

SUMMER 2022



**LYNCH & PARTNERS**  
CHARTERED ACCOUNTANTS  
YOUR BUSINESS PARTNER

# THE Client Link

## IN THIS NEWSLETTER



### INCOME INSURANCE SCHEME

Learn more about the main points of the income insurance scheme.

### MINIMUM WAGE INCREASE

On 1 April 2022, the minimum wage increased. Make sure you know how this will affect you.

### FIXED ASSET OR REPAIR AND MAINTENANCE

Some examples to help you tell the difference.



Lynch & Partners would like to wish everyone a happy and safe holiday season.

Our offices will be closed from 3:00pm on Thursday 22 December 2022 and will reopen Monday 16 January 2023.

## DATA, GST FOR 'PLATFORMS'

The platform economy is where websites introduce buyers and sellers to each other. Starting at the beginning of January 2024, certain platforms called "listed services" are going to have to collect information from you. This will help Inland Revenue ensure people pay tax if they're selling on the internet.

The listed services are:

- accommodation
- personal services such as ride sharing, tutoring and gardening
- web graphic design
- transport services such as Uber and vehicle rentals

All these platforms are going to need to register for GST regardless of how small they are, except for non-resident platforms, which will be required to register if their supplies exceed \$60,000. If you're selling and use the services of one of these platforms, it will add a 15 percent GST charge. It will pay the GST and you will receive the exclusive amount zero rated. You include this in the zero rated keypoint in the GST return and you will still be entitled to claim GST on your expenses in the usual way. If you're not registered for GST the platform will account for GST at the rate of 6.5 percent, but will be collecting 15 percent from the customer. It will pay the extra 8.5 percent to you.

For example, an Uber driver not registered for GST would charge a fare of \$10. The platform would collect \$11.50. The Uber driver would get \$10.85. Why is this? Since the Uber driver has had to pay GST on the fare, there needs to be some allowance for GST on expenses and this is how it's being done. It might be clearer if we say the Uber driver is actually having to put up his fare to \$11.50 as though he were GST registered.

### GST

Unlike other businesses, any supplies normally zero rated, such as export services, will be standard rated for these platform operators. If you are thinking about creating a website providing listed services, remember you might have to register for GST.



## Bill protects Kiwis with depositor compensation scheme

The Deposit Takers Bill brings all deposit takers under one set of rules and protects Kiwis' money through the introduction of a depositor compensation scheme.

New Zealanders will have up to \$100,000 of their deposits in any eligible institution guaranteed if that institution fails. The levies are intended to vary according to the riskiness of the investment.



## MINIMUM WAGE INCREASE

On 1 April 2022, the minimum wage increased from \$20.00 to \$21.20 per hour. The starting out and training minimum wages (based on 80% of the adult minimum wage) also increased from \$16.00 to \$16.96 per hour.

For farming clients, these regular increases to minimum wage need to be considered to ensure employees are receiving at least minimum wage over the busy periods of the year, such as calving.

It has recently been reported that labour inspectors from the Ministry of Business, Innovation and Employment (MBIE) and its Tenancy Compliance and Investigations Team will visit farms. This is a result of an increased number of complaints relating to dairy sector employers breaching minimum employment stands. This doubled from 14 to 28 between 2020 and 2021.

For employees on salaries, they must receive a minimum wage for each hour worked, rather than receiving minimum wage via seasonal averaging.

We recommend employers calculate an earnings per hour calculation for their salaried employees, based on the theoretical maximum hours they will work over the busy periods of the year. If this works out at below \$21.20 per hour, they are breaching the Minimum Wage Act.

If the employees exceed the theoretical maximum hours, they should receive an additional wage payment over and above their normal salary to ensure they receive minimum wage.

## FIXED ASSET OR REPAIRS AND MAINTENANCE?

### Farming Examples

#### 1. Construction of a new effluent pond

A dairy farmer needs to replace the existing effluent ponds that use a two-pond system currently discharging treated effluent into a waterway. As this resource consent is expiring, the farmer is now required to have a larger effluent pond that has land based effluent disposal. This requires construction of a larger effluent pond with no leakage. The pond must hold a greater volume of effluent as an effluent system is not permitted to have ponding of discharged effluent or run-off to surface water.

Based on this situation, the construction of the pond will capital.

Existing effluent ponds can be used for effluent storage. If these ponds need to have a new liner applied, is this an improvement on the original pond or simply repairing the original liner? Historically, ponds were lined with compacted clay, which is still permitted, or using synthetic liners. In this situation, this would appear to be a repair. However, if the pond's volume was increased at the same time, it would suggest the work is capital.

#### 2. A new kitchen in a farm cottage

The kitchen in the farm cottage occupied by the shepherd has deteriorated and is no longer effective. The existing kitchen is stripped out and a new kitchen including cupboards, bench and sink is added. The asset is the cottage and the new kitchen is a repair, as it does not change the cottage character. It simply repairs the cottage to its previous condition that included a functional kitchen.



## TAX CALENDAR

### 28 November 2022

1st instalment of 2023 Provisional Tax for those with June balance date

### 16 January 2023

2nd instalment of 2023 Provisional Tax (March balance date for those who pay twice a year)

Pay GST for the period ended 30 November 2022

### 7 April 2023

Terminal Tax for 2022

## NEVER USE EXPENSIVE IRD MONEY

**Inland Revenue has hiked its interest rate twice so far this year, with it now at just under 8%.**

You should never use Inland Revenue money. If you're on a high income or your income suddenly jumps to a high figure, attracting tax for the year of at least \$60,000, you will be liable to pay interest to Inland Revenue on any underpaid tax for the year.

But you can do something about it. Your first option is to top up the tax to the right figure by the due date for the third instalment of provisional tax, known as P3 (for most people 7 May). If you can't get your accounts done by then, you will just have to guess your income and calculate the tax on the guess. Your next best option is to pay as soon as you can after P3. This might mean getting your accounts done early or at least getting a rough idea of your income and again taking a guess. You will now incur some interest but you can minimise it by paying tax early. If the interest bill is going to be large, you can use a tax intermediary to reduce it.

## CHANGES PROPOSED FOR PORTIONS OF GST

**A current tax Bill proposes not to require payments for goods or services up to \$10,000 to be split between business and personal if the principal purpose of buying the goods or services is business.**

For example, if a car is bought for \$10,000 and it's used principally for business, the whole amount is treated as an asset of the business and 100% GST could be claimed without the need for a personal use adjustment. If the car's principal purpose is personal use (log book says private running more than 50%) the GST claim would be nil. Assuming it's passed by Parliament, the changes will take effect from 1 April 2023.

Some people use their home for business as well. For example, they might run an Airbnb from the home and 20% might be for business. Under the proposed new rules, when they buy a house they could elect not to claim a share of the GST at the time of purchase and treat the whole house as personal so there would be no GST on sale. People who have already claimed GST but would now prefer they hadn't will be allowed a transitional period of two years starting from 1 April 2023 to hand the GST back to Inland Revenue.

The changes are to be backdated to 1 April 2011.

## BRIEFLY



**Special deal for travel from home to work**

The latest tax Bill proposes a subsidy by an employer – mainly for the purpose of an employee travelling on public transport between home and work – will not be subject to fringe benefit tax (FBT). Public transport means bus, train, ferry, tram or cable car. It does not include airfares, taxis, shuttles and E-scooters. The Government plans to bring this law into effect from 1 April 2023. Obviously, if your business is a company, you can also subsidise yourself, as an employee, for public transport.



**Make tax reminders**

Set up tax reminders in your diary for a couple of weeks before each date tax is due to be paid. Reminders coming by email might not reach you or they might go to your junk folder and not be noticed.



**ACC compensation an unfair tax**

Some aspects of tax are undoubtedly unfair. Perhaps the worst one is ACC. If you receive compensation for loss of wages it is taxed in full in the year you receive it. Sometimes, ACC doesn't pay for several years and then provides the money in a lump sum. This problem has been around for many years and one wonders why our representatives in Parliament have never attempted to correct it.



## Income Insurance Scheme – main points

The main points of the income insurance scheme are:

- to cover redundancy, layoffs, health conditions and disabilities
- employers will pay four weeks salary at the rate of 80%
- scheme will pay six months at 80%
- option to extend support for up to 12 months for training and rehabilitation
- case management service to help find a new job
- just like ACC
- tax at 1.39% of the employee gross salary, which is payable by both the employee and the employer
- employees will qualify if they have contributed to the levy for six months in the previous 18 months.

We don't know whether the scheme is going to apply to shareholder salaries and not a PAYE salary.



## SEVEN-YEAR RECORDS MIGHT NOT BE ENOUGH

**Inland Revenue requires us to keep our business records for seven years. But it's not quite as simple as this.**

The department also requires taxpayers to prove themselves innocent if ever they are challenged. So in 10 years, Inland Revenue might approach you with a question they want answered. You would need to be able to answer the question and if it was going to give rise to a tax issue, prove yourself to be right.

Let's look at an example. You buy a residential property and for good reason you sell it a short time later. A couple of years after you have destroyed records, Inland Revenue decides it wants to check on whether you had kept the property long enough to avoid tax on what it calls the bright line test. This requires the buyer of a residential rental property to keep it for a certain number of years. If you haven't got all the documents to show when the property was bought and

when it was sold, you might have a problem.

There can be several crucial dates of purchase

- the date you signed the sale and purchase agreement
- the date the contracts went unconditional
- the date the property was transferred to you

Similarly, there are several dates needed for sale or disposal of the property. So here you have an example where holding on to documentation for more than seven years is important. If you have a family trust, ignore the seven years rule because you need to comply with trust law as well as tax law. Keep all records for the life of the trust. Be selective about what you throw out. Computers have enormous storage capacity so why not scan most of the documents and save them in your computer or on to a portable hard drive?

## Flu, Covid vouchers and Fringe Benefit Tax

If a fringe benefit relates to the health or safety of an employee and is aimed at managing risks to health and safety in the workplace in accordance with the Health and Safety at Work Act 2017, it will be exempt from FBT. Vouchers for flu or Covid vaccines are exempt from FBT under this provision.



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