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# NEWSLETTER

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## Welcome to the twenty-fifth edition of our newsletter and the last for 2020

I would like to take this opportunity and thank all existing and new clients for your continued support throughout this, our eleventh year in business. Your custom is greatly appreciated.

Dear Readers

I wish to thank you for being a client in our practice. We do appreciate and value your business. We aim to provide a good service in a timely manner, and provide the best possible advice/solutions to your business and questions. This year, unquestionable has to be the most challenging/demanding/stressful year that I have been in, in my 11 years of business due to Covid-19. Although, the majority of business have recovered more quickly than expected and now are performing financially well. Any businesses that are in the construction industry or indirectly associated are having a good year. Those clients in the retailing and the hospitality industries—there are some are mixed results here, some are doing well and some that are not.

One of the key things to have learnt this year, is the need to adapt to the changing market of consumers and your clients. What we did last year—may not apply this year.

**IRD UPDATES:** The main one was the announcement of a new top personal tax rate of 39% for individual income over \$180,000, with effect from 1 April 2021. I think this is a disincentive for people to work harder and smarter. For the majority of self-employed people, leaving a profit in the business at the company tax rate of 28% will occur. Trust's tax rate is still 33%, so there are ways of navigating around paying 39% tax. This new top tax rate will mainly affect PAYE salary earners who work for organizations. Don't be surprised if some of these people start forming new labor contracting companies.

IRD small business cash flow (Loan) scheme has now been some changes:

- No interest will be charged if the loan is repaid within 2 years (currently 1 year)
- Applications can be made up to 31 December 2023 (extended by 3 years)
- Restrictions on how the loan can be used have been eased. As well as core operating costs you can also use the loan to invest in your business.

What remains the same:

- Must have 50 or fewer employees
- Been in business on the 1 April 2020 and suffered a 30% decline in revenue due to Covid-19.
- Maximum amount \$10,000 plus \$1,800 per employee
- Loan period 5 years, interest rate 3%

### BRIGHT LINE TEST FOR RESIDENTIAL PROPERTY

IRD have been sending out letters to clients who have bought and sold property within 2 years or 5 years depending on the year in which the property was purchased.

We all knew at some stage—when IRD would start auditing/enforcing this new tax law. Well I can tell you, I've already have written correspondence (this month) from a IRD compliance officer in Auckland, fair to say they are a well-qualified, chartered accountant with a Master degree. So IRD are using their top staff to investigate.

If you receive a letter or text from IRD—please contact me in the first instance. Do not contact IRD. In almost all cases, your main home does not apply to the bright-line test. Also inherited property, commercial property and farms/land over 20 hectares are exempt.

It's only if you purchase another property or rental property. The bright line test date started on or after 1 October 2015 to 28 March 2018 (property sold within 2 years), if you purchased a property after 28 March 2018—the bright line test is now 5 years.

This is a complex tax area selling (land and buildings, property development), with increasing house prices, there are potentially large capital gains to be made. If your intention is to buy and sell a property to make a profit—you are automatically caught. There are other property tax laws as well as the bright-line test, IRD can use.

At the end of the day, if your intention is to "flip" a house, declare this to IRD. You might have to pay tax at 33% but you are financially better off now than before you started, and there potentially good returns to be made in a short period of time (3-12 months).

Please contact myself if you have any questions around business start ups or tax issues.

Iona and I wish you all a Merry Christmas and a prosperous New Year for 2021.

*Darren Parlato*





## GST OCTOBER/NOVEMBER 2020

Just a reminder that this period's GST payment is due on **15 January 2021**. For those clients who's GST returns we complete, we would like to finalise your GST return before we close for the Christmas and New Year period, so that you know how much (if any) GST you have to pay well in advance of this payment date. This will also assist with cash flow planning.

## 2021 2ND PROVISIONAL TAX PAYMENT— DUE 15 JANUARY 2021

We have sent out the 2nd provisional tax notices to those clients who are required by IRD to pay their 2nd instalment. Please contact me if you think you may have difficulty in paying this instalment.

I realise that the GST payment for the period ending 30 November 2020 is also due on this date.

If there are any clients who think or would like to make a voluntary provisional payment, please contact our office.

**2020 Terminal Tax is due 7 April 2021.**

## DEPRECIATION ON COMMERCIAL BUILDINGS

- Reintroduced from 1 April 2020
- Does not apply to residential buildings
- Applicable rates: 2% for the diminishing value method and 1.5% for the straight line method.

## LOW VALUE ASSETS

Assets brought between 17 March 2020 and 16 March 2021 can be written off as tax-deductible expenditure up to a cost of \$5,000 provided they meet the usual criteria for low value asset write offs.

The threshold for low value assets temporarily increases from \$500 to \$5000—Effective from 17 March 2020—16 March 2021. So if you are thinking about purchasing or replacing an asset, this is the time to do it, before 16 March 2021.

Threshold permanently increases to \$1000—Effective from 17 March 2021.

## INCOME TAX RATES 2020/2021

| Individual Income   | Tax Rates |
|---------------------|-----------|
| \$0 - \$14,000      | 10.5%     |
| \$14,001 - \$48,000 | 17.5%     |
| \$48,001 - \$70,000 | 30%       |
| \$70,001—\$180,000  | 33%       |
| \$180,001 and over  | 39%       |

### Companies

Any profit left in the company the 2020/2021 year will be taxed at 28%, per last year

### Trusts

The tax rate on trustee income remains the same as in previous years, at 33%.

### Maori Authorities

Maori Authorities rate 17.5% for the 2020/2021 year.

## FOOD AND DRINK EXPENSE CLAIM

Food and Drink provided away from your business premises is only 50% deductible.

**E.g.** Sarah invites a supplier to a business lunch at a local restaurant and pays the bill, which comes to \$60. She can claim 50% of the cost (\$30) in her income tax return.

**Gifts of Food and Drink**—Gifts of Food and Drink that will provide a private benefit to the recipient and a business benefit to the tax payer are only 50% deductible.

**E.g.** John, a real estate agent, sends a gift basket containing a bottle of wine, some cheese and various household items, such as tea towels and soaps to the purchaser. He can deduct the full cost of the tea towels and soap but he can only deduct 50% of the cost of the wine and cheese.

## EMPLOYING CASUAL STAFF OVER THE HOLIDAY PERIOD

With the holiday period approaching, we thought it timely to remind you about your obligations if you employ students or casual staff over this period.

Like any new employee, students or casual staff need to complete a Tax code declaration (IR330) form that includes their IRD number and tax code.

**KIWISAVER** If you hire employees on a temporary contract for less than 28 days, you do not have to enrol them for KiwiSaver. However, if they want to join KiwiSaver, or they are already a member and they want you to make KiwiSaver deductions, they must give you a KiwiSaver deduction form (KS 2)

## HOLIDAY PAY OVER CHRISTMAS & NEW YEAR

We can be of assistance here if you are not sure how to calculate holiday pay entitlements.

Christmas Day and Boxing Day fall on Friday and Saturday this December, so these days are statutory holidays for those employees who would normally work on these days. Boxing day's public holiday will be Mondayised to 28th December.

## GOVERNMENT UPDATES

We suggest that our clients go this website: [www.business.govt.nz](http://www.business.govt.nz) and subscribe to the newsletter. They send out very informative information.



**OFFICE HOURS**  
8.30am—5.00pm



Xero Certified Advisors, and MYOB Banklink Certified Specialist.

### Disclaimer

This newsletter has been carefully prepared but has been written in general terms only and therefore should not be relied upon to provide specific information without also obtaining professional advice of each particular situation.