

BUSINESS FINANCE – REVOLVING CREDITS

Beware, there can be hidden costs to businesses in the use of these facilities. Where the one facility is used for both business and personal expenditure, the treatment of separate items for tax purposes is likely to become very muddled. While the facility may be sold to you by the bank as a way to minimise your interest costs, it could maximise your accounting costs and complicate the tax treatment of interest charged to your account.

An example would be where a business owner uses his flexi revolving credit to purchase a boat, the balance goes up, then lodges his business takings, the balance goes down, buys some business related equipment, the balance goes up. He then takes the family overseas on holiday, the balance goes up again. The interest component in the boat and holiday will not be tax deductible but the equipment purchase will be. If you want your accountant to figure it out, be prepared to pay him/her and hope the IRD doesn't work it out differently if they query it.

There are perks being in business but incorrect deductions for interest is not one of them. I suggest that

1. Keep business transactions separate from private one,
2. If necessary have separate revolving credits for business and private use.

It pays to keep accounts and proper records. At some stage you can expect to be audited by the IRD. They will examine your tax return figure and verify them by going back (often years) over your records. Apart from this being a real hassle and interruption to your busy days, unless you keep good records, how are you going to remember stuff from five years ago? The investigator could disallow expenses claimed and penalise you as well for not keeping adequate records.

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