Harvie Green Wyatt
CHARTERED ACCOUNTANTS

Newsletter
AUTUMN 2022

Cost of working from home

As a result of Covid-19, some employers and employees have decided to make working from home permanent.

This raises the issue of what it costs the employee for the use of their home and the extent to which an employer can reimburse for this and have the payments tax free for the employee. Inland Revenue has considered this matter.

The general principle is an employer can reimburse the employee for a share of costs.

Jane works from home and pays rent of $400 a week. Ten percent of the area of her home is used for work so she can be reimbursed $40 a week.

Jane's office has a desk, chair, bookshelves, carpet, curtains and so on. Inland Revenue recognises it is probably impractical to reimburse for the depreciation of these assets. It has therefore set a

one-off payment of $400 as the maximum amount an employer can reimburse an employee for equipment.

Once this has been paid it can never be paid again to that employee.

You should note you do not have to choose the $400 option. You are entitled to work out an actual cost (or a reasonable estimate) of the assets and apply the depreciation rules if you wish.

If an employee uses an asset principally for business, the maximum claim permitted is 75 percent of the yearly depreciation loss on the asset, unless it costs less than $1000, in which case you can take up to 75 percent of what it cost.

Use of the telephone is treated differently. You are entitled to work out a reasonable estimate of the share of the cost of using an employee's telephone, but this could be impractical. Inland Revenue recognises this.

Two situations arise:

- Employee does not use their own phone or usage plan – maximum reimbursement up to $15 a week.
- Employee does have their own equipment and/or usage plan – maximum reimbursement up to $20 a week.

All reimbursements are exempt from tax.

Get the accounts sorted now

It's time to tidy up your accounts ready for the end of the tax year. You need to consider the following points:

- Write off bad debts before year end. It is not permitted to backdate a claim for a bad debt write-off performed after balance date. Leave a trail of evidence of when you performed the write-off. If your business is very small and you control your debtors by keeping a file of copies of unpaid invoices, write on the copy "written off on ….. (date)" and add your signature.
- At the end of the last day of the financial year, those who use a kilometre rate to claim for car running expenses need to get an odometer reading. Put a reminder in a place where you will not miss it.
- Small assets costing $1000 or less can be treated as expenses. If you buy more than one at the same time and they have the same depreciation rate, you need to add the amounts together for the purposes of the threshold.
- Bigger income earners – those who pay $60,000 or more tax per year – should consider whether their incomes have risen significantly. If this is the case, they could save themselves Use of Money Interest, charged at 7 percent, by increasing their third instalment of provisional tax (7 May 2022 for March balance dates). You will hit the $60,000 threshold at $204,820 of income, assuming no income is taxed at source.
- If you need to keep a vehicle logbook, remember you are required to take a fresh three-months sample every three years. If the proportion of your business use has risen, you could do a fresh logbook earlier.
- Clients with a 31 March balance date should start organising their stock for stock-taking. All stock will need to be valued. If a line won't sell, you are entitled to value it at market value so long as you can show how you arrived at market value. It might be better to get rid of it in advance of balance date.

Any maintenance carried out and incurred before balance date will normally be an expense so long as it does not add value to an asset, but rather brings it back up to standard.

Property rules: Repairs or an asset?

Suppose you have a rental property and replace the carpet. Is the cost repairs or is it a new asset? Do the same rules apply to lino?

Determining how to treat some expenditure, particularly in relation to property, can be complex. The best thing to do is to provide us with full information about what you have done.

Some expenditure on property can be the creation of a new asset while other can be repairs or maintenance.

When considering repairs, Inland Revenue tells us to look at the asset. For example, if you buy some lino, you have to stick it to the floor of the house so it becomes part of the house. Therefore, if you replace the lino, the cost is fully tax deductible, because it is repairs to part of the house.

Carpet can be an asset in its own right, because it doesn't get stuck to the floor and could be pulled up and sold. Therefore, carpets could be either a separate asset and valued at the time you buy the house or it might have been ignored and therefore would form part of the house. If it has been treated as a separate asset and you replace it, you write off the old carpet and you depreciate the new carpet. If it has been treated as part of the house, replacing it becomes repairs and is therefore fully tax deductible.

Fringe Benefit Tax – annual registration

If your gross PAYE and ESCT is less than $1 million you can apply to lodge annual fringe benefit tax returns instead of quarterly. Advantages:

- The $300 limit per employee per quarter general employee exemption becomes $1200 per year, enabling you to make gifts worth more than $300
- Less administration

The election to file on an annual basis must be made by 30 June 22.

Clearing up confusion over use of home costs

Many business people are confused about the use of home calculation.

Outside expenses

Apportion any costs incurred on the outside of the house between the business use and the non-business use on an area basis. So if you have 10 percent of your house used for business, you can claim 10 percent of costs like mending the roof.

Inside expenses

Any expenses not relating to the area used for business are not claimable. For example, if you carry out some maintenance work in the kitchen, which is not an area principally used for business, none of the cost is tax deductible. On the other hand, if maintenance work is carried out in the area where you work, it is fully tax deductible. If the expenditure relates to the whole house, it can be apportioned on a reasonable basis.

Area used for work

To be entitled to a claim for the use of your home, you have to have an area, which is a **separately identifiable** part of the house, which is used **primarily** for business purposes. So, if you work at the kitchen table and this area is used primarily for dining, you get no claim. However, if you use a corner of the dining room as an office, this share of the dining room could be a legitimate claim for use of home.

Also, if you choose to work at home but could as easily do the work at your business premises, but it simply suits you to work at home, you don't get a deduction. This is because, in this circumstance, working at home is merely a convenience and not a necessary expense in running your business.

How to do the calculation

You are entitled to work out actual costs and take a share of these. However, there is a shortcut. Inland Revenue will provide a per square metre rate to use to cover all the costs except for your mortgage interest and rates (or rent). So you can just apportion these two expenses and then use the Inland Revenue metre rate for the rest of your claim – power, depreciation, repairs and so on.

GST changes are in the wind

Inland Revenue proposes some GST changes..

- Some businesses make supplies which are partly exempt from GST. It's going to be possible to get an agreement with Inland Revenue on the proportion, which can be treated as exempt.
- Sometimes a business, which transports goods to and from New Zealand, also has to transport them through New Zealand. GST on the cost is zero rated. However, if a contractor is engaged to do this, zero rating does not apply. The law is to be changed. This will mean any cartage contractor performing this type of service will not be required to charge GST on that service.
- Some people have to register for GST on income derived from assets which are used partly privately and partly for business. This is because the business income goes over the $60,000 threshold for GST registration. A typical example can be a beach cottage. When it is sold the owner usually has to pay GST on the selling price. Currently the full capital gain is subject to GST with no allowances made for the private use of the asset – say 20 percent. So you might have a situation where the cottage is sold for $1.15 million. A total of $150,000 goes to Inland Revenue for GST. Under the new rules this will be reduced by $30,000 to $120,000. This change is to be backdated to February 2020.
- Instead of having to get Inland Revenue approval for a buyer-created tax invoice, it is going to be sufficient to have an agreement between the registered buyer and the registered seller.

Note: none of this is law yet and could be changed

Inflation pricing pressures on consumer engagement

From initial fears of a prolonged economic slump due to Covid-19, the global economy has seen a resurgence led by unprecedented demand. To experience such strong activity following months of lockdown where key industries cut back on activity to reduce costs, a backlog has been created such that global supply chains may take years to catch-up. Coupled with skill shortages across all industries, the past 12 months have seen inflationary pressures reach a new high for the 21st century.

Faced with increasing input costs, businesses have had little choice but to pass these costs on to consumers. Price increases are however an uncomfortable conversation in all business settings. How much of this cost can the business assume? How will consumers react? What are our competitors doing? These are just some of the questions to cause a headache. Moreover, with the power of social media, consumers can have more of a say on price surges than ever before. Hence, the reaction of consumers and the impact on business reputation can have long term consequences if changes are not communicated clearly.

Considering the consumer reaction to price rises, businesses must evaluate how the long-term impact on customer relationships will be managed. With the increased emphasis on environmental, ethical, and social factors impacting a consumers decision making process, society values transparency and businesses who maintain a strong dialogue with the community in which they operate. An open dialogue explaining the reason why prices are increasing will more likely assist with a consumer associating themselves strongly with the business and made to feel an integral part of its success. In a volatile market, poor communication poses the greatest risk to a customer switching to a competitor. Not having the opportunity to consider or discuss upcoming changes can create a shock to consumers which can harm the relationship.

Disruption historically leads to innovation. Inflationary pressures encourage consumers to seek alternative solutions. Businesses must either provide these alternatives or risk consumers going elsewhere. Hence, although the current environment is challenging, investment into technology and new skills is more crucial than ever.

Businesses that can innovate and increase the value proposition are in turn more likely to establish a customer base which will not get deterred by price, and instead focus on the value being delivered. Value based pricing could enable businesses to shift the focus from inflation to future growth.

Tax due diligence when buying or selling

The end of the financial year is a time for reflection on the year that has been. For business owners, this break is an opportunity to evaluate their future strategy and consider whether it is time to exit, or conversely, grow by purchasing someone else's business. Whether buying or selling, it is a demanding exercise.

A business sale can either be in the form of a share sale, where the shares in the company that owns the business are transferred, or an asset sale, where the underlying assets of the business are transferred. If the transaction is by share sale, the purchaser takes on the past risks and obligations of the target company. It is therefore important to understand if there are any 'skeletons in the closet'. This risk is mitigated by undertaking 'due diligence'. This same risk does not arise in an asset sale, because the vendor's 'history' is not transferred to the purchaser.

For the vendor, due diligence might subject the business to a level of scrutiny not experienced before. For the purchaser, a large volume of information may be presented and it will be important to remain focused on information that is material and relevant.

From a tax perspective, due diligence is aimed at confirming whether the target company has satisfied its historic tax obligations and therefore no risks exist that a tax liability might arise in relation to a period prior to the change of ownership. There is both a qualitative and quantitative element to this process.

The tax return filing history will be reviewed to confirm that there are no outstanding returns and to what extent past returns have been filed on time. Not just income tax returns, but also GST, FBT, PAYE, etc. Past tax advice will be requested and reviewed to determine whether the positions taken are correct and reasonable. The general business profile will be reviewed to identify what tax adjustments need to be made and this will be cross checked against the tax position taken to ensure there is alignment.

Common risk areas will be reviewed, for example a business that engages contractors may be scrutinised to ensure these individuals are not actually employees. The treatment of Covid subsidies could also be reviewed. Has non-deductible capital expenditure been identified and adjusted. Does the target have a large number of vehicles on its fixed asset register, if yes, how have they been treated for FBT purposes… the list goes on.

Generally, Inland Revenue is able to reassess a tax return if it was filed in the past four to five years (the time bar period). Hence, due diligence is typically undertaken on the four most recently filed tax return periods.

Finally, the qualitative element comes into play. The team performing the due diligence will form a view of the target company's approach to tax compliance based on what they have seen. For example, if a company files its income tax returns late, does not use an external accountant and does not seek advice on material transactions, a negative view will form.

This, along with other issues identified, may ultimately lead to more comprehensive warranties and indemnities, a portion of the sales price being placed in escrow or, at the extreme, a reduced price for the

Take action if you lose your cellphone

As business people, we rely on our cellphones for information as well as communication.

Losing a phone is serious. It's likely to contain all your useful information – including your passwords for apps and financial accounts. So if you know it's not simply mislaid in a jacket pocket or purse, you need to act fast to protect yourself, your business, and data about your clients and friends.

The first task should be to delete your device information and lock it. You can do this with Google's Find My Device for Android or Apple's **Find My iPhone**. These programs can track your phone, so it will tell if you've left it at work or dropped it in the garden. If it's

somewhere strange, you'll probably want to just get the information off the device quick smart.

In Apple, log into your iCloud account; for Adroid users go to Google's Find My Device page. From there you will want to lock your phone and wipe its contents. We won't go into how in this article, but if you haven't set it up already, your internet provider or phone manufacturer should be able to help.

Then tell your mobile service provider. They can take your phone off the network and make it harder for someone to steal information.

Of course if it's a work phone, there's likely to be business-related information on it, so tell the boss straight away.

Then there's the laborious job of changing passwords. Sorry, it has to be done. Start with the ones that could have the most dramatic effect if hacked – Google, Apple, Microsoft, your online banking.

TAX CALENDAR

7 April 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.

9 May 2022

Third instalment of 2022 Provisional Tax (March balance date)

GST for March 2022

30 May 2022

First instalment 2023 Provisional Tax (December balance date)

31 May 2022

Deadline for Fringe Benefits Tax returns

BRIEFLY

Nowhere to hide

It is going to become more difficult for people to avoid paying child support by moving to another country. New Zealand has joined 43 other countries in ratifying the Child Support Convention. Our country will be able to request collection and enforcement of child support and domestic maintenance from any member of the 44 countries.

GST and layby goods

Some businesses buy goods on layby. If you do, you should note you can't claim GST on the payments until the goods are yours. While they are on layby you don't own them. The same doesn't apply to hire purchase where GST can be claimed in full upfront.

Tax by stealth

Bracket creep is where inflation ensures your income rises over time and if the tax thresholds are not adjusted your income creeps up into a higher tax bracket. The Government progressively takes a greater proportion of it. In August last year Parliament rejected a Bill suggesting the tax rates be adjusted every three years to allow for bracket creep.

COVID: Refunds and leases

Getting an early GST refund

If you prepare your GST returns on a six-monthly basis, you are permitted to make a temporary switch to a one-month taxable period so you don't have to wait for a GST refund if you have bought a large item of equipment.

Of course, conditions apply. Details are at taxtechnical.ird.govt.nz – search for "variation of section 15D(2)" dated 21/02.

You will notice applications close on 31 March 2022.

Commercial leases

The Property Law Act is to have a clause inserted relating to commercial leases. It is to require a "fair proportion" of rent to be paid where a tenant has been unable to fully conduct their business in their premises due to Covid-19 restrictions.

Landlords and tenants will need to agree to an amount of rent that is fair. If they don't the matter will need to be settled by arbitration or mediation.

This new law was effective from 28 September 2021.