

AUTUMN 2023



LYNCH & PARTNERS
CHARTERED ACCOUNTANTS
YOUR BUSINESS PARTNER



IN THIS NEWSLETTER



PREPARE NOW FOR END OF FINANCIAL YEAR

Some things to do to
prepare for the end of
the financial year.

CHANGES TO GST INVOICING

Find out about the
changes to tax invoicing
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TAX PAYMENT DATES

Make sure you are not
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changes to tax payment
dates.

IS 2023 THE TIME TO START A BUSINESS?

If you are thinking about
starting a small business,
2023 might be your lucky
year.

TAX RELIEF FOR FLOOD AFFECTED FARMERS

Were you affected by the recent floods?

On 2 February 2023, Minister of Agriculture, Damien O'Connor, and Minister for Rural Communities, Kieran McAnulty, declared an adverse event for the Northland, Auckland, Waikato and Bay of Plenty regions as a result of heavy and sustained rainfall. There is also localised flooding and damage across other regions and districts which is affecting customers' ability to comply with their tax obligations, including filing and paying on time.

For those impacted by flooding and unable to file returns or make payments on time due to the weather event, contact Inland Revenue directly or through Lynch & Partners. They may be able to remove late payment and filing penalties or make payment arrangements. They can also advise what to do if you have lost tax records due to flooding.

Income Equalisation scheme deposits

To help affected farmers and growers, IRD are allowing late deposits for the 2022 year and early withdrawals from the income equalisation scheme. We have made a "class of case" determination for the affected regions that qualify for an early refund however affected customers outside of these regions can still make a case-by-case deposit or refund application.

The rain and flooding will affect farmers' and growers' income for the 2023 income year. Late Deposits for the 2022 year can be made until 31 May 2023. Early refunds of deposits will be allowed. Normally income equalisation deposits are not available for refund until 12 months after the deposit is made. However, IRD do have discretion to allow early refunds, particularly in the case of a medium or large-scale adverse event or when the person is suffering serious hardship.

All applications for an early refund must be in writing and may take approximately 20 days to process. It should be remembered that the refund will be income in the year that the application is made unless it is elected to treat the refund as income in the prior income year where the application for refund is made in the specified period.

Over the next few months we will be considering if our agricultural clients should take advantage of this deposit scheme. If you would like to phone to discuss, please do.

Digital help just a click away

As a business, we're often told we need to "go digital". Few of us can operate in the modern world without some sort of technology, but the array of digital tools can be bewildering. Even if we're convinced we must have them, we have to work out how to use them.

Fortunately there's one solid website that's free from the hype of the technology corporates, and independent enough to provide sound advice – and it's free.

Digital Boost is a government-funded tool to help small businesses "adapt to today and prepare for tomorrow".

It's easy to sign up and has plenty of real-world advice, mainly in the form of more than 350 videos broken down into bite-size pieces that can be accessed online and viewed when you have time.

"Whether you're new to digital tools, or looking to take them a step further, we'll show you how to take your business to the next level," Digital Boost says. "Sign up to find out how to make the internet work for you."

There are also plenty of stories by other Kiwi businesses who are successfully using digital tools, and interactive online workshops. There's even a diagnostic tool that will test your website for performance and identify small changes that could make a difference.

digitalboost.business.govt.nz.

PREPARE NOW FOR END OF FINANCIAL YEAR

Start getting ready, now, for the end of your financial year. Some things need to be done in advance:

Bad debts

If you have customers who are not paying their debts and you have taken all reasonable steps to collect the money, write off the bad debt before you get to balance date or you will not be able to claim that cost as a tax-deductible expense.

Kilometre rate

If you claim for the running costs of your motor vehicle on a kilometre rate basis, make a note to get an odometer reading on balance date. The rate is calculated based on the total number of kilometres travelled in the year and the proportion of them used for business. If the total number of kilometres exceeds 14,000 there is a two-step process for the calculation.

Vehicle logbook

If you need to keep a logbook you must do so for a three-month period at least once every three years.

Stock

If you are a retailer, this is a good time to start organising your stock ready for counting it. Get rid of obsolete stock. If you keep it, it still has to be valued at either what you paid for it or its current market value – for which you must have evidence.

Maintenance of equipment

Any maintenance you carry out before the end of your financial year is tax-deductible for that year. If you are planning maintenance in the short term, it might save you tax if you got on with it before the end of the financial year. Maintenance means bringing the asset back up to its original condition.

BORROWING MONEY FOR YOUR COMPANY

Given a choice, it's safer for a company to borrow money than its shareholders. Inland Revenue has argued, successfully, that interest paid on money borrowed by shareholders for their company is not a tax deductible cost for the company. This is because the company didn't borrow the money.

Many companies have been caught out by this and had the unpleasant surprise of discovering interest had not been a tax deductible cost for some years. Inland Revenue has disallowed the expense, increased the taxable income and collected extra tax, together with a hefty Use of Money Interest charge. It's easy for an accountant not to notice the money has been borrowed by the wrong people.

If your company needs to borrow money, make sure it's indeed the company that does the borrowing. If you find a loan is in your name, you can still do something about it.

- Lend the money to the company and charge interest for the loan. The interest charged needs to be based on market and charging the same as the bank is charging is acceptable and the simplest. Unfortunately if the interest the company pays (excluding interest to banks) exceeds \$5,000 in an income year RWT will have to be deducted and paid.
- An alternative is the money could have been borrowed as agent for the company.

In both cases the paperwork matters. Get professional help and get it right.



TAX CALENDAR

April 7 2023

Terminal tax for 2022
(March April, May and June balance dates)

7 May 2023

3rd instalment of 2023 Provisional Tax
(March balance date)

28 May 2023

1st Instalment 2024 Provisional Tax
(December balance date)

31 May 2023

Deadline for Fringe Benefits Tax returns

CHANGES TO GST INVOICING FROM 1 APRIL 2023

From 1 April 2023 the requirement to issue and hold a “tax invoice” document (which meets certain prescribed requirements) is no longer mandatory. Instead there will be a more general requirement to provide and keep certain records known as “taxable supply information” (TSI).

The TSI refers to the minimum set of information buyers and sellers need to keep as evidence of a transaction. This would include tax invoices, but it can also include information held in other forms, such as supplier agreements, contracts, and bank statements.

In addition to the current tax invoice requirements it must also include the date when the supply is triggered (date of supply) rather than the current tax requirement of the date on which the tax invoice is issued. For supplies over \$1,000, the TSI must also include the recipient’s physical address (if that information is available).

For supplies over \$200 it is mandatory to issue TSI to GST-registered customers within 28 days of the date of supply, and for supplies made to non-GST registered persons you have 28 days from when the customer requests the information.

The new ‘taxable supply information’ requirements will operate in parallel with the current ‘tax invoice’ requirements, thus giving organisations the ability to choose to maintain the ‘status quo’ or adopt the new requirements.

For full details see www.ird.govt.nz and search “Rules for tax invoices”. Click on “show all”. Down the page you will see “GST recordkeeping requirements and a box inviting you to “Choose your taxable supplies”.

RULES CHANGE AGAIN ON TAX PAYMENT DATES

Inland Revenue has modified the rules, again, on tax payment dates.

Previously, if the due date for payment was at a weekend or fell on a public holiday such as an anniversary day, you were entitled to pay on the next working day.

However, if you usually pay your tax electronically, the banking system still operates and therefore the time is not extended to the next working day.

If you pay physically at Westpac bank, you still get allowed that extra day.

Note April 7 is on Good Friday. Be sure to follow the new rules.

BRIEFLY



Interest pitfalls if you had a big year

If you are expecting an annual income of more than around \$200,000 from your business and you’re not paying PAYE on any salary from the business, beware of Use of Money Interest, which has now been set at 9.21%.

If your income exceeds \$204,820, your tax is going to exceed \$60,000, which is the threshold at which Use of Money Interest is applied. IRD expects you to know your income for the year ended 31 March 2023 by 7 May 2023.

This is not particularly realistic for small businesses. However, if you haven’t paid enough tax by that date, you must top up the tax or face Use of Money Interest charges on short-paid tax.

What to do?

Try to estimate your taxable income for the financial year. Work out your tax for the year, which is \$60,000 +39% on every dollar of income in excess of \$204,820. Deduct the first and second instalments of provisional tax you have already paid and pay Inland Revenue the difference.

Similarly there is a threshold for companies which is \$214,285.



CoverPlus Extra (CPX)

From 1 March, ACC will be sending annual renewal letters to CPX policy owners. Please check these, and if your circumstances have changed let us know so we can update your details with ACC. It is important not to miss this payment otherwise it will need to be reapplied for.

Build to rent asset class proposed

In some places overseas, rental properties are purpose-built for tenants who have the right to stay for the rest of their lives. New Zealand has taken its first step in this direction. A tax Bill in August 2022 is aimed at creating a “build-to-rent” asset class.

It proposes:

- the landlord must offer a lease for at least 10 years.
- the tenant can request a shorter time.
- the tenant can terminate the tenancy by giving 56 days’ notice.
- the landlord must have at least 20 dwellings in a single development.
- the whole enterprise must have a single owner with all properties sharing a single boundary.
- explicit personalisation policies must be offered over and above the Residential Tenancies Act 1986.
- developers can put shops in with the dwellings.

If this type of investment is created, interest will be tax deductible – even though it applies to residential rental property – on the condition the property continues to be operated as a “build-to-rent”.

Existing investors in property will be given a transitional period to come within the build-to-rent rules, if they want to.



IS 2023 THE TIME TO START A BUSINESS?

The merchants of doom might have you think otherwise, but if you're thinking about starting a small business, 2023 might be your lucky year.

Advances in technology mean there’s never been a better time to put into practice your ideas, ambition and work ethic. Technology means we can run many businesses efficiently and cheaply from a laptop at home, and there’s plenty of online support (see story opposite on Digital Boost).

Most of the world is currently experiencing difficult economic times, but many entrepreneurs say the best time to start or expand a business is at the bottom of a downturn – things can only get better.

A big factor to consider is the change in attitude of consumers, who after the Covid pandemic have become more supportive of small businesses. According to American Express, 88 percent of US consumers say they would be more likely to shop at a small business if they knew it supported other local businesses or contributed to the local community.

Remember, however, that about two-thirds of small businesses survive after two years, about half after five years, and only about one-third survive after 10 years. So do your homework.



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