Harvie Green Wyatt
CHARTERED ACCOUNTANTS

NEWSLETTER

SPRING 2020

Support extended

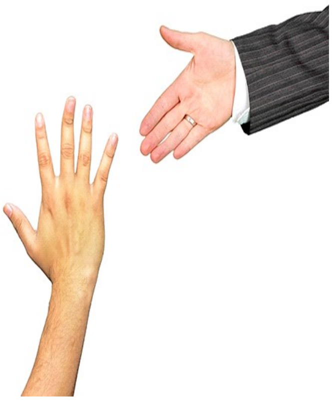
If your business has been affected by Covid-19, the time to apply for a government loan has been extended to 31 December 2020.

The maximum loan is a base figure of $10,000, plus $1,800 per employee, with the owner counted as an employee as well. It is limited to businesses with 50 or fewer full-time employee equivalents.

The scheme is administered by Inland Revenue. Conditions apply to the loan including that the money is available for business operating costs only.

The eligibility criteria are the same as for the wages subsidy scheme.

The term of the loan is 5 years and interest rate is 3%. If you repay the loan within 12 months there is no interest charged. Any loan balance not repaid within the 5 years will be charged interest at Inland Revenue's interest rate for outstanding tax (currently 7%).



Business cards with impact

You know you should never go anywhere without business cards, but are they having the impact you want?

What's on your business card? The basics are your name, your role (managing director, sales manager etc) and contact details. Contact details should include a landline (if you have one), cellphone, email and website. If you're busy on social media, include your page details, hashtags etc.

Make sure you use your company colours and logo. Don't pick your logo off your website – it probably won't be crisp enough. Get it from your designer or use the original artwork.

Use the back of the card for a list of the services your company offers.

Then hand them out as often as possible. Hand out extra cards and ask if they can be passed on to someone they know who might use your services. Asking for a card is a sure way of being able to politely offer your own.

One of the world's best car salesmen has been known to fling a whole lot of cards in the air when something exciting happens in the stadium. Apparently this works for him otherwise he wouldn't do it.

Rent for employee's home

You may wish to compensate an employee who has been using their home to help run your business during the Covid-19 lockdown.

Inland Revenue has issued a list of conditions for making a payment. These are contained in a publication called Determination EE002, which also sets out how much you are permitted to pay.

There is also the matter of how you pay a share of the equipment the employee is using, such as desks, carpet and light fittings. Inland Revenue allows a one-off lump sum payment of $400, without the need to have to produce any evidence of these costs.

If you read the determination, you will notice the employer can reimburse the employee up to $15 a week to cover all other expenditure. You will probably agree this is not very much.

You don't have to follow this publication. If you and the employee want to work out an allowance based on actual costs and use this instead, that is fine.

The determination applies from 17 March 2020 to 17 September 2020.

TAX TIPS, TRAPS & TROUBLES

IRD - interest certificates & cheques now gone

From 1 April 2020, banks have not been required to provide their customers with year-end interest certificates.

This is because Inland Revenue is collecting this information and it's available on their website. The only catch is where a client does not supply their IRD number. In this case, they will be taxed but it won't show up in My IR.

What if the interest is on a joint account? Inland Revenue will assume joint investments are split equally between joint account holders who have provided their IRD numbers. You will be able to go into "My IR" and alter the allocation of the interest. Alternatively, it can be fixed when your tax return is put in.

From 1 March, 2020, Inland Revenue will no longer accept cheques. However, you could pay your tax using a debit or credit card.

If you do this, Inland Revenue proposes charging a convenience fee of 1.42%. While this might seem expensive and it is, it could be useful for the person who has a short-term cash flow problem and cannot pay tax on time. If this person is expecting money to come in before the deadline for paying the bank, it might be worth the cost.

Even if the money is late, and you have to pay interest to the bank, the convenience of being able to arrange the finance quickly, when compared with the time you would have to put in negotiating a loan from the bank – or if this was not possible, spread payments with Inland Revenue – could still be worthwhile.

Paradoxically, payments into the income equalisation scheme have still got to be made by cheque until Inland Revenue can find an alternative.

Take a Break

In the months since the peak of COVID-19, the stringent restrictions have been relaxed and the majority of us have returned to a 'new normal'.

What this looks like from business to business is likely to be quite different, with some returning to the office full-time and others continuing to work remotely. Whichever the case, the disruption of COVID-19 is sure to have impacted employee morale one way or another.

It is not uncommon for morale to take a dive as the mid-year lull takes effect. Typically, a dip in motivation might be offset by an escape to the islands or trip across the world. But with the ongoing restrictions on international travel, escaping the New Zealand winter is proving harder than ever. So, how can employers boost morale in a time where uncertainty prevails?

For many, COVID-19 fast-tracked a move toward more flexible ways of working. Now, experts suggest that ongoing flexibility is key to keeping employees motivated and engaged. Key the introduction of the "hybrid work model", which allows employees to split their time between working from home and the workplace.

A recent Salesforce survey revealed that the appeal of a hybrid model particularly appealed to Gen Z with 43% indicating a preference to split their time between the office and home. Thirty-three percent of millennials agreed, however, baby boomers showed the least desire with only 26% preferring the new approach.

A hybrid model is most likely to benefit those who experienced increased, or at the least maintained, productivity throughout the lockdown period, while also recognising the value of face-to-face interaction and collaboration with colleagues.

It is no surprise that working from home on a permanent basis may eventually lead to employees feeling isolated and disconnected, with motivation suffering as a result. However, splitting time between home and the office allows employees to capitalise on increased flexibility, while also

maintaining social contact.

Beyond flexibility, we can all no doubt recognise the benefit of taking time off. Although travel restrictions may see less people rushing to get in their leave applications, management should still encourage employees to take annual leave.

The push to get our local tourism industry back up and running has been well publicised and with the borders set to remain closed for the foreseeable future, New Zealanders getting out and exploring the country will be vital to the recovery.

Whether it be a few extra long weekends, or an extended trip elsewhere, both will help employees avoid burnout and emerge from the post pandemic world motivated and more engaged.

WFH is the new work environment

If there's one thing the Covid-19 crisis has taught us, it's that many of us can work from home.

It's even spawned a new initialism, WFH (working from home).

There have been some interesting consequences – and new opportunities have arisen. City cafes and bars have suffered because there are fewer people in town getting a coffee, lunch and after-work drinks. However, that's provided more business for the suburban and small town eateries, who seem to be doing very well post-lockdown.

Whatever your business, there might be big opportunities for you, too. In the new "think-laterally" world, how can you market yourself to make the most of the changing environment?

Where do people work when they're at home?

As a painter you might market your ability to redecorate a spare room. An electrician can put all the new power points in the right places, or get the lighting right for a WFH office.

An IT wiz can set up all the gear to work remotely. A builder might add the extra room needed.

Even real estate agents will soon be adding 'office space' as a marketing option for houses, rather than saying 'studio' or 'spare room'.

Think about what you can offer to ride the new wave of working from home.

Scanning from a cell phone

The cameras in most cell phones make pretty good scanners.

That's great for single images, but phones can also scan documents of several pages.

On iPhones there's a scanner in Notes. Open a new or existing note, tap the **camera** icon and tap **Scan** Documents. You can use the auto-capture option by bringing the document into the viewfinder, or use the shutter button or one of the volume buttons to capture the scan.

For Android phones you can download an app called iScanner in Google Play. There are others, such as Adobe Scan.

Once scanned, documents can be stored, emailed or sent in messages.

Tax rules relaxed for Covid-19

Some of the tax rules have been relaxed to help people cope with Covid-19.

- There is some flexibility in filing returns.
- Usually, if the shareholders of a company change by more than 51 percent then any tax losses are forfeited. Covid-19 might make it necessary to change shareholding and these rules have been modified, which may allow for a change of more than 51% provided the business remains essentially the same. Check with us before you change the shareholding in your company.
- If you make a tax loss in either the 2020 tax year or the 2021 tax year, you can carry the loss backwards to the previous year, if it helps you. Normally, you can only carry losses forward and set them off against future years' profits.

BRIEFLY

Income relief

If you have lost your job or your business has failed due to Covid-19, you can apply online to Work and Income for relief payments of $490 per week for 12 weeks if you were working 30 hours or more per week and $250 per week if you were previously working 15 to 29 hours a week. You can get more details about the scheme by going to Income Relief Payment on the Work and Income website. Applications for this relief close on 30 November 2020.

Wages subsidy

If your sales/revenue has declined by 40 percent for a continuous 30-day period, you may qualify for the Wages Subsidy Extension, which is administered by Work and Income. This scheme is for those who are still significantly affected by Covid-19. The way the scheme works is a little tricky and you should look at the detail. Businesses operating for less than a year can also apply. Applications under this scheme opened on 10 June 2020 and run to 1 September 2020.

Can't pay tax?

If you have not paid tax, which was due on or after 14 February 2020, and this has been significantly due to Covid-19, the tax department will look kindly at cancelling both interest and penalties on late payments. In fact, you only have to ask and provide a time frame over which it will be paid.

ACC comes to party

ACC is delaying its invoicing from 1 July 2020 until October.

Good citizen gets business

A garden centre encourages its customers to bring back their plastic containers for reuse. Not only are they doing their bit for the environment but they are encouraging loyalty to their business

Deductibility of Healthy Homes Costs

If you are an owner of a residential property, you will be familiar with the Healthy Homes Standards that were introduced on 1 July 2019.
The standards set out the minimum requirements all landlords are required to comply with. Examples of the mandatory requirements include fixed heaters in the main living room, smoke alarms, ceiling and underfloor insulation and ground moisture barriers for some properties.
For older homes, the costs of bringing a residential rental up to the standard required could be substantial.
Inland Revenue (IRD) recently released QWBA 20/01, which provides guidance on the deductibility of the costs incurred to meet the Healthy Homes Standards. To summarise, the statement broadly classifies such expenditure into three categories:

- revenue expenditure that is immediately deductible,
- capital expenditure that forms part of the building and is therefore unable to be deducted at all because the depreciation rate for residential buildings is 0%, and
- capital expenditure that does not form part of the building and is therefore likely to be depreciable.

The Commissioner has stated that expenditure will be capital if the work results in the reconstruction, replacement or renewal of the whole asset or substantially the whole asset, or goes over and above making good wear and tear and changes the character of the asset beyond a repair.
Conversely, expenditure that does not meet this definition will be revenue in nature and immediately deductible.
The QWBA also provides that the cost to repair items that would otherwise meet the standards if they were in an operational or reasonable condition, are likely costs of a revenue nature and hence immediately deductible.
In the QWBA, IRD commented the following capital items are likely to comprise part of the building and therefore unable to be depreciated due to buildings having a 0% rate:

- smoke alarms
- insulation
- openable windows
- exterior doors
- ducted or multi-unit heat pumps
- most extractor fans or rangehoods
- ground moisture barriers
- drainage systems

The cost of a capital item that does not form part of the building may be either depreciated over time or deducted immediately if it meets the 'low-value asset threshold'. For assets that fall into this narrow category it would be worth making the upgrades between now and 16 March 2021 because the threshold has been temporarily increased to $5,000 and will move to $1,000 from 17 March 2021 onwards.
Examples of such assets provided in the QWBA are:

- electric panel heaters
- single-split heat pumps
- through-window extractor fans and window stays
- door openers and stops

Unfortunately, it appears no tax relief has been introduced for residential rental owners who are required to spend considerable cash on upgrading their properties to comply with the Healthy Homes standards.
IRD's position is reminiscent of their view on leaky home repairs, for which tax disputes are on-going.

Accounting for COVID 19

As a means to instil stakeholder confidence, some companies have implemented 'alternative' accounting methods to adjust their financial results for the impact of COVID-19.

Adjustments seen so far include excluding "coronavirus-related expenses". For example, payments of financial assistance to staff impacted by COVID-19 and the costs of personal protective equipment, thereby supporting a higher net earnings amount.

When one company posted its first-quarter results it excluded the effect of Covid-19 (incremental bad debt expenses, production shutdown costs, and payments to front-line workers) from its adjusted earnings per share on the basis that the costs were expected to be "short term".

Some might call this wishful thinking as such adjustments imply the pandemic is a short-lived one-off event. However, globally, the crisis is very much still ongoing, with the potential to impact future revenue and expenses more significantly than it already has.

At the other end of the scale, investors should also be aware of companies over-reporting expenses in the pandemic-affected periods (whether Covid-19 related or not) to create a false sense of rapid recovery once the crisis is over.

Whether the adjustments are to improve the quality of information available to investors or because executive remuneration is linked to margin-based key performance indicators, you be the judge...

TAX CALENDAR

September 28
Second instalment of 2021 Provisional Tax (December balance dates)

October 28
First instalment of 2021 Provisional Tax for those with March balance dates, who pay GST twice a year.

November 30
First instalment of 2021 Provisional Tax for those with June balance dates

Purchase Price Allocations

Currently, if you enter into a sale and purchase agreement for the sale of business assets, there is no standard practice for how the price should be allocated to the assets. For example, a single price may be agreed for all assets, or the agreed price might be allocated on a line by line basis to each asset.

If the purchase price is not allocated with sufficient detail, inconsistent outcomes can arise when each party takes a tax position.

Take, for example, a business comprised of land and depreciable property that is being sold for $800k. The vendor's fixed asset register includes depreciable property that originally cost $400k that has been depreciated down to $150k, and land that originally cost $350k.

The vendor takes the view that the depreciable property was sold for $100k and claims a $50k loss on disposal. The $350k gain on the sale of the land is treated as a non-taxable capital gain.

Conversely, the purchaser treats the depreciable property as purchased for $250k (thereby providing a future depreciable cost base of $250k), allocating the remaining $550k purchase price to the land.

The mismatch between the consideration adopted by the vendor and purchaser in relation to the depreciation property will mean their total tax deduction is overstated by $150k. The difference in value is funded by the Government – it is 'out of pocket'.

To avoid this outcome, draft legislation was introduced in June 2020 that prescribes how assets are to be treated on sale.

The proposed legislation provides an ordered approach:

If the parties agree a purchase price allocation, they must both follow it in their tax returns.

If the parties do not agree an allocation, the vendor is entitled to determine it, and must notify both the purchaser and IRD of the allocation within two months of settlement date. However, the allocation to taxable property cannot result in additional losses on the sale of that property.

If the vendor does not make an allocation within the two-month timeframe, the purchaser is entitled to determine the allocation, and notify the vendor and IRD.

If no allocation is made by either party, the vendor is treated as selling for market value, but there is a risk the purchaser is deemed to acquire property for nil.

A de-minimis has also been proposed – if the parties do not agree an allocation, the rules will not apply to a transaction if the total purchase price is less than $1 million, or the purchaser's total allocation to taxable property is less than $100,000.

Irrespective of the agreed values, IRD may still challenge them if they consider they do not reflect market value. The rules will apply to sale and purchase agreements entered into from 1 April 2021.

What is Revenue?

"Revenue means the total amount of money a business has earned from its normal business activities, before expenses are deducted" (Work & Income, July 2020).

This core definition has been applied by thousands of businesses to apply for the Government's wage subsidy scheme that was implemented due to the COVID-19 pandemic. Whether a 30 percent or more reduction in revenue for the original wage subsidy, or a 40 percent or more reduction for the wage subsidy extension, quantifying the reduction in 'revenue' was a key hurdle to be eligible.

With the potential for wage subsidy applicants to be audited, documenting the basis for an application and how the eligibility criteria have been met is critical. In some cases, confirming eligibility should be straightforward. Retail stores, restaurants, cafes and bars that had to shut their doors overnight should be able to demonstrate a clear drop in 'revenue'.

However, for other industries it may not be as straightforward. In some cases, the time at which an invoice is issued for GST purposes is different to the point in time at which income is recognised for tax and / or accounting purposes.

Take for example the construction industry where jobs are invoiced based on specific milestones. If invoices were raised during the lockdown, for work completed prior to the lockdown, then measuring the change in revenue based on 'invoicing' would not provide a fair reflection of the effect of Covid-19 at that point in time.

It goes both ways - if a professional services firm was able to keep working during the lockdown but stopped issuing invoices for a particular period. The firm's invoicing in that period would not provide an accurate reflection of the change in 'revenue'.

The Work & Income definition also refers to "money". Was this intended to have the same meaning as 'income' or is it intended to imply a cashflow test?

The different ways the revenue test is able to be interpreted, and not knowing what the audit process will comprise gives rise to uncertainty. A suggestion is to ensure that the method used to calculate the revenue reduction should be logical within the context of a particular business. If a standard measure, such as sales booked in the period does not align with what has occurred in practice, consider whether that is an accurate method.

Consideration should also be given to sensor checking eligibility using different approaches to ensure the outcome feels right. For example, a service-oriented business could look at hours worked by the team and cross check that against movement in WIP and sales.

How valuable is your time?

It's a fair question for business people, but what your time is worth becomes especially relevant when we spend our (paid) time working on something an expert could do in less time – and more effectively.

We've probably all experienced the tech glitch we thought we could fix. About 1½ hours later and it was still not working. The tech expert could probably fix it in 30 seconds.

As Kiwis with a No 8 wire can-do mentality, we're generally keen to tackle problems ourselves. But as a business person, we have to think about the cost.

There's no problem spending a few minutes fixing a technical problem when we're confident we can do it.

However, unless you really have spare time, remember the clock is ticking. It's simply bad business to try to do an expert's job.

Think about how frustrating it is when you have expertise and a client tries to do your work themselves. You often have to tidy up the mess, which takes longer than it would have in the beginning.

So consider what your time is worth on an hourly rate, and work out how much time you're spending on a tech problem. Then work out what an expert might charge. Chances are you'll save not only your time but also the frustration that goes with it. If the problem is fixed quickly, you and your business can get back to work.

A handy app worth installing is Team Viewer (from teamviewer.com). Once it's installed, it allows a tech to access your computer through a password you provide. They can then work on a problem remotely, from anywhere in the world.

Of course tech problems are not the only ones you should consider letting others deal with. Could you, for example, get someone else to do the banking? You can add answering the phone, scanning and similar types of jobs.

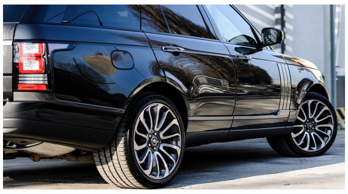
One successful business person famously said the first person to hire is the one who does all the jobs you shouldn't.

FBT on vehicles during lockdown

You wouldn't be blamed for assuming Fringe Benefit Tax (FBT) wouldn't apply to motor vehicles during the Level 4 lockdown period. Other than essential workers, most employees were either working from home or simply unable to work at all and therefore most vehicles were 'parked-up'. However, a fundamental premise of how FBT applies to vehicles is that it is focused on "availability" rather than actual use. As such, Inland Revenue has confirmed that if an employee had the right to use a motor vehicle for private purposes, then this will attract an FBT liability as normal – regardless of whether the employee actually used the vehicle.

With the benefit of hindsight, employers who took the pro-active step of engaging with their employees to agree restrictions regarding the use of company vehicles during the lockdown period could have reduced their FBT cost. However, understandably, FBT was not at the forefront of businesses' minds as attention was on likely focussed on more important issues such as cashflow and customer relationships.

Let us hope there is not another lockdown, but this could be something to think about if there is.



The password work-around

Yes, you can manage secure passwords without having to write them down, or remember them. It seems every transaction or subscription online requires a password, and everyone says you should never use the same one all the time.

Fortunately, many solutions are available. One is to use a password manager, such as 1 Password (1password.com). There are several password managers online, so it's worth checking to see what suits you best, and what you're prepared to pay. There's usually a small annual fee. Free ones might not be as secure as you need.

With these managers, you use just one password and the app will provide a secure password for whatever it is you want to do.

If you run a Mac operating system, the Safari web browser also has a useful password manager. When you go to a site requiring a password, it will do it for you and remember it for next time. If you already have your own password, just click on 'Forgot password' and let Safari find you a new, secure password. Just remember it will only work using the Safari browser.

Microsoft is rumoured to have developed a password manager for Windows. Watch out for it later this year.