MCI & ASSOCIATES
we're in your corner

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

by the numbers

NEWSLETTER | March 2020

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Changes to Donation Tax Credits

A tax credit is able to be claimed on donations made to organisations and charities that are registered on Inland Revenue's (IRD) list of Donee Organisations.

The amount of the credit is one third of the amount of the donation, and is limited to the amount of a person's taxable income. The claims process is straightforward. However, as with many tax rules, there can be complexity.

The Income Tax Act 2007 requires a donation to be a "…gift of money of $5 or more…", but there is little guidance on the meaning of the phrase. It is generally understood to require the gift to be of money and not goods or services. However, confusion arises because monetary gifts can take various forms. A dispute on the issue has been making its way through the Courts. This relates to a taxpayer forgiving a loan made to a charity. The debt forgiven was claimed as a donation.

The Commissioner disputed the donation rebate claims on the basis that debt forgiveness is not a 'gift of money', however both the High Court and Court of Appeal subsequently ruled in favour of the taxpayer. The Courts concluded that the words 'gift of money' mean more than just cash.

The decision was applauded by charities and philanthropists alike, as the flexibility of loan forgiveness encourages donations. On the same day as the Court of Appeal decision (17 December 2019), the Revenue Minister announced that the Court decision was contrary to the policy intent. The Minister's statement made clear that donation tax credits should be limited to gifts of cash or cash equivalents only. The Income Tax Act will be amended to reflect this intent.

Tax Payment Reminder

From 1st **March 2020** the Inland Revenue (IR) no longer accept payments by cheque. Payments may be made online through MyIR, your internet banking, payment at any Westpac bank via EFTPOS or cash or by using one of their Smart ATM's. For more information on the payment options visit IR's website www.ird.govt.nz/pay

Tax Notices, Invoices & EOY Questionnaires

We will soon be emailing the majority of our monthly invoices, tax notices and annual EOY Questionnaires to clients. Where we don't have your current email address, we will be contacting you to obtain this.

COVID-19/Coronavirus

The health and wellbeing of our staff and clients is paramount to us. In this ever-evolving situation, we are doing the best to ensure we all remain healthy. Please if you are unwell in any way, do not come to our offices. There are many ways we can help you when you need, email, phone and so on. Thank you for your understanding during this time.

Corner Highlights

Staff News

This month we say goodbye to **Sherynn Harold**, Client Manager who is retiring. We wish Sherynn a happy and healthy retirement.

Congratulations to the following staff who are being promoted to Associate from 1 April, **Anne Buddle** and **Cheri Henricksen.**

Congratulations to **Jessica MacKay** who is being promoted to Client Manager from 1 April. Also, our congratulations on her recent wedding. We wish Jessica and Cam all the very best.

Congratulations also to **Rahina Bi Rahiman**, Client Manager, Dannevirke, and her husband on the birth of their second child in January.

We are in the process of recruiting some new team members. More news about this in our next newsletter.

Purchase Price Allocation

Buying or selling a business is a significant decision, and commonly involves vendor and purchaser negotiations on many aspects of the transaction.

The price is often one of the first points to be negotiated. Where the transaction includes assets, it is important to remember that the tax implications of selling the assets (e.g. trading stock, depreciable plant, equipment, goodwill and liabilities) needs to be determined.

For tax purposes, the price is allocated between the various assets by a 'purchase price allocation' (PPA). For example, if depreciable assets are sold as part of a transaction and values have not been agreed on an asset by asset basis, the purchaser and vendor could determine different 'market values' resulting in inconsistent treatment.

Vendors are motivated to allocate high values to non-taxable capital assets such as land or goodwill, whilst minimising the value attributable to assets such as trading stock, or plant and machinery, which reduces the vendor's tax bill on sale. Conversely, purchasers can gain a tax advantage by allocating as much value as possible to revenue account assets and depreciable property, to provide larger future tax deductions.

Consequently, the Government is concerned that the tax base is eroded, if different pricing allocations are adopted by vendors and purchasers in a transaction. To address this, Inland Revenue (IRD) issued an official consultation paper in December 2019.

In theory the IRD's proposal is simple. The vendor and purchaser must use the same PPA across the various assets included in the transaction, through mutual agreement. If they cannot agree, IRD proposes that the purchaser must use the vendor's allocation when filing their tax return. If the vendor does not prepare the allocation for any reason, then the purchaser can make it instead.

It is proposed that details of the PPA are provided to IRD within three months of the transaction. This additional disclosure is expected to encourage all parties to apply 'market value' fairly due to the risk of subsequent review by IRD.

Employee Use of Telecommunication Tools & Usage

Inland Revenue recently released Determination EE00 "Employee use of telecommunications tools and usage plans in their employment" to simplify the PAYE / FBT rules for employee mobile phones.

The determination applies to three situations: Class A (principally business use of the phone), Class B (principally private use of the phone), and the De Minimis Class (a reimbursement payment of no more than $5 per week, per employee).

Where there is principally business use of the phone, if the employer reimburses the employee 75% of their total phone bill, the whole reimbursement is exempt income. Alternatively, if they pay 100% of the bill, then 75% can be treated as exempt income of the employee.

For principally private use, if the employer reimburses 25% of the total bill, then the whole amount reimbursed is exempt. Alternatively, if they pay 100% of the bill, then 25% can be treated as exempt income, with 75% taxable.

The De Minims permits a payment of up to $5 per week, amounting to no more than $265 per year, per employee, to be treated as exempt income.

There are a number of conditions that must be met before the above rules can be used, but it should provide employers with an easy rule of thumb to adopt.

Tax: A Brief History

Tax is often quoted as being unfair. However, a review of taxes from historic periods can highlight how 'sensible' our current system is.

In ancient Egypt, the Pharaoh taxed citizens on many different goods, including cooking oil. Citizens were prohibited from reusing oil and buying oil from anyone other than the Pharaoh himself. Scribes would scour the city, searching homes and forcing households to buy new oil if they found they were non-compliant.

In 18th Century England, house builders were targeted in numerous initiatives, but quickly found cunning 'tax avoidance' schemes. They were firstly taxed on the number of bricks used in construction, so began to use bigger (and fewer) bricks to reduce their tax bill. They were subsequently taxed for the use of 'printed' wallpaper, so instead began to use plain wallpaper and painting patterns on the walls.

So, the next time you're looking at our tax rules thinking they're unfair, cast your mind back to some of these - it could be much worse!

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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