D&D FINANCIAL CONSULTANTS

TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

Newsletter

SUMMER 2021

Are you ready for Covid-22?

The Delta variety of Covid could easily have been called Covid-20 or Covid-2021. There are likely to be new variants.

Now would seem a good time to be thinking about how this disease is going to affect your business into the future and what you're going to do about it, if anything.

Australia has announced it's going to open up to the world. Do you think, once our vaccination level reaches a certain figure, we will follow suit? This will mean the disease is with us permanently.

One's thoughts turn firstly to the hospitality industry. This is where customers take off their masks. A café or restaurant owner is going to need to decide on a Covid policy.

Are they going to allow unvaccinated people into the shop? If they do, are they going to lose business if many customers want to go to shops that refuse admission to unvaccinated customers? What about their staff picking up the disease through work?

What about masks? The World Health Organisation says they should comprise three layers:

- absorbent in a layer
- non-woven, non-absorbent middle layer such as polypropylene
- outer layer of non-absorbent material such as polyester.

Will you need to think about hygiene in relation to the masks your staff are wearing? How much protection are people going to be getting from their masks if they keep recycling them without washing them? Will you need to educate your staff? Would it be good business to offer a supply of better quality disposable masks than the basic blue ones? How well do the masks fit?

If you're going to want to see vaccination passports, assuming we have them here, how are you going to organise this? What is a staff member going to do if someone who is not vaccinated enters the business and becomes difficult?

Vaccinations don't last forever. They need to be topped up. If you're vaccinated in June 2021, how immune are you likely to be from getting the disease in June 2022?

If you're going to check vaccination certificates, are you also going to have to check the dates on them?

What about your employment contracts? What are you going to have to include in them? What if a staff member has been vaccinated but doesn't keep get a top-up within a reasonable time?

Take control of direct debits

Don't you love it when a supplier is so important it demands you provide details of your bank account so it can direct debit it. It's helping itself to your money without you having much opportunity to dispute the bill. Even if you do dispute it, the money will have gone. The solution is quite easy. Have a dedicated bank account just for that direct debit. If the worst happens, you could stop funding the account. You retain control.

Covid subsidies and GST

The Covid subsidies paid by the Government contain GST, except the wages subsidy. Therefore, output tax is payable on the subsidies received, except for the wages subsidy.

New sale rule splits business components

A new rule from 1 July 2021 states that when you sell your business, you're expected to split the price into its component parts.

For example, you're selling a shop. It has stock, shelves, some equipment and you want to be paid some goodwill. You're expected to put figures on all of these.

As a consequence, the buyers split the price in the same way when they do their accounting.

Before this rule came in, it was common for a seller to split the figures one way and the buyer to split the figures another way – both of them for best tax advantage.

What if you overlooked doing this?

As seller, you have three months in which to notify the buyer of the split. Since the split could favour the seller and disadvantage the buyer, buyers should beware.

After the three months, it's the buyers turn.

How to retain company losses when selling a business

Until recently, if more than 51 percent of the shares in a company changed hands, any company losses were no longer available to be set off against future years' profits.

The law is being changed. Effective for the 2021 year (for most people 31 March 2021) you need only to make sure there is no major change in the company business when the new shareholders take over.

Permitted changes include:

- to achieve increased efficiency
- to respond to advances in technology
- the scale of the business
- using existing assets to produce new products or services related to the existing ones.

Losses incurred before the 2014 year will still need to be written off. There are several complications and special cases, so if this affects you, get advice.

BRIEFLY

Fringe benefits

At present, an employer can provide up to $1200 of miscellaneous benefits per year to each employee, subject to certain limitations. This could be done from two companies, thus doubling the amount of non-taxable benefits. Shareholders who work for their own company are treated as employees so, as you can see, it would be possible to get $2400 worth of benefits per year not taxable. If there were three or more companies, the figure could get even bigger. The law is to be changed so this practice can't continue.

Tax for online content

If you're a creator of online content, your activities could give rise to taxable income.

Clean car discounts

No prizes for guessing the discount you get for buying an electric car includes GST. It works the other way, too. When petrol cars are charged fees in the new year, those fees also contain GST, which can with be claimed back.

On-time courtesy

If you're always late, is it suggesting to other people your time is worth more than theirs? Perhaps not what you intend but still the message. Being punctual is a courtesy.

Reimbursement for use of telcos

Telecommunications usage plans is Inland Revenue speak for your telephone and internet connections.

The department has created rules for reimbursing employees. This would also include shareholder employees.

If an employee is using the telecommunications less than half the time then an employer can reimburse the employee for 25 percent of the costs. If it is more than half the time the maximum reimbursement increases to 75 percent.

You are not allowed to make an arrangement with an employee to take a smaller salary and then top them back up with the allowance.

If the purchase of an asset is involved, the reimbursement by the employer has to be related to the depreciation rate each year.

These rules don't apply to the self-employed.

Generally the maximum claim for a self-employed person for reimbursement of telecomm-unications costs is 50 percent, however it must be related to the actual usage.

Inland Revenue makes a meal of expenses

Inland Revenue has produced their interpretation of the tax law IS 21/06 on the subject of meal expenses.

The interpretation is based on case law.

The general principle is the self-employed can't claim meal expenses, but shareholder employees of companies can. Why?

A company is a separate legal entity. It's allowed to reimburse its staff, including the owner of the business, when they are away from work, for refreshments they could have received at work.

If an employee has to have a meal, due to having to work at a long-distance from the company base, the cost can also be tax deductible to the company. For example, a company employee has to work so remotely from the company base that it's not until 9pm they get home. It would be reasonable for an employer to pay for dinner. This would be tax deductible and it would not be income for the staff member.

A private individual running a business is treated differently. The legal starting point is that any food or drink is a personal cost because it's necessary to maintain life.

Taking the example of getting home at 9pm, if the self-employed person bought a meal before travelling home, this would still be considered a personal expense.

There can be extreme examples. For example, a self employed person has to go to the Chatham Islands and stay the night. The only accommodation he can get into is the Waitangi Hotel. Although there is a super market, there is no self-catering at the hotel so he has to buy his dinner. The excess cost of the meal over what he would normally pay, is tax deductible.

Note: If this person was running a company they would be an employee and the entire cost of dinner would be tax deductible.

What if the self-employed person has a couple of employees? Because they are away from their business base, the employer buys coffee and doughnuts for all three for morning tea. The expenditure on the employees is a tax-deductible cost. The expenditure for the employer is a personal cost and not tax deductible.

Instead of reimbursing, can an employer just pay a fixed allowance for morning and afternoon teas when the employee is working in a place away from their work place? Yes.

One of the illustrations has an employee living in Upper Hutt and working all day in Wellington, about 30km away. Inland Revenue has used a reimbursement figure of $15.

BRIEFLY

Family trusts – new tax law

When you put in a family trust tax return in the coming year (2022 tax year), more information is going to be required by Inland Revenue:

- transfers by associated people (generally means relatives of the beneficiaries) to the trust
- loans between the trust and related parties
- more details about distributions to beneficiaries
- more details about any settlements (includes free services to the trust and money donated) on the trust
- information about the power to appoint or dismiss trustees
- Inland Revenue could ask for information back-dated for seven years.

Charities – be selective

Do you donate to charities expecting them to spend it wisely on a good cause? How do you know if it's being used as you would wish? To help you choose which charities you support, visit the Charities Register online. In the left-hand panel of the Home page is "Annual Returns". Click on this to find a list of the major expenses, plus how much money is kept in savings accounts rather than applied to the charity. Some savings for a rainy day is reasonable, but it shouldn't be excessive. How much is spent on running expenses, for example for wages and promotion, and what is the money being used for?

Loyalty card app

Did you know you can get rid of your physical loyalty cards with an app? These apps store cards on your cellphone.

Choice of words makes a difference

Toni and her husband were going on holiday so they booked a hotel in a large city.

They planned to catch up with friends and see the sights. As it turned out, the friends were away when the couple were in town, but they offered their apartment to Toni, She quickly emailed the hotel and cancelled the reservation.

This was the email exchange:

Hotel: *Thank you for your email. We hope to welcome you next time. For the cancellation, you can do it directly on our website using your booking number.*

The day after the couple arrived in the city, they got an email asking for an explanation about why they had not turned up at the hotel.

Toni: *I'm so sorry you had a problem with our booking. I wrote to you on 14 April cancelling the booking.*

She attached her email and the response.

Hotel: *Thank you for your answer. Did you do the cancellation in our website?*

Toni: *No. I did not go to your website. You did not ask me to. Your email to me said "we hope to welcome you next time", which clearly shows you acknowledged the cancellation. I took your final sentence to mean exactly what it says. I can do the cancellation on your website. "Can" means I am able to – in other words, useful information for next time.*

Hotel: *We understand your position, and it's our fault. We are sorry to disturb you today with our problem. Sorry again, and we really hope to see you next time.*

Although they apologised, careless choice of words cost the hotel a night's accommodation – possibly more. When writing, especially a response, think hard about the words and make sure they have the right meaning. If you're making a request it helps to begin "Please would you. . . ."

Choose your words carefully.

TAX CALENDAR

November 29 2021

First instalment of 2022 Provisional Tax for those with June balance dates.

January 17 2022

Second instalment of 2022 Provisional Tax (March balance date except for those who pay Provisional Tax twice a year)

Pay GST for period ended 29 November 2021.

April 7, 2022

Terminal tax for 2021 (March, April, May and June balance dates). For all clients except those who have lost their extension of time privilege.

Bye-bye tax invoices

Tax invoices are to disappear. Instead, you're going to need to retain "taxable supply information". This can be in any format, but will have to include:

- "Prescribed information" - identifying the supplier and the recipient
- name of entity receiving the supply and information about the supply
- how much was paid
- the date of supply
- description of the goods or services supplied
- amount of GST charged (which can be on an inclusive basis).

As you can see, you're going to have to hold much the same information, but it could be held on your computer in any form, such as a quote.

Copy invoices will no longer need to state "copy only".

Building your business

Recently we heard about an employer who built up a successful business by focusing on his staff.

He shared with us how he did it.

Every three months he would meet each one of them and discuss their personal and business ambitions. He would talk about what they liked and what they didn't like at work.

Knowing their aspirations he could learn how to motivate them. If they wanted to create a business like his, he would tell them they would need to learn how to manage people and he would guide them into positions of responsibility. In due course, some would leave to set up their own businesses.

Initially, they might contract to him but eventually they would no longer need to do this, at which time he would wish them well for the future.