

COVID -19 – Newsletter 4

17 April 2020

Welcome to our fourth newsletter in regard to the COVID-19 crisis. Again we try to look upon the current situation with hope and confidence in the future.

Positivity

We continue to believe that, despite the current position looking pretty dire, the economic position will improve over time. We all need to remain confident that this will happen. Even now we try to look upon the positives – some sectors of the economy continue to perform strongly, e.g. agriculture.

I have received a couple of responses to my poem in our previous newsletter –

You wouldn't know it
But my accountants' a poet!
Peter Doiuglas

One two check out the loo
Do we have paper to spare
Three four lock up the door
In case there is somebody near
Five six know any tricks
Boredom is our lot to bear
Seven eight lay them straight
Do you care for Patience my dear
Nine ten do some knee bends
We'll beat this darned virus I swear!
Leanne Hastie

If you wish, send us yours. we look forward to posting original contributions of hope/humour.

End of Lockdown

The end of the initial lockdown period is almost in sight. It is looking increasingly likely that we will move to level 3 next Thursday (23 April 2020). In that case we should be able re-open our Harewood office, albeit with some restrictions. We will email all our clients with details once we know more next week.

Recovery Programmes

We understand that the Government continues to plan for an economic recovery at the end of the lockdown. However, it seems reasonable to assume that it will not be “business as usual” – we think that it is safe to say that the economic times we have experienced in recent years will not recur in, at least, the near future. Watch for Government initiatives and try to take advantage of any that may be of benefit to you.

Having said this do not rely upon the Government, local and business bodies to provide all the solutions. Try to be the “master of your own destiny”. Now is the time to consider what new opportunities may arise and to start planning for them – “think outside the square”. Remember

that you want to be a leader not a follower and be “ahead of the wave” of opportunities and not swamped by it.

With regard to planning we strongly recommend that plans be in writing accompanied by detailed financial planning and forecasts. If your business is currently shut down completely then now is the time for this planning so that your plan can be implemented as soon as possible once you can get back into operation. Contact your professional advisers (banker, lawyer, accountant) for any assistance with regard to planning.

See our previous newsletter for more information on business planning.

Taxation Changes

The Government has announced a series of changes to the Income Tax Act in recent weeks, mainly with regard to depreciation on buildings, low value asset write-offs (\$5,000 for the period 17 March 2020 to 16 March 2021, \$1,000 thereafter) and loss carry back. The latter has only recently been announced and no detail has been provided on how it will work. It is not the purpose of this newsletter to go into details on the taxation changes, more details will be provided in future newsletters. Please contact us if you require further information on these changes.

Business Loans

The Government has announced a business loan scheme. Like all Government schemes “the devil is in the detail” and the practical reality is seldom as good as the “political spin”. Please find attached an article from Simon Harding on the scheme, we believe that this sets out the essence of the scheme very well. Simon has been a longstanding client and also a family friend of Craig’s for many years. Simon offers a lending service that can be an alternative to approaching your own bank and we are very pleased to recommend him. We have seen situations where he has been able to arrange business loans for clients where clients have otherwise been unable to find finance, sometimes the resulting loan facility has even been with the clients original bank! Please contact Simon direct should you wish to avail yourself of his services.

Government Subsidies

If you have not already applied for the Work and/or Leave Subsidy and your business has been adversely affected by the COVID-19 crisis then we recommend that you do so. For full details on the package and the application process for subsidies refer to the MSD website (www.workandincome.govt.nz). The process is pretty simple and quick. You will need your business IRD number, NZBN and employee(s) IRD number(s). If you do not have these please contact me and I will advise these to you. Self-employed do not have a NZBN – leave that box blank (if your application gets rejected due to the lack of a NZBN then fill the box with 0’s (zeroes) – this seems to do the trick). Anecdotal evidence indicates that payments are made within 72 hours – often within 24 hours.

Please note that the Wage and Leave subsidies also apply to the self-employed.

One error that we have become aware of is for clients operating via a company structure – do not tick the self-employed box – you are either an ordinary employee or a shareholder employee (an employee in both cases).

Should you require any assistance please do not hesitate to contact us.

With regard to the taxation aspects of these subsidies it has now been clarified that –

- Wage and leave subsidies are exempt GST.
- The wage subsidy is exempt income tax, however the component of wages paid to employees equivalent to the subsidy is not deductible for income tax purposes. An exception is the self-employed where the component of the wage subsidy that relates to the self-employed person themselves is subject to income tax as it replaces taxable income.
- The leave subsidy is subject to income tax.

Planning for Business Failure

Whilst we are reluctant to raise the issue of business failure, sadly this may be the case for some clients.

If you are in the unfortunate position that this may be a reality for you there are some steps that you may be able to take to “mitigate the damage”. Once again a carefully considered plan may lead to a better outcome and minimise the financial damage. Here are some matters to consider.

- Carefully consider your current position.
- Have you considered all possible alternatives, particularly alternative income streams? Can your business take advantage of new opportunities?
- What are the financial obligations that you currently have? For example, lease, trade creditors, taxation (PAYE and GST in particular).
- Carefully consider any personal guarantees that may have been given by you over the years (e.g. lease obligations, trade accounts). Sadly, this is an area that is frequently overlooked as most people fail to keep an accurate register of all personal guarantees given over the years and these can “come back to haunt” you in the event of default.
- Are you going to plan for failure or just “let it happen” and deal with consequences later?
- Contact us to discuss your current and possible future financial position.
- Discuss with your lawyer the legal implications of failure, in particular lease obligations and personal guarantees.
- Have you contacted your bankers to discuss your position with them? You may want to “tread carefully” here as the last thing you may want to do is to alarm them and have them take some drastic action, such as demanding repayment of an overdraft.
- Can you restructure to avoid failure?
- Is continuing simply “throwing good money after bad”?
- Planned failure should be an “option of last resort” and only taken after careful consultation with your lawyer of all the legal and financial consequences.

A couple financial matters to consider –

- (1) If you are operating via a company structure a current account can be a problem –
 - o Is your current account in credit or overdrawn?
 - o If overdrawn, should you be taking steps to remedy this, e.g. declaring a shareholder salary? In the event of a company liquidation a liquidator could demand repayment of an overdrawn current account, putting you under personal financial pressure.
 - o Have you considered registering your current account as a secured debt under the PPSR? This has a number of advantages, two of which may be the ability to appoint your own liquidator and to rank above unsecured creditors in the repayment of company debt. If you wish to consider this then you should discuss the implications this with your lawyer.
- (2) Trusts and gifting – if you have a trust and that trust has a debt owing to you then in the event of personal bankruptcy then the Official Assignee could demand the trust repay that debt. You could consider gifting the debt to the trust. However, gifting has a number of serious consequences and you should only make a gift after careful consultation with your lawyer. We recommend that all gifting documents be prepared by your lawyer to avoid later issues.

Office Closure

As you will be aware, in accordance with advice and instructions from the Government, our Harewood office is closed for the duration of the lockdown. In the meantime, our practice is operating from Craig’s home until further notice. Likewise, Gail is working from her home.

As we cannot access our post office box we recommend that you contact us either by email or telephone. If you require to forward hard copy documents to us you will need to courier them to my home – 1 Kanuka Place, Robinsons Bay 7581. If your normal courier service will not deliver to this address please contact Akaroa Couriers (ph. Mike 027 566 4036 or Nick 021 395 389).

Our contact details remain –

- Telephone our usual number – 03 366 9436.
- Email – craig.hastie@hastieaccountants.co.nz, gail.clarkson@hastieaccountants.co.nz.
- Emergency contact – Craig – 021 074 6261

We are pleased to advise that, our practice is continuing to function, for the most part quite normally, as we have taken considerable steps in recent years to computerise our practice such that we can run it remotely.

Even when the lockdown ends and we can return to our Harewood office we ask that clients do not visit our office unless it is absolutely essential. We are mindful of the ongoing health risks to our staff and clients. We believe that it is in everyone's best interest to minimise contact and to maintain social distancing for some time to come.

Until the situation normalises we ask for your patience and understanding.

If all this is a bit "heavy", here is a picture of a cute kitten –



With best wishes to all our clients and their families.

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