

BUSINESS TAX UPDATE

Inland Revenue's tax news for businesses



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REMINDERS

We have several planning calendars to help you meet your obligations. Remember that if a due date falls on a weekend or public holiday, we can receive your return and payment on the next working day without a penalty being applied. But for provincial anniversary dates, this only applies if you're in the province celebrating the holiday, and only if you usually make tax payments over-the-counter at Westpac.

If you have any suggestions for topics you'd like covered in this newsletter, Email BusinessTax.Update@ird.govt.nz

Small business cash flow scheme (SBCS) loan

Applications are now open for the Small Business Cashflow (Loan) Scheme (SBCS) - a one-off loan to small to medium businesses impacted by COVID-19.

The SBCS is for businesses with 50 or fewer full-time equivalent employees, including sole traders and those that are self-employed. In most cases, eligible businesses will be entitled to a loan amount of \$10,000 plus \$1,800 per full-time-equivalent employee, to a maximum of \$100,000.

The eligibility criteria is the same as for the Wage Subsidy Scheme (WSS) and you can apply even if you haven't applied for the WSS. Please note you'll have to declare you're a viable business, use the money for core business operating costs and enter into a legally binding loan contract.

We recommend you talk to your financial advisor before applying.

The only way to apply is in myIR under 'I want to' and applications are open till 12 June 2020. Funds will be paid directly into your bank account within five working days once approved.

You must be legally allowed to borrow money for your entity to be able to apply for the SBCS loan. Please note your tax agent can not apply on your behalf.

For more details on how the scheme will work, eligibility criteria and a calculator to determine the loan amount that can be borrowed, go to ird.govt.nz/Covid19

Temporary loss carry-back

Businesses expecting to make a loss in either the 2019-20 income year or the 2020-21 income year can use that loss to offset profits they made the year before. In other words, they can carry the loss back one year to the preceding income year. This can be done before the loss year return is filed.

There are two ways to claim your loss carry-back.

- Include the carried-back loss in your tax return – we will automatically refund any overpaid tax.
- Ask for a refund of any provisional tax you have paid for 2019-20 if you are going to carry back a loss from 2020-21.

We can refund some or all of the tax already paid for the preceding year before the loss year has finished by enabling customers to estimate their loss.

If you choose to use the loss carry-back scheme you must first elect to participate in the scheme under the 'I want to' section of myIR. Refunds will be processed quicker for claims made through myIR.

Note: You do not need to have filed the loss year return to claim the loss carry-back.

For more information, how to claim and implications for shareholder employees go to ird.govt.nz/loss-carry-back

Log in or register for a myIR account today ird.govt.nz

Taxation and Social Assistance Urgent Measures

The recent COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 included the following income tax changes.

Depreciation deductions have been reinstated for non-residential buildings from the 2020-21 income year.

The threshold for claiming a deduction for the full cost of a low-value business asset in the year it was purchased increases from \$500 to \$5,000 for assets purchased in the period 17 March 2020 to 16 March 2021. For any assets purchased from 17 March 2021 the threshold reduces from \$5,000 to \$1,000. Depreciation is still available for business assets over those values.

The residual income tax threshold at which provisional tax becomes payable increases from \$2,500 to \$5,000 for the 2020-21 and later income years.

The application date for the broader refundability rules for R&D tax credits is brought forward.

For a detailed explanation a special report on *Covid-19 tax legislation* is available at taxpolicy.ird.govt.nz/publications

Website changes complete and Tax Technical site live

Our work to redevelop the Inland Revenue website is complete, with all content now housed on our new site.

This includes the first release of our new and improved Tax Technical website (taxtechnical.ird.govt.nz), which is the place to go to view all rulings, determinations, interpretation statements and more. Over the past few months we've been beta-testing the site. Customer feedback received during this time helped us further improve this website before the official release.

We'll make further improvements to the Tax Technical site throughout 2020.

Income tax returns due 7 July

Remember to file your tax return on time. The quickest and easiest way to file your income tax return is in myIR.

Advantages of myIR

- You can file anytime, 24 hours a day, 7 days a week .
- Most of your details will be automatically populated and calculated for you.
- You'll receive immediate confirmation we've received your tax return.
- You won't need to worry about it arriving by 7 July through the post.

You can file the following returns in myIR.

- IR3 individual income tax return.
- IR3NR non-resident individual income tax return.
- IR4 companies income tax return.
- IR7 partnerships and look-through companies income tax return.
- IR8 Māori authority income tax return.

If you do not already have a myIR account, go to ird.govt.nz to register today - the 'Register' button is on the top-right corner of our website.

Go to ird.govt.nz/7July to find more information and to file your return.

Paper returns

If you are filing an IR6 trust or estate income tax return or an IR9 clubs and societies income tax return, you will need to do the following:

- print the return
- complete and sign it
- send it to our postal address (printed on the return), ensuring it arrives by 7 July.

New rules for reporting residential property income

From the 2019-20 income year, you can now only claim deductions up to the total amount of income you earn from your residential rental property. You can no longer use excess deductions from your property to offset other income such as salary and wages.

The new residential property deduction rules (also known as the ring-fencing rules) apply to most residential rental properties. The rules do not apply to some residential properties such as your main home and residential properties that are subject to the mixed-use asset rules.

Completing your income tax return

The new rules mean that when you complete your 2019-20 income tax return, your total residential rental property deductions generally cannot be more than your residential property income.

If you have excess deductions (rental losses), this amount must be carried forward to the next year that you earn income from your residential property.

If you own more than one residential rental property and use the portfolio basis for them, you can offset deductions for all properties in the portfolio against income from all properties in the portfolio.

Filing a return in myIR

In the "Build your return" section of your income tax return, make sure both "Residential rental income" and "Other Rental Income" are selected. You need to manually select "Residential rental income".

Unless you have commercial rental income - leave the "Other Rental Income" box blank.

Filing a paper return

Complete the "Residential property" section in a paper return.

We encourage you to use the **Residential property deductions - IR1226** worksheets to help you work out the amounts to put on your income tax return and where to enter them on the return. We also encourage you to use the **Rental income - IR264** guide and the relevant income tax return guide. You can find these on our website.

For more information about the changes to residential property deduction rules go to ird.govt.nz/ring-fencing

Important Message for Research and Development Tax Incentive (RDTI) applicants

Before applying for your General Approval, RDTI applicants need to be familiar with the RDTI requirements. These are set out in the following guides.

Research and Development Tax Incentive: Guidance – IR1240

Research and development supplementary return guide – IR1060

An understanding of this guidance and the concepts is necessary before you complete the general approval applications.

Callaghan Innovation's R&D specialists will assess individual R&D activities. Make sure you provide enough technical detail so that there is no delay in the R&D assessors making their recommendation to us.

More information and resources, as well as a link to the guidance, is available on the RDTI Hub www.rdti.govt.nz