JUN - JUL 2023

VOL 04

APEX ACCOUNTANCY LIMITED

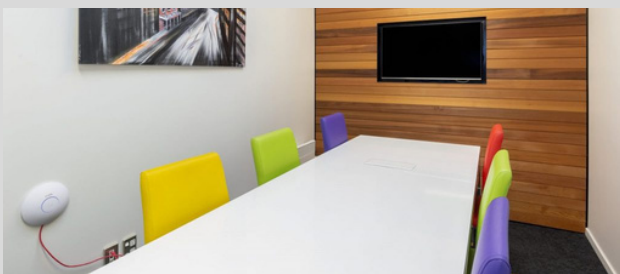
# NEWSLETTER

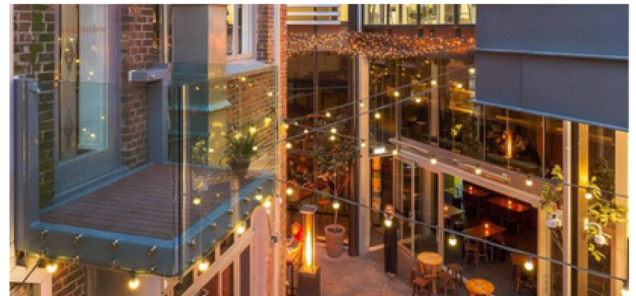
## NEW BUILD EXEMPTIONS

A new build refers to a self-contained residence that has been added to the land on or after 27 March 2020 and has received a Code Compliance Certificate (CCC) under the Building Act 2004. (pg 5)

## PENALTIES AND INTERESTS

The penalties that apply to almost all taxes include late filing penalties, late payment penalties, shortfall penalties and criminal penalties. (pg 8)





## LEAVING NEW ZEALAND: WHAT YOU NEED TO KNOW

If you are planning to leave New Zealand, there are several important considerations from a tax perspective. (pg 10)

## CONTACT US:

admin@apexaccounting.co.nz

Myla: 027-276-2588
Rachel: 022-301-5867

www.apexaccounting.co.nz

225 High Street, CBD, Christchurch 8011

Connect, Engage, and Stay Informed: Like Our Facebook Page Today! www.facebook.com/apexaccountancyltd/

APEX ACCOUNTANCY LTD

Welcome to our newsletter!

We are delighted to bring you the latest updates and insights on various topics related to tax, finance, business management, and more. In each edition, we strive to provide valuable information and practical tips to help you navigate the complexities of the financial world and make informed decisions for your business.

From discussing sustainability reporting and its impact on businesses to exploring the relationship between ESG scores and the cost of credit, our articles aim to shed light on important trends and issues that can affect your organization's success. Additionally, we address common challenges faced by our clients, such as reconciling unfamiliar transactions in Xero and streamlining GST reporting processes.

Our team is dedicated to supporting your financial journey and helping you achieve your goals. We encourage you to dive into the articles, gain insights, and reach out to us for any further assistance or guidance you may need.

Thank you for being a valued part of our community. We hope you find this newsletter informative and valuable for your business.

## Who needs to file an income tax return in New Zealand?

Understanding who needs to file a tax return is essential for individuals navigating the tax landscape. We'll walk you through the key points, including filing requirements, deadlines, extensions, and more. Stay informed and ensure a seamless tax filing experience.

- **Individual Income Tax Return (IR3)**

At the end of the tax year (April 1st to March 31st), individuals may need to file an IR3. This return provides crucial information about your income and expenses, calculates any refunds or tax liabilities.

- **Filing Requirements**

If you received over $200 (pre-tax) income that has not been reported, even for a portion of the tax year, you must complete an IR3. Non-residents, on the other hand, should file an IR3NR.

- **Completing Your Return**

When it's time to complete your return, the IRD will notify you either via email in myIR or by sending a paper return. For a quicker processing time, the IRD encourages using the online platform, myIR.

- **Deadline and Extensions**

The deadline for submitting your return is typically July 7th unless you have a tax agent or an approved extension of time. If you require more time, you can apply for an extension to file your return later.

© 2023 APEX ACCOUNTANCY LTD

- **After Filing**

Once you've filed your return, the IRD will send you a notice of assessment to confirm receipt. It will indicate any refund you may be entitled to, or any tax payment required. If you discover any mistakes, please notify the IRD promptly.

- **Informing about Changes**

It is essential to inform the IRD when you have new types of income or if existing income sources cease. The easiest way to update this information is through myIR or by contacting the IRD directly.

- **Income Tax Assessments**

If your income comprises only of salary, wages, or already taxed investment income (e.g., bank deposits or savings interest), you will receive an income tax assessment. Additional information may be requested to finalize your assessment accurately.

- **Refunds, Tax Bills, and Write-Offs**

Your income tax assessment will indicate whether you have paid the correct amount of tax, are eligible for a refund, or have an outstanding tax bill. In certain cases, IRD may automatically write off the amount owed.

- **Unsure about Filing?**

If you are uncertain whether you need to file an IR3, the IRD recommends that you reach out to a dedicated team for guidance.

Remember, complying with your tax obligations ensures a smooth process and helps you stay on top of your finances.

We understand that navigating tax filing obligations can sometimes be complex. That's why we're here to help! If you have any questions, need clarification, or require assistance with your tax filing process, our team is ready to support you every step of the way.

Don't hesitate to reach out to us for personalized guidance and expert advice. We're dedicated to making your tax filing experience as smooth as possible.

*(See Income tax for individuals; Income tax assessments; Individual tax return (IR3); Non-resident individual tax return (IR3NR); I have been asked to complete an individual tax return (IR3))*

If you have a tax agent, you could be granted an extension for filing your tax returns.

## Financial Support and Its Impact on Tax Filing

Financial support received during the 2023 tax year can affect your tax return filing. Here are the key points to keep in mind:

- **Government Subsidies**

If you received a wage subsidy, leave subsidy, or short-term absence payment, it is crucial to declare that income on your income tax return. This includes payments received through other entities like companies, partnerships, or trusts.

When filing through myIR, wage and leave subsidies should appear automatically in the 'Government subsidies' field of your return. Please ensure the amounts are correct.

- **COVID-19 Support Payments**

Various support payments were made available based on specific circumstances. The COVID-19 Short-Term Absence Payment (STAP) is for individuals who need to stay at home while awaiting COVID-19 test results and cannot work from home.

The COVID-19 Leave Support Scheme (LSS) provides support to those who have been instructed to self-isolate by a doctor or health official and cannot work from home.

The COVID-19 Wage Subsidy Scheme (WSS) was available to businesses, employers, and self-employed individuals who experienced a decline in revenue due to COVID-19.

- **Cultural Sector Emergency Relief Grant (CSERG)**

Self-employed individuals in the arts, culture, or heritage industry affected by a move to 'Red' under the Covid-19 Protection Framework could apply for the CSERG. This grant should be declared in the 'Government subsidies' field of your IR3/IR3NR return.

- **Resurgence Support Payment (RSP) and COVID-19 Support Payment (CSP)**

The RSP was available to support viable businesses facing a 30% revenue drop due to an increase in COVID-19 alert levels. The CSP assisted businesses experiencing a 40% or more revenue decline due to various COVID-19 circumstances.

It is important to note that RSP and CSP should not be included as income in your tax return. However, if the payments were not used for business expenses, they may need to be repaid.

- **Small Business Cashflow Scheme (SBCS) Loan**

Interest paid on the SBCS loan can be claimed as a business expense in your tax return. Repayment terms allow five years to pay off the loan, with the first two years interest-free.

Please be advised, accurate reporting of financial support received ensures compliance with tax regulations.

*(See Financial supports that may affect your tax return; Leave subsidies; Cultural sectors and taxes; Covid-19*

© 2023 APEX ACCOUNTANCY LTD

Resurgence support payment (RSP); Covid-19 support payment (CSP); Small business cash loan)

## Claiming Mortgage Interest for Residential Rental Properties

There are rules and limitations regarding the claiming of mortgage interest for residential rental properties. Here are the key points to understand:

- **Phasing out of Interest Deductions**

For residential rental properties acquired before 27 March 2021, the ability to deduct interest is being phased out between 1 October 2021, and 31 March 2025.

For properties acquired on or after 27 March 2021, no interest can be claimed from 1 October 2021, unless an exclusion or exemption applies.

- **New Loans Drawn Down**

New loans drawn down on or after 27 March 2021, will not allow interest deductions from 1 October 2021, onwards.

- **Foreign Currency Loans**

If your rental property is financed by a loan in foreign currency, any interest paid on that loan is non-deductible from 1 October 2021, unless it is refinanced with a New Zealand dollar loan.

- **Phased Interest Deductions for Pre-27 March 2021 Properties**

The percentage of interest that can be claimed varies depending on the date the interest was incurred. The phased deductions are applicable until 31 March 2025, after which no interest can be claimed:

| Date interest incurred | Percentage of interest that can be claimed |
|---|---|
| 1 April 2020 to 31 March 2021 | 100% |
| 1 April 2021 to 30 September 2021 | 100% |
| 1 October 2021 to 31 March 2022 | 75% |
| 1 April 2022 to 31 March 2023 | 75% |
| 1 April 2023 to 31 March 2024 | 50% |
| 1 April 2024 to 31 March 2025 | 25% |
| On or after 1 April 2025 | 0% |

- **Acquisition Date for Tax Purposes**

The acquisition date for tax purposes is the date a binding sale and purchase agreement is entered into, even if some conditions still need to be met.

A property purchased on or after 27 March 2021, can qualify for phased-out interest deductions only if the offer was made on or before 23 March 2021, and could not be revoked or withdrawn before 27 March 2021.

- **Property Types Covered**

The interest limitation rules apply to residential properties in New Zealand, including properties with dwellings, bare land that could be used for

residential property, and properties used for short-stay accommodation.

- **Exclusions and Exemptions**

Main homes are generally not affected by the interest limitation rules. However, interest deductions for private use are not allowed.

Other properties excluded from the rules are listed in Schedule 15 of the Income Tax Act 2007. Certain entities and specific circumstances may also qualify for exemptions from the rules.

**Exemptions from the Interest Limitation Rules**

If the interest limitation rules apply to your property, you may still be able to claim interest if you qualify for one of the following exemptions:

1. **Land Business Exemption**

The land business exemption applies to interest relating to land if you hold that land as part of a:

- development,
- subdivision,
- land-dealing business, or
- business of erecting buildings on land.

This exemption also includes interest related to remediation work and other expenses from the ownership and development of the land.

2. **Property Development Exemption**

If you do not qualify for the land business exemption, the development exemption applies to interest relating to land that you:

- develop,
- subdivide, or
- build on to create a new build.

However, you can only deduct interest if existing tax rules allow you to, even if you qualify for the exemption.

The development exemption applies from the time you start developing the land and typically ends when you sell the land or receive a Code Compliance Certificate (CCC) for your new build. Once your new build receives its CCC, the new build exemption will apply instead.

3. **New Build Exemption**

- **New Build Definition**

A new build refers to a self-contained residence that has been added to the land on or after 27 March 2020, and has received a Code Compliance Certificate (CCC) under the Building Act 2004.

It can also include self-contained residences acquired off the plans that receive their CCC on or after 27 March 2020.

- **To Qualify as New Build**

To qualify as a new build, the residence must be self-contained with its own cooking and bathroom facilities and a separate entrance, even if it shares access with other units in the building.

© 2023 APEX ACCOUNTANCY LTD

The new build exemption applies to various scenarios including:

- a self-contained dwelling added to bare land,
- land with an existing dwelling,
- multiple self-contained dwellings replacing an existing dwelling,
- conversions from commercial premises or hotels/motels, and
- conversions of part of a dwelling from a single dwelling.

An existing property can also qualify as a new build if it was:

- previously on the earthquake-prone buildings register, but has been remediated and then removed from the register on or after 27 March 2020
- has been at least 75% re-clad because of weathertightness issues and received a CCC for the re-clad on or after 27 March 2020.

- **The Start Date of New Build Exemption**

The start date for the new build exemption depends on when the CCC is issued or when the agreement to purchase off the plan is entered into.

- **End Date for the New Build Exemption**

The exemption generally expires 20 years after the CCC is issued or when the new build ceases to exist on the land, whichever comes first.

- **Apportionment for Partial New Build Land**

Apportionment may be necessary for land with both a new build and a non-new build, as only interest incurred in relation to the new build land qualifies for the exemption.

- **Renting Out Holiday Homes**

The interest limitation rules apply to interest relating to residential properties that are rented out and used privately some of the time, such as holiday homes.

Interest expenses for such properties are non-deductible from 1 October 2021, unless they qualify for the phasing out approach.

When you rent out a holiday home, you are required to pay tax on the income generated. To calculate the tax payable, you need to deduct allowable rental expenses from your gross rental income.

The method for calculating these expenses depends on the private use of the holiday home by you and the number of days the holiday home was unused.

- **Mixed-Use Asset Rules**

If your holiday home was both used to earn rental income and used by you or an associated person, and was unused for 62 days or more, you must use the mixed-use asset rules to calculate the tax.

- **Actual Cost Method**

You should use the actual cost method to determine the tax payable on rental income from your holiday home if either of the following applies:

- The home earned rental income and was not used by you or an associated person.
- The home was unused for less than 62 days.

The actual cost method varies depending on your use of the holiday home:

- If you did not use it privately, deduct all rental expenses from the rental income for the time it was rented out and available to rent.
- If you or an associated person used it privately, you need to calculate the expenses based on the days it was rented out and available to rent.

  You can only deduct expenses for the time it was available to rent, provided you can provide evidence that you did not use the holiday home privately during this period. Expenses for private use cannot be deducted.

- **GST (Goods and Services Tax)**

For residential rental income from long-term rentals, GST is exempt. You do not need to register, file, or claim GST for your rental income and expenses. However, renting out a holiday home on a short-term basis is considered a taxable activity for GST.

If you are not already registered for GST and your short-term rental income, combined with income from other taxable activities, exceeds $60,000 in a 12-month period, you need to register for GST.

If you are registered for GST and renting out short-term, you should:

- Pay GST on your short-term rental income.
- Claim GST on allowable rental expenses.

*(See Property interest limitations rules; Exemptions from the interest limitation rules; QB 17/02: Date of acquisition; Renting out a holiday home; Pay tax on your rental income; Financial statement summary (IR10))*

For properties acquired on or after 27 March 2021, no interest can be claimed from 1 October 2021, unless an exclusion or exemption applies.

© 2023 APEX ACCOUNTANCY LTD

## Penalties and Interest

To help taxpayers stay on top of their tax obligations, the IRD provides online resources that can assist in managing taxes effectively.

- **Why does the IRD charges penalties and interest?**

The IRD realizes that sometimes taxpayers may make late payments or file their returns late due to various reasons. That is why the IRD has implemented measures such as grace periods, instalment arrangements, and penalty remissions (and in some cases, interest remissions) to ensure that individuals and businesses who generally meet their obligations are not unfairly penalized.

The IRD charges penalties and interest consistently to all taxpayers who pay or file their taxes late. Interest is charged on overdue or underpaid taxes, while the IRD also pays interest to taxpayers for the period during which they did not have use of the money.

- **How the IRD calculates the most common penalties?**

The penalties that apply to almost all taxes include:

1. Late filing penalties
2. Late payment penalties
3. Shortfall penalties
4. Criminal penalties

The specific penalties charged depend on the type of tax return to be filed and the extent of lateness in payment. The type and amount of penalties imposed are determined by factors such as the type of return filed, the time of payment, and the nature of any errors made.

- **Late Filing Penalties**

The IRD charges late filing penalties when taxpayers fail to file their tax returns on time. The penalties vary for each type of return. It is important to file your return even if you cannot pay the tax on time to avoid incurring the late filing penalty.

Late filing penalties apply to various returns, including:

- income tax returns,
- employment information,
- GST returns,
- residential land withholding tax,
- foreign investment PIE period returns, and
- PIE annual reconciliation statements.

Penalties may be charged if there is no valid reason or extension of time for not filing.

For income tax returns, the penalty amount for filing late depends on the net income. The penalty is based on the net income shown in the previous year's return if the current year's return has not been filed.

Once the late return is filed, the penalty is adjusted based on the actual net income for the current year.

© 2023 APEX ACCOUNTANCY LTD

The penalty amounts for income tax returns are as follows:

| Net Income | Penalty |
|---|---|
| Less than $100,000 | $50 |
| $100,000 to $1 million | $250 |
| More than $1 million | $500 |

Late filing penalties for employment information and GST returns have specific penalty amounts set by the IRD. Monthly and payday filers have different deadlines for paying the penalties.

- **Late Payment Penalties**

The IRD may charge late payment penalties for unpaid taxes, with some exceptions. Late payment penalties are not charged for unpaid taxes of $100 or less, but late payment interest may still apply.

The penalty rates for late payments are as follows:

- **1% penalty** on the day after the payment due date
- **4% penalty** for the remaining tax amount on the 7th day after the payment due date
- **1% penalty** for each month the remaining tax amount is unpaid.

In some cases, taxpayers may be granted a grace period before penalties are charged for their first late payment within a specified period.

Penalty amounts and grace periods may vary depending on the specific tax type, and different rules apply for child support penalties.

- **Shortfall Penalties**

The IRD may charge a shortfall penalty if taxpayers underpay their tax due to errors in their returns or if they fail to file a required return.

There are five types of shortfall penalties, each with its own penalty rate. The types of shortfall penalties include:

1. Reasonable care penalty: 20% of the tax shortfall
2. Unacceptable tax position penalty: 20% of the resulting tax shortfall
3. Gross carelessness penalty: 40% of the resulting tax shortfall
4. Abusive tax position penalty: 100% of the resulting tax shortfall
5. Tax evasion penalty: 150% of the resulting tax shortfall

The penalty rates vary depending on the taxpayer's behavior and the severity of the tax shortfall.

- **Criminal Penalties**

Criminal penalties apply to all taxes and duties. If taxpayers commit tax-related offenses, they may face fines or imprisonment. Offenses can include absolute and strict liability offenses, knowledge offenses, evasion offenses, obstruction offenses, and offenses related to electronic sales suppression tools.

© 2023 APEX ACCOUNTANCY LTD

Penalties can be reduced in certain circumstances, such as when there is a voluntary disclosure, past good behavior, or a temporary shortfall that is reversed or corrected.

The IRD aims to ensure fairness and encourage compliance by administering penalties and interest in a consistent and transparent manner.

*(See IR240 - Penalties and interest; Late filing penalties; Late payment penalties; Shortfall penalties; Criminal penalties; Waving payment penalties; Lowering your shortfall penalty)*

---

## Leaving New Zealand: What You Need to Know

New Zealand tax residents who are leaving New Zealand. If you are planning to leave New Zealand, there are several important considerations from a tax perspective:

1. Tax Residency Status: Determine whether your tax residency status has changed.
2. Double Tax Agreements: Understand how double tax agreements may impact the taxation of your New Zealand income in your new country or territory of residence.
3. Finalizing Your Tax Position: Take the necessary steps to finalize your tax position in New Zealand.
4. Social Policy Program Updates: Update relevant social policy programs, such as student loans, KiwiSaver, Working for Families, and child support.

- **Working Out your Tax Residency Status**

If you are currently a New Zealand tax resident, you will become a non-resident taxpayer if both of the following conditions are met:

- You do not have a permanent place of abode in New Zealand.
- You are away from New Zealand for more than 325 days in any 12-month period.

Tax residency status for individuals is determined based on these criteria.

- **Double Tax Agreements (DTAs)**

If your new country or territory of residence has a double tax agreement (DTA) with New Zealand, it may affect how your New Zealand income is taxed. Familiarize yourself with the provisions of the DTA to understand its impact on your tax obligations.

- **Finalizing your tax position**

When you leave New Zealand and your tax residency status changes, your tax obligations will also change.

- **Income Tax**

If you have earned income and know that you are making a permanent move, you can file an Individual tax return (IR3) before the end of the tax year. Report the income earned between 1 April and the date you left.

You can also file your tax return on the filing date, and using a tax agent will give you more time.

If you continue to earn income from a New Zealand source after becoming a non-resident taxpayer, you may still need to pay tax on it. In such cases, you may need to file a Non-resident individual tax return (IR3NR).

However, if your only income is exempt or tax has been correctly deducted from interest, dividends, and royalties, you may not need to file a return.

- **Bank Accounts and Shares**

If you maintain a bank account or hold shares in New Zealand, update your details to reflect your non-resident taxpayer status. This allows the payer of your interest or dividends to deduct the correct amount of non-resident withholding tax (NRWT).

- **Tax Debt**

If you have any tax debt, contact the IRD to explore your options for payment. You may be able to make a full payment, set up an installment arrangement, or request a write-off in cases of serious hardship.

- **New Zealand Superannuation and Veteran's Pension**

If you receive New Zealand superannuation or veteran's pension and plan to move overseas or spend an extended period outside New Zealand, your payments may be affected. Contact Work and Income New Zealand to discuss your situation and understand how the taxation of your payments may change.

- **Portfolio Investment Entities (PIEs)**

If you invest in a portfolio investment entity (PIE) and become a non-resident taxpayer, you will need to change your prescribed investor rate (PIR) to 28%.

However, if you become a notified foreign investor (NFI), you may be able to invest in zero-rate or variable-rate PIEs at lower rates.

Notify your PIE of your change in tax residency to ensure proper tax treatment of your investments.

- **Trusts**

If you are a New Zealand tax resident and settlor of a trust, becoming a non-resident taxpayer will impact how the trust is taxed. Consult us before your status changes to understand the implications for your trust.

If you are a beneficiary and become a non-resident taxpayer, you will only pay tax in New Zealand if the income is from a New Zealand source. The trustee should provide you with the necessary information to complete a tax return if required.

If you are a trustee and become a non-resident taxpayer, the settlor who is a New Zealand tax resident becomes an agent for the trust. The settlor must pay tax on the trust's income in New Zealand and file a Settlors of trusts disclosure (IR462).

- **Shares in Overseas Companies**

If you hold shares in overseas companies and have applied the foreign investment fund (FIF) rules, your change in tax residency status will affect how you are taxed.

As a non-resident taxpayer, the FIF rules may not apply to you. However, if you were required to apply the rules, you should include any dividends received in your tax return up to the date you leave.

- **Financial Arrangements Rules**

If you are party to financial arrangements such as foreign currency bank accounts, loans, or government stock and you are leaving New Zealand, you may need to perform a final calculation called a base price adjustment (BPA).

The applicability of this calculation depends on various factors and consultation with a tax professional is recommended.

- **Updating Social Policy Programs**

When leaving New Zealand, there are several social policy programs that may require updates, such as student loans, KiwiSaver, Working for Families, and child support. Check the specific rules and timeframes for each program to ensure compliance.

It is important to understand and fulfill your tax obligations before leaving New Zealand to avoid any potential issues. If you have any questions or need assistance, you can also contact the IRD for guidance and support.

*(See Leaving New Zealand; Double tax agreements (DTA's); Tax residency for individuals; Non-resident individual tax return (IR3NR); New Zealand Superannuation (NZ Super); Portfolio investment entities (PIE) for non-residents; Financial arrangement rules (FA rules); I am leaving New Zealand)*

## From the Court: Media Updates

**Auckland Company Director Sentenced to 6 Months Home Detention for Tax Evasion**

Xiangyu Fan, a company director based in Auckland, has been sentenced to 6 months of home detention after pleading guilty to tax evasion charges.

In the Auckland District Court on 3 May, Fan admitted to three representative tax evasion charges and received the home detention sentence.

The charges were related to Fan's involvement with three companies under his control: Apollo Group Ltd, First Construction Group Ltd, and First Finance Ltd. These companies collectively failed to pay $663,414.44 in PAYE (Pay as You Earn) taxes.

From December 2018 to May 2022, there were 37 consecutive periods in which the companies were supposed to remit PAYE but failed to do so. Throughout this period, Fan received multiple warnings about the consequences of not fulfilling the obligation to transfer the deductions made from employees' wages to the Inland Revenue.

The judge took into consideration the significant amount of repayments made by Fan

at the time of sentencing. This factor played a role in the decision to impose a 6-month home detention sentence.

*(Source: Media Release - 04 May 2023)*

## Work from Home Employee Expenses: Can They be Reimbursed and Tax Deducted?

With the rise of remote work, many employers and employees are grappling with the question of reimbursing expenses related to working from home.

Understanding the rules and guidelines surrounding these reimbursements is crucial for both employers and employees to ensure compliance and take advantage of potential tax deductions.

- **Reimbursing Work-from-Home Expenses: An Employer-Employee Perspective**

Reimbursing expenses for employees who work from home is an important consideration for employers, but it is not an automatic employment right. The decision to reimburse employees for work-from-home expenses depends on the negotiations between employers and employees.

However, it is worth noting that if employers do choose to reimburse these expenses, the payments will not be taxed as part of the employees' taxable income. This means that employees do not have to pay tax on the reimbursement amounts they receive.

- **Eligible Expenses**

Employers can claim a tax deduction for the reimbursements made to employees for work-from-home expenses. This deduction helps offset the costs incurred by the employer. To provide clear guidelines on the tax treatment of these reimbursements, Inland Revenue issued determination EE004 on 27 March 2023.

- **Determination EE004**

Determinations are official documents that provide guidance on tax-related matters. In this case, determination EE004 focuses specifically on reimbursing payments made to employees who work from home and payments made for the employees' use of personal telecommunications tools and usage plans.

**Reimbursement Options:**

**Scenario 1: Employee works from home without using their own telecommunications tools or usage plans:**

- **Reimbursement**

Up to $20 per week can be treated as exempt income for the employee. This amount recognizes potential household costs incurred while working from home.

© 2023 APEX ACCOUNTANCY LTD

**Scenario 2: Employee works from home and uses their own telecommunications tools or usage plans for their employment:**

- **De Minimis Option**

Up to $27 per week can be treated as exempt income for the employee. This amount recognizes additional household costs and a potential increase in telecommunications costs.

- **Principally Business Use Option**

Up to $20 per week can be treated as exempt income for the employee. Additionally, employers can reimburse up to 75% of the employee's total usage plan bill, which is considered exempt income.

- **Principally Private Use Option**

Up to $20 per week can be treated as exempt income for the employee. Employers can also reimburse up to 25% of the employee's total usage plan bill, which is considered exempt income.

**Scenario 3: Employee does not work from home but uses their own telecommunications tools or usage plans in the course of their employment:**

- **De Minimis Option**

Up to $7 per week can be treated as exempt income for the employee. This amount covers all costs incurred by the employee, including depreciation loss on existing telecommunications assets.

- **Principally Business Use Option**

Employers can treat any reimbursement of up to 75% of the employee's total usage plan bill as exempt income. If the cost of the usage plan varies, a reasonable estimate of likely expenditure is acceptable.

Depreciation loss on existing telecommunications assets owned by the employee can also be reimbursed using the Commissioner's depreciation rates.

- **Principally Private Use Option**

Employers can treat any reimbursement of up to 25% of the employee's total usage plan bill as exempt income. Similar to the previous option, a reasonable estimate can be used for variable costs.

Depreciation loss on existing telecommunications assets owned by the employee can also be reimbursed using the Commissioner's depreciation rates.

- **Limitations**

It is important to note that this determination does not apply if the employer provides the telecommunications tools and pays for usage. In such cases, fringe benefit tax implications may arise. However, there is an exemption for business tools under section CX 21 of ITA 2007.

- **Safe Harbour or Reimbursement Option?**

Reimbursement for newly acquired telecommunications equipment or furniture.

© 2023 APEX ACCOUNTANCY LTD 

Employers can choose between a safe harbour option and a reimbursement option. The safe harbour option allows employers to reimburse up to $400 for each category without having to identify the costs incurred by employees.

On the other hand, the reimbursement option requires employers to assess the depreciation loss or cost of the asset to determine the appropriate reimbursement amount.

It is important for employers to carefully evaluate the expenses and circumstances of their employees to determine the appropriate reimbursement amounts within the guidelines provided by determination EE004. While the determination is not binding, it serves as valuable guidance for employers and employees regarding the tax treatment of these reimbursements.

*(Source: Determination EE004 - Reimbursing payments made to employees)*

## Drawings vs Salary: Understanding the Differences

The distinction between drawings and wages or salary can be confusing for many clients, and understandably so. It is a complex area that necessitates thorough deliberation. It is important to note that drawings, which are taken by shareholders from a company, are not equivalent to their regular wages or salary.

The decision to opt for drawings or a salary depends on the specific circumstances of each individual.

- **Salary/Wage**

A salary is considered an expense for the company, reducing its profit. When you receive a salary, Pay as You Go (PAYE) tax is deducted from your gross salary and remitted to the IRD (Inland Revenue Department). It is crucial to stay updated with your income tax obligations.

Here are some key points to note:

1. ACC levies are deducted from your shareholder salary, providing income protection in case of an accident.
2. A salary payment history makes it easier for lending purposes.
3. KiwiSaver contributions are deducted from your gross salary and remitted to the IRD for transfer to your KiwiSaver provider.

However, a potential downside of a salary is the risk of paying excessive taxes. If the company is operating at a loss, the shareholders may end up paying unnecessary taxes.

In such cases, it is more advantageous to take drawings throughout the year and determine the shareholder's salary at the year-end.

- **Drawings**

In many small businesses, owners take drawings periodically, and at the end of the year, we as their accountants determine the shareholder's salary.

It is important to note that a shareholder's salary differs from a regular salary or wage. This process involves collaboration between us, the company's accountant and the business owner

to minimize overall tax liability for both the individual and the company.

However, this exercise is not straightforward, as it considers factors such as the personal services regime, Penny & Hooper rules, and shareholders' current accounts, among others. Therefore, seeking our assistance is highly recommended.

Drawings do not impact the profit and loss statement; instead, they are recorded on the balance sheet. Shareholders have a "current account" on the balance sheet, which is where the drawings are recorded. Think of it as an overdraft facility, with interest paid annually on the net drawings.

**For example:**

Suppose the shareholder's current account balance is $0 on 1 April 2023, and they withdraw $6,500 as drawings on 30 April 2023. In this case, the balance sheet will show that the shareholder owes the company $6,500. At the end of the year, if the shareholder has taken 12 x $6,500 in drawings, the current account will indicate that the shareholder owes the company $78,000.

The accountant prepares the accounts and determines that the company made a profit of $150,000 before considering shareholders' salaries and taxes.

After considering the personal services regime, Penny & Hooper rules, and the shareholder's current account, the accountant issues a shareholder's salary of $78,000. This reduces the current account balance to $0 and decreases the company's profit by the same amount ($150,000 - $78,000). Consequently, the company's profit will be $72,000, and the shareholder will pay tax on the $78,000 salary, while the company pays tax on its $72,000 profit.

We, as the accountant ensures that the shareholder's salary complies with tax provisions. Additionally, if the current account shows that the shareholder owes money to the company, interest is charged by the company.

To adopt the drawings approach, it requires discipline to set aside tax for the three provisional tax payments throughout the year. These payments can vary annually, making planning a challenging exercise. Therefore, planning for drawings can also be difficult.

**Other Considerations:**

1. ACC will invoice the company for ACC levies based on the shareholder's salary.
2. KiwiSaver contributions must be paid directly by the shareholder to their KiwiSaver provider.
3. Lenders may be cautious when dealing with individuals receiving shareholder salaries due to the varying amounts from year to year.

Drawings provide the advantage of hindsight, potentially reducing taxes for both the company and the shareholder. This approach is particularly useful for companies with small or no profits.

However, managing drawings is more complex compared to salaries. The topic of shareholder remuneration is intricate, and it is recommended to consult with us to determine the best method for your specific circumstances.

*(Reference: [Heaslip, J. (2021). Drawings versus Salary](#))*

## Sustainability Reporting

Sustainability reporting is the practice of evaluating a business' environmental, social, and economic impacts in its day-to-day operations.

- **Elements covered in a sustainability report:**

1. Environmental sustainability (energy and emissions, waste, biodiversity)
2. Economic sustainability (investments, economic responsibility)
3. Social sustainability (community engagement, employee well-being)

- **Importance of sustainability reporting**

It allows businesses to identify gaps in their practices, set goals for improvement, and measure the success of sustainability initiatives.

- **Governance leadership**

Sustainability reports enable organizational leaders to align their values with their business practices and understand the social and environmental returns of their decisions.

- **Sustainability reporting in different industries:**

1. **Forestry & Carbon Credits** — Increased interest in the forestry sector, driven by climate change agreements, requires measurement and reporting of land use activities for greater efficiency and resource utilization.
2. **Fishing Industry** — Focus on sustainable practices, including quota management and environmental impact reduction measures.
3. **Philanthropic Funds** — Funding organizations seek transparency and reporting of key success measures and indicators aligned with social responsibility objectives.
4. **Ethical Procurement** — Consumer demand for transparency and ethical sourcing, influencing business decisions and consumer choices.

- **The development of a non-financial reporting framework**

The External Reporting Board in New Zealand is developing a voluntary, non-financial reporting framework called "Ngā pou o te kawa ora." The framework aims to increase transparency, provide consistent reporting, and demonstrate the impact on current and future generations.

- **Framework development stages**

The framework development will involve collaboration with Māori reporting entities in stage one, followed by potential amendments and guidance for application to other reporting entities in stage two.

*(Source: XRB: Sustainability Reporting; BDO (2020). Sustainability Reporting)*

## How ESG Scores can Affect the Cost of Credit

- **What are ESG Scores?**

ESG scores are assessments that measure a company's performance in environmental, social, and governance practices. These scores provide an evaluation of a company's sustainability and responsible business practices.

- **Why are ESG Scores Important?**

ESG scores are increasingly important in the financial industry. Investors, lenders, and credit rating agencies are considering ESG factors in their decision-making processes. Strong ESG performance can indicate a company's long-term financial viability and risk management capabilities.

- **How do ESG Scores Impact Creditworthiness?**

ESG scores can significantly affect a company's creditworthiness. Lenders and credit providers now incorporate ESG considerations into their credit assessments.

Higher ESG scores can indicate better risk management, reduced operational risks, and improved financial performance, leading to more favorable terms and lower borrowing costs.

- **Which Factors are Assessed in ESG Evaluations?**

ESG evaluations consider various factors:

1. Environmental factors include carbon emissions, resource usage, and sustainability initiatives.
2. Social factors encompass labor practices, community engagement, and diversity and inclusion efforts.
3. Governance factors focus on board composition, executive compensation, and transparency.

- **How do ESG Scores Influence Interest Rates?**

ESG scores can impact interest rates and the cost of credit. Lenders may offer lower interest rates and more favorable loan terms to companies with strong ESG performance. Such companies are perceived to have lower risk profiles and potential for sustainable growth.

- **What is the Role of Investor Demand?**

Investor demand for sustainable investments is growing. Companies with higher ESG scores may attract more capital from investors who prioritize ESG considerations. This increased market value can lead to lower borrowing costs for these companies.

- **Why is Disclosure and Reporting Essential?**

Transparent ESG disclosure and reporting are crucial. Companies that provide comprehensive and reliable ESG data are more likely to receive favorable assessments from lenders and credit providers. Such disclosure allows for better evaluation of sustainability practices and risk exposure.

*(Reference: The Investopedia Team (2023). What is Environmental, Social, and Governance (ESG) Investing?; Clancy, H. (2021). GreenBiz: How ESG scores can affect the cost of credit)*

---

## Tips to Avoid GST Reporting Delays in Xero: Reconciling Unfamiliar Bank Transactions

As a valued client, we understand that timely GST reporting is crucial for your business. However, we have noticed that one of the common causes for reporting delays is reconciling unfamiliar transactions on your bank feeds on Xero.

To help streamline the process and ensure smooth GST reporting, we recommend taking proactive steps to reconcile your transactions regularly. This article provides valuable tips to save you time, money, and effort by addressing unfamiliar transactions effectively within the Xero platform.

© 2023 APEX ACCOUNTANCY LTD

- **Reconcile Transactions in Xero**

It is essential to reconcile your bank transactions within Xero on a regular basis. By reviewing and matching your transactions promptly, you can identify any discrepancies or unfamiliar entries early on.

Xero's bank reconciliation feature enables you to compare your bank statement with the transactions imported from your bank feeds, making it easier to spot and resolve any discrepancies efficiently.

- **Utilize the "Discuss Tab" on the Reconcile Page**

If you encounter a transaction that you're unsure about or don't know which account code to use in Xero, take advantage of the "Discuss Tab" on the Reconcile page.

This feature allows you to communicate directly with our team by inputting the details of the transaction. We can then assist you in determining the appropriate account code, ensuring accurate categorization of the transaction.

- **Save Time and Effort with Xero's Reconciliation Tools**

Reconciling transactions promptly in Xero saves both time and effort. By addressing unfamiliar transactions early on, we can quickly resolve any uncertainties or discrepancies, avoiding potential delays in your GST reporting process.

Xero's intuitive reconciliation tools, such as bulk coding and bank rule creation, can further streamline the process and help you categorize transactions more efficiently.

- **Enhance Accuracy and Compliance in Xero**

Accurate GST reporting is crucial for compliance with tax regulations. By regularly reconciling your bank transactions in Xero and seeking guidance when encountering unfamiliar entries, you ensure that your reporting is accurate and aligns with the required standards.

Xero's built-in reporting features, such as the GST Return report, simplify the process of generating and submitting your GST reports with confidence.

At Apex, we understand the importance of timely and accurate GST reporting for our clients. We encourage you to incorporate these practices into your financial management routine within Xero to streamline your GST reporting process and experience smoother operations.

Remember, our team is always here to assist you with any questions or concerns you may have regarding GST reporting in Xero. Together, we can make your GST reporting process efficient and hassle-free.

If you have any further inquiries or need assistance, please feel free to reach out to our dedicated team.

— Apex Accountancy Limited