cooperaitken accountants limited
creating freedom in your business

Carissa Cressy, Director
P: 07 888 8002
E: carissa@cooperaitken.co.nz

The COVID-19 Tax Response

In late March and early April we got hit with a significant amount of information coming through from varying sources covering everything from health to employment to the economy. Whilst a lot of this information related to immediate action, various tax initiatives introduced by the government, to help ease the financial pressures for tax payers in light of COVID-19, had more of a long term focus.

We are starting to see the impact of some of these initiatives come through now so we thought it would be a timely reminder of what is on offer from the current government.

1. The **tax loss carry back scheme** has not seen a great deal of application to date and most tax payers are actually unaware that you can apply the scheme to any business loss in the 31/03/2020 or the 31/03/2021 tax year.

The tax loss carry back scheme allows you to apply losses generated in a tax year back against the preceding tax year's profit which, if you have paid tax in the prior year, could result in a tax refund now being available.

We do not anticipate seeing a lot of applications of the scheme until the completion of the 2021 income tax returns but in some instances applying the scheme to the 2020 tax year may be advantageous. The scheme will be available until 31st March 2022, which coincides with the IRD filing date for 2021 income tax returns.

If you expect to have a loss in the 2021 tax year, you should review your provisional tax payments now as these may not be required.

2. In the 2020 income tax return landlords will see the application of the **'ring-fencing of rental losses'** for the first time. This rule no longer allows rental losses to offset other sources of income which may have historically provided taxpayers with tax refunds. Unlike the above business losses, the loss carry back scheme cannot be applied to residential rental losses from one year to the next as these losses are now ring-fenced.

3. Some of you may have noticed that you are not currently paying any 2021 **provisional income tax** where you may have been a provisional tax payer in the past. This may be due to the provisional tax threshold being increased on residual income tax RIT) from $2,500 to $5,000, in an attempt to allow taxpayers to retain their cash for longer. Taxpayers should be aware that this will not impact the overall amount of tax you pay, only the timing of the tax payments. Some taxpayers may wish to voluntarily pay tax over the year to smooth cashflow.

This is a permanent change to the legislation effecting most taxpayers from 1 April 2020 and may result in some taxpayers no longer being provisional tax payers. If you haven't filed your 2020 income tax return you may have fallen out of the regime based on your 2019 RIT but you may still be liable for provisional tax once you file your 2020 income tax return.

4. From the 2020-2021 tax year **depreciation rates** have changed for commercial and industrial buildings. Previously at a rate of 0%, this has been increased to 2% so it is a reintroduction of the rates available pre-2011. It is important to note that for buildings acquired pre-2011, the depreciation will automatically be 'turned back on' whereas buildings acquired after 2011 there is the option whether to depreciate or not. Residential building depreciation rates however, remain at 0%.

5. The change that has seen the earliest impact on tax payable has been the **increasing of the asset write off threshold** from $500 to $5,000, and this took effect on 17 March 2020. This allows the immediate deduction of assets purchased, that cost less than $5,000, so in some cases this has resulted in a reduced 2020 income tax liability.

The increase of the threshold is a permanent increase from $500 to $1,000 from 17 March 2021, so from now until the 17 March 2021 there is a short timeframe to utilise the threshold up to $5,000 before it drops down to $1,000 where it will stay. We would encourage tax payers to make use of the increased threshold if capital expenses are required or anticipated.

6. Changes to the **tax loss continuity rules** for companies are still being reviewed but we could see the introduction of a 'same or similar business' test meaning companies could change their shareholding more than 51% and keep their tax losses as long as the business continues in the same way it did before ownership changed.

We will be reviewing and applying all the initiatives above for our clients to ensure they are in the best tax position available. We anticipate further tax policy changes in the post-election environment so we will keep you updated on these as they are released.

Please get in touch with any questions you may have 07 888 8002.