



GLOSSARY

Frequently used business terms in plain language

ASSET

Plant and machinery, including motor vehicles

Used in your business to produce taxable income.

The cost price must be more than \$200 (excluding GST) and have a useful life of more than 12 months.

Assets are paid for from profits or by loans or from private funds.

Assets are not expenses. You do however get a deduction for part of the cost of your assets by way of depreciation. This spreads the cost over the useful life of the asset i.e. for as long as they help produce taxable income.

Depreciation is not calculated for cash flow forecast purposes.

Items of plant and machinery, including vehicles that are used and owned by the business that cost \$200 (excluding GST) and help make income for more than 12 months.

NB: If you trade under a company structure then you must put any business vehicles into the company name for IRD purposes.

BALANCE DATE

The end of your financial year. Most people have a 31st March balance date.

Farmers however usually have a 31st May or June balance date to match their seasons. Taxpayers with an alternative balance date also have different provisional tax payment dates.

BOOK VALUE

The residual value of an asset after depreciation has been claimed each year.

CAPITAL INTRODUCED

These are funds introduced to your business to help with working capital.

Funds can also be introduced by way of assets privately owned now used for business purposes.

CASHFLOW FORECAST

This is a budget for the future. It is most useful to do a 12 month forecast showing movements each month. A spreadsheet is the perfect tool for this.

DEBT SERVICING

The repayment of loans. This is paid either from profits, private money introduced to the business or further borrowings such as overdraft facilities. Loans include hire purchase agreements.

DEPRECIATION

This allows for the gradual deduction of asset costs over each year they are used in your business. The rate of depreciation is set by the IRD.

DEDUCTIBLE EXPENSES

Business expenses that relate to the income of the business and can be legitimately claimed as a tax deduction.

DRAWINGS

Money you take from the business for private expenses. (If you have a structure that allows PAYE to be deducted from payments to you then this would be reported as a wage expense.) This is not deductible nor do you pay any tax based on the amount of drawings taken. (You pay tax on profit only)

FINANCIAL OR TAX YEAR

Tax year known from end date E.g. 1/4/04 to 31/3/05 is 2005 tax year)

EXPENSES

These include all running costs and direct cost incurred producing your goods or providing your service. Expenses are deducted from Income to assess profit.

Expenses do not include debt servicing, drawings, tax payments or asset purchases over \$200 (plus GST). FBT is an expense however, GST is not.

Examples of expenses: Wages, purchase of materials and supplies, stock purchases, ACC, accountancy, insurance, vehicle running, interest, bank fees, consultants, freight, FBT, Advertising, Printing, stationary and so on.

INCOME

All business revenues or sales for goods or services. GST is added to your sale price if you are GST registered. Business sales, fees, revenue, deposits. This does not include the sale of assets or loan funds. Expenses are deducted from this income to establish profit (exclusive of GST).

INCOME TAX

The tax on the profit of your business.

LIABILITIES

All business debt such as bank or family loans, hire purchases for business assets and any overdraft facility.

LOSS ON SALE

This occurs if you sell an asset for less than book value.

PROFIT

The basis of calculating tax obligations. Calculated by taking the difference between business income and deductible expenses.

PROVISIONAL TAX

This refers to the payment of Tax during a financial year based on the previous financial year's **profit plus 5%**. Payments are made in 3 equal installments – July, November and March for March Balance Dates.

Refer Balance Date definition for alternative provisional payment dates.

SHAREHOLDER EMPLOYEE

In a company any shareholders that work in the business is deemed to be a shareholder employee. The FBT regime applies to benefits given to shareholder-employees. This is usually in the form of vehicles available for private use.

TAXPAYER

Any entity that produces income including individuals, companies and trusts.

TERMINAL TAX

This is the amount of tax due when your provisional tax is insufficient to cover the amount of actual tax due on your taxable profit. This is usually due in the next April following the end of the financial year concerned. If your provisional tax is more than the actual tax due then you will receive a refund.

WORKING CAPITAL

The cash required to run your business in the short term.