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COVID Support - Here we go again!

As the country returned to near normal operations and Covid-19 was by default becoming a past event we certainly got a stern reminder that it's still here and not forgotten… didn't we!

We re-established our team to be working from home and we hope you were all able to continue to operate your business from home too, without too many interruptions of sunny days, kids, pets or housework.

We spoke to a number of our clients over lockdown for various reasons, especially those in business who were impacted by Covid-19. The hot topics were around what financial relief was available over the most recent lockdown period and how clients were going to meet tax debts with the uncertainty that existed over this period.

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Labour Weekend Office Closure

We will be closed from **5pm Thurs 21 October** and reopening at **8.30am on Wed 27 October**.

This break is longer than the normal national holiday period by two days.

The office doors are shut to provide a well deserved extended break for our team after winter. It will give us all time to catch our breath and to spend quality time with family and friends before we head into the busy Christmas period rush.

Xero - Complimentary Client Seminars

Xero Basics - 2nd Thursday of every month at 3:30pm - next seminar is on 14th October 2021.

The Basics will include an overview of Xero including the Dashboard, coding of transactions, using reports and a few shortcuts. If you are thinking about Xero, are new to Xero or just need a refresher on the basics, this is a great introduction seminar.

To register for this free seminar, please contact our administration team.

www.bennettsproactive.co.nz
8 Queen Street, Te Puke
Phone (07) 573-8446

Here we go again (continued from page 1)

In brief:

Wage Subsidy (MSD administered payment)

The third release of this subsidy closed at 11.59pm on 30 September 2021. To be eligible for the wage subsidy, part of the criteria requires that you or your business has been affected by Covid-19 and meet the revenue decline test of 40% or more within a specified period. The payment rates for the 2 week period are $600 for a full time employee (20 hours or more) and $359 for a part time employee (20 hours or less). You can continue to re-apply for the subsidy, however you must wait until 2 weeks have past if you have applied for the previous subsidy, even if payment has not yet been received.

We are aware that the payment of the Wage Subsidy has been excessively slow to process, with some of the unprocessed applications relating to the 1st round release. We appreciate that this can be frustrating especially when this is a government relief offer in response to a country wide pandemic.

Tips:

- Employees can only be paid less than their normal wages during Covid-19 if the employee agrees to it and after discussion between parties in good faith.
- During any alert level, employees cannot be forced to take sick leave (if the employee is not sick), advanced annual leave or annual leave (without 14 days notice – unless agreed in good faith) when they are unable to work.

Leave Support and Short-term Absence payments (MSD administered payment)

These payments continue to be available for those that either need to self-isolate or are awaiting a Covid-19 test result and are unable to work from home.

Resurgence Support Payment (RSP) (IRD administered payment)

This new payment was initiated on the 7th day of lockdown being 24 August 2021 and is available until 1 month after all of NZ has returned to a level 1 lockdown restriction. The second release payment opened on 17 September 2021, for the purposes of supporting businesses with their fixed costs such as rent. To be eligible for this payment there is also criteria that needs to be met including a 30% decline in revenue due to the increased alert levels. The payment rate is the lessor of $1,500 plus $400 per full time equivalent (FTE) employee up to a maximum of 50 FTE's or 4 times the actual revenue decline experienced by the applicant.

If you are registered for GST, then there is GST on this receipt of the Resurgence Support payment (unlike the Wage Subsidy payment).

Small Business Cashflow Scheme loan (IRD administered payment)

This scheme continues to be available until 31 December 2023 if you meet the eligibility criteria. The loan is to assist with payment of core operating costs or capital costs and is intended to help your business adapt to the circumstances arising as a result of COVID-19. The payment rate is $10,000 plus $1,800 per full time equivalent (FTE) employee.

You have 5 years to repay this loan with no repayments required within the first 24 months (however voluntary payments are able to be made), after that you will need to make regular payments. If the loan is repaid in full within 2 years then you will not be charged interest, if the loan is not repaid in full within 2 years then interest will be charged at 3% for the entire term of the loan.

Tips:

- A 2 year interest free period is attractive; a 3% pa interest rate for a 5 year loan could be more attractive than a bank overdraft or third tier lender – however this loan still needs to be repaid!
- You can draw down on this loan and repay it back. There is also the ability to redraw this loan if it has been repaid fully (limited to borrow one more time). Remember criteria must continue to be met, the timeframes for the new loan will reset separately from the original loan – meaning you may get an additional 2 year interest free period if repaid within 2 years!

IRD tax payment relief and ACC

IRD have made assistance available when business's are unable to settle tax debt as a result of being affected by Covid-19, this applied from 14 February 2020. Amongst the criteria, tax payers should try to enter into an instalment arrangement to satisfy the requirement of "making an effort". The relief available includes interest and penalty remission.

All IRD returns must still be filed by the due date. If you choose to defer payment it does not defer the lodgement of any returns.

Tax Updates

We alerted you to some tax changes that we knew were coming in the last newsletter in relation to residential property transactions (Brightline changes, interest deductibility rule changes and purchase price allocation requirements). Some parts of this have since been legislated, some we are still waiting on!

Brightline rules The rules have changed for all residential properties that are sold unless exemptions apply.

Date of Acquisition	Brightline period
1 October 2015 - 28 March 2018	2 Years (Expired 29 March 2020)
29 March 2018 - 26 March 2021	5 years
27 March 2021 onwards	10 years New builds remain at 5 years

The definition of a new build has not yet been legislated. The discussion documents intend for it to include properties acquired within a year of receiving their Code of Compliance certificate under the Building Act 2004.

Changes to the Main Home Exclusion include a 'Change-of-use' rule meaning the old treatment of predominant (>50% of the time) no longer applies. The new rules now means if you have not used the property as your main home for any continuous period or periods of more than 12 months then you could be taxed on the gain…this could be a trap!

Please be aware this affects <u>all</u> of us who are residential home owners. While your home may currently be your family home, circumstances can change unexpectedly and your home ownership could be exposed to the new rules!

Here are some examples of how you can be trapped:

1

Rod and Rachel buy a 1920's bungalow home on 30 March 2021 for $1.5m. They have lived in the home for four years now but have decided to purchase a new home. They do, and as part of their retirement planning decide to rent their old home. Two years later they decide to sell their rental home for $2m.

- Old rules (ignoring the dates) – gain on sale would have been non-taxable because they lived in the property for more than 50% of the time.
- New rules – the rental period is for a continuous period of more than 12 months so the gain on sale is taxable because they have not occupied as a family home for all the time and therefore needs to be apportioned. The apportionment is 2/6th of the gain so $167,667 is taxable income.

2

Rod and Rachel build a new family home. The build took 12 months to complete before they were able to move in. Six months later Rod is back performing live and they decide to move to be closer to the action.

- Old rules - the whole gain on sale would have been taxable because they have not lived/ occupied the property for most of the time (6/18 months).
- New rules – the gain on sale is taxable because they also have not occupied as a family home for all the time and therefore needs to be apportioned. There will be an apportionment of 6/18th of the gain.

This scenario has not changed and already caught a number of tax payers out who are unaware of the rules. Generally those who were caught out were unintended such as relationship breakdowns or other opportunities being presented requiring the equity out of a home during a period of increased market conditions. The reason some have been caught out is because they think this is their family home not realising the construction period also needs to be taken into account within the brightline time period.

Brightline (continued)

3

Rod and Rachel have purchased a 1920's bungalow on 18 April 2021. Rod has committed to returning to Scotland for three months each year for the next five years. For this duration, he packs up the house; Himself, Rachel and the kids relocate for those three months renting out the house over summer in NZ. After eight years they decide to sell the property and permanently relocate back to Scotland.

- Old rules - gain on sale would have been non-taxable because they lived in the property for more than 50% of the time.
- New rules – the rental period is for 3 months each year over the last 5 years (15 months in total) and is therefore a period of more than 12 months during the brightline period (of 10 years) so the gain on sale is taxable because they have not occupied as a family home for all the time and therefore needs to be apportioned. There will be an apportionment of 15/96th of the gain and that portion becomes taxable income.

4

Rod and Rachel purchase a family home on 18 April 2021. Five years later Rod is offered a position back in London so they decide to temporarily relocate, the intention is for five years and they would rent the family home so that they have a place to return to. Two years later Rachel misses home so they decide to come back and live back in their family home. Times have changed, Rod wants to go back to London and Rachel wants to remain in NZ, one year on they have decided to go their separate ways selling the family home as part of the matrimonial settlement – no one saw that coming. In total they had owned the property for 8 years.

- Old rules - gain on sale would have been non-taxable because they lived in the property for more than 50% of the time.
- New rules – the rental period is a continuous period of more than 12 months so the gain on sale is taxable because they have not occupied as a family home for all the time and therefore needs to be apportioned. The apportionment is 2/8th of the gain and that portion becomes taxable income.

Purchase Price Allocations (effective 1 July 2021)

This relates to property transactions where there is a mixed supply (eg. Orchard, house & licenses) within the transaction. The Sale and Purchase Agreement must split out the market value of the components. This is important as there could well be a tax impact on this allocation. Best practice is to determine this before the Sale & Purchase Agreement is signed. Failing that, the vendor gets first chance of the allocation split within 3 months of settlement (to their advantage); failing that the purchaser then gets a chance of the allocation split within 6 months of settlement (to their advantage), both these will bind both parties for tax purposes, failing that, the Commissioner may decide. The purpose for this piece of legislation is to eliminate the mis-match on property transactions.

Interest deductibility (Proposed to be effective from 1 October 2021 but not yet legislated - expect legislation before 31 March 2022)

There are changes coming for interest deductibility on NZ residential properties (including bare land) unless exclusions and exemptions apply. On 28 September 2021 the Government released the draft legislative proposals summarised below:

For properties purchased on or after 27 March 2021 there will be no ability to claim a deduction for interest on borrowings (unless exemptions apply).

For properties purchased before 27 March 2021 there will be a phase out period for interest deductibility on borrowings (unless exemptions apply).

Date	Interest claimable
1 April 2020 – 31 March 2021	100% claimable
1 April 2021 – 31 March 2022 (Transitional Year)	Up to 30 September 2021 – 100% From then to 31 March 2022 – 75%
1 April 2022 – 31 March 2023	75% claimable
1 April 2023 – 31 March 2024	50% claimable
1 April 2024 – 31 March 2025	25% claimable
1 April 2025 – 31 March 2026	0% claimable

Interest deductibility (Continued)

There are provisions in place for re-structuring, re-financing property, variable loans and mixed-use debt.

Exemptions include the main home (which has no ability to deduct interest anyway); those in the business of developing, subdividing, land-dealing or construction and "New Builds".

The proposal suggests that a new build will be a purpose-built residential rental property that has either received its

* Code of Compliance (COE),
* record of completion or
* record of substantially completed on or after 27 March 2021

These will be eligible to a interest deduction for up to 20 years from that time, this treatment extends from the initial purchaser of the new build to subsequent owners within the 20 year period. We are still awaiting the definition of a "Purpose-built" property but we understand this will be designed for ongoing rental rather than sale; includes constructed, modular and relocatable homes as well as conversions of existing dwellings into multiple homes or commercial into residential. What is also unclear is the ability to deduct interest on properties that were acquired prior to 27 March 2021 but within 20 years of build!

Included in the proposal is the ability to allow previously denied interest deductions when a taxable sale of a residential property is made but that deduction will be limited to the gain.

There are still a significant number of unanswered questions amongst the proposed amendments – some with big tax implications and some basic unthought of scenarios. We will keep you posted as we know more. In the meantime if you have any scenarios that you'd like to run past us please do so early so we can consider and best provide an answer based on the proposed amendments.

Key Tax Dates

Date	Taxes payable
20 October 2021	PAYE - Period ended 30 September 2021 FBT - Quarter ended 30 September 2021
28 October 2021	GST - Period ended 30 September 2021 Provisional Tax - 6 monthly GST filing frequency
20 November 2021 (22 November)	PAYE – Period ended 31 October 2021
20 December 2021	PAYE – Period ended 31 November 2021
15 January 2022 (17 January)	GST—Period ended 30 November 2021 2022 Provisional Tax (2nd Instalment)

Sick leave increased to 10 days (from 24 July 2021)

The Holidays Act 2003 has been amended to increase an employee's sick leave entitlement from 5 days to 10 days per year starting at the employees next sick leave anniversary or 6 months after their start date.

Employment Agreements do not need to be changed for existing employees, however the new rules must be up-dated for all future Employment Agreements.

RWT rates (effective from 1 April 2021)

The new top tax rate of 39% is effective from 1 April 2021 for individuals who earn over $180,000 in a tax year. From 1 October 2021 all payers of interest must provide a 39% RWT deduction rate option. If this new rate applies to you, you can contact your bank and/or financial institutions to select the higher rate.

Dividends will continue to have Imputation Credits attached at 28% and RWT deducted which by default will be at 5%.

Questions & possibilities in the pipeline!

As employers, your employee's health and safety is your responsibility whilst at work. Where appropriate employers must ensure that the appropriate personal protective equipment (PPE) is made available and worn. You cannot pass on the cost of providing PPE (in full or in part) to the employee and you cannot make this a condition of employment.

Businesses cannot make individuals get a Covid-19 vaccination, however businesses can require only vaccinated workers perform certain work.

The FBT rules may come under the spotlight on twin-cab utes where a Company vehicle is made available to shareholders and employees for private use. Historically twin-cab utes have always been subject to the FBT rules however they have slipped under the radar as they are assumed to fall within a definition of a vehicle that is not primarily designed to carry passengers. A press statement in July has suggested this is under review.

The Construction industry is back under fire with the IRD running an education campaign earlier this year. The reason being is that the IRD believe that the construction sector is likely to engage in hidden economy activity (e/g cash jobs) and they are clearly targeting these activities.

COVID-19 Employment allowances & reimbursements for working from home

The previous allowance and reimbursements determinations have been superseded with another determination (EE003) which varies and extends the previous ones. This is applicable from 1 October 2021 through to 31 March 2023. Reimbursements will be treated as tax deductible to the business and tax exempt income for the employee.

- For employees that work from home but do not use their own telecommunications tools and/or their own internet usage plans - there is an allowance of $15/week per employee allowed.
- For employees that work both from home and use their own telecommunications tools and/or their own internet usage plans for their employment - the allowance is $20/week per employee.
- For employees that do not work from home but use their own telecommunications tools and/or their own internet usage plans for their employment - the allowance is $5/week per employee.

Further to the above, there is also the actual reimbursement method available.

Payments made for the cost of newly acquired furniture, equipment and telecommunications equipment – can be a safe harbour option or actual reimbursement. The safe harbour limit is $400 per year for furniture and equipment and $400 per year for telecommunications.

A reminder of our new office hours

We have recently changed our office hours. The new hours are:

Monday to Thursday 8.30am to 5.00pm

Friday 8.30am to 2.00pm

No appointments or phone calls will be taken after 2pm on a Friday.