BC'S BUSINESS BRIEFS

Covid - 19 and where to from here

As we ease towards the end (hopefully?) of our second period of 'lockdown' or something very close to that. I have been wondering what the next 6-12 months will bring. These are just a few thoughts of mine.

1. If the last 3 weeks has taught me anything, it is that the chances of keeping the virus out of the country in the medium term are slim at best. While we all hope that the Government will do a better job of managing the border in future and that their testing and contact tracing is improved to a sufficient level that significant lockdowns such as we are currently under will be less likely, there is no doubt they are a distinct possibility;
2. There is no doubt in my view that the financial implications to the wider community are only just beginning. The wage subsidies that have been (and will be) paid have insulated many businesses and employees from the full financial impacts of the lockdown and once these finish shortly, it is widely believed there are going to be many business closures and job losses;
3. As with any significant downturns there will be opportunities for those businesses and people that have got the resources to get through this period in good financial shape as there will inevitably be distressed sales with opportunity to acquire assets at significantly reduced prices from pre- Covid times;
4. We have seen in our business none of the usual extra business that we normally see from clients looking to purchase business', commercial properties or indeed expansion projects. What we have seen is some clients with significant profitability and cash flow problems who are expecting worse to come;
5. I expect our business level in the current financial year to be down by at least 10% on the 2020 income year.

Review your business

Make sure you are regularly reviewing your business. Ensure costs are as tight as you can realistically get them. Make sure you are maximising your revenue opportunities. Keep your Debtors as up to date as you can get them by timely reporting and regular follow up. Be disciplined. Ensure that your credit control procedures on new customers are strictly monitored and effective all the time.

In these difficult times, Inland Revenue are more likely to view requests for deferral of tax payments in a more favourable light than previously, so don't be afraid to ask if payment of tax will create hardship.

Stay Positive

While there are undoubtedly business' which will not survive, most will and as noted earlier, there will be opportunities arise. A positive attitude is essential prospering at all times but even more so in difficult times.

Covid – 19 Wage Subsidies

Just to reinforce the tax treatment of Covid – 19 subsidies, these are specifically excluded from GST as being exempt. In a company situation, they are also excluded from assessable income but the wages for which they have been paid are non-deductible. In the case of a self-employed person who has received a wage subsidy, the subsidy is deemed to be taxable income.

Small asset purchases

While previously small assets costing less than $500 have been able to be written off as an expense, as a concession to assist business in Covid – 19 times, the maximum limit able to be written off in the year of purchase has been extended to $5,000 temporarilly. The concession applies for purchases between 17 March 2020 and 16 March 2021.

Overdrawn Shareholders Loan Accounts

One of the most common issues we need to deal with when completing company financial statements is overdrawn shareholder loan accounts. These happen when a shareholder has withdrawn more funds from the company than they have received from the company by way of remuneration or dividends and mean that the shareholder owes the company money. If the shareholder is an employee of the company and the overdrawn loan account isn't charged interest, then a Fringe Benefit is deemed to arise. If the shareholder is not an employee a Dividend is deemed to arise.

As a consequence we will normally recommend that interest be charged on the overdrawn account to ensure no FBT is payable. Depending on the amount of the interest it may or may not be subject to RWT and most times while the interest is assessable income to the company, it is not deductible for the individual shareholder.

In short interest charges are not tax efficient but there are very often no easy ways to avoid these charges. The best way is not to have an overdrawn shareholders loan in the first place.

Should there be structural issues in a company that make it impossible to get around the overdrawn current account issue, there are sometimes other ways which are inevitably more complex, but can nevertheless be effective both from a tax perspective and cost effective to contemplate. We have recently completed a restructure for a client which produced extremely significant benefits to the client from a commercial perspective while solving the overdrawn current account issue with very significant reductions made possible to the annual tax cost of interest being charged on the current account.

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