Inland Revenue
Te Tari Taake

COVID-19 – Inland Revenue Policy Initiatives

As at 6 April 2020

Inland Revenue Policy Initiatives

- **The COVID-19 Response (Taxation and Social Assistance Urgent Measures) Bill was** passed on 27th March 2020, and enacted the following measures:
  - Reintroduction of depreciation on commercial buildings;
  - Increase in the provisional tax threshold;
  - Up-front deduction of low value assets threshold increase;
  - Research & Development Tax Credit refundability;
  - Use of Money Interest relief;
  - Information sharing;
  - In Work Tax Credit eligibility criteria;
  - Working for families tax credit entitlement for emergency benefit recipients;
  - GST on Covid-19 related payments (related to the wage & leave subsidies administered by MSD)
  - Increase in the winter energy payment

Depreciation on Commercial Buildings

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

Depreciation: Why are deductions being restored?

- The Bill reintroduces depreciation deductions for non-residential buildings.
- International studies indicate that commercial and industrial buildings do depreciate.
- Restoring depreciation deductions will help support businesses with cashflow in the near-term and assist with the broader economic recovery by encouraging business investment in new and existing buildings.
- The applicable depreciation rates introduced are 2% DV and 1.5% SL.

- Find out more on our website: Depreciation & low value assets

Depreciation: common questions

- **Why are deductions not available for residential buildings?**
- Research shows these buildings have a slower rate of economic depreciation than other buildings.
- **Can I claim depreciation deductions for my AirB&B property?**
- The definition of residential buildings includes dwellings and buildings used for short-term accommodation (such as AirB&B) with less than 4 individual units.
- Houses and rooms used as AirB&B properties will therefore be “residential buildings” and will not be entitled to depreciation deductions. These buildings are not impacted by the depreciation changes as part of the Bill.
- If there are 4 or more separate units within the same property and the property is used for short term accommodation such as AirB&B, it can be depreciated.

Increased Provisional Tax Threshold

- Increase in the provisional tax threshold from RIT of $2,500 to RIT of $5,000

Effective for the 2020/21 tax year

Increase in the provisional tax threshold

- The Bill increases the provisional tax threshold from residual income tax of $2,500 to $5,000 from the 2020/2021 tax year.
- As a result, returns filed for the 2020 tax year will only generate a provisional tax assessment if the RIT is over $5,000.
- Increasing the threshold for having to pay provisional tax from $2,500 to $5,000 allows more small taxpayers to delay paying their taxes to the end of the year.
- This means they have until 7 February, following the year they file, to pay their tax bill, instead of having to pay in instalments throughout the year.
- This lowers compliance costs for smaller taxpayers and allows them to retain cash for longer.
- Find out more on our website: Provisional tax

Provisional tax: common questions

- **Is this a permanent change?**
  - Yes. While this change is being done now in response to COVID-19 it is intended to be a permanent change.

- **How many taxpayers will be taken out of provisional tax from this measure?**
  - This reduces the number of taxpayers who have to pay provisional tax by approximately 95,000. This will give those taxpayers cash to use within their business during the year.

Provisional tax: common questions

- **Won't this measure just increase debt levels at the end of the year?**
  - The increase in the provisional tax threshold to $5,000 removes compliance costs for smaller businesses and frees up cashflow during the year.
  - Those taxpayers who want the convenience of paying during the year they can always choose to make voluntary payments to Inland Revenue or put the money aside in a bank account.

- **When will this take effect?**
  - The reduced threshold will take effect from the 2020-21 income year which for most taxpayers will mean 1 April 2020.

Low Value Assets

- Threshold temporarily increases from $500 to $5,000

  Effective from 17 March 2020 – 16 March 2021

- Threshold permanently increases to $1,000

  Effective from 17 March 2021

Threshold for expensing low-value assets

- Businesses can now deduct the full cost of more low-value assets in the year they purchased them, rather than having to spread the cost over the life of the asset.
- Taxpayers were previously able to claim an immediate deduction for the purchase of assets that cost less than $500.
- This threshold has been increased, effective from 17 March 2020, to allow the immediate expensing of assets that cost up to $5,000.
- This will reduce compliance costs for businesses and, as it is a temporary measure, it will incentivise them to bring forward investments and encourage spending.
- This increase is temporary and will only apply until 16 March 2021. After this date the low-value asset threshold will increase permanently, but only to $1,000.
- Find out more on our website: Depreciation & low value assets

Low value assets: common questions

- **Why is the increase temporary?**
- Increasing the threshold to $5,000 from 17 March 2020 until 16 March 2021 is intended to encourage businesses to continue investing in their businesses throughout the period of the COVID-19 pandemic.

- The threshold is still being permanently increased from $500 to $1,000 from 17 March 2021 onwards.

- This will encourage further investment by businesses as the economy begins to recover from COVID-19.

Research & Development Tax Credit

- Refundability of the R&D tax credit has been brought forward to the 2019/20 tax year

Research & Development tax credits

- The application date of broader refundability for the R&D tax credit has been brought forward by one year, to the 2019–20 income year, to help businesses retain their R&D capability during the COVID-19 outbreak.
- The R&D tax credit currently only has limited refundability rules, which may not provide sufficient support to loss-making businesses or businesses who do not pay enough income tax to fully utilise their R&D tax credits.
- Broader refundability rules have been developed and will apply from year 2 of the regime (the 2020–21 income year); however, these rules will not apply in time to benefit R&D performers struggling with the effects of COVID-19.
- Bringing the application date of the year 2 refundability rules forward to year 1 (2019–20 income year) would provide more businesses with access to R&D tax credit refunds sooner.

R&DTC: common questions

- **If the new rules are more generous, why didn't you do this in the first place?**
  - The R&D Tax Incentive was developed under tight timeframes. The Government committed to reviewing the refundability rules so that broader refundability would be available from year 2 of the incentive (the 2020-21 income year).
  - To provide businesses performing R&D with cash now, when they need it the most, and to encourage R&D activity and innovation at a difficult economic tie, these new broader rules will apply a year early.

- **Can businesses still access the old limited refundability rules in year 1?**
  - Yes, they can.
  - The broader refundability rules will apply by default, but any business who would prefer to apply the old year 1 limited refundability rules will be able to do so. Businesses can signal this preference when they file their R&D claims with Inland Revenue.

R&DTC: common questions

- **How much support will this provide businesses?**
  - We're expecting this measure to provide up to $70 million of additional cash support to R&D performing businesses.
  - By making the broader refundability rules available early, we're helping to ensure businesses have the funds they need to keep New Zealanders in their jobs and to continue undertaking R&D activities. These businesses would have had access to this cash in year 2 of this scheme, but making this amendment provides them with this vital support a year earlier.

- **The Government has already announced business support measures – why are R&D performers getting extra support?**
  - For many businesses, R&D activities are likely to be scaled back or reduced when funds are tight which means less innovation. This, in turn, hinders our economy's ability to recover once the global situation stabilises. That's why the Government has decided to act quickly and provide extra support to R&D performers now.

Use of Money Interest Relief

- Inland Revenue can remit interest on late payment if the customers ability to make payment was significantly adversely affected by the COVID-19 outbreak

Effective for payments due on or after 14 February 2020

Use-of-money interest remission

- Business that have made late tax payments as a result of being affected by COVID-19 can apply to Inland Revenue to have any use-of-money interest (UOMI) on late payments remitted. This applies to tax payments due on or after 14 February 2020.
- The Commissioner has the discretion to remit UOMI if a taxpayer is physically unable to make a tax payment on time or is financially unable to make the tax payment on time because of the economic impacts of COVID-19. To exercise this discretion, Inland Revenue must be satisfied that the taxpayer's ability to make a tax payment on time has been significantly adversely affected by the COVID-19 outbreak.
- If you have made a late tax payment due to the impact of COVID-19 please get in touch with us (preferably via web message at this stage).
- Find out more on our website: Use of Money Interest

UOMI relief: Eligibility

- We may agree to remit UOMI at our discretion, if we consider a business or individual has had their ability to pay tax on time significantly adversely affected by the COVID-19 outbreak.

- This covers all payments to us where UOMI is charged, whether they're taxes (such as income tax or GST), or other payments (such as Working for Families).

- You do not have to be in a particular region or industry to get this relief.

- UOMI could be remitted for a maximum of two years past the date of enactment, but the actual length will depend on the circumstances of each business or individual.

UOMI: common questions

- **How will allowing Inland Revenue to remit interest for late tax payments assist those affected by COVID-19?**
  - For many taxpayers the impacts of COVID-19 may mean they are unable to pay their tax on time, either because of the financial impact of COVID-19 or because they are physically unable to make the payment. Allowing Inland Revenue to remit use of money interest ensures that these taxpayers are only required to pay their core tax debt and do not also need to worry about interest.
- **Can't Inland Revenue already remit use of money interest in certain situations?**
  - Yes. However, the existing remission rules only applied in specific situations or events, , typically due to a natural disaster. These pre-existing rules are not fit for purpose to respond to the nature of the economic shock of COVID-19 where a taxpayer may be financially unable to pay their tax on time.
- **Will taxpayers still be required to pay their core tax debt?**
  - Yes. While interest can be remitted the core tax debt must still be paid. Paying tax is an important way New Zealanders can contribute to the fight against COVID-19.

Information Sharing

- Amends Inland Revenue's ability to share information with other Government Departments
- Assists the efficient and effective delivery of the Governments COVID-19 response

Information Sharing

- The Bill amends the rules governing Inland Revenue's ability to share information with other government departments.

- The Bill allows Inland Revenue to share information with other government departments to assist those agencies in their response to the COVID-19 outbreak.

- This allows information to be supplied to assist the efficient and effective delivery of the Government's COVID-19 response.

Information sharing: common questions

- **How will information sharing help a struggling business or someone who has lost their job?**
  - Many government departments are working quickly to provide support to businesses and individuals struggling financially as a result of COVID-19. Inland Revenue has a lot of relevant information to enable government agencies to target those who need assistance the most and deliver the necessary support quickly. Allowing Inland Revenue the ability to share certain information will help speed up and target government assistance.

- **Why can't Inland Revenue use existing legislation to share information? Why do you need more legislation?**
  - The existing legislation enables information to be shared for defined purposes, which may not include responses to the COVID-19 outbreak. Also, Inland Revenue may be required to share information with agencies where we do not have any existing agreements.

Information sharing: common questions

- **Will the information be kept safe?**
  - Safeguards will be put in place to ensure the information is kept secure.
  - In considering whether to share information with other government agencies, the Commissioner of Inland Revenue has to consider the security of the information prior to it being disclosed.
  - Also, anyone receiving taxpayer information will be required to maintain the same confidentiality requirements imposed on Inland Revenue staff.

- **How much information will be shared with the receiving agency? Will they be able to use the information for other purposes?**
  - Only sufficient information will be shared to enable the other agency to administer the relevant COVID-19 response initiative. Information received by the other agency will not be able to be used for other non-COVID-19 initiatives.

In Work Tax Credit changes

- Removes the work hours requirement from the IWTC eligibility criteria

Effective from 1 July 2020

In work tax credits

- The in-work tax credit (IWTC) is an income-tested cash payment of $72.50 per week ($3,770 per year) to working families with children.
- To be eligible families must be normally working at least 20 hours a week (sole parents) or 30 hours a week (couples).
- The Bill removes the work hours eligibility requirement from the IWTC.
- This means that working families who have a reduction in working hours as a result of COVID-19 do not lose their eligibility for the IWTC.
- Find out more on our website: Support for families

IWTC: common questions

- **Why are you removing the hours test eligibility requirement for the in-work tax credit?**
  - This extends eligibility for the in-work tax credit to all families who are not receiving a main benefit and have some level of employment income each week.
  - This is an important change as people may face a reduction of, or variable hours, in the wake of the COVID-19. Around 19,000 low-income families would benefit from this change.

- **Is this intended to be a temporary or permanent change?**
  - This is a permanent change.

- **When will this take effect?**
  - From 1 July 2020.

WFFTC ENTITLEMENT

- Entitlement extended to include emergency benefit recipients who are on a temporary visa

Working for Families Tax Credit entitlement criteria

- Previously, emergency benefit recipients with dependent children and who are on a temporary visa do not qualify for Working for Families (WFF) tax credits. This is because they do not meet the residence criteria for WFF.
- The result is a difference in the financial support that these families can access compared with other main benefit recipients with children.
- The Bill allows people on a temporary visa, who would not otherwise meet the WFF residence criteria, to qualify for WFF if they receive an emergency benefit from the Ministry of Social Development.
- This ensures that families on a temporary visa who receive an emergency benefit because of COVID-19 are able to access a comparable level of financial support to other recipients of main benefits.
- This change is administered by MSD and emergency benefits paid by MSD to families on a temporary visa will be increased by the amount of WFF tax credits they are eligible for.

Wage & Leave Subsidies

- Administered by the Ministry of Social Development

  Any calls to Inland Revenue with regards to eligibility will be referred to MSD
- Income tax obligations
- GST obligations

  Legislation change implemented
- PAYE obligations
- Kiwisaver impacts

Wage subsidy

- Wage subsidies are paid by the Ministry of Social Development (MSD) to employers, including sole traders and the self-employed upon application.
- An eligible employer should apply for the subsidy, which will be passed on to its employees, through MSD.
- If your employee's usual wages are less than the subsidy, you must pay them their usual wages. Any difference should be used for the wages of other affected staff.
- Further information on these subsidies, including the business eligibility criteria, is available on the MSD website

Leave subsidy

- Leave payments for self-isolation as a result of COVID-19 were also available to businesses, including the self-employed and contractors, who satisfy the eligibility criteria and are prevented from working.
- Further information on these subsidies and applications for a self-isolation leave subsidy on behalf of an affected employee are available on the MSD website.
- The payment does not affect any leave entitlements that are owed and is not available for those who are able to work from home during their period of self-isolation and be paid normally by their employer.
- From 3pm 27th March 2020 the Leave Subsidy Scheme has been absorbed into the Wage Subsidy Scheme, preventing applicants from accessing both entitlements at the same time for workers. As a result, the Leave Subsidy is no longer available for employers.

Wage and leave subsidies: Income tax obligations

- The receipt of the subsidy is exempt income for the employer under CX 47 of the Income Tax Act;

- The employer will not be entitled to an income tax deduction for wages paid out of the wage subsidy pursuant to section DF 1(2) of the Act.

- The amount of wages paid in excess of the wage subsidy (amounts funded by the employer) are deductible as normal.

Wage and leave subsidies: GST obligations

- The employer will not be liable for GST on the subsidy received from MSD;

- **Legislation change: GST on COVID-19 related payments**
  - The Goods and Services Tax (Grants and Subsidies) Amendment Order 2020 added the COVID-19 wage subsidy and the COVID-19 leave payment to the schedule of non-taxable grants and subsidies in the Goods and Services Tax (Grants and Subsidies) Order 1992 from 24 March 2020.
  - However, the wage subsidy and leave payments have been paid out from 17 March 2020. The Bill ensures that GST does not apply to payments of the COVID-19 wage subsidy and leave payments from 17 March 2020 until the date the 2020 amendment Order came into force.
- This ensures consistent GST treatment regardless of when payments were made.

Why does GST apply to the COVID-19 related payments in the first place?

- Government grants and subsidies paid to GST-registered businesses are subject to GST under the Goods and Services Tax Act 1985. If the COVID-19 subsidy payments weren't excluded from GST, this would mean that GST-registered businesses would have to return GST on the payments they receive from the government. As a result, this would mean these GST-registered businesses would have less money from the subsidy available for supporting their staff when compared to businesses which are not registered for GST.
- The recent Order in Council (the Goods and Services Tax (Grants and Subsidies) Amendment Order 2020) added the COVID-19 wage subsidy and leave payment to the schedule of non-taxable grants and subsidies for the purposes of the Goods and Services Tax Act 1985. It did not have retrospective effect, so only applies in respect of payments made from 24 March, which is when the Order in Council came into force. The change in this bill ensures that the same exclusion from GST applies to all payments made since 17 March 2020.
- COVID-19 related subsidies will therefore not be subject to GST.

Wage and leave subsidies: Employer obligations

- Wage subsidies and self-isolation leave subsidies should be passed on to the employee by the employer and processed as part of the employee's normal wages. All deductions of PAYE, Kiwisaver, Student Loans, child support etc are made as normal.
- If the total wage (subsidy + employer funded pay) amounts to the same wages as previously, the pay and deductions on their payslip should be the same.
- Whether employers top up the subsidy with cash payments or annual leave is up to them to arrange with staff. Employees cannot be forced to use their annual leave entitlement.
- Employers should keep accurate records detailing the amount of the subsidy received and details of the employees it has been paid to, this will assist the employer if MSD request to review their records later .
- If your employee's usual wages are less than the subsidy, you must pay them their usual wages. Any difference should be used for the wages of other affected staff.

Wage and leave subsidies: Employer obligations

- **Are there any tax consequences if an employer pays the 12-week wage subsidy as a single lump-sum to their employees?**
  - For employers – no. As mentioned, the receipt of the subsidy is exempt income and the payment to an employee is not deductible so it doesn't make any difference if they pass it on now, or over time.
  - For employees – the intention is the subsidy amount is passed to the employee as per their normal pay cycle, otherwise yes, there are likely to be tax consequences..
- **What are the tax consequences for employees?**
  - Paying the 12-week subsidy to an employee as a lump sum brings up to 12 weeks of income, that would normally be earned in the next tax year, into this tax year (which ends on 31 March 2020).
  - The additional income could move them into a higher marginal tax bracket and result in them receiving a tax bill when Inland Revenue completes the automatic assessment process later this year;
  - If, as a result of receiving the additional income, their total gross income for the year exceeds $48,000 they will no longer qualify for the Independent Earner Tax Credit;
  - It may also impact their Working for Families Tax Credits, or they may receive a Student Loan bill.

Wage and leave subsidies: Self-employed customers

- **If the wage subsidy received by a self-employed person taxable in the year it is received, or can it be spread over the 12-week period?**
  - Many self-employed people will receive the subsidy in the 2020 tax year, but (in most cases) only 1 or 2 weeks of it relates to the 2020 tax year.
  - Inland Revenues position is that these payments qualify as 'compensation' for the purposes of section CG 5B and can therefore be returned in the income year which the income being replaced would have been derived.
  - In practical terms this means an amount received prior to 31 March 2020 can be spread if it relates to income that would have been derived after 31 March (the 2021 year).

Wage and leave subsidies: Kiwisaver implications

- **Can an employee request to have their Kiwisaver contributions suspended while they are receiving the subsidy?**
  - The only way employees can stop contributions is by requesting a savings suspension.
  - They must request the savings suspension from Inland Revenue, we then notify the employer, provider and member once we have granted it.
  - There are three ways employees can apply, either online through My Kiwisaver (part of MyIR), by completing a KS 6 Form and posting it to us, or by calling us. The quickest way is through MyIR.
  - There are a few requirements:
    - They have to have been a contributing member for 12 months, unless it is a matter of financial hardship.
    - The savings suspension is for a minimum period of 3 months, unless the employer agrees.
    - The savings suspension can be granted for up to one year, but can be ended early, and another can be applied for if they would like to extend it further.
  - Find out more on our website.

Wage and leave subsidies: Kiwisaver implications

- A customer can apply for a savings suspension through MyIR:
  - Log into the **MyIR account**;
  - Select the '**Kiwisaver**' account tile;
  - Select '**Go to My Kiwisaver**' at the top left of the page;
  - Select '**Savings Suspension**' and complete the required information to submit your request.

- If a customer wants to withdraw their funds from Kiwisaver they need to speak with their scheme provider (not Inland Revenue). To find out who the scheme provider is:
  - Log into the **MyIR account**;
  - Select the '**Kiwisaver**' account tile;
  - Select '**Go to My Kiwisaver**' at the top left of the page;
  - Select '**My Scheme**' to find out who to contact to discuss your withdrawal request.

Home office expenses incurred by employees

- During the Covid-19 Alert Level-4 lock down period many employees are working from home.
- In some instances, their employer may provide a special allowance to cover the costs of this, however in many cases the employee is expected to bear these additional costs.
- We have been asked whether these costs, or a proportion of the costs can be claimed as an expense against employment income.
- No – under current legislation the employment limitation prevents an employee deducting costs incurred in deriving income from employment.
- There are only very limited types of expenses that can be claimed by individuals who only earn income from employment, you can find out more on our website: Types of individual expenses

Winter Energy Payment

- Administered by MSD
- Doubled for the 2020 year
- For eligible people:
  $900 for single people with no dependent children;
  $1,400 for couples and people with dependent children.

Winter Energy Payment

- The winter energy payment (WEP) is assistance paid to help eligible people meet their household heating costs during the winter months.
- The rates for the WEP have been doubled by Order in Council to $900 per year for single people with no dependent children and $1,400 per year for couples and people with dependent children.
- However, this increase in the WEP rates is intended to be temporary and apply for 2020 only.
- The Bill therefore restores the WEP rates from 2021 onwards to their current rates of $450 per year for single people with no dependent children and $700 per year for couples and people with dependent children.