LOGGING INDUSTRY RESEARCH ASSOCIATION
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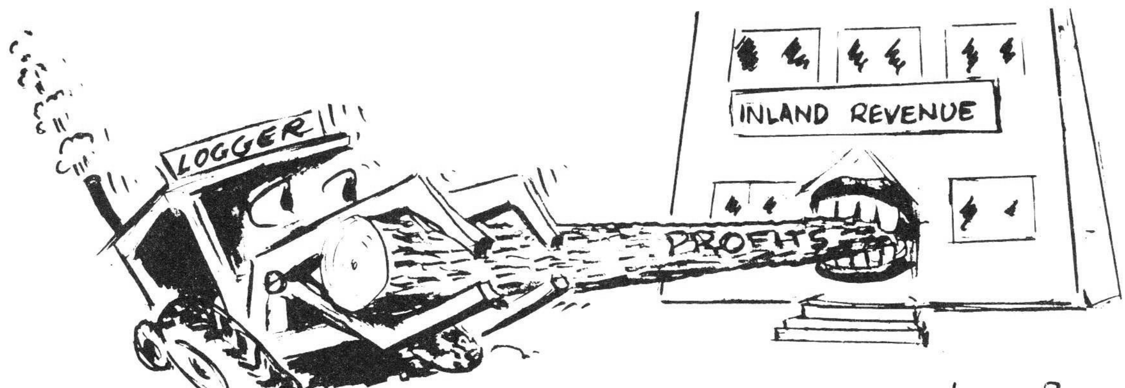
TAXATION : Non-Taxable Costs for Logging Contractors



ARE YOU GETTING YOUR SHARE ?

Logging contractors, along with all other businessmen, must submit a Tax Return every year. Income tax will be paid on any income which remains after all legitimate costs incurred in earning it have been deducted. Taxation is like any other cost of a business, it must be reduced to the lowest possible level so that the retained profits after all costs and expenses (including taxation) are kept at the highest possible level. Income is easy to identify but costs are often not so well understood. This report gives guidelines on some cost items of particular relevance to loggers. To minimise tax payments the logger needs a good set of cost records and regular consultations with his Accountant.

PAYMENTS TO EMPLOYEES:

An " *EMPLOYEE* " is one who is paid to work for another person and is not required to use his own heavy machinery or to employ labour. Note that chainsaws are not "heavy machines".

Example : A skidder driver operating the contractor's machine.
A bushman felling or cutting posts or pulp on a piece rate.

A contractor paying an employee should obtain a Tax Code and make P.A.Y.E. deductions from wage payments. The contractor must pay the Accident Compensation Commission (ACC) levy for his employee on all payments except non-taxable allowances. Non-taxable allowances should be distinguished from wage payments.

PAYMENTS TO SELF-EMPLOYED SUB-CONTRACTORS:

A " *SELF - EMPLOYED PERSON* " in logging is one who is required to use his own heavy machinery or employ labour in order to carry out his work.

Example : A logging contractor using heavy machines and/or employing men.
A loader driver working his own machine on a sub-contract.

When payments are made to a self-employed sub-contractor, a 10% tax should be withheld and paid to the Inland Revenue Department (IRD), unless the sub-contractor possesses a Certificate of Exemption. The sub-contractor must pay his own ACC levy.

PAYMENTS TO A FAMILY MEMBER:

If a contractor pays,for example, his wife for office and bookkeeping services, an overall tax advantage usually results:

Example:	INCOME	TAX PAYABLE
	$12,000 Contractor	$3546
	compared with:	
	$9,000 Contractor	$2362
	3,000 Wife	435
	$12,000	$2797

NOTE: A contractor who is operating as an individual should obtain prior approval from the IRD to employ a family member for this type of work. He should pay the ACC levy for such an employee.

CHAINSAWS:

A contractor may own the saws or pay his men an allowance when they own their own saws.

CONTRACTOR OWNING SAWS: The costs of owning and operating the saws (fuel, repairs and maintenance, depreciation) are legitimate costs and may be deducted from income. If more than one saw is owned, cost records must be shown with double-entry bookkeeping.

CHAINSAW ALLOWANCE: A contractor may pay an allowance to an employee for owning and operating a chainsaw. The maximum allowed by the IRD as non-taxable income (April 1979) is:

Saw - less than 50 cc	*$7.00 per day*
- 51 - 100 cc	*$9.00 per day*
- more than 100 cc	*$10.00 per day*

If two different sized saws are owned for different work, the maximum non-taxable allowance is 75% of the sum of the allowances for the two saws. If a second saw is a spare, the maximum non-taxable allowance is 10% greater than that for one saw. The whole of the allowance (with no maximum) paid to an employee is a legitimate cost to the contractor.

PROTECTIVE CLOTHING:

A contractor is required to provide his employees with protective clothing necessary for the job (e.g. helmet, boots, coat) or with a cash allowance to cover the cost, or with a combination of clothing and cash. The costs incurred, including his own protective clothing, are legitimate costs for the contractor. For the employee , the value of the allowances or clothing is non-taxable income up to a maximum assessed by the IRD who are guided by the provisions of the relevant union Award or Agreement.

TRANSPORT:

Where a contractor transports men to the work place, or uses a vehicle to conduct his business (e.g. consult Accountant, procure spares), then the owning and operating costs of these vehicles are legitimate costs. If a vehicle is also used for private running, only the business running costs are deductable.

A contractor may pay an employee an allowance to use his own vehicle for transport. This is a legitimate cost to the contractor. For the employee, the allowance is non-taxable up to a maximum per kilometre rate, generally that set by the Ministry of Transport. Employees who do not receive an allowance may not deduct the cost of using their own vehicle from their wages to reduce tax.

NOTE: An employee should check his car insurance policy to make sure that he is covered for any business carried out on the contractor's behalf for which he is paid an allowance.

HEAVY LOGGING MACHINERY:

Owning and operating heavy machines form major cost elememts in logging. Accurate operating costs can be obtained with a good cost records system. Main owning costs are depreciation, and interest on borrowed capital. Depreciation is not an "out-of-pocket" cost and along with other special allowances the amount allowed as a legitimate cost is regulated by the IRD.

FIRST YEAR DEPRECIATION: is a cost allowed in the first year of ownership of new or second-hand logging machines. The current (April 1979) rate is 25% of purchase price. Applying depreciation reduces the purchase price to the depreciated value or book value of the item.

ORDINARY DEPRECIATION: is a cost allowed in second and subsequent years of ownership. It is applied to the book value of the item which consequently reduces each year. The current (April 1979) rate is 20% for logging machines.

REGIONAL INVESTMENT ALLOWANCE (RIA) : is an incentive which may be deducted from income in the year of purchase of new heavy logging equipment which is retained for at least 12 months. It does not affect book value. Current (April 1979) rates vary with locations as follows:

20% of purchase price:- Northland, East Coast, West Coast, Buller, Otago, Southland.
15% of purchase price:- King Country, Taranaki, Wanganui, Wairarapa, Marlborough, South Canterbury.
5% of purchase price:- Bay of Plenty, Waikato, Hawkes Bay, New Plymouth, Manawatu, Nelson, Christchurch, North Canterbury.
Nil:- Auckland and Wellington Regional Areas.

SAMPLE CALCULATION:	Book Value	Legitimate Costs
Purchase price & Book Value, beginning Yr.1:	$50,000	
First year depreciation, 25% of $50,000:		$12,500
RIA (Bay of Plenty) 5% of $50,000:		$2,500
Book Value, end of Year 1:	$37,500	
Second Year depreciation, 20% of $37,500:		$7,500
Book Value, end of Year 2:	$30,000	
- and so on, to book value, end of Year 5:	$15,360	

When the machine is sold, depreciation is adjusted according to the actual sale price of the item. Tax is payable if the price is higher than the book value at the time of sale.

FOR EXAMPLE:	Book value, end of year 5:	$15,360
	Sold at end of year 5 for:	20,360
	Tax is payable on:	$ 5,000

This tax liability may be deferred if the amount is used to reduce the book value of a replacement machine at the time of purchase.

FOR EXAMPLE:	Purchase price of replacement machine:	$75,000
	Excess of resale price over book value for original machine:	5,000
	Book value of new machine at beginning of Year 1:	$70,000

First year depreciation will then apply to the $70,000 book value and the RIA to the full cost of $75,000. When a machine is finally sold and not replaced all the deferred taxation must be paid. This liability can be large in times of inflation.

REMEMBER THE SMALLER COSTS:

The contractor should make sure that all the legitimate running costs of his business are deducted from the business income. Examples are:

- Office (or part of a house if set aside as an office)   depreciation on office, furniture, equipment used; rates, heating and lighting.
- Garaging or workshop facilities used in the business.
- Subscriptions to periodicals and Associations relevant to the business, such as LIRA subscriptions.
- Telephone, postage and stationery costs where used for business purposes.
- Attending courses, meetings or conferences aimed at keeping up-to-date, business trips to procure machinery, customer entertainment, Christmas hospitality to staff,etc.

SALES TAX:

Machinery used only for logging i.e: felling, skidding, hauling, and loading equipment is exempt from sales tax. However the cost of parts used in the repair and maintenance of these machines will include sales tax which should be shown seperately on the invoice. Obtain a refund of this sales tax by applying to your local Collector of Customs (the original invoice is required). Hydraulic oil which is used solely for hydraulic purposes (i.e. not lubrication) also qualifies for a refund.

TAX IS A PART OF FINANCIAL MANAGEMENT:

Only a few aspects of tax have been outlined here. Tax is an important cost to your business so see your Accountant for advice on the best way to calculate tax to retain maximum business profits. Remember, financial management does not end when the Tax Return is made; you will also need to use costs for pricing and budgeting.

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