

YEAR-END TAX REMINDERS 2021

With the tax year-end fast approaching for most taxpayers, there are a number of steps (see below) that you can take prior to balance date to help you maximise any tax opportunities that you're entitled to. The list below identifies some of these steps together with important tax reminders. This list is not intended to be exhaustive or a comprehensive account, so please contact us for further detail and/or clarification.

| ACTION AREA | ACTION | STATUS |
|---|---|--------|
| BAD DEBTS | <p>Have you written off all debts that you consider are 'bad'?</p> <p>Individual trade debts should be reviewed and actually written off in your debtor ledger prior to balance date for them to be allowed as a deduction in the financial year. A debt is considered bad if a reasonable and prudent business person would be of the view it is unlikely that the debt will be paid. Factors to consider are the length of time the debt is outstanding, and the efforts that you have taken to collect the debt and information on the debtor. A debtor does not need to be insolvent for the debt to be bad, so you can still pursue the debtor for payment.</p> | |
| COMPANIES | <p>Structural changes</p> <p>Shareholder continuity must be maintained for tax losses and imputation credits to be carried forward; the minimum continuity thresholds are 49% and 66% respectively.</p> <p>Group loss offset elections and subvention payments</p> <p>Companies which are part of a "group of companies" (i.e. at least 66% commonly-owned) can choose to offset profits and losses. This rule includes the option for a profit company to make a "subvention payment" for a loss. Elections and subvention payments generally need to be made by the 31 March that follows the balance date of the loss company. Please note that companies which are part of a group, but which are not 100% commonly-owned, can now choose to transfer imputation credits when (or after) there is a loss offset.</p> <p>Consolidated group elections</p> <p>Consider whether your group of companies should form a Tax Consolidated Group to reduce the number of tax returns that need to be filed and to take advantage of the concessions that are available within a Tax Consolidated group. Elections to join or form a Tax Consolidated Group can take effect from the start of an income year, providing the election is made within 63 working days of balance date.</p> | |
| LOOK THROUGH COMPANIES (LTC) | <p>Elections and eligibility rules</p> <p>LTC elections must be received before the start of the income year from which status is required (with the exception of newly incorporated companies). If you wish to revoke an LTC election it must also be received before the start of the income year in which it is to apply from. Note there can be significant tax implications of electing into and exiting the LTC regime and advice should be obtained. Also note that there are restrictions on who can be an owner (directly or indirectly), how many owners are allowed, how much foreign-sourced income can be earned if the LTC is more than 50% owned by non-residents, and what distributions can be made by trust owners.</p> | |
| QUALIFYING COMPANIES (QC) | <p>Elections and eligibility rules</p> <p>All of the shareholders with "legal capacity" need to have signed elections (there are special rules for trusts). An election is required if there is a new shareholder (including a new trustee for a trust shareholder), and there are also other election rules that you need to remember. Note that there are restrictions on who can be an owner (directly or indirectly), how many owners are allowed, how much foreign-sourced income can be earned, investments in foreign companies/investments, and there are rules concerning the treatment of a QC dividend when received by a trust owner. Also note that there is now a "minimum shareholder continuity" rule.</p> | |
| LOAN ACCOUNTS AND CURRENT ACCOUNTS | <p>If your company has loan accounts which have debit balances (including overdrawn current accounts), there could be undesirable tax consequences. Please contact us to find out whether there might be problems, and how they can be avoided.</p> | |
| DIVIDENDS | <p>Imputation credit account debit balances</p> <p>Irrespective of the company's balance date, it is essential to ensure your company's imputation credit account is in credit at 31 March 2021. Failing this could result in a 10% imputation credit account debit penalty. As a solution you may wish to consider accelerating terminal tax or provisional tax payments prior to the due dates.</p> <p>Dividend timing</p> <p>If your company wants to declare a dividend with a payment date of 31 March or earlier, please note that the dividend documentation has to be actually signed on or before the payment date.</p> | |
| DONATIONS | <p>Companies (other than LTC's) are allowed a deduction for gifts of money made during the year to organisations which are approved for donation tax credit purposes. However, donations are deductible only to the extent of the company's net income for the year ("net income" is the year's income after claiming deductions).</p> | |
| EMPLOYEE WAGES AND LEAVE | <p>Employee related expenses (leave and bonus provisions)</p> <p>An employer can obtain a deduction for employee-related expenses that are owing at year-end (e.g. holiday pay, bonuses, long-service leave), providing payment is made within 63 days after year-end. Therefore, if you have a 31 March balance date, a deduction is permitted if the payment is made on or before 2 June.</p> | |
| INTEREST PAYMENTS | <p>Have you paid more than \$5,000 in interest (other than to recipients who had RWT-exempt status)?</p> <p>If you have, you may be required to withhold resident withholding tax.</p> | |
| LAND SALES | <p>Sale of taxable land</p> <p>Taxable income arising from the sale of land is generally derived on settlement. Although dependent on the terms of each contract, if the settlement date is extended beyond balance date (i.e. 1 April and beyond for standard balance dates) any sale would not need to be recognised for income tax until the following year.</p> <p>Bright-line test for residential properties</p> <p>This rule can tax certain residential land which is sold within 2 or 5 years of the acquisition date, irrespective of the purpose or intention at the time the property was acquired. Some exemptions are available. The bright-line period is 2 years for land acquired between 1 October 2015 and 28 March 2018, and 5 years for land acquired after 28 March 2018.</p> | |
| RESIDENTIAL RENTAL PROPERTIES | <p>Loss ring-fencing rules</p> <p>New tax rules can mean that losses from residential rental properties are "quarantined" (i.e. suspended) and carried forward until there is enough "residential property income" to claim them against. Generally speaking, this means that such losses can no longer be claimed against other types of income (e.g. salary and wages). Some exemptions are available. These rules applied from the beginning of the 2019/20 income year (1 April 2019 if you have a standard balance date).</p> | |

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| HIGHER INCOME | <p>Is your income significantly higher than the previous year?</p> <p>If so, you should consider whether an additional voluntary provisional tax payment may be appropriate or alternatively it may be beneficial in aligning your tax payments with turnover. Please discuss with us before balance date. If you have underpaid your provisional tax for the year then it may be possible to use a provisional tax intermediary to save Inland Revenue use of money interest costs.</p> | |
| FIXED ASSETS | <p>Assets no longer used in the business</p> <p>For tax purposes fixed assets can be written off if:</p> <ul style="list-style-type: none"> • The asset is no longer in use by the business; and • Is not intended to be used in the future; and • The cost of disposing the asset would be more than its disposal value. <p>We recommend assets be reviewed for use, to determine whether or not a deduction would be available.</p> <p>Low value assets</p> <p>Low value assets with a cost below a certain threshold can be written off immediately. The thresholds are :</p> <ul style="list-style-type: none"> • For assets purchased before 17 March 2020 : \$500 • For assets purchased on or after 17 March 2020 and before 17 March 2021: \$5,000 • For assets purchased on or after 17 March 2021 : \$1,000 <p>The threshold amounts are GST exclusive if the taxpayer is GST-registered.</p> <p>However, there are two scenarios where an immediate write-off is not permitted :</p> <ul style="list-style-type: none"> • If the low-value item becomes part of any other property that is depreciable property, or is an improvement/upgrade of that property • If more than one low-value asset is purchased from the same supplier at the same time, and if those assets have the same depreciation rate and the total cost exceeds the relevant threshold <p>Purchases and sales</p> <p>A full month's depreciation can be claimed for any part month that an asset is owned and used. It may be worth buying replacement assets on or just before balance date to obtain one month's worth of depreciation deduction. If you expect to make a loss on sale, consider selling prior to balance date. If you expect to make a gain on sale, consider deferring the sale until after balance date. This will accelerate any available deduction or decelerate the requirement to return taxable income.</p> <p>Commercial fit-out</p> <p>The rate of depreciation on buildings for tax purposes is 0% (only residential buildings from the 2020/21 income year) . To maximise depreciation deductions it is important to separately identify, where possible, commercial fit-out (depreciation deductions can be claimed).</p> | |
| OVERSEAS INVESTMENTS | <p>Do you have any investments or interests in overseas entities?</p> <p>The tax treatment of overseas investments is complicated and dependent on the method required to calculate the income. You should review the tax treatment of your foreign investments such as equities, superannuation or life insurance policies and consider any changes that may have been made within the year. Obtain specific tax advice prior to making changes especially if considering a lump sum withdrawal or transfer from an overseas pension.</p> | |
| PAYMENTS TO CONTRACTORS | <p>Have you made any payments to a contractor?</p> <p>The PAYE and withholding payment rules apply to a wide range of contractors. Because of the penalty and use-of-money interest regimes, it is particularly important that you ensure the rules are complied with. Please note that there were some significant changes made to the withholding payment rules, effective from 1 April 2017.</p> | |
| PAYMENTS TO NON-RESIDENTS | <p>Have you made any payments to a non-resident for services performed in New Zealand?</p> <p>The PAYE rules or non-resident contractor tax rules might apply to these payments. There are certain exemptions available, which we can assist you with.</p> <p>The non-resident contractor tax rules can also apply to the use (or right to use) in NZ of property other than land, or the services of another person.</p> <p>Have you made any interest, dividend, or royalty payments to a non-resident?</p> <p>Non-resident withholding tax (NRWT) might apply to these payments. Please note that there is a new NRWT rule which can apply to NZ residents (or branches) with interest-bearing loans owing to associated non-residents. This rule targets situations where interest payments lag behind accrued interest deductions; NRWT might now need to be paid earlier, based on the interest deductions.</p> | |
| PREPAID EXPENDITURE | <p>Prepaid expenditure</p> <p>Certain types of expenditure can be claimed as a tax deduction in the year in which they are incurred regardless of the fact that the good or service will not be used until a future year, but only if they have also been expensed for financial reporting purposes. Some of these prepayment concessions have a dollar limit and/or a limit on the length of the period after year-end. The following prepaid expenses could be claimed in the 2020/2021 income year:</p> <ul style="list-style-type: none"> • Advertising for up to 6 months after the balance date and not exceeding \$14,000 in total; • Insurance for up to 12 months after the balance date as long as the premiums incurred during the year for the contract do not exceed \$12,000; • Rates to the extent of the amount invoiced on or before balance date; • Rent for up to 6 months after the balance date and not exceeding \$26,000 in total. There is no monetary limit for rent that is prepaid not more than one month in advance; • Subscriptions or fees for membership in any trade or professional association, for up to 12 months after the balance date as long as the expenditure incurred during the year for membership in the association does not exceed \$6,000; • Advance bookings for travel and accommodation, to be used within 6 months after balance date and not exceeding \$14,000 in total; • Service or maintenance contract for plant, equipment or machinery, for up to 3 months after balance date, as long as the expenditure incurred during the year for the contract does not exceed \$23,000; • Use or maintenance of telephone and other communication equipment for up to 2 months after balance date (amount is unlimited); • Consumable aids (i.e. items that do not become a component of the finished stock, e.g. oil, grinding wheels, chemicals, wrapping and packaging) not exceeding \$58,000 in total; • Audit fees and mandatory accounting fees (unlimited); • Stationery, subscriptions for newspapers, journals or other periodicals, and postal and courier services (unlimited); • Vehicle registration fees, drivers license fees and road user charges (unlimited); • Other services for up to 6 months after balance date, and not exceeding \$14,000 in total; • Other periodic charges for up to 12 months after the balance date, and not exceeding \$14,000 in total. | |

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| REPAIRS AND MAINTENANCE | <p>Repairs or maintenance expenditure</p> <p>Generally speaking, repairs and maintenance expenditure is deductible only to the extent it has been incurred during the income year. There can also be a fine line between a deductible repair/maintenance expense and capital expenditure (i.e. non-deductible). You may wish to consider accelerating repair/maintenance expenditure in order to bring forward the deduction.</p> | |
| TRADING STOCK | <p>Trading stock (excluding livestock) on hand at year end must be valued, subject to meeting the relevant criteria, using one of the prescribed methods: cost; discounted selling price; replacement price or market selling value if lower than cost. Generally, these methods must be applied consistently. Provisions for obsolete stock or stock write downs are not generally allowed as tax deductions. Therefore prior to year end it is important to perform a stock take and to ensure that all obsolete stock is physically disposed of or is valued using one of the prescribed methods. Concessional rules apply to small taxpayers (annual turnover of \$3 million or less). A further concession is that a person with turnover of less than \$1.3 million per year can value their closing stock at the opening stock value, as long as the closing stock can be reasonably estimated to be worth less than \$10,000.</p> | |
| VEHICLE EXPENSES | <p>If you have a vehicle which has not been used 100% for business purposes, have you kept a logbook?</p> <p>A logbook test period can be used to establish a business use percentage for tax, GST and FBT purposes. A new test period might be needed if there has been a significant change in business usage. However, sometimes a representative period may not even be possible, and a permanent logbook will need to be kept.</p> | |
| CROSS-BORDER REGIMES | <p>The NZ income tax rules include regimes which target cross-border transactions and investments between associated parties. The "transfer pricing" regime applies to the setting of prices for the transfer of goods, services and intangibles. The "thin capitalisation" regime is designed to limit the amount of interest deductions that can be claimed in NZ, and can apply to inward investment by a non-resident and outbound investment by a NZ resident. New rules are also now in place to deal with hybrid and branch mismatches (i.e. arrangements which gain a tax advantage because the laws of two or more countries have different tax treatments), artificially high interest rates on loans from related parties, or artificial arrangements designed to avoid having a taxable presence (a permanent establishment) in NZ. If any of these rules might apply to you, please contact us to get our specialist advice, especially if actions need to be taken before balance date.</p> | |
| LEGAL FEES | <p>Not all legal fees incurred by a business may be claimed as a deductible expense, for example fees in relation to forming a company or trust and capital asset purchases; these are considered capital in nature for tax purposes ("capital limitation"). Legal fees should be reviewed for deductibility.</p> <p>The capital limitation can be ignored for qualifying legal expenses if the year's total expenditure on all qualifying legal expenses does not exceed \$10,000 (excluding GST).</p> | |
| EARTHQUAKE DEPRECIATION RECOVERY RELIEF | <p>If you were impacted by the 2010/2011 Canterbury or 2016 Kaikōura/Hurunui earthquakes, resulting in an insurance payment which triggers taxable income, you may wish to consider the "rollover relief" provisions which can allow suspension of such income if a replacement asset is acquired. Various criteria must be met and an election made within certain timeframes in order to qualify. There are additional rules which cap the taxable income if the insurer deems an asset to be uneconomical to repair, or if an asset is repairable and the insurance payment exceeds the cost of repair. The Kaikōura/Hurunui earthquake provisions apply to the upper South Island and "Greater Wellington" areas.</p> | |

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