

BUSINESS COSTS FOR TAX DEDUCTION

Viljoen Roux

DIRECT COSTS ("COST OF SALES")

Costs incurred to manufacture or supply the product that you are selling. These may include:

- ? *Physical resources/Raw material*
- ? *Packaging*
- ? *Labour*
- ? *Transport (to get material to factory OR get labour on site)*
- ? *Delivery costs (to get the product/service to the customer)*
- ? *Sales commission*
- ? *Warehousing/Storage*

INDIRECT COSTS ("OVERHEAD COSTS")

Overheads are the typically recurring expenses that your business will incur every day, every week, every month and every year. Typical overheads could include:

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| <ul style="list-style-type: none"> ? <i>Accounting and bookkeeping costs:</i> For services such as registering the business, preparing annual financial statements for the bank, preparing or assisting with statutory returns, and preparing tax submissions. ? <i>Advertising and promotions:</i> The cost of business launches, product launch-es, designing and printing product brochures, and product samples to prospective customers. ? <i>Bad debts:</i> Monies not collected from customers and which then have to be written off. During the course of a year every business will have at least one bad debt. ? <i>Bank charges:</i> Costs for holding and using bank accounts. Consult your bank for estimated charges. ? <i>Cleaning:</i> To keep your premises/factory and facilities clean ? <i>Credit card commission:</i> Costs paid to a bank for processing credit card payments made by customers. Consult your bank for estimated charges. | <ul style="list-style-type: none"> ? <i>Delivery and freight:</i> Costs incurred in delivering products to customers. Generally these costs are paid to outside contractors, such as couriers. Deliveries done by the business using its own vehicles and resources would be accounted for under motor vehicle costs. ? <i>Depreciation:</i> This recognises that business assets are deleted and deteriorate while in use by a business. For tax purposes certain ratios are used to write off certain assets over a period of time. For example, a vehicle is usually depreciated over a period of five years. This lost value is a form of cost to the business and must be taken into account. While no physical cash is paid out, depreciation on assets is considered an expense to the business. ? <i>Discounts:</i> These are discounts given to customers for various reasons. ? <i>Entertainment:</i> Those expenses - normally food and beverages – incurred while entertaining people important to the business, such as customers and suppliers. ? <i>Electricity and water:</i> Costs associated with the business's premises and the equipment used. |
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- ? *Insurance:* Protecting the business's trading activities, equipment, vehicles, stock, loss of profits against risks such as fire, burglary and hijacking. Could also include insurances of business owners in their personal capacity, such as 'key man' insurance.
- ? *Interest:* The interest paid on loans or bank overdraft – see "Loan Repayments"
- ? *Internet:* Costs for setting up and maintaining a web site, having facilities for e-mail or Internet banking.
- ? *IT:* Costs regarding computer hardware and/or software, including maintenance and repairs of computers
- ? *Licences:* These apply to businesses that may require a licence of sorts in special circumstances.
- ? *Legal fees:* Costs incurred when obtaining legal advice or using legal services. Could include legal costs incurred over a business dispute, pursuing a bad debt and so on.
- ? *Maintenance & Repairs:* Expenses for maintaining (servicing) equipment and other related business assets including repairs, materials, and third-party labour. This could be repairs to buildings/office, computers, office equipments, machinery, etc.
- ? *Membership costs:* Those incurred when joining certain industry and professional associations.
- ? *Motor vehicle costs* - General running expenses such as fuel and oil. These should be kept separately for easier management of the various vehicles owned and run by the business.
- ? *Motor vehicle costs* - Maintenance, repairs and licence costs should be costed separately from daily running charges.
- ? *Postage:* Stamps, mailing expenses, etc.
- ? *Printing and stationery:* Letterheads, business cards; all stationery.
- ? *Remuneration:*
- ? *Salaries/Wages* -(Salary: Costs for each person employed by the business, other than business owners, who are shown separately. Each staff member should have a 'letter of appointment' and in this document the salary package should be stated. Salaries are usually paid monthly. Salaries include not only the amount of cash actually paid to the staff member, but also the tax, unemployment insurance, and union fees. These are paid to third parties on behalf of the staff member.)
 - o *Owner's salary:* This includes all cash taken as a salary as well as any other payment made by the business on your behalf. Some business owners claim to earn a relatively low salary but then forget to include the various debit orders, miscellaneous cheques and other 'expenses' which the business pays on their behalf. It is important to be honest with yourself regarding your annual salary and entitlements.
 - o *Statutory levies:* Costs paid to statutory bodies, such as income tax (PAYE/SITE), skills development (SDL), unemployment insurance (UIF), workmen's compensation and metropolitan councils (RSC). These are either a form of tax or a form of insurance. Calculations are usually based on the size of your turnover and payroll.
 - o *Medical Aid/Pension*
- ? *Additional staff costs:* Costs other than salaries that may be incurred in paying staff. Could include overtime transport costs, meals/refreshments and uniforms.
- ? *Rent/Rates & taxes:* For leasing your business's premises.
- ? *Rent:* For any leased equipment, signage or related assets as used by the business.
- ? *Research & Development (R & D):* Costs to do research about new/additional products or services and the costs to develop the new/additional products/services. This could include buying a book about the envisaged product, or attending a training course, etc.
- ? *Leave pay and bonuses:* Normally paid annually. Business owners should budget for this cost monthly as it relieves the burden of needing extra cash when the payments arise, normally around December each year.
- ? *Security:* Costs for security services such as alarm monitoring, armed response, armed guards.
- ? *Subcontractors:* Third parties who may have performed certain tasks and services for your business that are related to the product, services and sales. For example, if your business sells built-in braai equipment and the installation is subcontracted to another business.
- ? *Telephone & Fax/Communication:* Fixed line and cellular phone costs.

- ? *Travel:* Airtravel, accommodation, car hire, etc.
 - ? *Contingency:* An allowance that recognises that a business budget is normally too conservative; extra costs are somehow always incurred. A contingency allowance can include a factor of anything from 2% up to 10% of budgeted costs.
 - ? *Loan repayments:* These should include all interest paid on bank overdraft and any payments for leases, credit agreements, loans taken to finance vehicles, equipment of cash. At the end of each financial year your accountant will split these installments into interest and capital repayments, but this should not influence your basic business calculations.
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