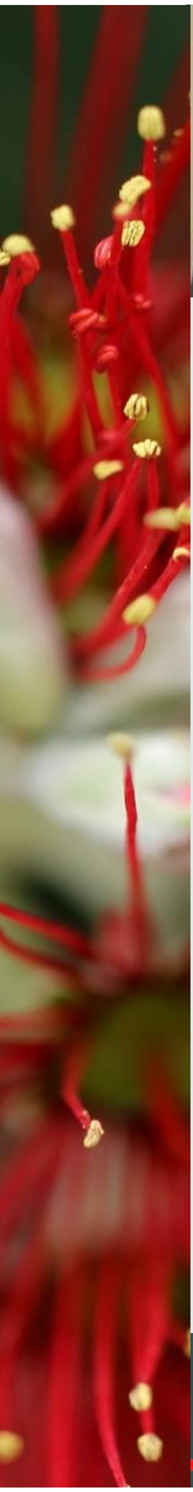
LYNCH & PARTNERS
CHARTERED ACCOUNTANTS

Summer • 2023

OUR NEWSLETTER FOR GROWING BUSINESSES

THE Client Link



Retirement Announcement

Lynch & Partners wishes to advise clients and associated businesses that due to ongoing health issues, Martin van de Wetering will be retiring as a Partner in the practice from 31st December 2023. Martin will continue to assist where and when he can, or is requested to do so. A separate letter is being sent to Martin's clients and there will be a farewell function in early 2024.

New government set to introduce tax reforms

Given one of the National Party's big campaign promises was tax cuts, we can safely assume the new government will follow through on its proposed reforms. Any changes are unlikely to be before July 2024.

So let's look at the proposed new rates of income tax:

Income up to $15,600 a year	10.5% (previously 14,000)
From $15,600-$53,500	17.5% (previously 14,000 - 48,000)
From $53,500-$78,100	30% (previously 48000 - 70,000)
From $78,100-$180,000	33% (previously 70000 - 180,000)
Over $180,000	39% (no change)

Other likely changes include a rise in the amount you can earn to qualify for the Independent Earner Tax Credit. The credit is currently available to people who earn between $24,000 and $44,000 a year. It's worth $520 a year and reduces progressively for incomes between $44,000 and $48,000 a year, becoming nil when your income reaches $48,000.

The upper limit increases from $48,000 to $70,000 a year, with the progressive reduction starting at $66,000. This would mean people with incomes between $44,000 and $66,000 will qualify for the $520 tax credit.

Other policies include a 25 percent rebate for childcare costs, worth up to $75 a week. This will be calculated on joint household incomes. The maximum joint income for getting the full rebate is to be set at $140,000.

Expect interest deductibility for rental properties to be restored, progressively rather than being reduced progressively as follows:

- 50% interest deductibility kept from April 2024
- 75% interest deductibility from April 2025; and
- 100% interest deductibility from April 2026.

Depreciation for commercial building is likely to be scraped from the 2024/25 year as well as the proposed GST on digital platforms like Airbnb and Uber.

Also, the clean car discount is likely to be ditched, as is the Auckland regional fuel tax.

It's that time again as we edge closer to Christmas and the New Year. We're closing our doors at 1:00pm on Friday 22 December and will reopen on Monday 15 January. We would like to thank you for all of your support in 2023 and we hope you have a safe and enjoyable summer break.

Your small business Christmas checklist

Christmas lists aren't just for kids and Santa Claus. Before summer arrives, tick off our small business Christmas checklist to ensure you're in the best possible shape for the year ahead.

Plan cash flow

Make sure your business has enough funds on hand to pay suppliers over Christmas and January, remembering your tax obligations in the first month of the year.

Prepare your cash flow forecasts well in advance and consider holding off on big investments, renovations, and upgrades until well into 2024 if things are tight.

Try Christmas marketing

As we all know, people love to spend money at Christmas, so why not take advantage of the mood with a personalised Christmas promotional campaign? It's not too late to send a marketing email to your customers thanking them for their business — and it can help build brand loyalty.

Review your website

Web traffic tends to spike over Christmas, so make sure your website is working well without any glitches before you clock off. E-commerce problems can be hard to fix while everyone is away, so ensure web and mobile sites are up to speed.

Check your inventory

Don't guesstimate your inventory or leave things to chance over the summer; make sure your business has enough stock to meet customer demand. Check how much stock you used last Christmas for a guideline.

Sort out staffing schedules

Getting to Christmas and discovering no one is rostered to cover late December and early January is a nightmare scenario. Avoid that worst-case outcome by planning ahead with your staff. Ensure employees take turns to cover the most inconvenient times of the year to keep things fair.

Chase up invoices

Chasing up late payments is a pet hate for every business owner. If you have overdue payments in the run up to Christmas, chances are the situation will get even worse in the New Year. Make sure you get paid in full before the summer break.

Get some rest

Christmas is an important time to get some well-earned rest, so schedule time to relax! A recent study found that New Zealand workers are more likely to suffer burnout than in any other country. Take the time to reset so you can walk into 2024 with the right mindset.

Claims for new furniture, telecoms

Inland Revenue will permit a maximum one off claim of $400 for all purchases of office equipment and a further maximum of $400 for all telecommunications equipment.

Alternatively, there are reimbursement options:

- If the equipment is used exclusively for business, the reimbursement to the employee can be 100% of the annual depreciation.
- If the principal purpose of the piece of equipment is for business use, then no more than 75% of the annual depreciation can be reimbursed exclusive of tax.
- If the principal use is for private purposes, then no more than 25% of the annual depreciation can be reimbursement exclusive of tax.

If an asset costs $1000 or less, the reimbursement can be paid in full, just as the asset can be treated as a 100 percent deduction in the year of purchase by the employer.

Tax rate for trusts to go to 39%

Tax distortions are increasing

A short while ago the top tax rate for both an individual and a family trust was 33 percent. When this was increased to 39 percent for the individual, there was an obvious incentive to retain as much income in a trust as possible. This led to the former government proposing an increase to 39 percent tax on trusts, effective from 1 April 2024. At this stage the new government has made no comment regarding the previous government's proposed 39% flat tax rate for trusts. The Bill covering this lapsed when Parliament recessed for the election.

If we assume the new government follows through with this and your taxable income is less than $180,000 (the threshold for the increase to 39 percent tax) it would pay to distribute as much of the trust income to you or any other beneficiary whose income is below $180,000. You would be paying tax at 33 percent whereas the trust would be paying tax at 39 percent. Remember, if you allocate income to a beneficiary to save some tax, you must also pay that beneficiary the money, at some stage.

There is just one problem. One of the prime reasons for setting up a family trust is to protect family assets so they can't be sold up by creditors, if you're ever sued. So, if the trustees of your trust distribute income every year to you and you don't spend it, those savings would not be protected from someone suing you. Whereas the assets remaining in your family trust do not belong to you and would not be available to pay your debts.

As you can imagine, the income distributed from your family trust to save tax could accumulate to quite a large sum. If you give it back to the trust, ie it's gone in a circle, Inland Revenue could say you only distributed it to avoid tax. It's very difficult to predict when IRD will use the avoidance provisions they have at their disposal– please take our word for it being a risk. Companies pay tax at the rate of 28 percent. Therefore, if you accumulated your savings within a company, you would pay a lot less tax than you would by doing so through a trust. You wouldn't have the protection a trust offers, but that that might not necessarily matter to you.

The only time you would pay more than 28 percent is when you wanted to use some of the money. You would need to declare a dividend, which would then become part of your income. When you retire and your income falls, you might find the distributions from a company ultimately get taxed at a lower rate than 28 percent and you actually get some tax back, depending on your other income.

It's unlikely the government would consider putting up the company tax rate because New Zealand companies would not be competitive with those overseas.

Assess your cyber risk

Taking your business online comes with many rewards, such as greater reach, rising profits and efficiency gains. But it also comes with risks.

Here are five steps to performing a cyber security risk assessment so you can ensure your business is prepared to get online.

1. **List your important systems** and whether they're inside or outside your organisation. Note the kind of data they hold.
2. **Identify threats.** Consider how valuable your data is and how easily your systems could be attacked, especially if they're online.
3. **Evaluate the risks.** Think about what could go wrong with your data or systems – like if they're no longer private, correct, or available.
4. **Understand the impact.** Figure out how each risk might affect your business, such as operationally, reputationally, financially or technically. Rate them as low, medium or high impact.
5. **Take action.** Implement measures to reduce, transfer or accept risks. Share your plan with your team, and create a response plan for incidents. Regularly review your risk assessment as things change.

Source: Digital Boost. For more information, including a short video on this topic, see digitalboost.business.govt.nz

Claims for renting to flatmates

A tax deduction can be claimed for the share of the area of your home used by flatmates. The income you derive is, of course, taxable.

There are two components of the area used by flatmates:

- the area exclusively occupied by them
- common areas available to both you and the flatmates.

Inland Revenue considers you should treat the common area as 50 percent rented and 50 percent for your own use. It doesn't matter how many flatmates you have. The IRD does not give any rational for this method of apportionment. It is arguable, based on case law, that the common area should be apportioned based on the number of occupants eg if it's you with 3 flatmates that would mean 75% of the common areas would be claimable. This basis gives a better reflection of how the expenses relate to you and the flatmates however be aware IRD will want to cling to their view so taking a different position could mean a dispute.

If you have interest to claim and a loss, you can only claim the interest and the loss against other income, such as salaries or wages, provided the home is considered your "main home" ie predominately used by you. This is a different calculation. IRD have stated you can treat the common area as 100 percent available to you. For example: You have two flatmates. You have 25 percent of the area of the house exclusively for yourself and they have a total of 40 percent exclusively for them. This leaves 35 percent common area. For the purposes of being able to claim a loss you occupy 60 percent (your 25% +35%) of the home and therefore can make the claim.

What new migrant worker law means for your business

Do you employ migrant workers? You need to be aware of the Worker Protection (Migrant and Other Employees) Act, which comes into force on January 6. The law, which amends the Immigration Act 2009, Employment Relations Act 2000 and Companies Act, will introduce a tough penalty regime to deter the exploitation of migrant staff.

What you need to know

- Under the law, employers must comply with requests from the Labour Inspectorate within 10 working days, including providing any employment-related documents.
- Employers that fail to meet the 10-day deadline can be hit with an infringement notice, so be mindful of the changes.
- The new law grants the High Court powers to disqualify a person from being a New Zealand company director if they are convicted of exploitation of unlawful employees and temporary workers under the Immigration Act.

If you employ migrant workers, be aware of the forthcoming changes and ensure your paperwork, including HR documentation, is easily accessible and in good order.

Give us a call if you think the new law could affect your business.

TAX CALENDAR – DECEMBER 2023 & JANUARY 2024

Make sure you stay on top of your tax obligations over the Christmas/New Year holiday period. Cash flow planning will be important with two GST payments (for monthly GST taxpayers), FBT and provisional tax (for most taxpayers) being due in January.

Date	Category	Description
20 December	RWT	RWT return and payment due for deductions from dividends and deductions of $500 or more from interest paid during November.
15 January	GST	Payment and return for November.
15 January	Provisional Tax	Instalment due – for those with a March balance date
29 January	GST	Payment and return for December.

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