Harvie Green Wyatt
CHARTERED ACCOUNTANTS

Newsletter

SPRING 2024

Inland Revenue Activity

After a relatively quiet few years through the Covid pandemic, Inland Revenue's (IR) audit activity has slowly started to increase over the past few years.

In 2021, IR's campaign had a focus on the real estate sector, where the concern was around real estate agents claiming a disproportionately large amount of expenses relative to their income. As a result, a trend of increasing private expenditure claims, reversed.

In 2023, IR launched a 'Tax Toolbox' campaign aimed at engaging and educating construction ('Tradie') taxpayers. The Tax Toolbox resources include a detailed web page with information on items such as claimable expenditure, income tax and GST, access to free online Tradies seminars covering tax tips for Tradies, and the option to request a business advisory visit for one-on-one support. As part of the 2024 budget announcement, IR has confirmed that they will be increasing their enforcement on this sector this year, with unannounced visits to construction sites starting July 2024.

This year's Budget allocated $29 million to Inland Revenue for compliance, to target taxpayers who are not meeting their tax obligations. Specifically, areas that are expected to be closely scrutinised include the following: the hidden economy, organised crime, retail sector, trust compliance, cryptocurrency, corporate restructures, and electronic sales suppression tools.

Overdue student loan debt, for which those in default are mainly based overseas, will be allocated $4 million of the compliance funding. Individuals who own New Zealand property that are based overseas and are not meeting their student loan repayment obligations will likely be contacted by Inland Revenue.

In terms of the hidden economy work, in June 2024, IR released some insights from their investigation on small liquor stores.

The investigation involved 220 unannounced visits nationwide, where investigators were looking for signs of income suppression, unreported sales and non-registered staff. It was found that over 100 employees had PAYE deducted from their wages which had not been paid to IR. Nine liquor stores have been escalated to the IR audit phase.

An IR campaign that has spanned across a number of years is the Tax Governance campaign. This campaign is aimed at New Zealand significant enterprises (taxpayers with >$30m annual turnover), and using the results of questionnaires issued to these taxpayers, the areas of improvement include the documentation of tax strategy and tax controls framework, regular reporting to the board on key tax matters, and the independent testing of controls.

As IR reviews and investigations increase, there will be the need for both accountants and IR staff to rehone their skills on how to conduct an investigation, given the comparatively lower level of activity that has been seen since the Covid pandemic.

Terms of Reference updated

Harvie Green Wyatt is required under the rules of Chartered Accountants Australia and New Zealand (CAANZ) to hold a signed Terms of Reference (TOR) for each client. Any changes to the TOR can be advised via our client newsletter.

Our TOR have been updated to reflect a new over reaching standard PS-3 (Professional Standard –3). The changes to the standard are nominal with general variations to reflect the new standard.

If you would like a copy of the new TOR please contact the office and these can be sent out to you.

All our TOR now reflect the new PS-3 standard.

Common myths a trap for newcomers

Running a business can be challenging, and dealing with taxes can add to the complexity.

Here are some common myths that often confuse new entrepreneurs.

Myth #1: Taking less out means less tax

While the money you take out is considered income, it's not your taxable income. Taxes are based on your business profit, which is your sales minus your expenses.

Myth #2: Higher expenses equal lower taxes

It might seem like spending more reduces your tax bill, but Inland Revenue has specific rules about what counts as a deductible expense.

Advance purchases: Buying lots of stock isn't an immediate expense. Inland Revenue sees it as an asset (money in a different form) until you sell it. The value of unsold stock reduces your claimable stock expense.

Car depreciation: Cars are considered to have a multi-year lifespan, so the expense is spread out over time through depreciation, not all at once in the year of purchase.

Myth #3: You have to borrow personally for business loans secured by your home

While banks often prefer using homes as loan security, they can still lend directly to your company. The interest rate might be higher for a company loan, but the interest is tax-deductible.

If you borrow personally but the money is for your company, you can still claim a deduction for the interest. However, this requires legal documentation and extra administration. It's best to consult with us before borrowing in your own name for business purposes.

Donating Trading Stock

What was a temporary tax concession relating to donated trading stock has now become a permanent one thanks to the enactment of the Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Act 2024 on 1 April 2024.

Prior to March 2020, in most cases, if a business donated trading stock it resulted in deemed income equivalent to its market value. This resulted in a business being taxed on a deemed profit margin, even though no cash was received.

The rule was initially introduced to counter tax avoidance, to address situations where sole traders were using trading stock personally. This provision was temporarily amended in March 2020 to allow trading stock to be donated to donee organisations (such as charities) and public authorities without triggering deemed income.

A deduction for the cost of the trading stock was also allowed (i.e. a net tax deduction for the donated trading stock to these specific parties arose). This was to encourage donations of products like hand sanitiser to hospitals, or consumables to food banks during the Covid pandemic.

Where trading stock was donated to non-associates (that were not either a donee organisation or a public authority), the concession deemed income to arise, but it was equal to the cost of the trading stock (i.e. net nil impact on taxable income). The concession was extended at the start of 2023 as a result of the adverse weather events that occurred in January – March 2023, and was due to expire on 31 March 2024.

The recently enacted legislation has permanently amended the deemed market value provision. From 1 April 2024, deemed income will not arise if the trading stock is donated to a donee organisation. However, if the trading stock is not donated to a donee organisation it becomes more complex. In this context income based on the market value of the trading stock will only be triggered if:

- it is disposed of to an associated person, or
- a person takes it for their own consumption, or
- it has not been disposed of in the course of carrying on a business for the purpose of deriving assessable or excluded income.

The relevance of it ‘not’ being in the ordinary course of business is important and arguably counter intuitive. To illustrate:

- If as a result of a weather event a large supermarket chain makes a one-off donation of groceries to specific families in need, then deemed income arises.
- If instead a supermarket chain provides groceries to families as part of a marketing or promotional campaign that is part of its ordinary marketing initiatives, income is not deemed to arise.

In the context of donations of trading stock to donee organisations the amendment is positive. However, based on the weather event example above, it falls short.

Understand your PIR to make the most of investments

What are PIEs?
PIEs are investment funds with specific criteria. They offer a maximum tax rate of 28%, encouraging investment. Common types include:

- *Multi-Rate PIEs:* The most common type.
- *Listed PIEs:* Shares or unit trusts on the stock exchange, which may include dividends with attached tax credits (imputation credits).

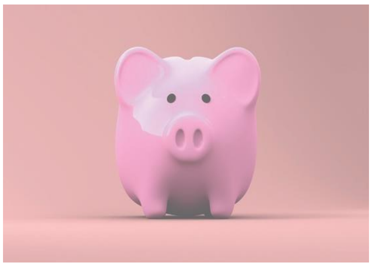
What is a PIR?
If you're a New Zealand resident investing in KiwiSaver or PIEs (Portfolio Investment Entities), your Prescribed Investor Rate (PIR) determines the tax rate on your investment earnings. Providing your PIR to the investment organisation ensures the correct rate is used.

Finding your PIR
Your PIR is generally based on your highest income tax rate (marginal tax rate) from the past two income tax years.
For the 2025 income year, as an individual, you need to look at your taxable income and PIE income for the years ended 31 March 2022 and 31 March 2023.

If for either year, you derived:

- $14,000 or less in taxable income, and
- $48,000 or less in taxable and PIE income

Your PIR is 17.5%.



If neither, your PIR will be 28%.

Imputation credits: A tax advantage
Listed PIEs may offer dividends with imputation credits, representing tax already paid by the company. If your tax rate is lower than the imputation credit rate, you can claim a tax refund by including them in your tax return.

Other considerations

- *Non-residents* generally use a PIR of 28%, with some exceptions.
- *Trusts* can choose a PIR suitable for the beneficiaries. If not using 28%, undistributed PIE income will be taxed at the higher trust income rate. A trust choosing the 28% rate can exclude PIE income from its tax return but can't distribute the PIE income to its beneficiaries.
- *Companies* should always use a PIR of 0% and include the income in the tax return.

A guide to winding up

Closing your company can be bittersweet.
Before you shut the doors for good, there are some important steps to take to ensure everything goes smoothly and legally.
The goal of winding up a company is to settle everything in an orderly way. Here are some key steps:
Settle debts: Pay off all creditors, including suppliers and employees, and any outstanding taxes, before dissolving the company.
Collect debts: If anyone owes your company money, collect it before closing. You might sell these debts to a collection agency or transfer them to another entity, but get legal advice on the proper procedures.
Distribute assets: After settling debts, distribute any remaining assets (cash, equipment, etc.) according to your company's constitution or shareholder agreement. Ensure all director and shareholder resolutions are completed before taking any surplus cash. Talk to us first!
The winding-up process can vary based on your company's ability to pay its debts (solvency) and the reason for closure. If your company is insolvent, different rules apply, and you might need to enter liquidation.
Warning
If you overlook collecting a debt or leave an asset in the company after winding it up, you won't be entitled to it any more – it will belong to the government. Check carefully before you give instructions to wind up.
Conclusion
Winding up a company involves legal and financial complexities. Talk to us to ensure you comply with tax and legal requirements and handle everything in an orderly manner.

Make a will to ensure your wishes are fulfilled

Mrs X died intestate (without a will).
She was the mother of one child and her husband survived her. She and her husband owned a rental property, their home and various other assets.

What happens to her share of all this? It's likely the child will get a big chunk of the estate, whether this was what Mrs X wanted or not.
We strongly recommend you make a will so your assets are distributed according to your wishes. Remember too, if you remarry you will need to make a new will.
A will is not a do-it-yourself job. To get it right, get your solicitor involved.

Simplify business travel expenses

If you're sick of tracking every car expense for your business, Inland Revenue's kilometre rates offer a simple way to claim vehicle use costs.

How it works

- Charge per kilometre: You charge your business a set amount per kilometre driven for business purposes.
- Rates depend on the total distance travelled and car type:
  First 14,000km: $1.04 per kilometre (all vehicle types)
  More than 14,000km:
  • Petrol/diesel: 35c per km
  • Hybrid: 21c per km
  • Electric vehicle (EV): 12c per km.

Thus if your business travel was say 12,000 km out of say 21,000 km you would take 12/21 of your 12,000 km = 6857 km and claim $1.04 per kilometre.
You would calculate your claim for the remaining 9000 km at the rate of $0.35 per kilometre If you had a petrol or diesel car.

Benefits of kilometre rates

- *Convenience:* No need to track individual expenses like fuel and repairs.
- *Flexibility:* Great for occasional business trips, like property visits.

Tracking kilometres

Record your odometer: Note your odometer reading on your business balance date (usually 31 March).
Check your distance: This helps determine if you've driven more than 14,000km in the year and need to use the two-tiered rate structure. Keep records of your business kilometres. A three-month logbook is allowed if it represents your annual travel, but you need to update it every three years.

Changing vehicles mid-year

Odometer readings: Record the readings when selling your old car and buying a new one to ensure accurate kilometre tracking for both vehicles.
Remember, kilometre rates simplify expense claims but might not match your exact expenses, which could be higher or lower. They make claiming business travel expenses easier and they're especially helpful for people with occasional business trips or who prefer simpler record-keeping.

Relieve the cramp with shared space

When your home office starts feeling cramped, you might think about renting a separate space.
This can be pricey and risky if you're stuck with a lease that doesn't work out.
One solution is shared office space, or co-working. Most towns and cities have these spots where you rent just what you need.
Sometimes it's a simple desk and internet access in a cubicle where you can work in peace. Other places offer private offices, meeting rooms and communal kitchens. Some spaces are more open and collaborative, perfect for groups of designers or IT geeks.
The perks include lower costs, flexible leases, keeping your work and home life separate, the chance to socialise instead of talking to your cat all day, and shared expenses for things like internet and power.

TAX CALENDAR

28 September 2024
2nd instalment 2025 Provisional Tax
(December balance date)

28 October 2024
1st instalment 2025 Provisional Tax
(March balance date for those who pay GST twice a year)

28 November 2024
1st instalment 2025 Provisional Tax
(June balance date)

Save time on expense claims

Tired of manually figuring out costs for your tax claims?
Inland Revenue has standard rates to make things easier. These preset amounts mean you don't have to hunt down receipts for common expenses, saving you a lot of time.
Here's what you can claim using standard costs:

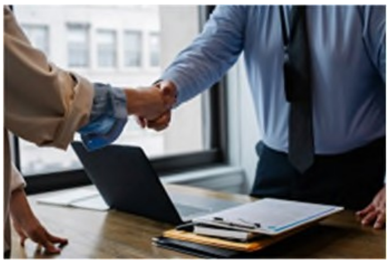
- *Business use of home:* $53.10 per square metre of your home office space.
- *Homestay costs:* $61 per day if you own the property; $55 per day if you rent the property.
- *Boarders:* Claim $231 per week for each boarder you accommodate. Note this is only if you provide meals. It doesn't apply to ordinary flat mates.
- *Childcare providers:* $4.45 per child per day; $435 annual fixed administration fee.

The benefits of standard costs include:

- *Convenience:* No need to collect and store receipts for specific expenses.
- *Efficiency:* Saves time on expense calculations and record-keeping.
- *Simplicity:* Provides clear and readily available rates, which Inland Revenue revises every year.

Inland Revenue's standard rates are a quick and easy way to claim common business expenses. You don't have to use them if your actual costs work out better. Just do a quick check to see if it's worth the time and hassle of keeping all your receipts.

Employee Share Schemes



For businesses that trade through a company, circumstances might arise in which the shareholders consider selling a minority stake in the company to a key employee or group of employees. This could be to ensure that key talent is 'locked in' for the long term, as a means of succession if the existing shareholders are looking to wind-down or simply as a means to link effort to reward. The pros and cons of transferring shares to key employees through an Employee Share Scheme (ESS) need to be carefully weighed because the devil is in the detail.

From a tax perspective, shares are typically held on capital account and therefore any gains in value are non-taxable. However, complex rules exist which try and delineate between an arrangement that resembles a generic shareholding interest, versus one that is received in connection with a person's employment.

If the arrangement is tied to a person's employment, the 'share scheme taxing date' (SSTD), being the date when the value of an employee's shares are taxed, is deferred until:

- there is no significant risk that the ownership of the shares could change for other than market value,
- the employee is not protected from a fall in value of the shares, and
- there is no material risk that the terms of the shares will change in a way that affects their value.

For example, if the rules of an employee share scheme state that an employee who leaves to work for a competitor must sell their shares for the lesser of cost or market value, this would carry a 'material risk' of occurring and therefore will defer the SSTD. Hence, the full value of the shares could be taxed on disposal, being the time at which this condition ceases to operate. On the other hand, if a bad leaver is defined as someone dismissed for serious misconduct (such as fraud or theft), this condition is less likely to occur (immaterial risk) and should not defer the SSTD. It is not uncommon to find income tax applies to shares within an ESS, when the participants have assumed it does not.

Another aspect that can complicate an ESS is the management of minority shareholder rights. When employees are granted shares, they become minority shareholders and are entitled to certain rights (such as voting rights) within the company. Managing these rights can be complex and cumbersome and can detract from the overall appeal of an ESS for some companies. Additionally, setting up such schemes can be costly and time-consuming.

As companies consider their options, the fundamental question becomes what the shareholders are trying to achieve and whether there is a better option. An alternative is to implement a phantom equity incentive where an employee is compensated (e.g. with bonuses) based on the value of a business and/or its performance. Phantom equity, can offer similar motivational benefits without the complexities of actual share ownership.

Planning critical for survival

Running a small business can be tough, especially when it comes to finding time to plan.

Planning for disasters can be even tougher. But planning is like plotting your course on a map – it helps you steer clear of panic when things go haywire.

It's crucial to have an emergency plan for stuff like natural disasters, cyberattacks, fires, or major financial hits. This plan can be a lifesaver when chaos strikes.

Equally important is having a business continuity plan (BCP). A BCP is your playbook for getting your business back on track after a crisis. The goal is to keep the wheels turning so you can keep your business afloat.

Imagine a flood wipes out all your stock, machinery, and office space. A solid BCP should answer questions like:

- How quickly can you restock from your usual suppliers or find new ones?
- Can you buy stock from your competitors to keep things going?
- How fast can you clean up or find a new workspace?
- Can you get your suppliers to step in and serve your customers directly?
- Are you and your staff able to work remotely?
- Can you access important documents and systems, like from the cloud?
- Do you have a manual to guide your team on what to do during a crisis?

A critical factor in your BCP should also be business interruption insurance. It could be the difference between shuttering your business or surviving for another day. When buying a policy, consider:

- Cover for wages
- Cover for financial loss
- How much time your business might be interrupted.

Having a robust BCP isn't just good sense, it's good for business. Potential buyers will see you are serious about your business, and your staff will feel happier knowing their jobs are safer.

Changes in marginal tax thresholds

For the first time since 2010, personal tax rate thresholds will change from 31 July 2024. The change was announced as part of the 2024 budget.

When personal tax thresholds are not regularly adjusted to take into account inflation or wage growth, individuals end up paying a higher percentage of their income in taxes over time. As such, adjusting these thresholds arguably reverses past tax increases.

The new personal tax rates for individuals are shown in the table below.

Employers will be responsible for handling these pay adjustments on behalf of employees from 31 July 2024 in pay cycles going forward.

Payroll software users should receive updates from providers (if they haven't already) once the new thresholds are ready. For those managing payroll manually or without software, it's essential to use updated tax tables for precise calculations.

Most NZ individuals have a balance date of 31 March. As the changes are effective part-way through the 31 March 2025 year, if an employer's payroll system hasn't been updated by 31 July 2024, any owed amounts should be included in subsequent payments or settled during an end-of-year reconciliation.

Current brackets	New Brackets	Rate
$0 - $14,000	$0 - $15,600	10.5%
$14,001 - $48,000	$15,601 - $53,500	17.5%
$48,001 - $70,000	$53,501 - $78,100	30%
$70,001 - $180,000	$78,101 - $180,000	33%
$180,001 +	No Change	39%