

TAX CHANGES COVID-19



The government has just announced the following tax changes which will come into effect from 1 April 2020 to the year ending 31 March 2021.

These changes are intended to help businesses improve cash flow and stimulate business investment. The package will cost the Government \$2.8 billion, and includes the following measures:

- Reintroducing depreciation on industrial and commercial buildings (including motels and hotels) from the start of the 2020-21 tax year. The diminishing value rate will be 2% (a separate straight-line rate will be announced later).
- Low-value assets can be deducted immediately and are not required to be deducted over time under the depreciation rules. This is currently limited to assets valued at less than \$500, but the low-value asset limit will be temporarily increased to \$5,000 from the start of the 2020-21 income year. The threshold will eventually be reduced to \$1,000 from the 2021-22 income year.
- The provisional tax threshold for the 2020-21 income year will rise to \$5,000, up from \$2,500. This measure will ensure that fewer businesses will be required to pay provisional tax throughout the year.
- For the next two years, use of money interest (UOMI) on late payment of tax will be waived for businesses affected by the COVID-19 outbreak. The relief will apply to interest on all tax payments (including provisional, PAYE, and GST) due on or after 14 February 2020. Affected taxpayers will be required to demonstrate that their inability to pay tax arose as a result of COVID-19. Details about how this will operate in practice will be released in a subsequent announcement.
- Incidentally, although not specifically mentioned in the announcements, by implication the late payment penalties and late filing penalties will be suspended.

We welcome these measures which we consider will provide some support for a number of businesses. However, we do see further opportunities to make a more meaningful impact for businesses such as targeted support for small and medium-sized businesses and businesses in a tax loss position.



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COVID-19 EMPLOYMENT ALLOWANCE AND REIMBURSEMENTS

During the COVID-19 pandemic many employees will be working from home. Employers may have, or may intend to, make payments to employees during this time.

Such payments can be made to employees tax-free.

The requirements are that:

- An employer makes a payment to an employee or on account of an employee.
- The payment be for expenditure or a loss incurred by the employee.
- The expenditure or loss be incurred by the employee in deriving their employment income and not be private or capital in nature (however, this capital limitation does not apply to amount of depreciation loss).
- The payment is made because the employee is doing their job and the employee is deriving employment income from doing their job.
- The expenditure or loss be necessary in the performance of the employee's job.

Costs could include:

- Increased electricity and other utility costs arising from working from home.
- The cost of telecommunications tools and usage plans.
- The cost of acquiring home office furniture or equipment (up to \$400 where no evidence is required).

Question

Can I estimate the reimbursement amount I pay to my employees?

Answer

Yes. You may make a reasonable estimate to the amount of expenditure likely to be incurred by an employee or a group of employees. If you do this, you need to retain sufficient information about how you calculated and supported the estimate.

Question

Is there a simple way of estimating my employees working from home costs?

Answer

Yes.

Determination EE001 was issued by the Commissioner in December 2019.

Where an employer pays a regular amount to an employee, the simplest option is to treat up to \$5 per week of the amount paid as exempt income of the employee.

COVID-19

Determination EE002 is a new Determination issued as a temporary response to the COVID-19 pandemic. Determination EE002 applies to payments made for the period from **17 March 2020 to 17 September 2020**, where an employer pays an employee an allowance for general working from home costs, up to \$15 of the amount paid can be treated as exempt income of the employee.

Question

Can I pay an allowance (that is, an estimated amount) to my employees for equipment and furniture that they may have purchased or intend to purchase?

Answer

Yes. You can make a reasonable estimate of the amount likely to have been spent or will be spent by an employee or a group of employees. This answer assumes that the employee will own the furniture or equipment.

You will need to support your estimate with evidence. This could be based on standard equipment prices and a survey of your employees' equipment needs (taking into account equipment they already have). If you have many employees, surveying a sample of employees will be sufficient. You must also estimate the extent to which the equipment will be used by employees for their employment.

If you would rather avoid the administrative costs of estimating this amount, you can use the safe harbour option where an employer may treat up to \$400 of an amount paid to an employee for furniture and equipment costs as exempt income.

These payments are not subject to PAYE and are deductible to you as the employer.

Note that you cannot claim back GST on the purchase of furniture and equipment if it belongs to your employee.

Should you have any questions then please contact your client support at Perriams.

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GETTING ON TOP OF COVID-19



Critical cashflow forecast for coming months: have you prepared one?

Critical Cashflow

Have you achieved a good outcome on your rent negotiations with your landlord?

Rent/Leases

Do you know that LED light bulbs use 90 % less energy?
You lose nothing by switching electricity provider, but you could gain credit for signing up and there may be cheaper rates on offer too.

Utilities

Do you need to approach your bank? E.g. You may need to extend your loan terms or principal repayments which will help assist with your cash flow position.

Financing

Get Creative

Continue your branding and building of your reputation. Now's not the time to "fall off" your customers radar, you need them to keep you in mind!

Insurance

It may pay to review your insurance policies and see if you can cancel any unnecessary policies or perhaps reduce the cover if it is no longer necessary to save some \$\$

It's a crucial time now for a review!!