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Five TIPS to survive the holiday cashflow blues

Will you have the necessary cashflow to see you through the Christmas-summer holiday period? We ask this question because the most ridiculous and problematic payment date on the tax calendar – 15 January – is rapidly approaching.

If your answer is no, you'd better start planning and assessing your options. After all, 15 January is when those with a 31 March balance must pay GST and their second instalment of provisional tax for the 2020-21 income year to Inland Revenue.

The Christmas-summer holiday is a four-week break from business as usual. Things often slow down during this period and cashflow difficulties can arise. The impact of COVID-19 may make things more challenging than usual if you are in a sector badly impacted by the pandemic.

The secret to managing cashflow is: be prepared. The tips below can go some way to ensuring you are just that.

1 Know what you need

It's important to identify potential problems before they become actual problems.

Start by reviewing the books and making sure they're up to date. This will help establish your current cashflow position. From there, put together a forecast and budget to determine what you need to cover overheads during the holiday period. This is important if it's going to be a few weeks before you start earning regular income again.

Think about the number of staff you have on during this time. There's no point having more people on than you need to if business is quieter than usual during this time of the year.

It is also an opportune time to review your provisional tax payment with your accountant given you will be more than two-thirds of the way through your year. If the 2020-21 is not going as well as expected, consider lowering your payment to match your current expectation around profitability. Why pay more tax than you must?

2 Invoice immediately, chase payments

Be sure to send invoices for December and January well before Christmas and set out your terms of payment clearly so customers know when payment is due. For customers who are closing

over the holiday period, see if you can work out an agreement where they pay you before they shut for the year.

Given that the squeakiest wheel always gets the oil, follow up with those who already owe you money. If they are having cashflow difficulties of their own, find out if they can pay some of what they owe you. Every little bit counts right?

3 Engage with lenders and Inland Revenue early

It pays to have conversations sooner rather than later with your bank or other lenders about getting covering facilities if you think you will experience a cashflow problem.

Don't forget Inland Revenue either. They may agree to waive interest (currently seven percent) it charges as part of any instalment arrangement you enter if you contact them early and demonstrate you cannot make your payment on time because of COVID-19. Be prepared to supply some financial information as part of this process.

Any remission of interest will be decided on a case-by-case basis. Should Inland Revenue accept your request for assistance, you will be expected to pay the tax you owe as soon as practicable.

4 Consider tax pooling

In the event Inland Revenue declines your request for relief or you do not qualify for a remission of interest, then prioritise paying the GST.

You can use an approved tax pooling provider such as [Tax Management NZ](http://www.tmnz.co.nz) to enter a payment arrangement for the provisional tax. This lets you defer payment of the full tax amount for up to 17 months or pay what you owe over that same period in instalments, without facing late payment penalties.

Acceptance is guaranteed. No financial information or security is needed. There is some interest payable, but this is much cheaper than what Inland Revenue charges. It may be a negligible cost given the certainty tax pooling offers.

5 Seek advice

Don't hesitate to contact your accountant if you have any concerns or questions about your cashflow and 15 January tax obligations.

www.tmnz.co.nz



Tax calendar

January 15

Second instalment of 2021 Provisional Tax
(March balance date except for those who
pay Provisional Tax twice a year)
Pay GST for period ended 30 November 2020

April 7

Terminal tax for 2020
(March, April, May and June balance dates)
For all clients except those who have lost
their extension of time privilege



Purchase price allocation

New rules will be enacted to govern how parties to a sale and purchase transaction allocate the total price between assets bought/sold for tax purposes. This will apply where two or more assets are acquired such as depreciable property and buildings which have differing tax treatments. Under the current rules, parties to a transaction are generally required to ascribe market values to the assets. The primary rule is that the allocation of value adheres to a market value principle but there is no requirement for the vendor and purchaser to use the same market value. There is also no requirement to ascribe a value to each asset acquired. This means that the vendor and purchaser can adopt different allocation values for different assets which best minimises their respective tax liabilities.

The new rules will remove this distortion and streamline the allocation of value. The key features of the new rules are:

- If both the vendor and purchaser have agreed to an allocation, both parties are bound by it for tax purposes and must adopt this position accordingly in their respective income tax returns.
- If the parties have not agreed to an allocation, the vendor gets first right to determine the allocation. The vendor must notify both the purchaser and Inland Revenue of their allocation within two months of ownership change of the assets. The vendor is required to determine the allocation based on market value, however the allocation must not result in any additional tax loss on the sale of that property. Therefore, the allocated price must be the lesser of the market value and the property's tax value (adjusted for a pro rata portion of the depreciation in the year of sale).
- If the vendor does not determine an allocation within the two month timeframe, the purchaser is entitled to determine the allocation, and notify both the vendor and Inland Revenue of it.
- If neither party makes an allocation, the

vendor is treated as disposing of the property for its relative market value, and the purchaser is treated as acquiring the property for nil consideration. The effect of this is that the purchaser is unable to claim depreciation or other deductions in relation to the property. This provides an incentive for the purchaser to determine allocation before filing their tax return.

- The rules are not required to be applied to a transaction if the total purchase price is less than \$1 million, or the purchaser's total allocation to taxable property is less than \$100,000 (de minimis threshold). Inland Revenue can challenge the allocation if it considers that the allocation does not reflect market values. Inland Revenue however may not challenge the allocation if the low value depreciable property de minimis rule applies. This is where:

- the original cost of the property to the vendor is less than \$10,000;
- the allocation to the property is no less than its adjusted tax value and no greater than its original cost; and
- where there are multiple identical assets each with an original cost of less than \$10,000, the total amount allocated to those assets is less than \$1 million.

Whilst not explicitly stated in the Bill, the accompanying Bill commentary has clarified that parties do not have to allocate a value to every individual item provided sufficient allocation is made at the asset category level, e.g. depreciable property, buildings, revenue account property, inventory, financial arrangements, land etc. Of course, Inland Revenue will accept more detailed allocations. This is to help balance and eliminate most of the scope for tax manipulation without imposing unrealistic compliance costs. The new rules apply to agreements for the disposal and acquisition of property entered into on or after 1 April 2021.

www.rsmnz.co.nz

New rules around feasibility expenditure

The Government is bringing in some new rules about claiming feasibility expenditure.

The rules are in the current tax Bill before Parliament. They are therefore not yet law and there could be changes.

If you abandon work on property, it's proposed you will be allowed to write off the feasibility cost as long as that property does not have a 0 percent rate of depreciation. This means if you abandoned a project on commercial property the feasibility expenditure will qualify because there are new rates of depreciation applying to this current year.

However, since residential rental buildings have a depreciation rate of 0 percent, you won't be able to take advantage of the new feasibility write-off.

If the total amount spent on a commercial feasibility study is \$10,000 or less in any year, it can be treated as a tax deductible expense even though the project is not abandoned. Where the amount exceeds \$10,000 and the project is abandoned, the cost has to be written off in equal instalments over five years starting with the year in which it has been abandoned.

A typical example of feasibility cost is a study of a proposal for earthquake strengthening.

Supplying commercial accommodation and GST

If a client has been forced, due to Covid 19, to convert their commercial accommodation to residential and this has occurred between 14 February 2020 and 31 October 2020, instead of having 12 months to get back into the commercial market in order to avoid being de-registered for GST, the IRD have extended this time to 18 months. The client must inform the IRD using the email address STRdisclosures@ird.govt.nz of:

- Cessation of all taxable activities
- The date of cessation
- They intend to carry on a taxable activity within 18 months of that date

Control direct debits

Don't you love it when a supplier is so important it demands you provide details of your bank account so it can direct debit it. It is helping itself to your money without you having much opportunity to dispute the bill. Even if you do dispute it, the money will have gone. The solution is quite easy. Have a dedicated bank account just for that direct debit. If the worst happens, you could stop funding the account. You retain control.

Mortgage deferral

The six months mortgage holiday was set to end on 27 September 2020 and has been extended to 31 March 2021.

Unfortunately, interest continues to accrue on the debt so it is not necessarily a good idea to take advantage of the extended time.





TRUSTS ACT 2019

and how it will affect your Trust

The new Trusts Act 2019 (“the Act”) will impact on all Trusts in New Zealand and comes into effect on 30 January 2021.

Purpose of the Act

The purpose of the Act is to set out the core principles relating to trusts and to make trust law in New Zealand more accessible. The idea is to ensure a trust is administered in a way that is consistent with its terms and objectives and in a way that avoids unnecessary cost and complexity. The Act also introduces default administration rules and mechanisms for Trust-related disputes.

Extended length of Trust

Current legislation generally permits a Trust to continue up to a period of 80 years following its date of formation. The new provisions extend that period to 125 years from the date of formation. If you wish to extend the life of your current Trust, then as is the case for all Trust-related actions and activity this would need to be recorded in writing and agreed by all the Trustees.

Mandatory requirements for Trustees

There is emphasis placed on non-negotiable Trustee duties which will require all Trustees to:

- Know the terms of the Trust i.e. understand the Trust Deed
- Act in accordance with those terms
- Act honestly and in good faith
- Act for the benefit of beneficiaries or to further the permitted purpose of the Trust.

In line with these requirements, assuming there is more than one Trustee, each Trustee must hold a copy of:

- the Trust Deed, and
- any variations to the Trust Deed

and be satisfied that at least one of the Trustees holds all other Trust documentation and that those documents or copies of them will be made available to the other trustee or trustees on request.

Default Duties of Trustees

Similarly the new default duties expected of Trustees, unless modified by a Trust Deed, are:

- General Duty of Care – with regard as to whether the Trustee has special knowledge or experience to enhance that ability

- Duty to invest prudently – again with regard as to whether the Trustee has special knowledge or experience to enhance that ability
- Duty not to exercise power for own benefit as a Trustee
- Duty to consider exercise of powers
- Duty not to bind or commit trustees to future exercise of discretion
- Duty to avoid conflict of interest (between interests of a trustee and interests of beneficiaries)
- Duty of impartiality
- Duty not to profit as a Trustee of a Trust
- Duty to act for no reward (legitimate disbursements and expenses excepted)
- Duty to act unanimously

Giving information to Beneficiaries

The new Act introduces the presumption that a Trustee must notify every beneficiary of the basic trust information being:

- The fact that the beneficiary is a beneficiary of the trust;
 - The name and contact details of the trustee;
 - The occurrence of and details of each appointment, removal and retirement of a trustee as it occurs, and
 - The right of the beneficiary to request a copy of the terms of the trust/trust information.
- There is also a presumption that a Trustee must within a reasonable period of time give a beneficiary or the representative of a beneficiary additional trust information that person has requested.
- There is some leeway on this particular aspect and various provisions in the Act can be used in certain circumstances.

Effects on Your Trust

Regardless of whether or not your Trust currently holds income earning assets and/or your family home or no assets at all, under the new law it is a requirement that an annual review by the Trustees occurs and that review is recorded in writing and signed off by all of the Trustees.

www.ccj.co.nz – Chambers Craig Jarvis

Be realistic with social media expectations

You're starting out in business, or maybe you've been in business a while but everyone is saying you need to have a social media presence.

If you agree, and if you're a small business, you have to be realistic in what you can do with social media.

The first rule is not to overdo the number of platforms you use. You just won't have the time or resources to maintain several accounts, so stick to just a couple. Unless you have someone dedicated to running them, you'll be distracted and overwhelmed if you have Facebook, Instagram, Twitter, Tumblr and so on.

Let's say you set up a Facebook page because you have big plans for marketing your business. You load it with lots of information and you get a few 'Likes'.

Then you realise you're going to have to put some effort in. To get your information in front of a lot of people, you need to get them following your page. So you have to market the page.

Then you have to keep posting on the page to keep it up to date; delete posts from other people because the posts are not relevant; and reply to people who post or message you with often bizarre requests or information. You'll have to load photos and edit your posts so they're accurate and grammatically correct.

The message is: if you're using social media, be prepared to put time and effort into it. It could mean up to an hour a day. Can you afford that when you need to be out making money for your business?

You might be better to provide a regular electronic newsletter specifically targeted for your clients, suppliers and prospects.



Directors:
Toni Owen, Craig Savage
Catherine Aldridge

Client Managers:
Shane Baillie
Sandra Wills
Charlotte Porter

Accountants:
Judith Bilyard
Kellee Downer
Tracey Crosswell
Erin Metcalf

Client Services:
Karen Sharp

Client Services/Tax Administrator:
Debra McCoard

Executive Assistant/ Receptionist:
Kim Howard-Hill

Practice Manager:
Janine Clark

How to find a work/life balance

For many business owners, time is as precious and sometimes seems as scarce as money. Striking a balance between work and personal time can be a constant struggle.

You might be working 12 hour days, or longer, even more than 5 days week. There are never enough hours to do the things you want in your business let alone in other areas of your life. You want time with your family, time to relax, read a book, or do something that's fun.

Do You Have a Business, or Does Your Business Have You?

If you're wondering if your business dominates your life and you're missing out on the things that really are important – ask yourself this:

- Do you spend too much time working IN your business and not enough working ON it?
- Are you up late at night or during the weekend catching up on paperwork?
- Can your business keep running if you're not there?
- Does your business get in the way of spending time with your family and the things you love?

- Does your business work for you ... or do you work for your business?

What is work/life balance?

Work/life balance is a misnomer. There is not your work, and then your life. There is just your life, of which work is a part. It's how you fit that part into your life that makes the difference.

Having a life with everything included (and nothing left out) makes a massive difference, not just personally but business-wise as well. You'll have a fresh approach, greater clarity and objectivity. You'll feel inspired and do more than you ever thought possible. Surprisingly, you'll feel like you've got more time than you had before.

But if the balance between work and life continues to be a challenge, you run the risk of becoming stale, exhausted and stressed out: no good for your business, no good for your family, and no good for you.

If you're struggling to strike a balance perhaps it's time to take back the reins and start really being the boss of your current situation.

www.fullfocus.co.nz

Members of NZ CA Limited

Accountants Hawkes Bay - Napier	(06) 843-4868
Accounting HQ - Rotorua	(07) 348-7066
BM Accounting Limited - Havelock North	(06) 876-7159
- Waipukurau	(06) 857-8901
Bavage Chapman Ltd - Warkworth	(09) 425-9835
Brophy Knight Limited - Ashburton	(03) 308-5104
BW Miller Dean - Wellington	(04) 910-3340
Brown Glassford and Co Ltd - Christchurch	(03) 365-0881
Candy Gillespie - Matamata	(050) 888-7089
Flannery Tait - Alexandra	(03) 448 8060
Focus Chartered Accountants - Whakatane	(07) 307-1141
GCOL Chartered Accountants - Lower Hutt	(04) 939-1975
gfa Chartered Accountants - Te Awamutu	(07) 872-6444
GS McLauchlan - Dunedin	(03) 477-8192
- Queenstown	(03) 477 8192
Harris Taylor - Hawera	(06) 278-5058
Marshall & Heaphy Limited - Greymouth	(03) 768-7186
Martin Wakefield - Timaru	(03) 687-7122
- Christchurch	(03) 343-4012
McDonald Vague - Auckland	(09) 303-0506
Naylor Lawrence & Associates - Palmerston North	(06) 357-0640
- Dannevirke	(06) 374-5730
nsaTax Limited - Auckland	(09) 309-6505
RSM New Zealand - Auckland	(09) 271-4527
- Auckland North	(09) 414-6262
- Auckland Central	(09) 367-1656
Strettons - Taupo	(07) 376-1700
Southey Sayer - Masterton	(06) 370-0811
Sudburys Limited - Whangarei	(09) 430-4888
Vazey Child Limited - Hamilton	(07) 838-2169
Wallace Diack - Blenheim	(03) 578-7389
Whitelaw Weber Limited - Kerikeri	(09) 407-7117
- Kaikohe	(09) 401-0991
- Kaitiaki	(09) 408-1220
YRW Limited - Tauranga	(07) 578-0069

Business cards with impact

You know you should never go anywhere without business cards, but are they having the impact you want?

What's on your business card? The basics are your name, your role (managing director, sales manager etc) and contact details. Contact details should include a landline (if you have one), cellphone, email and website. If you're busy on social media, include your page details, hashtags etc.

Make sure you use your company colours and logo. Don't pick your logo off your website – it probably won't be crisp enough. Get it from your designer

or use the original artwork.

Use the back of the card for a list of the services your company offers.

Then hand them out as often as possible. Hand out extra cards and ask if they can be passed on to someone they know who might use your services. Asking for a card is a sure way of being able to politely offer your own.

One of the world's best car salesmen has been known to fling a whole lot of cards in the air when something exciting happens in the stadium. Apparently this works for him otherwise he wouldn't do it.



Changes in Particulars

Please remember to let us know of any changes in:

- Physical address • E-mail address • Phone and/or fax numbers
- Shareholdings • Directorships • Trustees

Or anything else that may be relevant.

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