D&D
FINANCIAL CONSULTANTS

TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

Newsletter

SUMMER 2022-23

Data, GST for 'platforms'

The platform economy is where websites introduce buyers and sellers to each other.

Starting at the beginning of January 2024, certain platforms called "listed services" are going to have to collect information from you. This will help Inland Revenue ensure people pay tax if they're selling on the internet.

The listed services are:

- accommodation
- personal services such as ride sharing, tutoring and gardening
- web graphic design
- transport services such as Uber and vehicle rentals

All these platforms are going to need to register for GST regardless of how small they are, except for non-resident platforms, which will be required to register if their supplies exceed $60,000.

If you're selling and use the services of one of these platforms, it will add a 15 percent GST charge. It will pay the GST and you will receive the exclusive amount zero rated. You include this in the zero rated keypoint in the GST return and you will still be entitled to claim GST on your expenses in the usual way.

If you're not registered for GST the platform will account for GST at the rate of 6.5 percent, but will be collecting 15 percent from the customer. It will pay the extra 8.5 percent to you.

For example, an Uber driver not registered for GST would charge a fare of $10. The platform would collect $11.50. The Uber driver would get $10.85.

Why is this? Since the Uber driver has had to pay GST on the fare, there needs to be some allowance for GST on expenses and this is how it's being done. It might be clearer if we say the Uber driver is actually having to put up his fare to $11.50 as though he were GST registered.

GST

Unlike other businesses, any supplies normally zero rated, such as export services, will be standard rated for these platform operators.

If you or anyone you know is thinking about creating a website providing listed services, remember you might have to register for GST.

Special deal for travel from home to work

The latest tax Bill proposes a subsidy by an employer – mainly for the purpose of an employee travelling on public transport between home and work – will not be subject to fringe benefit tax (FBT).

Public transport means bus, train, ferry, tram or cable car. It does not include airfares, taxis, shuttles and E-scooters.

The Government plans to bring this law into effect from 1 April 2023. Obviously, if your business is a company, you can also subsidise yourself, as an employee, for public transport.

Never use expensive IRD money

Inland Revenue has hiked its interest rate twice so far this year, with it now at just under 8 percent.

You should never use Inland Revenue money.

If you're on a high income or your income suddenly jumps to a high figure, attracting tax for the year of at least $60,000, you will be liable to pay interest to Inland Revenue on any underpaid tax for the year.

But you can do something about it. Your first option is to top up the tax to the right figure by the due date for the third instalment of provisional tax, known as P3 (for most people 7 May). If you can't get your accounts done by then, you will just have to guess your income and calculate the tax on the guess. Your next best option is to pay as soon as you can after P3. This might mean getting your accounts done early or at least getting a rough idea of your income and again taking a guess You will now incur some interest but you can minimise it by paying tax early.

If the interest bill is going to be large, you can use a tax intermediary to reduce it.

Control income by controlling direct costs

For a café, the direct costs are the food and the staff involved directly in making and serving that food. If you're a builder working for yourself, it's the materials you buy for the jobs you do and any labour or subcontractors you hire, plus the part of your wages spent physically working on contracts.

Why are direct costs so important? Because they should generally be about the same proportion to your sales.

So the café might expect food costs to be 33 percent of sales. If this percentage rises, the owner should be finding out why the change. Is it waste, portion control, not charging enough or what?

The more often you can measure your direct costs, the better control you will have over your business.

If you prepare two-monthly GST returns, take the opportunity to tweak these figures to find out how much your direct costs are as a percentage of your sales.

For some businesses, who have little stock, this will not be too difficult. Adjust your sales figures for money owing to you at the beginning and the end of the two months. Adjust your purchases figure for money owing by the business at the beginning and the end of the two months.

If you do this, you will probably get a reasonable idea of whether you're keeping your direct costs under control.

Unfortunately, if you have large stock levels, you might need to count this every two months. It's probably better to have a rough count than none at all.

There's usually a limit to how much you can control the other business costs, such as rent, motor vehicle costs, insurance and so on. Focus on the direct costs. This is where wastage of materials and your staff time most easily occurs.

There are, naturally, always exceptions. Builders are an extreme example. One year there's a really big contract with higher than normal direct costs and yet you get a good net profit! It's usually because working regularly at the same site gives you much better productivity. Perhaps 90 percent of your time is spent building, whereas in a normal year you have to move around from job to job, or you have to spend more time quoting and less time building.

Income insurance scheme – main points

The main points of the income insurance scheme are:

- to cover redundancy, layoffs, health conditions and disabilities
- employers will pay four weeks salary at the rate of 80 percent
- scheme will pay six months at 80 percent
- option to extend support for up to 12 months for training and rehabilitation
- case management service to help find a new job
- just like ACC
- tax at 1.39 percent of the employee gross salary, which is payable by both the employee and the employer
- employees will qualify if they have contributed to the levy for six months in the previous 18 months.

We don't know whether the scheme is going to apply to shareholder employees who are paid a shareholder salary and not a PAYE salary.

Seven-year records might not be enough

Inland Revenue requires us to keep our business records for seven years. But it's not quite as simple as this.

The department also requires taxpayers to prove themselves innocent if ever they are challenged. So in 10 years, Inland Revenue might approach you with a question they want answered. You would need to be able to answer the question and if it was going to give rise to a tax issue, prove yourself to be right.

Let's look at an example. You buy a residential property and for good reason you sell it a short time later. A couple of years after you have destroyed records, Inland Revenue decides it wants to check on whether you had kept the property long enough to avoid tax on what it calls the bright line test. This requires the buyer of a residential rental property to keep it for a certain number of years. If you haven't got all the documents to show when the property was bought and when it was sold, you might have a problem.

There can be several crucial dates:of purchase

- the date you signed the sale and purchase agreement
- the date the contracts went unconditional
- the date the property was transferred to you

Similarly, there are several dates needed for sale or disposal of the property. So here you have an example where holding on to documentation for more than seven years is important.

If you have a family trust, ignore the seven years rule because you need to comply with trust law as well as tax law. Keep all records for the life of the trust.

Be selective about what you throw out. Computers have enormous storage capacity so why not scan most of the documents and save them in your computer or on to a portable hard drive?

Changes proposed for portions of GST

A current tax Bill proposes not to require payments for goods or services up to $10,000 to be split between business and personal if the principal purpose of buying the goods or services is business.

For example, if a car is bought for $10,000 and it's used principally for business, the whole amount is treated as an asset of the business. One hundred percent GST could be claimed without the need for a personal use adjustment.

If the car's principal purpose is personal use (log book says private running more than 50%) the GST claim would be nil. Assuming it's passed by Parliament, the changes will take effect from 1 April 2023.

Some people use their home for business as well. For example, they might run an Air B&B from the home and 20 percent might be for business. Under the proposed new rules, when they buy a house they could elect not to claim a share of the GST at the time of purchase and treat the whole house as personal so there would be no GST on sale. People who have already claimed GST but would now prefer they hadn't will be allowed a transitional period of two years starting from 1 April 2023 to hand the GST back to Inland Revenue.

The changes are to be backdated to 1 April 2011.

Bill protects Kiwis with depositor compensation scheme

The Deposit Takers Bill brings all deposit takers under one set of rules and protects Kiwis' money through the introduction of a depositor compensation scheme. New Zealanders will have up to $100,000 of their deposits in any eligible institution guaranteed if that institution fails. The levies are intended to vary according to the riskiness of the investment.

Keep work tech at home up to date

TECH UPDATE

If you're working for a business from home, you might not have the most efficient technology to work efficiently.

Lucky employees will have access to a team who can keep them upgraded, but often you'll be expected to keep both hardware and software up to date. Assuming you have a reasonably new computer system, here's a few tips to stay on top of the technology, and avoid frustrating down-time when something's not working right.

Keep software, especially operating systems, up to date. When an upgrade is suggested, download and install. They almost always include fixes for the glitches found in previous systems, and better security.

Talking security, it's vital. You're always prone to cyber attack, so check you have the best security system available. Check it out online, read reviews and talk to experts. If you get a cyber attack, it could hit you personally and put your employer at risk.

Check that you have the best internet connection. Get fibre if it's available. Plenty of online "speed tests" will tell you how well your internet is working. Poor performance slows down productivity and is always frustrating.

Most likely you'll have to store plenty of data, which will eventually clog up your PC and slow you down. Use the cloud to store data – it will ensure you never lose files if your computer crashes. While you're at it, consider getting all those space-hogging personal photos and videos off your hard drive and put them on the cloud.

Flu, Covid vouchers and Fringe Benefit Tax

If a fringe benefit relates to the health or safety of an employee and is aimed at managing risks to health and safety in the workplace in accordance with the Health and Safety at Work Act 2017, it will be exempt from FBT. Vouchers for flu or Covid vaccines are exempt from FBT under this provision

TAX CALENDAR

November 28 2022
First instalment of 2023 Provisional Tax for those with June balance dates.

January 16 2023
Second instalment of 2023 Provisional Tax (March balance date except for those who pay Provisional Tax twice a year)
Pay GST for period ended 30 November 2022.

April 11 2023
Terminal tax for 2022 (March, April, May and June balance dates). For all clients except those who have lost their extension of time privilege.

ACC compensation an unfair tax

Some aspects of tax are undoubtedly unfair. Perhaps the worst one is ACC. If you receive compensation for loss of wages it is taxed in full in the year you receive it. Sometimes, ACC doesn't pay for several years and then provides the money in a lump sum. This problem has been around for many years and one wonders why our representatives in Parliament have never attempted to correct it.

Make tax reminders

Set up tax reminders in your diary for a couple of weeks before each date tax is due to be paid. Reminders coming by email might not reach you or they might go to your junk folder and not be noticed.