

SPRING 2022



LYNCH & PARTNERS
CHARTERED ACCOUNTANTS
YOUR BUSINESS PARTNER

THE Client Link

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NON-TAXABLE ALLOWANCE FOR TRANSPORT COST

IRD is planning to clarify its existing rules for providing a tax-exempt allowance for these costs.



CONGRATULATIONS!

Lynch and Partners would like to congratulate Nicolette Baptist and Raiden Feast who have recently celebrated achieving their Chartered Accountant designation at the CAANZ Awards night in Hamilton.

They have completed the CA program which is a combination of academic study and mentored practical experience and have now been admitted as members of Chartered Accountants Australia and New Zealand. Doing all of that extra study while continuing in their full-time position has been a big task and took a lot of effort and dedication on their part.

Having been with Lynch and Partners for 9 and 7 years respectively, they have been working hard to advise and help build local businesses. They both attended local schools before completing their university accounting degrees, so it's fantastic to have them back home working and involved in various community activities and committees in the Hauraki District.

We look forward to Nicolette and Raiden continuing to work with our clients and community, whether it be to meet your accounting and tax requirements or assistance with your accounting information systems.

ATTRIBUTION VS MARKET SALARY RULES

The introduction of the 39% tax rate for individuals who earn over \$180,000 from 1 April 2021 has reignited IRD's interest in the income attribution and market salary rules. These rules prevent a person from having income earned from individual efforts or taxed through an associated entity at a lower tax rate. With an 11% difference between the top individual tax rate and the company tax rate, the application of these rules is likely to be closely scrutinised in coming years. These rules were introduced many years ago when tax rates were higher, but had not been front of mind with the tax rates having been very flat until the 39% rate adjustment was made.

The attribution rules will apply when a taxpayer who earns income of more than \$70,000 from working, sets up an associated entity between themselves and the party acquiring their services. These rules do not apply if the associated entity derives income from numerous, unrelated parties, provided one party does not make up 80% or more of the entity's income. Both the attribution and market salary rules should be kept in mind when determining salary levels.

Stop Dealing with the Bad Payers

The best thing to do with bad payers is to stop dealing with them. All the time you put into collecting money you are entitled to could be better used to generate income.

- When you get a bad payer, be systematic with your follow-up (every Wednesday, for example).
- If you ring them, make notes of what they say and quote them if needed next time.
- If you can't get through by telephone, use emails and text messages.
- When you contact a bad payer, your objective should be to get a commitment to pay.
- Confirm the commitment by email.
- Keep the time you allow for credit as short as possible. For many businesses a request to pay within seven days of the date of the invoice is reasonable.
- Some large organisations have made it a practice to use their suppliers' money. When you quote or invoice one of these customers, try to build in a premium to cover your costs of collection. Many big businesses are not particularly price sensitive because they are not spending their own money.
- If it is going to be a large bill, get agreement for progress payments.
- Insist on a credit check before you give credit to someone you don't know.

STAFF NON-TAXABLE PERKS

Entertainment and other employee related expenses could be either fully deductible, only 50% deductible as entertainment, subject to FBT or PAYE depending on the circumstances. It helps if you know which is which.

For electricity costs on farms for staff dwellings, the dwellings sometimes have the electricity account kept in the farm name and the farm pays the electricity invoice each month as part of the employee's salary package. As this is a cost that the employee would have incurred normally out of their tax-paid income, it should be treated as part of their wages. The value of the electricity needs to be increased to include PAYE before being added to their normal taxable income. It should also be treated as an extra emolument.

XYZ Ltd is a limited liability building company. It is not practical to return to the company base for morning and afternoon tea so the directors buy coffee and snacks (light refreshments) for their staff when they are out on the job. The cost is 100% tax deductible.

They have also decided to **reimburse** their workers for the cost of their lunches. The cost would only be 100% tax-deductible if it were a meal while travelling on business. Otherwise, it forms part of wages and would be taxable (see below). The employer also needs to be careful, if paying a regular allowance to cover morning teas and/or lunches, that the payments are not just for tax avoidance. They have to be for reimbursement.

Due to the high price of petrol, a director offers to reimburse one of his staff \$20 per week as a contribution to the cost of getting to work. Since this is a cost which she would have incurred out of her tax-paid income, it should be treated as part of her wages. The value of the petrol needs to be adjusted upwards for tax before being added to her taxable income. It should be treated as an extra emolument.

Another director has decided as there are two office staff it would be fair to give the other person petrol vouchers of an equivalent amount. So long as the petrol vouchers cannot be redeemed for cash, this is a fringe benefit and is subject to fringe benefit tax payable by the company. However, there is a \$300 threshold per quarter for each employee for unclassified benefits like this. Provided the value of the petrol vouchers is equal to or less than \$300, no fringe benefit tax has to be paid, assuming the company does not exceed the total exemption for a business, which is \$22,500.

One of the staff is leaving so the directors decide to buy him an expensive box of chocolates. This is an entertainment cost and 50% tax deductible. However, just before they do this they discover if they were to provide a gift voucher, the cost would be 100% tax deductible, so they give a gift voucher instead. The \$300 limit for fringe benefit tax purposes applies.

The owner of a construction company visits a building site to meet a client. Both of them are away from home on business. The owner invites the client to lunch to discuss the project. Both meals are 50% tax-deductible because this is an ordinary entertainment expense. However, if the owner were to dine alone the meal would be 100% tax-deductible because this is an expense incurred while travelling on business. If the client were a self-employed person, the cost of the meal would not be tax deductible because it is deemed a personal cost.

If you incur entertainment expenses overseas, instead of them being 50% tax-deductible they are 100% tax-deductible but they must be completely business-related.



TAX CALENDAR

29 August

1st instalment of 2023 Provisional tax
(March balance date, pay 3 times a year)

28 September

2nd instalment 2023 Provisional tax
(December balance date)

28 October

1st instalment of 2023 Provisional tax
(March balance date, pay 2 times a year)

28 November

1st instalment of 2023 Provisional tax
(June balance date)



COST OF LIVING ALLOWANCE INTRODUCED

A cost of living payment has been introduced. The main points are:

- There is no application process. Inland Revenue will automatically make the payments into your bank account.
- You must have a bank account.
- It applies to almost everybody whose income is less than \$70,000.
- To qualify, you will need to have lodged an IR3 tax return or have received an individual income tax assessment from the Inland Revenue.
- Individuals who qualify and lodge their tax returns later in the year will still be able to get the money. However, there is a deadline of 31 March 2023. Individuals who are habitually late in providing the information to do their accounts run the risk of not being able to lodge their tax return on time. Inland Revenue says: "If a return is filed on, or after 1 April 2023, the individual will miss out on this payment."
- The cost of living payment doesn't go to people who are in jail or those who get the winter energy payment.
- Payments will be made in three monthly instalments starting from 1 August 2022.
- Minimum qualifying age is 18. Inland Revenue says: "You will get the payment if on the day we check for eligibility we confirm you . . . are aged 18 or older." If you become 18 any time during the current financial year to 31 March 2023, you should get Inland Revenue to check your eligibility as soon as you reach your birthday, if you think you will qualify.

IN BRIEF



Keeping Business Records for Seven Years

Before you rush to destroy old files remember the onus of proof generally rests with the client in an argument with Inland Revenue. Be selective when destroying old documents or, in these days of being able to store a ton of information on a computer, you may as well keep everything.

Tax-e-mail Issue 2205



IRD Charges Up

Use of Money Interest (UOMI) 7.28% commencing 1 July 2022. IRD payment rate remains at nil. FBT interest rate for employment-related loans 4.78% commencing 1 July 2022.

Tax-e-mail Issue 2205



History Shows Meddling with Savings

History shows promises can easily be broken, especially in regard to retirement savings.

When Social Security was first introduced, everyone had to pay an extra 7.5% tax. In return, the Government promised Universal Superannuation as of right. There would be no means testing, we were told.

In 1985 a 20% tax surcharge was introduced on any extra income of superannuitants. The extra tax was limited to the amount of National Superannuation. This meant about 10% of superannuitants had to pay all their superannuation back. Others had to repay part of it. The surcharge was later increased to 25%, and finally abolished in 1998.

Will KiwiSaver remain as it is now?

ACC Subsidies Available on Quad Bike Crush Protection Devices

Quad bikes are an essential tool on most New Zealand farms. They provide access to parts of farms that are inaccessible by larger vehicles, they tow trailers and can carry most farm items like dogs, fencing equipment and weed spray. With our number 8 wire mentality, we have adapted them to do almost anything.

Our use of quad bikes comes at a cost. Every year quad bikes are a major cause of death and serious injury in rural workplaces. On average, five people die using them each year, and ACC receives over 1,000 claims for work-related quad bike accidents, costing \$1.2 million.

ACC, along with WorkSafe, launched the Crush Protection Device subsidy to help rescue serious injuries and fatalities on quad bikes. These Crush Protection Devices attach to the back of a quad bike and provide protection from death and injuries caused by rollovers. Rollovers put the rider at risk of becoming suffocated by its weight or suffering crush injuries.

The subsidy offer is \$180 per Crush Protection Device (CPD), with a maximum of two CPD per business (including self-employed). These need to be purchased brand new and not secondhand.

How to Apply?

Visit ACC's website, acc.co.nz/cpd-subsidy for more information.



NON-TAXABLE ALLOWANCE FOR TRANSPORT COSTS

Some employers provide a non-taxable allowance for their employees who incur additional transport costs. Inland Revenue is planning to clarify its existing rules for providing a tax-exempt allowance for these costs. To ensure you pay an allowance, which would be acceptable to Inland Revenue, you need to follow their rules.

This is what Inland Revenue says at the moment:

"You can pay a cash allowance to an employee for travel between home and work. This is tax free if it reimburses their additional transport costs and they:

- are working outside their normal hours of work, such as overtime, shift or weekend work
- need to carry work related tools or equipment, for example, they might usually take the bus but on a particular day they need to carry a large toolbox
- are travelling to fulfil a statutory obligation
- have a temporary change in workplace
- have some other condition of their job
- cannot access adequate public transport."

The tax free amount is the actual cost of travelling between home and work, less the employee's usual travel costs. "This applies to all circumstances except the lack of adequate public transport." You will notice the allowance is the actual **extra** cost, which means the allowance would change depending on where the employee lived.

Among the proposed rule refinements to the rules are:

- the additional cost has to be for the benefit of the employer not the employee
- if it is difficult to get to the employer's premises because the nearest public transport is too far away then an allowance could apply
- if it is difficult for the employee to get to public transport from their home because the nearest transport is too far away, that's their bad luck and no allowance can be paid
- the maximum distance an employee can be paid for is 70km (35km each way).



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