



## **Polson Higgs Advice IX – Changes to Tax, Level 3?, Economic Scenarios and more**

We trust you have had a great Easter break. That you managed to get some time to relax and think strategically about your business in a post lockdown environment. The Government has been active over Easter with a number of important announcements.

In this newsletter we will cover:

- Changes to Tax, loss carry forward and loss carry back.
- Commercial Tenants and Landlords
- Level 3?
- Treasury Economic scenarios
- Bit of a laugh

**Changes to Tax** - On 15 April the Government announced further changes to support businesses as a result of COVID-19. Legislation including these changes will be introduced into parliament on 27 April and are intended to apply retrospectively once the Bill is passed, because of this we are working from media releases and further detail will not be known until the Bill is introduced.

### **1. Loss Carry-Back Scheme**

Of significant concern to businesses is that the year ending 31 March 2020 (or 2019) may record profit, with only a limited impact of COVID-19, but the 2021 year (or 2020 year) may be significantly impacted. This means that businesses could still be making provisional tax payments for 2020 (the last payment for a March balance date is 7 May 2020) while they may be in a loss in 2021. NZ has always allowed taxpayers to carry forward losses (subject to meeting certain criteria) but this new loss carry-back would allow businesses to offset a predicted loss in 2021 against a profit in 2020 (i.e. carry the loss back 1 year) thereby receiving a refund of tax paid in the profit year. Initially it is proposed to introduce a temporary loss carry-back scheme for the 2020 and 2021 years with a more permanent scheme applying from 2022.

It appears the scheme will allow the business to estimate its projected loss (in 2021) and to elect to carry that back one year (to 2020) resulting in a tax refund. This does not need to occur before the final provisional tax payment for the year with the proposals allowing the re-estimate after the date of the final instalment.

These proposals will be welcomed by some businesses who potentially had tax payments coming up in a period when they were likely to be trading at a loss. The ability to carry the loss back rather than just carrying it forward will mean the business gets an earlier opportunity to receive the tax benefit from the loss.

## 2. Loss carry forward rules

Currently companies must maintain a minimum of 49% shareholder continuity from when a tax loss is incurred until when it is utilised to carry the tax losses forward. This can mean, as new capital is introduced into a company by new shareholders, that past tax losses can be forfeited. The proposal is to introduce another test that allows losses to be carried forward where the “same or similar business” is being carried on even if the 49% shareholder continuity is not met. This test will be modelled on the Australian rules and will apply to the 2020/2021 and later years.

These proposals should make it easier for companies with tax losses to raise capital and should preserve the value of the business to investors.

## 3. Allowing IRD to change due dates

The Government propose to give IRD more discretion (for an 18-month period) to temporarily change dates and time-frames as a result of COVID-19. This will provide IRD with the power to provide extensions to time-frames e.g. tax return filing dates or provisional tax payment dates

If you have questions about how these changes will apply to your business and your provisional tax payments, then please don't hesitate to contact a Partner or Manager (their contact details can be found on the front page of our website [www.ph.co.nz](http://www.ph.co.nz) or you can contact Reception on 03 477 9923 who will be able to direct you to someone who can assist).

**Commercial Tenants and Landlords** - As the Government did with residential tenants, the Government proposes extending time-frames required by commercial landlords to cancel leases and will allow more time for breaches or defaults to be remedied. The Government will extend the current 10 working day time-frame that a commercial landlord may cancel a lease to 30 working days, this is to apply both where a tenant is in arrears and for the period to remedy the breach.

**Level 3?** - On 20 April, the Prime Minister will advise when we will be moving from Level 4. Potentially that could be on 22 April (a week today). What exactly Level 3 will look like is unclear. There will be guidelines produced this week, however, if you haven't already started, you should be considering how you might operate your business at Level 3, and what changes you would need to introduce. (Check out <https://covid19.govt.nz/alert-system/covid-19-alert-system/> for details).

**Treasury Economic scenarios** - Treasury has produced a report containing a range of scenarios on the impact to the economy of the COVID-19 pandemic a "once in a century" public health shock. With unemployment peaks ranging from 13% to 26% none make for particularly good reading. To assist our clients better understand how the economy is performing, the Team at Polson Higgs has arranged for the leading, independent, New Zealand economist, Tony Alexander, to provide weekly 15-minute updates on the economy every **Friday at 2.00 pm until 8 May**. If you would like to register for the updates [click here](#) . Use your Promotional code of **PHClient** to register for free. If you have a question you would like to ask Tony about your industry please email [covid19@ph.co.nz](mailto:covid19@ph.co.nz).

**Bit of a laugh** - This news story on the Easter bunny and its “crime spree”, (the only real crime is the eggcruciating puns) checkout <https://www.youtube.com/watch?v=iGaJyTHyLfg>.

**New Webpage** - we have added a new page to our website and are gathering different resources for you to use. Check out <http://www.ph.co.nz/expertise/covid-19/>

If you have a question about anything please don't hesitate to ask on [covid19@ph.co.nz](mailto:covid19@ph.co.nz).

Stay safe and keep in touch.

Kind regards

**Polson Higgs Team**

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