MeadStark
CHARTERED ACCOUNTANTS

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2022 Newsletter

If you would like to discuss any of these matters and how they affect you, please do not hesitate to contact us.

This newsletter is intended for general information only and should not be used as an alternative for detailed professional advice.

COVID 19

Go to covid19.govt.nz for official government guidelines and resources on how to operate businesses under the traffic light management system. See the following link workandincome.govt.nz/covid-19 for details on financial support available.

Small Business Cashflow Loan

For some businesses the two-year interest free period for the Government loan will finish during this year, so will either need repaid in full or will incur interest from the loan drawdown date @ 3%. If the loan is not fully repaid, then after the two-year period, regular repayments of principal and interest will need to be made.

The loan threshold has been increased to $20,000, existing borrowers can borrow the additional $10,000. The new component of the loan will have a separate 5-year term and 2-year interest-free period.

Further Covid-19 Support Payment

There is now a further support payment available for businesses have experienced a 40% or more drop in revenue due to the widespread presence of COVID-19 in the New Zealand community. The revenue drop is measured from a week post 16 February to a typical week between 5 January and 15 February 2022.

Three fortnightly payments will be available with applications opening for the first payment at 8am on 28 February 2022 for the period starting from 16 February 2022. Each CSP will be $4,000 per business plus $400 per full-time employee (FTE), capped at 50 FTEs or $24,000.

Minimum Wage Increase

From 1 April 2022, the adult minimum wage will increase from $20.00 to $21.20 per hour. Also set to increase at the same time, are the minimum wage rates for both starting-out and training employees. These will increase from $16.00 to $16.96 per hour. As an employer, you will need to review staff wage rates.

Assets under $1000

The minor assets thresholds, previously $500 is now $1000 (ex GST), so any asset purchased under that value, can be expensed immediately rather than capitalised and depreciated.

Meals while travelling

The IRD takes the view that you need to eat to live and therefore sole traders/partnerships are unable to claim their meal costs, even if away on business or attending conferences etc unless they can show that it was necessary to incur additional costs on meals. Being away from home and therefore dining out, is insufficient to meet this threshold.

A company can reimburse an employee for meals, or provide an allowance, if it's outlined in the employment agreement. This applies to shareholder-employees as well.

You can claim meal costs if you are entertaining suppliers or clients or a staff function, however this then would fall under entertainment and only be 50% deductible.

Client or Employee Gifts

You can give a gift to an employee, provided any single employee does not get more than $300 worth each quarter (March, June, September, and December). This is under the Fringe Benefit Tax threshold (above that and you will be required to file and pay FBT). The gift costs are 100% deductible, provided the gift is not food and/or drink, if it is, then only 50% can be claimed.

Note If you are gifting vouchers, GST cannot be claimed on the purchase price, and again only 50% can be claimed if the vouchers relate to or are able to purchase food/drink.

If you're providing a staff shout, only 50% of the expenses can be claimed because food and drinks are being provided.

For gifts to clients and suppliers, the rules are the same as above, except there is no restriction on the amount.

Some people gift blankets and throws, plants, tickets to events, flowers, subscriptions, cooler bags, and other reasonable gifts (not food and drink), as these types of gifts are 100% deductible for income tax, and GST can be claimed as well.

Private use of business motor vehicle

Private use of a business motor vehicles is not permitted unless fringe benefit tax is being accounted for or private use adjustments are being made.

Take note that Inland Revenue staff do come to Central Otago, throughout the year and they could easily witness - dropping kids at school, parked at kids' sports event, towing the boat/caravan, kayak on the roof, Bikes on rack, etc all of which could indicate it is being used privately.

Brightline Test

The IRD review public land transfer records and are getting in touch with those who have brought and sold a property within the Brightline test timeframes and not declared it in their tax returns.

If you bought a house between 1 October 2015 and 28 March 2018, the original two-year bright-line rule applies to you. If you purchased it from 29 March 2018 to 26 March 2021 the 5-year rule applies, and from 27 March 2021 and after the 10-year rule applies (unless it is a newly built house in which case the 5-year rule will apply).

So, if you sell (or transfer to a related entity) a residential property that is <u>not your main home (the entire time you owned it)</u>, you need to consider potential income tax on any gains so **<u>give us a call before</u>** signing any contracts.

All existing property tax rules still apply so, even if the bright-line rule does not apply in your situation, that does not necessarily mean you don't have a tax liability on gains from the sale of your property. If you are looking to purchase or sell a property that will not be your main home, please contact us to discuss any potential tax implications.

Interest on Rental Properties

No interest can be claimed from 1 October 2021 for residential property purchased on or after 27 March 2021. For those properties acquired <u>before</u> 27 March 2021 interest deductions are being phased out.

Date interest incurred	*Percentage of Claimable interest*
1 April 2020 to 31 March 2021	100%
1 April 2021 to 30 September 2021	100%
1 October 2021 to 31 March 2022	75%
1 April 2022 to 31 March 2023	75%
1 April 2023 to 31 March 2024	50%
1 April 2024 to 31 March 2025	25%

There is a 'New Build' exemption for a property that received its code compliance certificate on or after 27 March 2020. Interest relating to new builds is eligible to be deducted for up to 20 years from the time the property's code compliance certificate is issued. This exemption will apply to both the initial purchaser of the new build and any subsequent owner within the 20-year period.

There are also exemptions for certain types of residential property such as main home, houses on farms, certain Māori land, retirement villages, hotels, hospitals, social housing, employee or student accommodation, and land outside New Zealand. Owner-occupiers who rent rooms of their main home to tenants are also excluded.

If a property has both residential property and non-residential property on the same title, only the portion of the interest that relates to the non-residential property can be deducted.

Reporting requirements for domestic trusts

From the 2021-22 tax year trustees will need to prepare financial statements and provide additional information with their income tax returns. Trustees will be required to provide:

- summary financial information from their statement of profit or loss and statement of financial position
- the nature and amount of any settlement made on the trust during the year
- the details of anyone who is a settlor of the trust
- the amount of any distributions made during the year, and the details of the beneficiary who received the distribution
- details of any person who has powers to appoint or remove trustees and beneficiaries or amend the trust deed.

Anti-Money-Laundering (AML) Requirements

If we have not already done so, we will likely be in touch throughout the next year regarding AML, as we are in the process of collating information required to meet the AML rules for all our clients. This includes:

- Identification (copy of both sides of driver's license or passport),
- Proof of address (copy of either a rates, power bill, or bank statement etc.),
- Date & place of birth

We are required to do this under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (Phase 2).

We will be in touch as we work our way through the list of those outstanding. In most instances, the simplest way to do this will be to bring the documents into the office for us to take copies (COVID19 dependent).

Please remember to give us a call if you have any questions, we are here to help you