

Covid -19 Free Online Seminars

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FINDEX

COVID-19 Tax Changes

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Topics

- COVID-19 Tax Legislation
 - Depreciation on Non-Residential Buildings
 - Low value asset write-off
 - Provisional tax thresholds
 - In-Work Tax Credit
 - R&D tax credit refunds
 - Use of money interest write-off
- SME Tax Package
 - Flexibility in respect of tax deadlines
 - Changes to tax loss continuity rules
 - Tax loss carry-back scheme
- Penalty and interest remission



COVID-19 Tax Legislation

Depreciation of Non-Residential Buildings

- Depreciation allowed for buildings that are not residential buildings from 2020-21 and subsequent income years
 - Diminishing Value rate = 2%
 - Straight Line rate = 1.5%.
- Applies to existing buildings and new buildings
 - Depreciate from cost
 - Unless previously depreciated = adjusted tax value



Depreciation of Non-Residential Buildings

- Residential building
 - Dwelling = place used predominantly as a place of residence
 - Building intended to ordinarily provide accommodation for periods < 28 days at a time when less than 4 units for separate accommodation on site
 - Excludes – motels, hostels, boarding houses, serviced apartments, rest homes, retirement villages, and camping grounds

Depreciation of Non-Residential Buildings

- Section DB 65 is repealed from 1 April 2020
 - Allowed commercial building owner that had not separated out fit out before the 2010-11 income year a deduction
 - Deduction = 15% buildings ATV at end 2010-11 year x 2%
- Deductions claimed under s DB 65
 - Treat as depreciation claimed on building
 - Potentially recoverable on sale of the building



Low-value Asset Write-off

- Assets purchased from 17 March 2020 to 16 March 2021
 - Cost \leq \$5,000
 - Cost fully deductible in income year of purchase
- Assets purchased from 17 March 2021
 - Cost \leq \$1,000
 - Cost fully deductible in income year of purchase



Provisional Tax Threshold

- For 2020-21 and later income years
- Threshold increased from RIT of \$2,500 to RIT of \$5,000
 - Company \approx \$17,857 non-sourced deducted income
 - Trustees \approx \$15,151
 - Individual \approx \$34,171



In-Work Tax Credit

- “Full-time earner” changed to “earner”
- Minimum work hour requirements removed
 - Individual 20hrs + / Couple 30hrs +
- Requirement now that for a week
 - Person employed during the week; or
 - Spouse, civil union partner, or de facto employed during week
- Includes person unable who would be employed but for incapacity



Refund of R&D Tax Credits

- From 1 April 2019 R&D tax credit refund cap of \$225,000 removed
- New cap based on labour related taxes
 - PAYE, FBT, ESCT paid by taxpayer
 - For company includes wholly-owned group companies & controller
- Refund does not require to satisfy
 - Corporate eligibility rule; or
 - Wage intensity rule



Use of Money Interest Waiver

- UOMI remitted where ability to make tax payment on time “significantly adversely affected by the COVID-19 outbreak”
- Must ask for relief as soon as practicable
- Must have made payment as soon as practicable
- Tax payments due on or after 14 February 2020



SME Tax Package

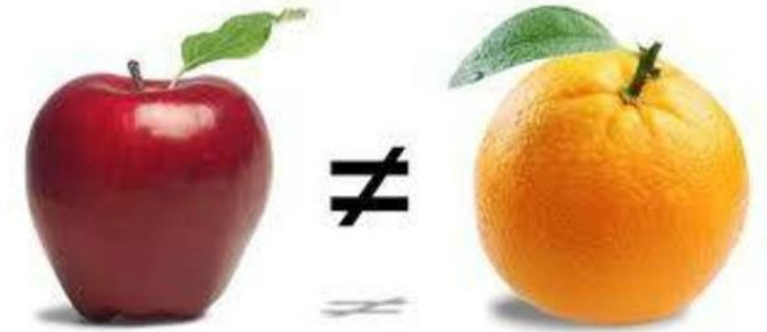
Tax Deadline Flexibility

- IRD discretion to change due dates, timeframes and procedural requirements
- Apply when taxpayer impacted by COVID-19
- Will allow IRD to extend deadline for
 - Filing returns
 - Paying provisional tax
- Discretion limited to 18 months
- Legislation 27 April



Loss Continuity Rules

- “Same or similar” business test proposed
- Supplement shareholder continuity test
- “Same or similar” business as when losses incurred
- Can satisfy either test to carry forward losses
- Allows capital raises without forfeiting losses
- Applies to 2020-21 and later income years
- Legislation later this year



Loss Continuity Rules – Example

- TechCo has been developing an innovative new technology
- Inventor and family/friends have funded development
- Generated significant losses during R&D phase
- Requires further capital to commercialise technology
- Capital raise will increase issue share capital by 60%
- Result in breach of shareholder continuity & forfeiture of losses
- However, business will remain “same or similar”
- Losses can be carried forward

Temporary Tax Loss Carry-Back

- Allow tax loss to be carried back to prior year
- Losses for 2019-20 and 2020-21 years
- Can be actual loss or forecast loss
- Estimate loss and carry back to year in which tax paid
 - Trigger refund of prior year tax payment
- Legislation to be introduced 27 April
- Permanent version later this year



Tax Loss Carry-Back

- WWHL expecting net income for 2020 of \$2m
- Paid \$310,000 prov tax at P1 and P2
- Needs to pay \$250,000 at P3
- Forecasting loss of \$1.5m to \$2m for 2021
- Elect to estimate loss for 2021 at \$1.5m and carry back to 2020
- Net income for 2020 now \$500,000
- No tax payment required at P3
- Receive refund of \$170,000 excess tax paid in 2020

Penalty and Interest Remission

CIR Discretion to Write-Off Penalties and Interest

- Existing provisions in Tax Administration Act 1994
- New s 183ABAB provides for use of money interest write-off
 - Applies to payments due on or after 14 February 2020
 - Applies up until 25 March 2022
- CIR to apply same dates when looking at applying other relief provisions
- Will apply the same principles as apply to s 183ABAB

Eligibility For Remission

- Tax due on or after 14 February 2020
- Ability to pay by due date “significantly affected by COVID-19”
 - Financial or physical reasons
- Must contact IRD “as soon as practicable”
- Must pay outstanding tax “as soon as practicable”



Guidance on Eligibility Criteria

- Significantly affected by COVID-19
 - Income reduced as consequence of COVID-19
 - Reduction in income meant unable to pay tax in full and on time
- As soon as practicable
 - Depend on facts of each case
 - Apply for relief at the earliest opportunity
 - Agree to arrangement that results in tax being paid
 - At the earliest opportunity; or
 - Over the most reasonable period given taxpayer's circumstances



Remission

- If cannot meet agreed arrangement
 - Must contact IRD at earliest opportunity
 - New arrangement may be possible
- Interest and penalties will continue to accrue until satisfy arrangement
- Write-off will be automatic when arrangement completed
- If fail to complete interest will apply from when stopped complying



Information to Supply

- IRD will rely on GST and other returns taxpayer files
- Should be prepared to provide
 - At least 3 months of bank and credit card statements
 - Any management accounting information
 - List of aged creditors and debtors
- Want to understand plan to sustain business



Types of Relief – New Debt due to COVID-19

- Instalment arrangement
- Instalment arrangement – deferred payment start date
- Partial write-off due to serious hardship
 - Either lump sum payment or instalment arrangement for balance
- Partial payment and write-off balance
 - Using maximising recovery of outstanding tax
- Full write-off due to serious hardship



Types of Relief – Re-Existing Debt

- Taxpayer with existing arrangements
 - Must continue to meet
 - If COVID-19 affects ability to comply with can ask to renegotiate
 - On renegotiation all options back on the table
 - Must act as soon as possible
- No existing arrangement
 - Need to contact IRD as soon as possible



Questions?



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