

CONTENTS

Changes To Minimum Wage 1 April 2022.....	1
Financial Support For Businesses Affected By Omicron:.....	1
Imputation Credits & Shareholder Changes .	2
Trust Tax Returns – Additional Information to IRD	3
Is The IRD Cancelling Your GST Registration?	3
Interest Deductions On Residential Investment Property – Are You Up To Date?	3
Year End Information ..	4

“Success is not final, failure is not fatal: it is the courage to continue that counts”
- Winston Churchill

DB CHARTERED ACCOUNTANTS LTD

In this newsletter we cover the change in minimum wage, available subsidies, Imputation Credits & shareholder changes, Trust tax returns, GST deregistration and interest deductions on residential investment property.

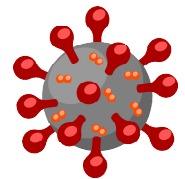
CHANGES TO MINIMUM WAGE 1 APRIL 2022



The new adult minimum wage will increase to \$21.20 on 1 April 2022 (up from \$20.00).

The training/starting out wage increases to \$16.96 per hour (being 80% of the adult minimum wage).

FINANCIAL SUPPORT FOR BUSINESSES AFFECTED BY OMICRON:



- New Covid Support Payment
- Leave Support Scheme
- Top Up Loan available under the Small Business Cash Flow Loans Scheme

COVID Support Payment

The support will be available on a fortnightly basis for 6 weeks (3 payments in total) with applications for the first payment opening on 28 February (payments starting on 1 March). Each payment will be \$4,000 per business plus \$400 per full-time employee, capped at 50 employees or \$24,000.

The eligibility criteria requires a business to show a 40% revenue drop in seven consecutive days within the six weeks prior to the shift to Phase 2 of the Omicron response on February 15, compared to seven days after that date.

For the first payment, the affected revenue period is from 16 February 2022.

To work out a drop in revenue, you compare the revenue in an affected revenue period to the revenue earned in the comparison period (5 January 2022 to 15 February 2022). If you are a business with highly seasonal revenue, you may select a 7- day comparison period which is before 5 January 2022 and which may be from a past year, which reflects your typical revenue.

Applications for the three payment periods will close 5 May 2022.

Leave Support Scheme

The leave support scheme is available to employers and self-employed people who are required to self-isolate and cannot work from home.

Continued on page 2

Continued on from page 1

Short Term Absence Payment

The Short Term Absence Payment is available to employers and self-employed people who cannot work from home while awaiting Covid-19 test results.

Small Business Cash flow Loan Scheme

Changes are being made to increase the amount of funding available through the introduction of a \$10,000 'top up' loan. The repayment period has been increased to five years, with the first two years being interest free. These changes will also apply to those who have previously taken out a loan through the scheme.

Inland Revenue – Tax Payments

If your business is struggling to pay tax please get in touch with us.

IMPUTATION CREDITS & SHAREHOLDER CHANGES

Last month we reminded clients the importance of checking in before implementing any shareholding changes. When a company shareholding is changed by more than 34% any imputation credits that the company holds will be lost.

Imputation Credits is a method where the tax paid by a Company is transferred to shareholders when a dividend is paid.

When a dividend is paid, the Imputation Credit (being Company tax previously paid at 28%), is attached to the dividend. Taxation on a dividend is required to be calculated at 33% with any available imputation credits reducing the overall tax payable

An example could be:

A dividend declared prior to a shareholding change:

Dividend Declared from Retained Earnings	\$100,000	
Imputation Credits (IC's)	<u>\$ 38,889</u>	(Calculated at 38.89%)
Gross Taxable Dividend	<u>\$138,889</u>	
Tax payable on dividend at 33%	\$45,833	
Less Imputation Credit	<u>(\$38,889)</u>	
With-holding Tax payable on Dividend	<u>\$ 6,944</u>	

Dividend not declared prior to shareholding change:

Dividend Declared from Retained Earnings	\$100,000	
Imputation Credits (IC's)	<u>Nil</u>	(Lost on shareholder change)
Gross Taxable Dividend	<u>\$100,000</u>	
Tax payable on dividend at 33%	\$33,000	
Less Imputation Credit	<u>(\$ -)</u>	
With-holding Tax payable on Dividend	<u>\$ 33,000</u>	(An additional \$26,000 in tax)

If shareholding has changed by 10% one year and then 30% 2 years later, the total change would be 40% which would also result in the loss of imputation credits.

These rules are in place so that those who were shareholders when the profits were incurred and tax paid, receive the benefit of the tax paid (and imputation credits) while they are shareholders. New shareholders (if over 34% change) then do not benefit from tax paid by previous shareholders.

Why is the imputation credit calculated at 38.89%? Using the above example, the original profit would have been \$138,889. Tax on this at 28% equates to \$38,889 leaving net increase in retained earnings of \$100,000.

TRUST TAX RETURNS – ADDITIONAL INFORMATION TO IRD

For Trust tax returns prepared for the 2022 income year onwards the level of information to be supplied to IRD has significantly increased.

As well as profit and loss and balance sheet details the IRD will also require:

- Full name, date of birth and IRD No for any settlor and/or person with power of appointment (to appoint/remove trustee or beneficiary).
- Full name, date of birth and IRD for any beneficiary receiving a distribution (whether income or capital distribution).
- Details of any settlements made on the Trust during the year.
- Movements in beneficiary current/advance accounts.

The details of these proposals have not been well advertised but will mean that we will require additional information from our clients before completing any 2022 Trust Income Tax Return.

These additional disclosures do not apply to non-active trusts with no income (for example where a Trust owns the family home).

IS THE IRD CANCELLING YOUR GST REGISTRATION?

Taxpayers who have been filing nil GST Returns for a number of periods may have received a letter from IRD advising that as they do not appear to be carrying out a taxable activity their GST registration is to be cancelled.

If you hold any assets in relation to the GST activity, it is a requirement that the market value of the asset/s is determined and GST on this market value be returned to the IRD in a final GST return. IRD confirms that they may follow up with audit action if they believe that GST obligations have not been met.

If you have received one of these letters it is important to confirm what the original GST activity was and correctly account for any GST on remaining assets held (whether land/property, vehicles or equipment). This will also include any land originally purchased as a zero-rated GST transaction.

INTEREST DEDUCTIONS ON RESIDENTIAL INVESTMENT PROPERTY – ARE YOU UP TO DATE?



As a reminder from 1 October 2021 there have been changes to the amount of interest that is able to be claimed as a tax deductible expense on residential property investments. The amount of interest claimable is to gradually reduce to nil over the next 3-4 years as shown on the table below.

Income Year	Percent of interest you can claim
1 April 2020 – 31 March 2021	100%
1 April 2021 – 31 March 2022	1 April 2021 to 30 September 2021 – 100% 1 October 2021 to 31 March 2022 – 75%
1 April 2022 – 31 March 2023	75%
1 April 2023 – 31 March 2024	50%
1 April 2024 – 31 March 2025	25%
From 1 April 2025 onwards	0%

Exceptions:

New Builds – if a property has received its Code Compliance of Certificate (CCC) after 27 March 2020 the investor will be able to continue to deduct interest paid on the property loan against rental income for 20 years from when the CCC was issued (as will subsequent owners).

Other property purchased after 27 March 2021 – interest deductibility is only allowed up until 30 September 2021.

YEAR END INFORMATION

For those of you with a 31 March balance date, below is a reminder of the things to attend to for the end of the financial year:



1. **Reconcile Bank Account** – whether you use online, accounting software, spreadsheets or a manual cash book system, ensure it reconciles to the bank statement for each bank account as at 31 March 2022.
 2. **Accounts Receivable** – Is your accounts receivable list accurate as at 31 March 2022? If you have any bad debts, ensure these are written off prior to 31 March (This is an IRD requirement).
 3. **Accounts Payable** – All unpaid invoices dated 31 March and prior. We are able to claim these as expenses in the 2022 income year, even though they are not paid until April or later.
 4. **Stock on Hand & Work in Progress** - Complete a stock-take and record stock and/or WIP as at 31 March 2022. If your stock as at 31 March 2022 is \$10,000 or less you do not need to calculate a stock value – we can use the prior year figure (if your total turnover is less than \$1.3 million).
 5. **Computer Reports** - If you are using an accounting package save to PDF (or print out) copies of the general ledger transaction report, trial balance, accounts receivable & accounts payable and bank reconciliation as at 31 March 2022 – and don't forget to do a backup, especially if rolling into a new year.
 6. **Asset List** – This is the time to go through your asset list from the previous year and advise us of any assets that have been sold, stolen, scrapped, destroyed or traded.
 7. **Checklist** – Complete and sign the checklist. This is available on our website and should be included with your records www.dbchartered.co.nz/pdfs
 8. **Other Information to Compile**
 - Bank interest/RWT certificates
 - Dividend statements
 - Income Protection Insurance details
 - Donation Receipts for your rebate claim
- Details of any other income received that has not been banked to your business account

IMPORTANT TAX DATES

- 31 March 2022** - Final day for Ratio option Provisional Tax applications.
- 7 April 2022** - Final date for 2021 Terminal Tax due.
- 7 May 2022** - Third installment 2022 Provisional Tax due (March Balance Date) GST Payment due (2 and 6 Monthly for March 2022).
- 20 May 2022** - PAYE Payment due – Payday returns to be filed 2 days after pay day.
- 20 June 2022** - PAYE Payment due - Payday returns to be filed 2 days after pay day.
- 28 June 2022** - Third installment 2022 Provisional Tax due (May balance date).



JOKE

Why should you always knock on a refrigerator before opening it?

In case there's a salad dressing.



Why should you never write with a dull pencil?
Because it's pointless.

Thanks from the team at DB Chartered Accountants Ltd: David, Elaine, Gaylene, Karen, Kathryn, Katie, Pam & Tyler

If you would like to discuss anything mentioned in our newsletter please contact us at:

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