



Tax options in times of crisis

In the last couple of months several events have pushed some businesses to their financial limit. Drought throughout much of the country. Floods in Southland. The COVID-19 virus and resulting disruption to imports, exports and tourism.



Since publishing this article, support has been announced by the government to help you and your business through the COVID-19 State of Emergency. For up-to-date commentary, please visit bakertillysr.nz/news-hub/covid-19/

When these events occur, cash reserves are stretched as suppliers and staff need to be paid while customers may not necessarily be coming through the door, or are struggling to pay your invoices. Where the event results in destruction of property, business assets need to be replaced and trading stock needs to be replaced in order to keep business operations going.

Tax can be one of the largest costs to a business and while a company still needs to pay 28% of its taxable income to the government, there are ways this liability can be managed during a time of crisis. Specifics will depend on whether it is your business suffering alone or where there is a wider crisis.

Business crises

When a crisis hits that impacts your business in isolation, there are some tools available to help manage your tax obligations.

If you expect your business is going to have a reduced profit as a result, it might be worth filing a provisional tax estimate to reflect the reduced tax payable. This way, your provisional tax obligation reduces and if you have made a payment of excessive provisional tax previously, it can be refunded. This would require the filing of an interim imputation return.



STORY

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If your business lacks the funds to meet its tax obligations, Inland Revenue may agree to an instalment payment arrangement. This allows a business to pay off their tax obligation without incurring any extra late payment penalties. Note, Inland Revenue continues to charge use of money interest. Use of money interest is viewed as an opportunity cost as opposed to a penalty, even if it feels like a penalty. Inland Revenue need to be satisfied a reasonable effort is being made to pay the tax bill, so some financial information needs to be provided with an instalment arrangement application.

If you use a tax pooling intermediary, a far wider range of tools are available to your business should a crisis hit. Refer to the following article by Tax Management New Zealand for more information.

Inland Revenue have discretion to remit late payment and late filing penalties if there is a valid reason for the payment being late or the return not being filed on time. While extreme examples such as a factory fire spring to mind, Inland Revenue's discretion is wide and if a business crisis results in a late payment or late filed return, it is always worth getting in touch.

Regional and national crises

When a regional or national crisis hits, government regularly intervenes to provide relief in the tax sphere.

One area much appreciated by the primary sector is the short term relaxation of the income equalisation scheme. While under normal circumstances, deposits under this scheme need to be held with Inland Revenue for more than a year before being withdrawn and the deposit made within a specified time period, Inland Revenue have discretion to allow late deposits and early withdrawals from the scheme where adverse events have been declared. Examples at the time of writing include:

- Flooding in Southland and Otago
- Drought in Northland and northern Auckland

Inland Revenue has discretion in other areas as well. Where government has declared an event to be an emergency event by Order in Council, Inland Revenue can remit use of money interest where payments are late due to the inability of taxpayers to physically make payment on time. This might be due to records being destroyed or premises not being accessible.

Examples of times where this discretion have been invoked include:

- The Christchurch earthquake of 2011
- The Kaikoura earthquake of 2016

As before, Inland Revenue also have discretion to remit late payment and late filing penalties. It is usually easier to obtain remission when a regional or national crisis hits as Inland Revenue does not need to confirm the validity of the request.

**Inland Revenue will be keeping their website updated with developments as events continue to unfold:
www.ird.govt.nz/updates/news-folder/tax-relief-coronavirus**