



# COVID SCHEMES

## Schemes to help businesses get through Covid-19

The Government has recently produced several new Covid 19 schemes.

### **Covid 19 Resurgence Support Payments**

The lower of

- \$1500 plus \$400 per full-time equivalent employee (FTE) up to a maximum of 50 FTEs. Sole traders would therefore be entitled to \$1900 or
- Four times the actual revenue drop experienced by the applicant.

Employees working up to 20 hours per week are equivalent to 0.6 FTE. Those working more than 20 hours are full-time.

Applications for the payment will open in myIR for eligible businesses and organisations seven days after the alert level increase. They will remain open for a month after the return to alert level 1.

If the Government activates the scheme several times, affected businesses and organisations can make several applications for payments.

Inland Revenue will normally pay out within five working days of approving an application.

The payment must be used to cover business expenses. Payments received will contain GST output tax that needs to be returned and therefore you can claim GST input tax in the usual way on expenses incurred.

Payments received under the scheme are not subject to income tax, but the expenses funded by the payments are not tax-deductible.

Our comment: Logically, treat the expenses as tax-deductible and pay tax on the money received.

### **Eligibility criteria**

- A revenue decrease (or decrease in capital-raising ability) of at least 30 percent due to the higher alert level.
- Businesses and organisations must have been in business for at least six months.
- Applicants must be at least 18 years old at the time of application.
- The business or organisation must be considered viable and ongoing.
- Charities and non-profit organisations might be eligible, provided they meet the criteria.
- State sector organisations are excluded but can apply to the Minister of Finance for exemption.
- Passive income and all forms of rental income are excluded from the measurement of revenue.

### **Calculating drop in revenue**

- Apply standard accounting principles. Those who invoice their customers should calculate income on the basis of "entitle to bill".
- Use a continuous seven-day period where the first day is on or after the first day of the higher alert level. All seven days must be within the period of the higher alert level.
- Compare the affected revenue with a typical seven-day revenue. That starts and ends in the six weeks before the higher alert level.
- Actual figures must be used. Forecasts are not allowed.
- Applicants need to keep records of their calculations.
- Businesses with low revenue will have their payment capped at four times the amount their revenue has dropped during the seven-day period.
- There is provision for dealing with seasonal businesses, groups of companies with common ownership and pre-revenue businesses.

Note this Resurgence Support Payment can be claimed in addition to wage subsidy.

### **The Covid-19 Leave Support Scheme**

This scheme pays a lump sum and covers two weeks per eligible employee. It is paid as a flat rate of \$1176.60 for people who were working 20 hours or more per week (full-time employees). For those working less than 20

hours per week the figure is \$700. It is for those who can't go to work because they have to self-isolate and they can't work from home

### **Short-Term Absence Payment**

From 9 February 2021 employees who need to miss work to stay home while waiting for a Covid-19 test result and who cannot work from home are entitled to a one-off payment of \$350. The employer can apply for this only once for each eligible worker in any 30-day period unless a health official or doctor tells the worker to get another test. This payment is also available for self-employed workers.

### **Other support schemes**

The **Business Finance Guarantee Scheme** has been extended to June 2021 and made more flexible.

The **Small Business Cashflow Scheme** has also been extended.

## **Know the bright line test**

**The last National Government introduced a so-called “bright line test” for people who sold residential property after owning it for only a short time.**

They said the property had to be owned for two years or the profit would be taxable. The last Labour Government increased this to five years, and increased it again – to 10 years – for properties bought on or after 27 March 2021.

The first thing to note is the period of ownership is not strictly two years, five years or 10 years because for a sale which is not off the plan, it is measured from the date of transfer of title to the buyer as a starting point, and the date a sale and purchase agreement is signed at the time of selling. If it's a purchase off the plan, it is from the date of signing the sale contract.

If you acquired a property before 27 March 2021 and settle after that date, you are subject to the five-year rule. Acquired means a written binding agreement for purchase.

Some people will have put in tenders before this magical date and have no right to withdraw them. If the tender is successful the five-year rule applies.

What if you rent your home?

Two lots of rules apply. If the five-year bright line test applies, you look at the percentage of the time the house was used as a main home. If it's more than 50 percent, no problem. If the new 10-year bright line test applies, you get caught under the bright line test only if you have not lived in your house for more than 12 months, continuously. So if you decide to have an extended period overseas and rent your home, you might need to consider the tax implications.

The new rule is not an “all or nothing” like the old rule. Under the new rule if there is a 12 month period when the home isn't used by the owner an apportionment is required.

However, provided you own the house for more than the 10-year period, you don't have any problems because the bright line test will not apply.

## **Contractor or employee?**

**Recently, Inland Revenue has produced an eNewsletter in which it reminds readers of the legal tests required to determine whether someone working for you is an independent contractor.**

These tests include:

- Intention
- The degree of control or independence
- What Inland Revenue calls Integration test
- Fundamental/economic reality test.

As you can see these matters are technical. If you have a borderline case as to whether someone working for you should be treated as an employee or an independent contractor, seek our help.

If you get it wrong, the penalties can hurt. Employers can be made to pay the PAYE and the employee can be denied expense deductions, not to mention penalties.

## **When is a gift really a gift?**

**A gift is not really a gift if you get a benefit as a result of it.**

Inland Revenue says the payment must be voluntary and there must be no “identifiable direct valuable benefit” arising or may arise as a result of the payment.

If a non-profit body receives a true gift then they don't pay GST. On the other hand, if it is not a true gift because there is a benefit, GST has to be paid on the money received.

If you are involved with any organizations that are GST registered, which receives “gifts” of money, make sure there isn't anything given in return for the “gift” or you will be liable for GST.



## Pay the experts and avoid the DIY disaster

**In most, if not all industries, you get the best results from good systems, experience and expertise.**

Do-it-yourselfers can be a menace, and if you're tempted to try something yourself in an effort to save money, think twice.

Restrict do-it-yourself work to tasks you're knowledgeable about and know you can do well.

A tiler recently had a customer who thought he could manage it himself with a little advice. With the hours required to fix the shoddy work, it's now going to cost more than if it had been left to the tradesman in the first place.

A lawyer was handed a 30-page contract to just check over and approve. The client thought it would save money by doing it this way.

The lawyer, however, had to read every word and then consider anything which might have been omitted.

If she had initiated the work, she would have pulled a standard document off the shelf and modified it to suit her customer. This would be a lot quicker because it would have everything in it she wanted.

Sometimes our clients will bring us spreadsheets or other workings they have done themselves, without consulting us first. Often these make our task more difficult and time-consuming.

If you want to make work as cost-effective as possible, get the expert to tell you what to supply.

## Change afoot for losses carried forward

**New Zealand has had one of the harshest tax schemes in the OECD when it comes to allowing company losses to be carried forward.**

The rule used to be, there must be at least a 49 percent continuity of ownership of the shares. This presented a big problem for some start-up companies, which wanted to get capital from new shareholders by issuing new shares. The law placed an unreasonable limit on their ability to raise more share capital.

The law was changed at the end of March. The idea now is to allow losses to be carried forward provided the nature of the business has not changed.

## Interest deductions on rental property

The Government is phasing out interest deductions for residential (but not commercial or industrial) rental property. It is being reduced progressively so that at 1 April 2025, there will no longer be a claim. Those who buy after 26 March 2021 get a deduction for interest paid only up to 1 October 2021.

We don't have all the details but the Government have indicated "new builds" will be exempt from these rules but at this stage we have no definition of what constitutes a "new build"

## In-Work Tax Credit

Taxpayers will be able to keep receiving the In-Work Tax Credit for up to two weeks when taking an unpaid break from work. This could arise when transitioning to a new job. Taxpayers will need to let IRD know if their work situation changes to ensure they receive the correct entitlement. If a person starts receiving an income-tested benefit or student allowance, the In-Work Tax Credit will be stopped.

## GST reform

Inland Revenue has come up with some proposals for improving the GST system. Among these are reducing some of the requirements for a tax invoice:

There shouldn't be a need to detail quantity and volume of goods.

Do away with the requirement to write "copy only" on any copy supplied. It's a nonsense in an electronic environment.

Buyer-created tax invoices would not need Inland Revenue approval.

## Protect your online privacy

**Privacy has become a huge issue in recent years, as more and more is being revealed about how big companies analyse our behaviour.**

Knowing what we do and what we spend creates vast sums of money for them. If they know from our browsing that we're interested in photography or travel, for example, the data is sold on to other companies who want to sell us cameras or holidays. We're then targeted with ads and promotions.

Can we do anything? Yes, we can, and it's more than just turning on the browser privacy mode or using Incognito on our smartphone. These just stop others who use your device from seeing our internet history. It doesn't block internet spies.

Some web browsers, such as Duckduckgo, do offer privacy because they don't store your data, or track your search habits and history. Third parties don't get data from your browsing.

It's worth noting that these browsers offer privacy, but they don't protect you from other online threats. Individual websites and social media platforms can still track you and collect your data.

That's where a good VPN (virtual private network) adds another level of safety. Good VPN providers offer encryption on all your online traffic, and your IP is hidden so no one can find your location. Most VPN providers charge, so look online for one that suits you.

## CORRECT UNTIL IT HURTS

**When your business makes a mistake and a customer is adversely affected, you have an opportunity to convert the person from not just being a customer, to being an advocate for your firm.**

If you make a mistake, be prepared to be generous to the point that correcting it hurts.

"We won't charge you for that," goes down well with a client.

You will not only keep your customer and keep your goodwill intact, but you might also impress the person to the extent they recommend your firm to others.

## Factor sick leave into pricing

**Unfortunately, some staff will abuse sick leave.**

If you have a large number of staff your costs are going to increase as a result of the doubling of the sick leave entitlement to 10 days.

You might wish to calculate how much this is going to cost you and try to factor it into price negotiations, otherwise it will come straight out of your profit. Those involved in labour-intensive industries such as cleaning, will need to consider the implications of the 10 days sick leave.

You will have to start granting the extra five days two months after the legislation is enacted, which is expected to be about mid year. Each time an employee gets to their anniversary of sick leave entitlement, it will go up to 10 days.

## Nowhere to run for tax evaders

**Unfortunately, tax evaders create an unfair playing field in their industry.**

Those who obey tax law experience unfair competition from those who don't. As cash disappears due to the increasing use of debit and credit cards, it is becoming more difficult for some businesses to evade tax.

The net is also getting tighter for those who think they can hide money overseas. Cooperation between the New Zealand government and a large number of other governments around the world is increasing by means of the OECD. Not only does information pass between the governments but also there is cooperation in finding those who would dodge their responsibilities, such as childcare.

## **7 May 2021**

3rd instalment of 2021  
Provisional Tax  
(March balance date)  
GST for March 2021

## **31 May 2021**

Deadline for Fringe  
Benefit Tax returns

## **30 June 2021**

Last day to apply for  
annual FBT returns

## **28 July 2021**

3rd instalment 2021  
Provisional Tax  
(June balance date)