may trigger tax.
- **Accessing Income**: To use company income, a dividend must be declared before the tax year ends. The trust pays 39% tax on dividends, but the company's tax is credited.
- **Tax Planning**: Distribute dividends to beneficiaries with lower tax rates to reduce overall tax.
- **No Backdating**: Dividends must be planned and declared within the tax year.
- **Administrative Costs**: Running a company involves setup and ongoing compliance costs.
- **Asset Type Matters**: Transferring certain assets may have tax implications.

Other Strategies to Manage Trust Tax:

- Distribute income to adult beneficiaries or children over 16.
- Up to $1,000 per child under 16 can be distributed without triggering trust tax rates.
- Consider **Portfolio Investment Entities (PIEs)**, taxed at 28% with no further tax.

Bottom Line: These strategies can reduce the 39% trust tax rate, but **professional advice is essential** to avoid unintended tax consequences

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Refurbishing an asset recently acquired

If you buy something like a rental property or a piece of machinery and it needs repairs, you can't just claim those costs as an expense. Instead, they may have to be added to the asset's purchase price.

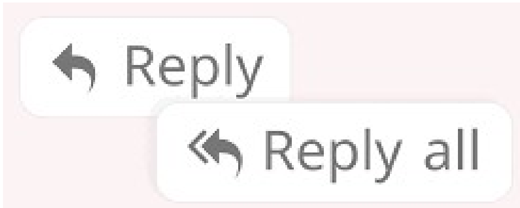
Here's an example:
You buy a building, and during your pre-purchase inspection, everything looks fine. A year later, you discover the roof is leaking and some floor joists are rotten. These issues weren't obvious at the time of purchase and didn't affect the sale price, so fixing them is tax deductible.
However, if the need for the work was apparent at purchase and reflected in a reduced price the expenses must be added to the cost.
Also, if the building was usable to earn some sort of income but wasn't able to be used for the intended purpose, you must add the refurbishment expenses to the cost.
The same goes for an existing business buying a car or piece of machinery that can't be used until the work is completed.
Those costs aren't deductible as expenses; they're considered part of what you paid for the asset which may qualify for depreciation.

Two dangerous words in email – 'Reply All'

It started so innocently. A manager at a small firm was seeking advice from a colleague by email about a client's bill. The client had previously explained the bill in an email and included the email addresses of several sub-contractors and suppliers. It had been circulated around the office via email. The manager hit "Reply" to his colleague . . . or so he thought. Instead, he hit the dreaded "Reply All".

In the blink of an eye, his candid question about the client's "unusually creative" expense claims went out to everyone – office staff, the business owners, the client and their suppliers, who were still copied in.
Cue instant panic. Phones started buzzing. A flurry of follow-up emails ("Please disregard the last message!") only made it worse. It took an apologetic phone call and a lot of smoothing over to repair the relationship. Thankfully, the client had a good sense of humour, but it could have been much messier.
Always, always double-check your recipients before you hit send. In business, confidentiality and professionalism are key.

Quick tip: If your email system allows it, turn off "Reply All" by default for group emails – or at least add a pop-up warning. A two-second pause can save you weeks of embarrassment.



Remember, nothing travels faster than an email you wish you hadn't sent.

Coffee a classic test of pricing strategy

Terrible coffee crops in places like Brazil and Vietnam have meant there's a shortage of beans – that's putting prices for the Kiwi cuppa through the roof.

Cafés who have tried to keep prices down by absorbing previous minor coffee price rises have a dilemma. Do they try to live with a big price rise by making a marginal increase, or put prices up in line with the wholesale price?

The smart cafés look regularly at their margins. If the overall prices that go into making a cup of coffee – including milk, wages, rent etc – are up 20 percent, they lift their prices accordingly.

There's always the classic danger of not lifting prices in small bites regularly. If you don't, you'll be forced to make an even bigger price rise later.

And in a situation as now with a big lift in coffee bean prices, let your customers know why they have to pay more.

The same applies to any business facing rising costs, not just cafés.