

SUMMER 2020



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

# THE Client Link

IN THIS  
NEWSLETTER 

## CHANGE IN WORKING FROM HOME RULES

This is likely to affect a number of clients. The rules have been expanded and are to be revised.

## MORTGAGE DEFERRAL

Time for mortgage deferral has been extended and it is suggested it is not necessarily a good idea to take advantage of this.

## NEW RULES AROUND FEASIBILITY EXPENDITURE

It is proposed feasibility expenditure may be claimed if a project is abandoned. It applies to commercial and not residential renting. The reason is explained.

## CONTROL DIRECT DEBITS

Instead of allowing a business direct access to your bank account, use a second bank account, which could be closed if needed.

## CHANGE IN WORKING FROM HOME RULES

Inland Revenue has issued a statement, Determination EE002, setting out the payments it would approve as tax-deductible for an employer who pays an employee for the use of their home as a workplace.

This was done for businesses affected by Covid-19. The department has realised the working from home arrangements have become permanent for some people and has therefore dropped the requirement that working from home has to be because of Covid-19.

The determination now applies to anyone working from home. IRD wants to have another look at this so it has extended the time limit to 17 March 2021. Hopefully it will come in with some permanent figures by that date.

You might find Determination EE002 a useful guide, but remember you don't have to apply it and you can use whatever figures you like, as long as you can justify them being for the actual use for work purposes.

## INCOME TAX RATE INCREASES

With the new Labour-led government now in office, thoughts should turn to planning opportunities for those that will be affected, with tax rates likely to go to 39% for those individuals earning over \$180,000. Trust and company tax rates will be lower if remaining unchanged.

We have been encouraging client companies to clear out retained earnings in companies to avoid having to pay even higher tax when it is taxed in individual's names. If there are still profits retained in companies, consideration should be given to declaring a dividend to clear them out of the company by 31 March 2021.

## FARMERS INCOME EQUALISATION DEPOSITS

These are currently the highest interest earning one-year term deposits on offer at 3% when deposited with IRD – and government guaranteed. This return is even better when the taxation deferral is taken into account.

## Air BnB and GST

Covid-19 has caused some people who were supplying Air B&B accommodation to switch to renting out their property. This is a switch from commercial renting to residential renting. GST applies to commercial renting for those who hit the \$60,000 threshold for GST registration. If you switch your commercial rental, such as Air B&B, to residential renting you need to pay Inland Revenue GST on the value of the property, if the residential renting goes on for 12 months or more. This time has now been extended to 18 months provided the switch to residential renting occurs between 14 February 2020 and 31 October 2020.

## Mortgage Deferral

The six months mortgage holiday was set to end on 27 September 2020 and has been extended to 31 March 2021. Unfortunately, interest continues to accrue on the debt so it is not necessarily a good idea to take advantage of the extended time.



## DON'T LET YOUR FISH OFF THE HOOK

**The lifeblood of businesses is sales. Every extra dollar you make after you have paid for the running costs of the business is profit.**

A retailer who normally adds a 50 percent profit margin gets nothing for herself until she has paid the rent and other running costs. Once that has happened a \$100 sale is \$33 in her pocket (before Mrs Tax has taken her share). The vital component of a business is sales.

Someone rings you to buy something. The fish is on the hook just waiting to be landed. "You can order that on our website," says your telephone receptionist. Your fish has just been let go and money has just been taken out of your pocket. Now look at it from the point of view of the fish. It has been freed. There are lots more morsels to eat so this fish lifts the phone and rings one of your competitors, who obligingly supplies the goods with a minimum of hassle.

Many websites are poorly designed and waste the customer's time. They are best avoided. It's all about saving time. If a telephone call is going to get the job done more quickly, then that's the way to go. That's why your fish rang you in the first place. Never tell a customer you're not going to serve them personally by referring them to your website.

## 'SELL YOUR BILL' WITH INFORMATION

**It's tough in retailing at present, but retailers have an advantage over tradespeople – they set the price and get paid immediately.**

Trades people generally do the work, bill for it and wait to be paid. If the customer doesn't like the bill, delays can occur. It can happen especially for maintenance work.

- If possible, it's worth providing a price before starting the job so the customer knows what to expect. At least tell your customers your hourly rate and any other fees, such as for a callout.
- When unexpected work is required and a bigger bill likely, advise the customer as soon as you know.
- Another tip is to ring your customer and explain in detail why a bill might be larger than they expect. Then ask if the total amount is acceptable. Most people are reasonable if you are.

"Sell your bill" by providing plenty of information in your invoice.



## TAX CALENDAR

### November 30

1st instalment of 2021 Provisional tax  
(June balance date)

### January 15

2nd instalment 2021 Provisional tax  
(March balance date)  
GST for period ended 30 November 2021

### April 7

Terminal tax for 2020 due  
(March, April, May, June balance dates)  
For all clients except those who have lost  
their extension of time privilege

## NEW RULES AROUND FEASIBILITY EXPENDITURE

The Government is bringing in some new rules about claiming feasibility expenditure. The rules are in the current tax Bill before Parliament. They are therefore not yet law and there could be changes. If you abandon work on property, it's proposed you will be allowed to write off the feasibility cost as long as that property does not have a 0 percent rate of depreciation. This means if you abandoned a project on commercial property the feasibility expenditure will qualify because there are new rates of depreciation applying to this current year.

However, since residential rental buildings have a depreciation rate of zero percent, you won't be able to take advantage of the new feasibility write-off. If the total amount spent on a commercial feasibility study is \$10,000 or less in any year, it can be treated as a tax deductible expense even though the project is not abandoned. Where the amount exceeds \$10,000 and the project is abandoned, the cost has to be written off in equal instalments over five years starting with the year in which it has been abandoned. A typical example of feasibility cost is a study of a proposal for earthquake strengthening.

## CHANGING USE OF CAR BRINGS GST TRAP

Suppose you buy an expensive car for your business and you estimate 75% of the use will be for business and 25% will be private. You keep the car for 10 years and then you take it over privately. You will then have to give back all the GST you have claimed. Using very extreme figures, shall we say your original GST claim was \$30,000 (a somewhat expensive car). You now have to pay back to the Inland Revenue \$30,000.

Contrast this with selling the car, which may be worth \$3000. You would only have to pay the Inland Revenue its share of that amount. Strangely, the system works in reverse. Suppose the car becomes 100% business use then the effect of the adjustment is to allow the full amount of GST on the original cost. The Government is looking into this and changes are expected in the New Year. It may pay to wait, if you are thinking of taking your car out of your business for private use.



## IN BRIEF



### Don't forget January tax date

Every year we seem to have a client or two who goes on holiday and forgets to pay their tax.

The second instalment of provisional tax for those with a March balance date falls on 15 January each year. If you overlook this tax instalment and the resulting amount of use of money interest is large, it could pay to buy the tax from a tax intermediary. This is something we could arrange for you. It would enable you to avoid the penalty and reduce the interest charged by Inland Revenue, which is currently at the rate of 7 percent a year.



### Control Direct Debits

Don't you love it when a supplier is so important it demands you provide details of your bank account so it can direct debit it. It is helping itself to your money without you having much opportunity to dispute the bill. Even if you do dispute it, the money will have gone. The solution is quite easy. Have a dedicated bank account just for that direct debit. If the worst happens, you could stop funding the account. You retain control.



### Child Support Bill

As new proposed child support legislation is just a Bill, so not yet law and can be changed, we make only a few comments:

- The late payment penalty system is to become less harsh
- Reassessment of child support will occur only once every four years

Income will include interest and dividends, and losses carried forward will be ignored.



## Be cheeky and seek out the best

One piece of business advice might be the only one you need. It's this: Get cheeky and ask a smart, successful person for help.

Most people who have succeeded in business are happy to help someone genuinely seeking advice. In fact, they sometimes wonder why no one will talk to them. They're a bit like the best-looking ones at the dance who seem too good to be true, so no one asks them to dance. We know of one local retired businessman who built a multimillion-dollar business with offices on every continent. Being semi-retired, he now helps all sorts of businesses to get where they want to be, or just get out of difficulty.

And the best part of it – he doesn't charge for his time. He loves the collaboration, but if someone doesn't want to take his advice, he's happy to walk away. "It's their business, so it's their decision," he says. "I might not agree and I'll argue my case, but if they decide to do something else, that's fine. "Because I don't charge, there's no obligation on either of us."

If you do your homework, you'll know who's been successful in your line of business. Seek out the best and make an appointment to see them. They might be retired and spending most of the time in the garden, but they'll have plenty of expertise and experience just waiting for someone to tap into. In fact, they might just be flattered that you have thought of them.

If you do get that phone call or appointment, be prepared. Be specific. What is your particular issue – starting in business, difficulty building the business, wanting to get out of the business...? What do you want from them? If they are good enough to give you their time, show you are prepared and won't waste the opportunity. You never know, you might just build a strong business



### BE REALISTIC WITH SOCIAL MEDIA EXPECTATIONS

**You're starting out in business, or maybe you've been in business a while but everyone is saying you need to have a social media presence.**

If you agree, and if you're a small business, you have to be realistic in what you can do with social media.

The first rule is not to overdo the number of platforms you use. You just won't have the time or resources to maintain several accounts, so stick to just a couple. Unless you have someone dedicated to running them, you'll be distracted and overwhelmed if you have Facebook, Instagram, Twitter, Tumblr and so on.

Let's say you set up a Facebook page because you have big plans for marketing your business. You load it with lots of information and you get a few 'Likes'. Then you realise you're going to have to put some effort in. To get your information in front of a lot of people, you need to get them following your page. So you have to market the page. Then you have to keep posting on the page to keep it up to date. And you have to delete posts from other people because the posts are not relevant. And you have to reply to people who post or message you with often bizarre requests or information. You need to load photos and edit your posts so they're accurate and grammatically correct.

The message is if you're using social media, be prepared to put time and effort into it. It could mean up to an hour a day. Can you afford that when you need to be out making money for your business? You might be better to provide a regular electronic newsletter specifically targeted for your clients, suppliers and prospects.