



Connecting you to the topical tax issues

Special Tax Alert

March 2020

Tax considerations resulting from COVID-19 and business disruption

It is news to no one that the international community is in the grip of a significant health challenge – the novel Coronavirus COVID-19. The recent outbreak is likely to have serious impacts on New Zealand communities and businesses. We encourage all to take reasonable precautions and follow the advice of the Ministry of Health.

It is worth noting that COVID-19 is causing a great deal of uncertainty that requires thoughtful, people-first responses.

We encourage all leaders to directly address employees' psychological stress alongside the organisational needs.

Businesses are currently considering the [potential economic impact](#) of the current outbreak, and thought is already being given to [managing supply chain risks](#). Amongst the economic effects, the next few months may result in lower tourist spending, declining business confidence, lower demand for our exports, travel difficulties and a more limited labour

workforce (i.e. fewer migrant workers, less productive capacity where employees required to work from home, etc.).

At Deloitte, we have business continuity plans in the event that COVID-19 threatens or impacts Deloitte people, property, or systems and are regularly communicating with all our staff regarding this issue. While COVID-19 has resulted in some changes to our day-to-day operations, by strengthening existing flexible work arrangements, we continue to serve >

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clients with minimal disruption; our entire workforce is equipped for remote working. With 31 March year-end and return filing deadlines just around the corner, please get in contact with us if you wish to adjust our service-delivery approach in order to better align with your business continuity plan during this time.

As business leaders assess their readiness and business continuity plans for the coming weeks and months, we are aware that the potential financial implications may raise concerns about business' on-going compliance with tax obligations. The Government has approved a [Business Continuity Package](#), which includes directing Treasury and Inland Revenue to develop tax policy options (this may include deferring tax payments and support for small businesses). Inland Revenue has also recently published an [article](#) on tax relief and income assistance available to people affected by a downturn in business due to the Coronavirus COVID-19. The Business Continuity Package, and actions taken by Inland Revenue, will focus on reducing the impact for affected businesses and supporting businesses to maintain operational continuity – we expect further details to be made public in the coming weeks.

Given the on-going response by Government, it is timely for businesses to monitor the potential tax impacts of COVID-19. Below, we have listed some of the relevant potential tax issues for business leaders to consider.

Tax payments

- If cash flow is becoming an issue, consider tax pooling for [provisional tax payments](#).
- Provisional tax financing may provide additional flexibility.
- Consider estimating provisional tax payments downwards if it is clear that expected profits will be down (this has potential use of money interest and penalty risks compared with using a tax pooling option. The Inland Revenue interest rate on tax underpayments remains at 8.35%).
- If you've made a payment late or are in serious hardship due to COVID-19, Inland Revenue may be prepared to waive penalties or allow [instalment payments](#). Be upfront with the Inland Revenue.

Tax returns

- With final tax returns for the 2019 income year due by 31 March, any disruptions or absences within the finance team may put pressure on meeting deadlines. Contact us if you think this may be the case for your business. The consequence of late filing of income tax returns is an additional year added to the time-bar period in which Inland Revenue can reopen the return.
- Filing dates for other returns (for example GST and PAYE) generally cannot be extended by Inland Revenue but consideration will be given to waiving late filing penalties.

Your workforce

- If you have an international workforce that finds itself unable to travel, ensure you are continuing to monitor time periods spent in each relevant jurisdiction to ensure the time periods for tax exemptions are not exceeded (this can include non-residents being in New Zealand for more than 92 or 183 days; and timeframes around the provision of accommodation).
- If employees find themselves working from home for extended periods, the payment of allowances may need to be considered. The taxation of any new payments should be considered. As an example, Inland Revenue has recently updated its position on the treatment of [telecommunication allowances](#).
- If you engage contractors who are subject to voluntary withholding taxes, be mindful of their tax situation and any requests to lower the rate of withholding tax.

Your contracts

- Business disruptions in your supply chain may be leading to new supplier or distributor relationships being formed. Ensure any new contracts have been considered from a tax standpoint and include appropriate tax clauses. The tax outcomes under a new contract may not be the same as an existing contract particularly if you are dealing through different countries.
- If you are exporting products be mindful of the current timeframes for GST zero-rating sales and the goods being cleared to leave New Zealand. Is there any risk of delays?
- If you have a global business, be mindful of any intra-group balances. If additional support funding is being advanced between group members, are the interest rates appropriate, have withholding taxes been considered and what is the impact on thin capitalisation ratios?

Tax residency and permanent establishments

- If your business is needing to operate in different ways in different countries (for example a key sales staff member has been required to work remotely in a different country due to travel restrictions), you will need to consider whether a permanent establishment has been created which could alter international taxing rights.
- As noted above, travel restrictions may make it harder to control the tax residency of individuals working for you.
- For companies, where directors undertake their control of the business can have an influence on where that company is tax resident and is often closely monitored in situations where there is a risk of a company being considered dual-resident. If directors are no longer able to travel to attend meetings, could this impact on where your company is tax resident?

Given the likelihood for New Zealand businesses to experience some challenges over the coming weeks and months, we hope and expect that Inland Revenue will take pragmatic approaches to resolve issues – whether specific or widespread. We will be monitoring Inland Revenue's approach to audits and investigations, and Officials' responsiveness to practical issues and will keep you updated on developments.

The paramount concern at this time is the wellbeing and safety of your (and our) staff, families and communities. We encourage you to think about this situation in two ways – what needs to be done today to ensure immediate well-being concerns are addressed, and what needs to be done to ensure long-term business success. This means considering the potential financial and tax implications of the current outbreak. With a little work, tax risk can be managed through this time of uncertainty.

We are actively looking to understand and support our clients in their readiness to navigate this global outbreak. If you have any questions about the above, or wish to consider tax issues specific to your business, please get in touch with your usual Deloitte advisor. Please also see the below key links for further information on the outbreak of the novel Coronavirus COVID-19.

We will be updating this article for any new announcements and additional issues which have come to light in our next edition of Tax Alert which will be released in early April.

Useful links:

- [IRD website](#)
- [Ministry of Health webpage](#)
- [Deloitte resource: Combating COVID-19 with resilience](#)



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