

NEWSLETTER

September 2020

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Business opportunities are like buses, there's always another one coming.

DB CHARTERED ACCOUNTANTS LTD

In this newsletter we cover the change in provisional tax threshold, extension of the small business loan, creating a will if you are over 18, the effect of the wage subsidy on individuals tax returns, what is required in a GST invoice, ACC invoicing and FBT & motor vehicles during lockdown.

PROVISIONAL TAX THRESHOLD INCREASE

Earlier this year new legislation increased the provisional tax threshold from \$2,500 to \$5,000 for the 2020/2021 income year.



Provisional tax is based on the tax owing from the prior year (residual income tax). If residual tax at year end is less than \$5,000, provisional tax is not required to be paid for the following year. If residual income tax is \$5,000 or over, provisional tax payments are compulsory. Provisional tax is instalments towards the end of year tax bill throughout the year, reducing the lump sum at year end.

Be aware that where provisional tax is not compulsory, this increases the final year-end tax due (for the 2021 income year tax is due on 7 April 2022).

If you no longer qualify as being a provisional taxpayer but would prefer to make instalments towards your end of year tax bill, please contact us to arrange voluntary payments.

SMALL BUSINESS LOAN EXTENSION

The Small Business Cashflow (Loan) Scheme (SBCS) has been introduced to support businesses and organisations struggling because of loss of actual or predicted revenue as a result of COVID-19.

The Scheme has now been extended. Applications opened on 12 May 2020 and can now be submitted up to and including 31 December 2020.

Organisations and small to medium businesses, including sole traders and the self-employed, may be eligible for a one-off loan with a term of 5 years if they have been adversely affected by COVID-19.

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Terms and conditions – overview

- Loans are interest free if repaid within a year.
- After one year the interest rate is 3%, from the date of draw-down, for a maximum term of five years.
- Repayments are not required for the first two years.
- SMEs employing 50 or fewer staff, if they have been impacted by COVID-19, are eligible to apply for the one-off loan.
- The loan amount is \$10,000 plus \$1,800 per equivalent full-time employee, up to a maximum amount of \$100,000.
- Cannot be used for drawings or capital repayments/ refinance.

WHY ANYONE OVER 18 WITH KIWISAVER SHOULD CONSIDER MAKING A WILL

Death is not something people like to think about and only half of us have a will, dropping to around only 30% for the under 40's.

Kiwisaver is held in a person's individual name which means if the Kiwisaver balance is over \$15,000 when a person dies, you will need to have probate issued. The average Kiwisaver balance has already reached that level.

If the deceased person has a will the process is quite straight forward and the funds will be distributed as they wished.

However, if they do not have a will, it can be a lengthy, costly and difficult process and there is no guarantee the funds will go to those intended to receive them. The Administration Act 1969 sets out who can apply to be the administrator, you do not get to choose.

The cost of a will varies depending on your situation and there are more online options for creating straight forward wills than ever before. To apply for Letters of Administration when there is no will can be up to \$6,000 and a lawyer is ordinarily required as the application process can be complex. Many young people would not consider making a will when they don't yet own homes or other assets, not realising that Kiwisaver is an asset. Taking the time to create a will would save a lot of time, added stress and costs for those left behind.



EFFECT OF WAGE SUBSIDY - INDIVIDUAL TAX RETURNS

The treatment of a wage subsidy received by a company on behalf of a shareholder-employee is treated in one of two ways depending on how the company usually pays shareholder/employees:

- 1) If regular wage payments subject to PAYE are made, the 'wages' paid to the employee are taxable in the usual way.
- 2) If a shareholder salary is declared at the end of the income year the shareholder-employee must include the full amount of the subsidy received in their individual tax return. The wage subsidy received will be taxed at the business owners marginal tax rate (this will also apply to sole traders and partnerships who have received the subsidy)

The subsidy does not form part of the business taxable profit and will be treated as income of the shareholder-employee/ sole trader/ partner in addition to any business profit allocated. If the entity has a loss for the year, the wage subsidy will still be declared as taxable income in the individual tax return.

IMPROPER TAX INVOICE – NO GST CLAIM!

Increasingly IRD are requesting to see supplier invoices to support GST claims. Where the invoice is incorrect, you are not entitled to claim the GST.

This is also an area the IRD would look at if conducting a GST audit.

If the invoice is incorrect you need to go back to the supplier so they can alter the original invoice to include the missing information. A supplier must issue a proper invoice if requested.



So what does an invoice need on it?

For purchases under \$50 you do not need to keep a tax invoice, but still require a record or receipt (including details of date, cost and supplier).

For purchases of goods or services over \$50 up to \$1,000 the tax invoice (at a minimum) must include:

- the words "Tax invoice"
- the suppliers name and GST registration number
- the date issued
- a description of the goods and/or services supplied
- the total amount payable, and
- a statement that GST is included

For purchases of goods or services over \$1,000 you need to ensure it has all the above information plus:

- the purchaser's name and address
- the quantity or volume of the goods or services supplied e.g. litres, hours
- either a statement that GST is included in the final price or the amount excluding GST and the GST amount payable.

ACC INVOICING

Annual invoicing from ACC will be sent out October – November 2020.

ACC has delayed invoicing by 3 months to help relieve any financial impact of COVID-19 this year. If a business expects that the payroll liable for ACC in the 2020/2021 income year will be lower, the details held with ACC can be updated. If for any reason a business's annual payroll is different to that estimated it will be reflected in the final 2021 invoice.

Liable payroll can be updated in MyACC for Business.

WAGE SUBSIDY AND ACC LEVIES

The wage subsidy is to be passed on to the employee and processed as normal wages less deductions for ACC Earner levies and PAYE. As this forms part of the employer's payroll it will be used as part of the Work Levy calculation for the 2019/20 financial year and continuation for the 2020/21 year.

JOKE

Reaching the end of a job interview, the Human Resources Officer asks a young engineer fresh out of University, "And what starting salary are you looking for?" The engineer replies, "In the region of \$125,000 a year, depending on the benefits package." The interviewer inquires, "Well, what would you say to a package of five weeks' vacation, 14 paid holidays, full medical and dental, company matching retirement fund to 50% of salary, and a company car leased every two years, say, a red Corvette?" The engineer sits up straight and says, "Wow! Are you kidding?" The interviewer replies, "Yeah, but you started it."

CHANGES TO FBT & UOMI RATES

If use of money interest (UOMI) applies to your situation, IRD advises that from 8 May 2020 the interest rate will decrease from 8.35% to 7.00%.

This means if you make a late tax payment to IRD you will be charged interest at a rate of 7% p.a. until paid.

If tax has been overpaid during the period the interest rate is decreasing from 0.81% to 0.00%, meaning you will not receive any interest on overpaid tax.

As we advised in the September 2019 newsletter, UOMI also applies to Terminal Tax for taxpayers with annual tax payable over \$60,000 and for all tax payers if any provisional tax payments have not been made on time. In this case interest is charged from the 3rd provisional tax instalment date (normally 7 May).

As from 1 July 2020 FBT interest rate on low-interest loans provided to employees has decreased from 5.26% to 4.50%.

FBT & MOTOR VEHICLES

Inland Revenue have advised that a motor vehicle will attract FBT in the usual way during the Level 4 lockdown period. The Commissioner acknowledged that opportunities for an employee to use a vehicle for private use were restricted under Level 4, however, the test is whether the vehicle has been “made available” for private use, not whether any private use has occurred.



Therefore, if a vehicle is “made available” to an employee for their private use an FBT liability will arise and the Level 4 days must be included in the FBT calculation for the relevant period.

The Government has considered whether to introduce a temporary exemption to cover the Level 4 period but has decided against this. Taxpayers should continue to file FBT returns in the usual way, including any FBT payable on motor vehicles that were “made available” to employees for their private use during Level 4.

IMPORTANT TAX DATES



28 October	2021 (1 st Instalment) Provisional Tax (6 monthly payers) April-September 2020 (6 monthly) GST Return Due.
15 January	2021 Provisional Tax Due (2nd instalment) October/November GST Return Due
7 February	2020 Terminal Tax due (if no extension of time with IRD)
28 February	December/ January 2021 GST Return Due. Provisional Tax due for GST Ratio option taxpayers
31 March	Final date for Ratio Option Provisional Tax applications
7 April	Final date for 2020 Terminal Tax due

JOKE

Did you hear about the mathematician who's afraid of negative numbers?

He'll stop at nothing to avoid them.

If you would like to discuss anything mentioned in our newsletter, please contact us at:
DB Chartered Accountants Limited
9 King Street, PO Box 5594,
Frankton, Hamilton 3242
E-Mail: office@dbchartered.co.nz
Phone: (07) 847 8154
Website: <https://www.dbchartered.co.nz>