

## Income tax – Allowable deductions overview

Net income (or net loss) is calculated by deducting annual allowable deductions from the total amount of gross income for an income year. Annual allowable deductions are the sum of all amounts of allowable deductions incurred in an income year. Only business expenditure will be an allowable deduction.

### General overview

- ✦ Generally, an item or service will be an allowable deduction if it has been purchased in the course of carrying out the business activity.
- ✦ An item or service will not be deductible if it is purchased for private use or is a substantial asset. However, where expenses are not totally for business use, the expenses can be apportioned in order to calculate the business portion of the expense.
- ✦ Be aware that some specific business expenses will have their own separate rules.
- ✦ When in doubt over the treatment of an expense, ask your advisor before you purchase it.

### Employment

Expenditure incurred in deriving salary or wages is not deductible. This is because the expenditure is not incurred for business purposes.

### Entertainment

Business expenditure for food, beverages, recreation, and related accommodation and transportation is 50% deductible.

The following expenses are 100% deductible:

- ✦ Food or beverages consumed while travelling on business;

- ✦ Food or beverages consumed at a conference or educational course;
- ✦ Overtime meal allowance;
- ✦ Morning or afternoon tea provided during work hours; and
- ✦ Food or beverage samples for advertising purposes.

### Interest

- ✦ Generally, interest is deductible for funds borrowed to purchase assets used in the business activity.
- ✦ However, interest is not fully deductible if part of borrowed funds is used for a private use, or a use that is incapable of producing income.
- ✦ Only the portion of the interest relating to the income producing use is deductible.

### Trading stock

- ✦ A reduction in the opening value of trading stock is an allowable deduction.
- ✦ The value of trading stock is calculated by measuring the difference between the opening value of trading stock and the closing value of trading stock.
- ✦ Trading stock includes:
  - ✦ Livestock; and

- ✦ Anything manufactured, produced, or acquired for the purposes of manufacture, sale, or exchange.

## Donations

- ✦ A rebate is allowed where a minimum \$5 gift of money is made to certain approved organisations.
- ✦ The amount of the rebate is the lower of either: one-third of the gift or \$500.

## Bad debts

- ✦ A bad debt that is written off is an allowable deduction.
- ✦ A bad debt can be wholly or partly written off. A bad debt will only be accepted by IRD as written off when there is no reasonable or probable expectation of recovery.

## Professional services

- ✦ Legal, accounting, or any other professional service expenses are deductible, provided they are incurred as part of the business activity and are not a substantial asset.
- ✦ A deduction is not available for the following activities:
  - ✦ Forming, registering, liquidating, or selling the business;
  - ✦ Acquiring a licence for the business;
  - ✦ Altering the capital structure of the business; or
  - ✦ Drawing up a partnership deed or trust deed.

## Bursary payments

- ✦ Bursaries or similar payments offered by employers to attract staff, are deductible.
- ✦ The expenditure is deductible whether paid to, or on behalf of, an employee or for a prospective employee on condition that they stay with the employer for a specified time.

## Penalties

- ✦ Penalties, bribes, use-of-money interest charges and income tax are not deductible.
- ✦ Lawyers expenses in defending criminal or civil penalties are not deductible.

## See us first

- ✦ Before making any financial decisions.
- ✦ To assist you in meeting the necessary legal or financial requirements.
- ✦ If you consider that any of the issues contained in this fact sheet may affect you.

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## Disclaimer

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