

## News Views Solutions from Summit Systems February 2023



### **MANY NZ WORKERS NOW HAVE TO WORK FROM HOME**

Government policies plus global compressions are now upon many workers and they are now forced into working from home due to Covid 19 and other events or sicknesses that prevent ordinary workplace attendances.

When we had Roger Douglas - he along with Richard Prebble sold off most of the Government enterprises or privatized them. The focus of NZ Govt became Education and Health and we had two excellent Ministers of Health.

Education was a much different story and we ended up with "look and learn" with a few other learning techniques that have produced degraded standards of learning and have allowed for very high levels of truancy and youth lawlessness. This has provided a platform for ramraids and biker gang crimes plus levels of theft that are unbelievable. At the same time we have a Justice system that favours the offender and is happy to overlook the fraudster.

It is our estimate that perhaps a quarter of all workers are now potentially independent contractors or could qualify for that status except that their Accountant or Advisor has discouraged them and IRD have strewn the pathway with boulders and other obstacles.

A significant number of occupations are now encouraged to work from home and this includes real estate, bankers, educators, consultants, a wide range of trades and suppliers plus all types of journeymen and repairmen.

In our previous newsletter we discussed the changing nature of jobs and in this edition we plan to address the relevant issues of

- a) how to set up a home office of a practical nature
- b) how to operate as an independent contractor using a 10 column cash book that is suitable for one person or a small local government
- c) how to minimise your tax and generate GST benefits with refunds.

The information we provide is without prejudice and you may need to consult with experts in financial law and taxation. This report is designed for our consultants and for our clients so that they can increase their team by appointing some independent contractors at a ratio of 1 for every 2 ordinary employees. This ratio is unlikely to stir up the wrath of Inland Revenue officials.

### **DIFFERENCES BETWEEN EMPLOYEE AND CONTRACTOR**

<b>Contract of Service (employee)</b>	<b>Contract for Service (contractor)</b>
Hourly rate plus holiday pay 6%/8%	Options include: Hourly rate plus margin of say 15% -20% (depending on who pays for ACC)
Boss pays for ACC	Contractor usually pays but in some cases Principal will
Gets paid for public holidays	Only gets paid for time worked even if this is on a public holiday
Must be full time or regular part time	Work less than 80% of the time for main principal and have other income streams
Boss provides office and work facilities	Principal can operate itinerant from place to place
Worker pays own transport to/from work	Contractor pays for own transport and is tax deductible
Worker has own accommodation but not tax deductible	Contractor can operate home office and is tax deductible – usually 20% of total outgoings
Worker expenses paid by the boss	Contractor expenses paid by contractor and tax deductible – usually 100%
Worker is supervised	Contractor has much greater degree of freedom and will supervise himself or herself
Worker performs agreed hours	Contractor can have flexible hours as long as targets completed on time to agreed quality
Worker must get approval for time off	Contractor may be able to take time off as long as targets completed on time to agreed quality
Has annual holidays as per statute	Does not have annual holidays but may arrange for a period of time off
Boss provides safety gear / tools for work	Contractor provides safety gear and tools for work and claims 100% as expense
Labour legislation applies workers have more legal power than Boss	Contract law applies and both parties relatively equal
Workers complete a timesheet	GST or similar invoice applies for works and services
Workers pay tax at rate minimum of 19c rising to 39c in the dollar	Contractors may agree with Principal on withholding tax as scheduled by IRD often 20%
Only the boss can claim depreciation	Contractors can claim depreciation on plant, vehicles and buildings used for their work

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<sup>3</sup> Now we beseech you, brethren, by the coming of our Lord Jesus Christ, and by our gathering together unto him, <sup>2</sup> That ye be not soon shaken in mind, or be troubled, neither by spirit, nor by word, nor by letter as from us, as that the day of Christ is at hand. <sup>3</sup> Let no man deceive you by any means: for that day shall not come, except there come a falling away first, and that man of sin be revealed, the son of perdition: 2 Thes 2, 1-3 KJV

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## **FIRSTLY - BEWARE OF DRUG TAKERS, MAKERS AND DEALERS**

We would like to alert all of our clients to the increasing trend for workers to take a Friday or Monday off on sick leave or any other excuse they can get away with.

Certain types of drugs have a 3 day short cycle life and this provides for a party on the Thursday night and they can be fairly clear by Monday morning or it will be after lunch by the time the way and wily employer has arranged for testing on Monday morning.

You need to keep records of all absences and to alert the NZ Police where you have strong suspicions of drug doping with some wheeling and dealing.

If you find neighbourhood explosions you need to alert the Police to the fact as a drug factory could be in operation. This is called a P lab but it could be Meths.

We are also told about a prominent figure that has been able to jump from modest wealth to \$25 million in a few years and there are possibly some really bad reasons for this.



### **HOME OFFICE. NOT P LAB**

It will NOT be like explosion in photo. It will have adherence to Health & Safety needs. It will have ergonomic desk and chair in a private room with a proper desk top CPU. You will have suitable PPE plus suitable clothes to represent your company well. Hi vis vest and ear plugs are essential.

There will be proper filing cabinet and you will use traditional methods of USB back up. You will have suitable diary and brief case plus all forms required for the job. Ensure you have water bottle and carry your own mug, Access to high quality snack food or food for classes will be essential.

### **FINE IRONHIDE ROOFING LTD**

Fine imposed: \$300,000 and then taking into account financial capacity - \$25,000 at \$5,000 over 5 years. Safety lessons learned:

It was reasonably practicable for Ironhide Roofing Limited to have:

Developed, implemented and maintained an effective safe system of work for the work on the roof that was in accordance with industry guidance;

Provided a safe work environment by ensuring workers could not access, or fall through, skylights, in accordance with industry guidance; and

Being a PCBU having a duty to ensure, so far as was reasonably practicable, that no worker aged under 15 years carries out construction work, failed in that duty in that [victim] and [other young person] carried out work involved in a roof repair at aged 14 years.

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## **BECOMING AN INDEPENDENT CONTRACTOR**

1. You will need to apply for registration under GST. You will decide whether to trade under your existing name or similar and to use your existing IRD number. Alternatively you can operate as a trading company and it costs about \$50 to set up a company and the forms are available on the internet under the companies office.

2. You need to measure the square metres of your home. You need to put a sign up at the front door for example REGD OFFICE JOHN BROWN & ASSOC. You can reasonable claim 10% to 20% of the floor area and this includes an office plus part of the general living area plus facilities and access routes. You will need to designate the rooms and areas and then calculate the percentage. It should be easy to get to 20% if you designate a large room as an office, plus a lounge to entertain your colleagues and clients, plus part of the kitchen and wash room and toilet facilities and also the entrance ways and passages and do not forget the garage. It may include half or all of your garage depending on the size and number of cars.

3. You need to deal with the matter of a vehicle and get it independently valued. For example \$10,000. It will be transferred into the name of John Brown & Assoc.

4. You will use a log book for 3 months every three years (do this during the Winter when your private running will be light) so that you can exactly establish allocation of use of the vehicle. You will then claim the percentage - for example 80-90% for work use. OR Spend \$20 and get the vehicle transferred to John Brown & Assoc, and write to John Brown (yourself) saying that the vehicle is only to be used for business and contracting purposes. Under this restriction, it will be subject to claims for 100% of operational expenses & the approved percentage of depreciation. This is currently 20%.

5. Find a suitable tax person or accountant who actually understands the law and tax benefits that apply to self employed and independent contractor relationships. Some Accountants will try and tell you that 10% is the maximum you can claim for a home office. It may be just 10% if you do not allocate and designate all of the areas and just say you use one small bedroom. If you ever have guests in relationship to your work, you are entitled to claim the entertainment area even if this means a whole lounge and dining area. It is not practical to fence off part of the lounge.

6. Ensure that you get good advice on all the things to claim. Be aware that you can reduce tax. Keep receipts for all large purchases and put them into categories for ease of completing returns.

7. Most important, set up a separate bank account immediately and keep your transactions separate, unless you want to pay the accountant twice as much.

8. You will need to arrange for insurance for public liability and this should not cost more than about \$250 for an individual self employed person.

9. If you have a second car owned by your wife and she occasionally helps you, she can give you an account that will be paid by your trading account.

10. Depreciation on your building is 2% flat rate for concrete, 3% for brick and 4% for wooden. The current Government will probably try and change depreciation laws to get an extra tax.