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Corner Highlights

Staff News

In March we welcomed Shae Waller and Jessica Bills to our Dannevirke admin team, and Gopal Jee Jha as a Client Manager in our Dannevirke office. In July we welcomed Ana Braddick to our Pahiatua admin team.

Congratulations to the following staff on their new positions within the firm. Aaron Karena on becoming an Associate Principal, Sharyne Wimsett and Fallon La Dette on becoming Senior Associates and Heidi Morgans on becoming our new Practice Manager.

Over the last few months a few staff have moved away and are now working remotely for us. They are Jo Brockbank, Bill Taylor and Julenne Buckley. Rachel Dalglish has also moved & continues with us in a consulting role until the end of this year.

Welcome back to Rahina Bi Rahiman who has returned from maternity leave.

We have also said goodbye to the following staff, Sue Ellingham who has retired and Celeste Cole who has decided not to return after maternity leave.

Congratulations also to Laura Dawson on her recent graduation.

Take a break

In the months since the peak of COVID-19, the stringent restrictions have been relaxed and the majority of us have returned to a 'new normal'. What this looks like from business to business is likely to be quite different, with some returning to the office full-time and others continuing to work remotely. Whichever the case, the disruption of COVID-19 is sure to have impacted employee morale one way or another.

For many, COVID-19 fast-tracked a move toward more flexible ways of working. Now, experts suggest that ongoing flexibility is key to keeping employees motivated and engaged. The introduction of the "hybrid work model", allows employees to split their time between working from home and the workplace. A recent Salesforce survey revealed that the appeal of a hybrid model particularly appealed to Gen Z with 43% indicating a preference to split their time between the office and home. Thirty-three percent of millennials agreed, however, baby boomers showed the least desire with only 26% preferring the new approach.

It is no surprise that working from home on a permanent basis may eventually lead to employees feeling isolated and disconnected, with motivation suffering as a result. However, splitting time between home and the office allows employees to capitalise on increased flexibility, while also maintaining social contact.

Beyond flexibility, we can all no doubt recognise the benefit of taking time off. Although travel restrictions may see less people rushing to get in their leave applications, management should still encourage employees to take annual leave. The push to get our local tourism industry back up and running has been well publicised and with the borders set to remain closed for the foreseeable future, New Zealanders getting out and exploring the country will be vital to the recovery. Whether it be a few extra-long weekends, or an extended trip elsewhere, both will help employees avoid burnout and emerge from the post pandemic world motivated and more engaged.

With varying degrees of optimism for when, or if, a pre COVID world will return, the small 'wins' and any look of normalcy will go a long way in boosting morale.

Tax Notices

As we are now emailing the majority of our clients' tax notices out, we have noticed some clients are having problems printing these. This appears to be because you do not have the latest version of Adobe Acrobat Reader DC downloaded. To download the latest version, please visit <https://www.adobe.com/nz/>

Inland Revenue Letters

The Inland Revenue are issuing a lot more letters directly to our clients' without advising us as your Tax Agent in the first instance. If you receive a letter directly from the IR that you are unsure about, please don't hesitate to contact us for advice.

Deductibility of Healthy Homes costs

If you are an owner of a residential property, you will be familiar with the Healthy Homes Standards that were introduced on 1 July 2019. The standards set out the minimum requirements all landlords are required to comply with. Examples of the mandatory requirements include fixed heaters in the main living room, smoke alarms, ceiling and underfloor insulation and ground moisture barriers for some properties. For older homes, the costs of bringing a residential rental up to the standard required could be substantial.

Inland Revenue (IRD) recently released guidance on the deductibility of the costs incurred to meet the Healthy Homes Standards. To summarise, the statement broadly classifies such expenditure into three categories:

- revenue expenditure that is immediately deductible,
- capital expenditure that forms part of the building and is therefore unable to be deducted at all
- capital expenditure that does not form part of the building and is therefore likely to be depreciable.

IRD commented the following capital items are likely to comprise part of the building and therefore unable to be depreciated:

- insulation
- ducted or multi-unit heat pumps
- ground moisture barriers

The cost of a capital item that does not form part of the building may be either depreciated over time or deducted immediately if it meets the 'low-value asset threshold'. For assets that fall into this narrow category it would be worth making the upgrades between now and 16 March 2021 because the threshold has been temporarily increased to \$5,000 and will move to \$1,000 from 17 March 2021 onwards.

Examples of such assets are:

- electric panel heaters
- single-split heat pumps

Unfortunately, it appears no tax relief has been introduced for residential rental owners who are required to spend considerable cash on upgrading their properties to comply with the Healthy Homes standards.

What is revenue?

"Revenue means the total amount of money a business has earned from its normal business activities, before expenses are deducted" (Work & Income, July 2020). This core definition has been applied by thousands of businesses to apply for the Government's wage subsidy scheme that was implemented due to the COVID-19 pandemic. Whether a 30 percent or more reduction in revenue for the original wage subsidy, or a 40 percent or more reduction for the wage subsidy extension, quantifying the reduction in 'revenue' was a key hurdle to be eligible.

With the potential for wage subsidy applicants to be audited, documenting the basis for an application and how the eligibility criteria have been met is critical. In some cases, confirming eligibility should be straightforward. Retail stores, restaurants, cafes and bars that had to shut their doors overnight should be able to demonstrate a clear drop in 'revenue'.

However, for other industries it may not be as straightforward. In some cases, the time at which an invoice is issued for GST purposes is different to the point in time at which income is recognised for tax and / or accounting purposes. Take for example the construction industry where jobs are invoiced based on specific milestones.

The Work & Income definition also refers to "money". Was this intended to have the same meaning as 'income' or is it intended to imply a cashflow test?

The different ways the revenue test is able to be interpreted, and not knowing what the audit process will comprise gives rise to uncertainty. A suggestion is to ensure that the method used to calculate the revenue reduction should be logical within the context of a particular business. If a standard measure, such as sales booked in the period does not align with what has occurred in practice, consider whether that is an accurate method.

If multiple measures have been used, and each supports the reduction in 'revenue' required to receive the wage subsidy then this suggests a reasonable approach has been taken.

FBT on vehicles during lockdown

You wouldn't be blamed for assuming Fringe Benefit Tax (FBT) wouldn't apply to motor vehicles during the Level 4 lockdown period. Other than essential workers, most employees were either working from home or simply unable to work at all and therefore most vehicles were 'parked-up'.



However, a fundamental premise of how FBT applies to vehicles is that it is focused on "availability" rather than actual use. As such, Inland Revenue has confirmed that if an employee had the right to use a motor vehicle for private purposes, then this will attract an FBT liability as normal – regardless of whether the employee actually used the vehicle.

Online Tax Payments

Finally, just a reminder that if you are making payments to IR online, do ensure that you choose the correct IRD number, tax type and period as this will enable IR to allocate your payment correctly. If you are not sure what tax type or period to choose please give us a call and we will assist.

get in touch

You might like to visit our Website at www.mcia.co.nz.

This provides information about our firm and a number of links to other websites that may be helpful to you.

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