**Tax, Tax and More tax – what about Tax Minimisation**?

In a recent discussion with a colleague , I asked what did they mean by tax minimisation? The result was a discussion about structuring options, tax rules, tools and risks. All are important for a tax payer to consider in running their business, and worth sharing as detailed below.

Structure and Planning

There are many options available to a tax payer to plan how they structure their business. With changing legislation it is important to keep up with changes. Many valid planning options in recent years are no longer relevant. The tax player needs to consider:

- Are the assets owned by the right tax payer
- Are the working owners receiving the correct remuneration, and appropriate ACC cover
- Is Income accruing in the right entity
- Can Income be distributed to a shareholder or beneficiary
- How do we plan for income tax allocations while not adversely affecting other entitlements such as Working for Families, Student Allowances etc.

With varying use of sole trader, partnership, company and trust structures an appropriate solution can be formed, however this solution needs to be simple, efficient and compliant with both tax and other forms of legislation. If you get the right structure in place, you have the foundation for tax planning.

Rules

Tax legislation is clear in many areas on what is defined as Taxable Income and allowable deductions. If correctly interpreted, following these rules calculates profit, on which tax is assessed.

However calculating profit becomes unclear when there are:

- Timing issues – Can I claim the expense now, or is the claim delayed to a following year?
- Apportionment issues – The cost partly relates to the business and private costs, how much can I claim?
- Capital vs Repairs – Is the cost claimable now, or treated as creating an asset and potentially claimable in following years.
- Rule Changes – What I've done in the past is it still correct, and if new rules exist, have I transitioned correctly?

The above points can equally apply to Income as well as expenses. Correct interruption and implementation of the legislation results in efficient tax planning during the life of your business.

Tools

There are many tools in place to allow tax payers to manage their taxes to overcome issues that arise, some common tools include:

- Income Equalisation – This allows farmers to spread peaks in income over different years
- Subvention Payments – Which allows commonly owned companies to offset income and losses
- Tax Pooling – Allows tax payers to buy tax payments at an earlier date to cover late payments
- ACC Coverplus Extra – To provide certainly on lost earnings cover due to accident
- Use of Accrual Rules

These tools allow the tax payer to plan for the future as well as help with unplanned outcomes

Risks

The risk to the taxpayer can be two ways. If valid claims are missed the tax payer pays too much tax. Alternatively if an error is found under audit, the tax payer faces exposure to late payment penalties, interest charges and potentially higher shortfall penalties

Over riding all tax management options the tax payer has to consider the driver of their actions. If the result of their action is a tax advantage contrary to IRD intention, and is undertaken solely for tax purposes the result will be potentially open to IRD challenge.

Conclusion

In summary it is easy to talk about tax minimisation, however the tax payer needs to have a clear understanding of what this means, the options available with both benefits and potential risks

For more detailed consideration and options on Tax Planning please contact Grant Eddy, 07 889 7153

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