25 March 2020

Memorandum: CA ANZ outline of possible measures to improve New Zealand's tax responses to COVID-19

Chartered Accountants Australia and New Zealand (CA ANZ) outline below possible measures to improve New Zealand's tax response to COVID-19. We will expand on this outline and provide further details in the requested format to support the collation of suggestions for Government shortly.

In compiling these suggestions CA ANZ have included input from our wider New Zealand membership as well as from our Tax Advisory Group and National Tax Liaison Group members.

Low value asset write-off

- Back date application to 1 March 2020 to cover costs of businesses setting up staff remotely.
- Relax rules regarding same supplier, same day purchases of assets in same class/ depreciation rate.

Loss carry back

- Should operate in conjunction with deferral of other tax payments (outlined below).
- For the 2020 and 2021 (possibly 2022) income years, you could carry back for a fixed number of years. Model on FIFO basis similar to former FITC regime.
- Cashflow improvement in 2022 year at earliest.
- Fiscal cost offset by removing losses from system.
- Time-value of money.

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Bad Debt write off

- Extend the period beyond year end where a bad debt write off will still be deductible.

Income equalisation expansion to other sectors

- Late election for 2020 will be required.
- 3rd Provisional tax payment deferral.
- Alternative: election to spread income forward/ make late election.

Use of Money Interest: Threshold to remit

- Use of Money Interest write off on a class of case, or taxpayer industry basis.
- Class of case will provide more certainty than the current person-by-person basis proposed.
- There are practical concerns regarding the current proposed UOMI measures. Guidance and certainty needed regarding discretion, and taxpayer actions required for eligibility.

Use of Money Interest: Rate

- Rate should be reduced. The current model of calculating is not appropriate in the current extreme low interest rate environment.

Tax payment deferrals (Australian model?)

- 7 May payment date will be critical. However, cash reserves put aside for April payments may also be depleted due to redundancies or other sudden expenses.
- 6-month deferral or longer will give businesses 'breathing space' to assess their available options including funding support.
- Apply to all tax types.

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Extend current use of tax pooling

- Extend access to tax pooling and tax financing to other tax types e.g., PAYE, GST, FBT
- Extend timeframe to purchase terminal tax beyond current 75 days to e.g., 6 months.

Provisional Tax

- Modify uplift method for next 2 years to remove the 5% and 10% uplift. Alternative to lower to, for example, 70% of prior year RIT.
- Removing current associated persons connection (safe-harbour).
- Ability to estimate provisional tax but with removal of UOMI and penalties (e.g., retain safe-harbour status or, turn off UOMI exposure for estimation).
- Cashing out losses in AIM.

Extend existing extension of time arrangements for all tax types

- Could be a capped timeframe.

Operational: GST.

- Notify taxpayers of ability to switch to monthly GST basis.

Director Liability – trading while insolvent

- Turn it off. Don't subsequently penalise directors trying to keep business afloat.
- See comparable Australian measure.

Statute Bar

- For the 2019 year, treat late filers or deferred filers as having filed on time for the purposes of statute bar (apply only to filers with an EOT).

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Defer requirement to top up short paid imputation credit account and suspend 10% penalty application

- Where imputation credit account at 31 March 2020 in debit.

Business restructuring – tax implications for financial arrangements entered into

- Debt remediation or forgiveness of debt - consider adjustment to BPA formula. Don't want income to be created upon entering into subsequent support package with financiers on business recovery.

Yours Sincerely,

John Cuthbertson, FCA

New Zealand Tax and Financial Services Leader