LIFE'S GREAT CERTAINTIES – TAXES AND CHANGE

tandem group

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Around this time last year, I sat down to write an article on recent tax changes relevant to small business. What I thought was a case of writer's block, was in fact a shortage of material. Enter COVID-19 and a flurry of change – both temporary and 'permanent'. There's a lot to write on this topic, but let's keep it brief and focussed.

ROUND 1 | COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 | 25 March 2020

Remission of Use of Money Interest (UOMI)

Inland Revenue were granted the power to write-off UOMI charged on non-payment of tax by the due date caused by COVID-19, if:

- Your ability to pay the tax was significantly adversely affected by COVID-19 (no definition in the act).
- The tax was due on or after 14 February 2020.
- The core tax is paid and the application for write-off is made as soon as practicable with 24 months of this law coming into force (i.e. 25 March 2022)

Depreciation on Commercial Buildings - It's Back

From the 2021 income year, you can claim depreciation on commercial buildings with an estimated useful life of 50 years or more at the rate of 2% diminishing value or 1.5% straight line. This excludes residential buildings.

Increase Low-Value Asset Threshold

An immediate tax deduction is allowed for assets purchased between 17 March 2020 and 16 March 2021 (inclusive) up to a value of $5,000 (excl GST). From 17 March 2021, that threshold reduces to $1,000.

Increase in Provisional Tax Threshold to $5,000

The threshold at which you are required to pay provisional tax has increased from $2,500 to $5,000. If your 2020 residual income tax (RIT) is greater than $5,000, then you will be required to pay provisional tax in 2021.

ROUND 2 | COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Act 2020 | 30 April 2020

The Loss Carry Back Rules (Temporary with an expectation of a permanent change)

The detail is long and complex, but essentially, losses made in the 2020 and 2021 years may be carried back and offset against the taxable profit of the immediately preceding income year. The intention is for businesses to access previously paid tax. However, a simple example illustrates how it may not be as beneficial as intended for many businesses.

Kawakawa Bar & Restaurant makes a profit of $80,000 in 2019. In 2020, it makes a much smaller profit of $20,000 as COVID-19 starts to affect businesses in March 2020. In 2021, it makes a $60,000 loss as COVID-19 forces the business to close over lockdown and the subsequent recession takes a hold. Since you can only carry back a loss to the prior income year, the large loss can only be offset against the slightly impacted 2020 profit, rather than the unaffected and larger 2019 profit. It's an unfortunate timing issue.

In addition, if Company's have allocated their previous year profit by way of shareholder salaries to its owners, or a Trust has distributed its income to beneficiaries in the relevant prior year, leaving little or no income in the Company or Trust, there will be no profit to be offset by COVID-19 induced losses, so the intended benefit is lost. Of interest is whether Inland Revenue would accept a request to reverse the salaries or distributions so that these businesses can benefit from the loss carry back rules.

The Small Business Cashflow Loan Scheme

This well documented loan scheme gave the Inland Revenue the power to make loans to small business. There are several eligibility requirements and terms and conditions to be met. There are also some fishhooks to be aware of. For example, if you don't repay the loan by the required date, interest is charged at 3% plus Use of Money Interest at the current rate (this applies only if you don't make the required repayments after two years and on any unpaid balance after five years when the loan matures).

OTHER TAX CHANGES

There are many other tax changes brought on by the COVID-19 crisis including, but not limited to:

- Increased tax write-off threshold to $200 for auto-assessed income tax for the 2020 income year.
- Payments to employees for working from home costs during COVID-19 treated as exempt income to employees.
- A change to the In-Work Tax Credit rules removing the need to work a minimum number of hours to be eligible.

There are many more tax changes, determinations and rulings not listed above, and there will be many more to come.

Perhaps we'll see some revision of the tax changes above to help small business recover and survive.