



TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

NEWSLETTER

AUTUMN 2021

Tax shakeup for business sales

Proposals in the new tax Act will mean sellers of a business must notify buyers and Inland Revenue about the amounts they have allocated for various assets.

If they don't do this there will be rules about how this is to be handled. Also, Inland Revenue will be able to interfere with the figures, if it thinks the allocation does not reflect market value. However, it won't do so where the amount involved is less than \$1 million.

When a business is bought or sold there is often an issue of how you apportion the assets.

The buyer wants to arrange the assets to get the best tax deal and the seller has the same ambition.

Think about the following situation.

A business is being sold for \$200,000. It comprises some stock, various pieces of equipment and furniture with different depreciation rates and goodwill.

As a buyer I want the goodwill figure to be as low as possible because I can't get any depreciation or tax write-off on this figure. In my books, I give it the value of \$10,000.

The seller wants to sell his stock, equipment and furniture for the smallest possible figure and places a value of \$100,000 on goodwill.

The buyer is going to make the stock, equipment and furniture as big a proportion as possible of the \$200,000 and the seller is going to do the opposite.

You can see the only one missing out is Inland Revenue, so it's going to tighten up the rules.

When you come to sell your business you might like to consider specifying in the sale and purchase agreement how the price is to be split over the various assets you are selling. When the buyer signs the contract they will be agreeing with your figures.

Try chat line to bypass the phone

It's difficult to communicate with some large organisations. You often have to wait through terrible music on the phone, which regularly tells you the website will have the answers you want. That's often not the case or the reason you're ringing. Have you considered trying the chat line – if they have it – on their website? You will probably get your answer more quickly than you would if you pick up the telephone. Plus you can document the conversation by pasting into a file for later.

Time to write off bad debts

We are in the last quarter of the year for those with a 31 March balance date. Bad debts have to be written off before balance date.

This means you must have taken all reasonable steps to get paid and conclude your chances of that are slim. You must then do whatever you can to show you have really written off the debt.

Some small businesses have simple systems. For example, they might issue an invoice but not have a debtors ledger. If you are one of these, we suggest you take a copy of the invoice and write on it something like "bad debt written off 13 January 2021".

We suggest you also put your initials or signature on this copy. You can then produce it to Inland Revenue if they ever ask for it.

There is no obligation to write off your bad debts. This might be the very year you delay doing so. If you anticipate poor income for the 2021 tax year and a higher income for the 2022 tax year, you could consider writing off bad debts in the 2022 year, if this is going to save you more tax in the long run.

Once you have written off a bad debt you are still entitled to try and get the money. If you succeed, the amount you collect becomes taxable income.

Plan for uncertain future

So you've survived the 2020 lockdown, but business might still not be where it was, or where you would like it to be.

Most businesses surviving after our lockdown have changed how they operate. They've got smarter because they had to.

Here's something worth asking yourself: What if it happens again?

We know we're only one big community transmission away from another lockdown, so what plans do you have, if any?

The fact is most businesses have just been happy to have got through it, but they haven't thought about what worked for them, how they could build on that success, and how they might survive another bout of Covid-19 disruption.

Working from home has been great for a lot of businesses.

Many never thought they could do it, and believed it would involve months of planning. With only days to work it out, they found it actually did work.

Others, especially retailers, found they had to either start or beef up their online presence.

Taking these two examples, could working from home be expanded to include all staff, permanently? Could the online marketing be improved, for example by having a simple payment system, or a more streamlined packaging and delivery system?

Planning not only helps you and your business operate more effectively, but can also make the business more attractive for investors or buyers.

What did you do, and how could you improve it – now, in case Covid strikes again?

Loan scheme extended

The original scheme for the Government to lend \$10,000 (plus \$1800 for each full-time employee) to small and medium-size businesses affected by Covid-19 has been extended.

- New businesses which started after 1 April 2020 will be eligible so long as they have remained in business for six months.
- If you have repaid the earlier loan, you can draw down

another one.

- You can borrow to buy new equipment and digital infrastructure, not just for running the business.
- The number of days for which there has to have been a 30 percent decline in income has been reduced from 30 days to 14 days.
- New businesses, instead of having to make a comparison with last year, can use the previous month.

PARENTAL LEAVE ENTITLEMENT

Some people who were on paid parental leave had to return to work for various reasons due to Covid-19. In normal circumstances, they would lose their parental leave entitlement. However, there are some circumstances in which the entitlement won't be lost. If you are affected, go to employment.govt.nz for details.

CRYPTO GAINS TAXABLE

Inland Revenue is trying to ensure it gets tax on any gains made from purchases of crypto assets. If you have bought Bitcoin and you sell it at a profit, Inland Revenue requires you to include the gain as taxable income. The department has the same attitude to gold and silver. If you buy these assets, it's unlikely there's any other reason for the acquisition except to make a profit on the ultimate sale. Of course, it's also likely if you made a loss it would be claimable.

Nowhere to hide for big salary earners

People who earn salaries taxed at source will not be able to avoid the 39 percent tax rate on incomes over \$180,000.

The self-employed, who operate their business through a company, can leave a profit in the company to be taxed at 28 percent. When they pay dividends the shareholders will add those dividends to the remainder of the income, so for some people this will merely mean a delay in paying the extra tax.

If the company has most of its shares owned by a family trust, the dividends will go to the trust and be taxed at 33 percent, or could be distributed to beneficiaries who might be taxed at an even lower rate. The family trust is therefore going to be a handy way to avoid this tax and in the past the Commissioner of Inland Revenue has stated this is legitimate.

The Government makes the rules. If it thinks there is too much tax leakage it can change its mind or perhaps put up the top tax rate for trusts to 39 percent.

As always, there are exceptions to the rules. Those people who sell their personal services through companies are expected by Inland Revenue to pay themselves salaries of about 80 percent of the profit and those who get their income from just one source usually need to distribute almost all their profit to themselves.



Discuss worker mistakes to avoid more mistakes

Mistakes by employees are bad for both them and the employer.

The more often the employee makes them and gets reprimanded, the less secure the person feels and the more mistakes they make.

The solution is to discuss the problem. If the staff member has the right attitude then you can do something about it. Also look at what might be causing mistakes, such as:

- 1 Distractions – too many interruptions.
- 2 Failing to follow your firm's systems. The systems need to be written down so they can be referred to (see also number 4).
- 3 Failing to check work or checking it the wrong way. When checking your work, start with the completed work and go back to the source. If you check from the source to the completed job you risk seeing the figures the same way as you did first time and

making the same mistake. Checking should always be done in a different way from the original processing. For example some people prepare their GST returns by highlighting the GST inclusive figures on their bank statements and adding these up. They usually work from the first bank statement downwards. To check the work, they should add the transactions on the bank statements starting with the last bank statement and work back upwards. Common sense is also important when checking. Does it look right?

- 4 Not being systematic. Checklists are invaluable. Perhaps you should get the employee to develop a checklist with your help. Whenever the employee is involved, they have more ownership of the end product.
- 5 Getting tired – the employee may not be taking sufficient breaks or holidays.

No-link merchant misses sales

A merchant sent emails to his customers offering a special deal for Black Friday, one day only. Purchases had to be made through the website. The only problem was the email did not contain a link to the website. Make it easy for your customers to buy. If you want them to go to your website, make sure they can do it with one click.

BRIEFLY

Quicker refunds

One Covid concession by IRD is to allow people who do their GST returns six monthly to switch to one monthly so they can get their GST back faster. You have, of course, to have had your business materially affected by Covid-19. If you do this, you will continue to have to put in monthly GST returns to 30 September 2021. After that you can switch back to 6-monthly. You have until 31 March 2021 to notify Inland Revenue if you wish to change the frequency of your GST returns.

Debt hibernation

The business debt hibernation scheme is another Covid-19 concession. If your business is in financial trouble, this could help you. The scheme runs to 31 October 2021. It doesn't apply to sole traders. Roughly, if you are trading as a company, for example, you could make an arrangement with your creditors to pay them a small percentage of the debt for six months.

Kilometre rate

On 14 December IRD announced a small increase in the kilometre rate for the 2020 financial year. Tier 1, for example – 0-14,000km – has increased to 82c per kilometre. If your tax return has already been filed for the 2020 year, you can apply to IRD for a reassessment. Unless you have very high business running costs, it probably isn't worth your time to make a claim.

Part-timer sick leave

A part-timer who works say 3 days a week, is still entitled to 5 days sick leave after six months of employment. For details go to business.govt.nz

Enhance your email marketing

Emails are now the No 1 form of business communication, so one of your most effective marketing tools.

Dull emails can put people off and get no response, especially if you're emailing to pitch for business.

There are now several email enhancers that can make a huge difference to how your email looks – on all devices – and the response rate. Picking one as an example, Black Pearl Mail (blackpearlmail.com) offers enhancement such as a banner message in your email, professional-looking signatures and useful insights.

There's no coding required for signatures, which can be updated easily and managed remotely. Black Pearl claims its banners are 10 times more effective than Google ads, increasing sales and



revenue, and boosting brand awareness. They even provide services to help create a banner.

The email performance insights look interesting, as they tell you who's reading your emails, clicking on to your website, or just ignoring you. You get a dashboard providing real-time notifications, email delivery status and click-through analytics.

There's a cost, of course, but worth considering. This is especially so if you're looking at a digital marketing campaign to promote new products or services, seek customer feedback, or even support a charity or sponsored event.

TARGET RETURNEES FOR BUSINESS SALE

Have you considered people wanting to come back to New Zealand as potential buyers for your business? With New Zealand considered a safe haven and so many Kiwis selling up overseas to get home, they are pushing up house prices. Many are also looking for a business to buy and being cashed-up, they have money to spend. If you're selling, think about marketing internationally and target returnees as well as potential buyers in New Zealand.

Tax changes for 2021

There are several tax changes for the 2021 tax year. They include:

- If you have bought an asset for your business between 17 March 2020 and 16 March 2021 the threshold for treating it as an expense has been increased from \$500 to \$5000. From 17 March 2021 the threshold has been increased permanently to \$1000.
- Depreciation on commercial (not residential) buildings has been restored. If you have bought a building since the Government cancelled the right to claim depreciation, we will need to split the cost of the property between land and buildings. We will need evidence of their value. The rates demand could be useful.
- Please be sure to identify any wages subsidy you received due to Covid-19. The money received was not subject to GST. We will need to know how much was received by the owners of a business because that money has yet to be taxed.



TAX CALENDAR

April 7 2021

Terminal tax for 2020 (March April, May and June balance dates)

For all clients except those who have lost their extension of time privilege

7 May 2021

3rd instalment of 2021

Provisional Tax (March balance date)
GST for March 2021

28 May 2021

1st Instalment 2022
Provisional Tax (December balance date)

31 May 2021

Deadline for Fringe Benefits Tax returns

Money laundering gran shrinks note

This is a true story.

A grandmother wanted to give her granddaughter a birthday present of a \$100 note.

The big denomination bank note is quite difficult to get hold of. When she did manage to get one it was crumpled so she ironed it.

Under the iron's heat it shrivelled to half its normal size. She took the diminished note to the bank, which happily didn't give her just \$50 for a replacement!

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