



## MAY 2016 NEWSLETTER

### Bright-line test and residential land

New tax rules now apply to residential property sales made from 1 October. A new 'bright-line test' will apply where a person who has purchased a residential property on or after 1 October 2015 then sells it within two years. The sale will be taxed unless the property is the seller's main home, inherited from a deceased estate or sold as part of a relationship property settlement. The bright-line test does not apply to business premises or farmland.

### Selling the main home

The seller's main home is exempt from the bright-line test. Where the seller has more than one home, their 'main home' is the property with which they have the greatest connection. Just to prove that the tax system has a sense of humour, a person will not be able to use the main home exception if they have already used it twice in the previous two years.

If a trust owns the property being sold, the main home exception will apply when it's the main home of a beneficiary of the trust. However, if the principal settlor of the trust has a main home that the trust doesn't own, the main home exception cannot apply to any property owned by the trust.



### Claiming tax deductions

There are provisions for allowable deductions when a property subject to the bright-line test is sold. However, where losses that arise as a result of the bright-line test are ring-fenced so they may only be offset against taxable gains arising on other land sales. It is not possible to claim a loss arising from a transfer of property to an associated person.

## IRD numbers required for property sales

As a mechanism for tracking property sales under the new legislation, all vendors and purchasers of property other than their main home must now provide an IRD number as part of the land transfer process.

### Family trusts

Where a family's main home is owned by the family trust, the trust is not exempt from providing an IRD number.

It's quite common for a trust to own the family home, protecting the family from business or other relationship property risks. Up till now family trusts haven't needed IRD numbers unless they had taxable income to return. Now, when the family home is transferred into the trust or when the

trust buys or sells property, the trust needs an IRD number. Trustees' own personal IRD numbers aren't acceptable.

The new requirements also affect changes of title. So, if a trustee dies or retires and the new trustee's name needs to be registered on the property title, the trust needs an IRD number to register the change.

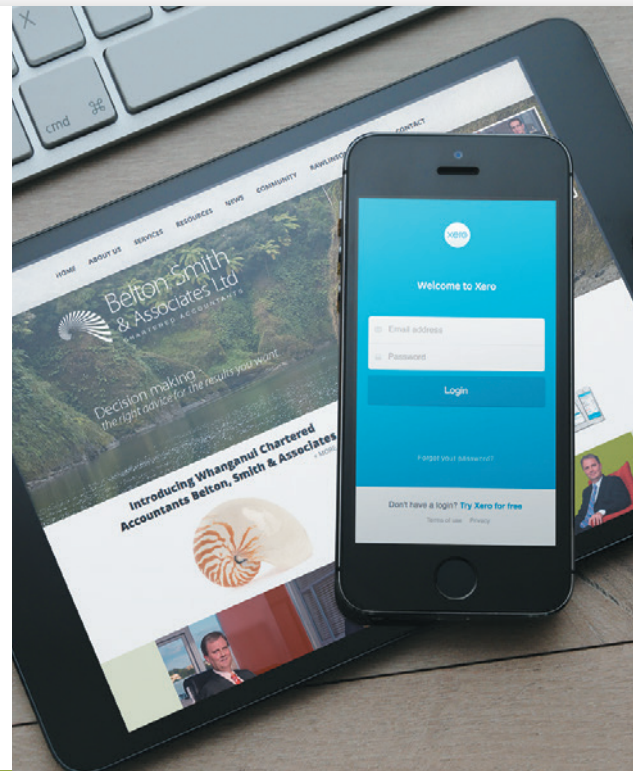
If you are arranging for the family trust to buy, sell or transfer property, please contact us. If the trust does not already have an IRD number we can take care of this. Otherwise you could face costly and stressful delays while you sort out the paperwork.

## New Method of calculating Provisional Tax in 2018

The Government has recently announced that they are looking at making changes in this space, we will keep you posted on the upcoming changes.

## Filing GST returns direct with the IRD from your accounting software

The ability to file your GST returns directly from your accounting software is in the pipeline for those of you using cloud based software. MYOB and Xero are running trials of this at present, so we expect this to be something available to all users in the very near future.



## Update from IRD - Targeting the Cash Economy

Inland Revenue's crackdown on 'cashies' continues with their focus on undeclared cash in the construction and hospitality sectors. Last year, the Auckland region saw the most activity. Inland Revenue are now widening their reach. They've been trying to change attitudes among tradies and subcontracting businesses and their efforts seem to be getting results.

Inland Revenue acknowledge people trying to cheat on tax are in the minority but stress that they're a very expensive minority. The so-called 'hidden economy' is a cost to all New Zealand taxpayers, who carry more than their fair share because of it. There's another hidden cost too, as business owners who are meeting their tax obligations find it hard to compete with operators who can undercut on quotes because they don't pay tax.

What's this have to do with you, you may ask. Because we're sure you're up to date with your tax obligations. In which case: sweet.

However, if you are in the situation of having under-reported – or unreported – income, now is a great time to straighten it all out. We want to help you make sure your returns are accurate and timely and, as far as possible, help you avoid penalties and use of money interest on any tax owing.

If you think you might have got yourself into a mess with your tax, declaring it early and taking action to correct it goes a long way toward setting you apart from deliberate tax evaders. You may have made a mistake or filed an incorrect tax return, left out some income from your return or incorrectly claimed expenses. We can help you make a voluntary disclosure which may reduce shortfall penalties by up to 100% and protect you from prosecution.



## Keep in touch...

For further help on any of the articles featured in this newsletter or any other tax questions you may have feel free to contact either Bryce, Hayden or one of the team members.



## ACC - No more residual levies

From April, employers, earners, and motor vehicle owners no longer have to pay residual ACC levies. However it won't mean reductions across the board.

The residual levy rate calculation was based on old injury rates which have become out-dated, going back 10 years or more. The residual levies themselves were a kind of catch up to make sure there were enough funds set aside to pay for ongoing claims predating 1999.

Now, all businesses will have their levies calculated on the most recent data around injuries and the likelihood of injury in their particular industries. Hence, while most will pay less, some will pay more. The removal of residual levies alone would have seen decreases in their ACC contributions for around 53 per cent of Kiwi businesses, while 47 per cent would be paying more.

However, with other levy reductions (see right), the number of businesses paying more may come down to around 21 per cent. We'll keep you updated.

## In Brief:

### Minimum Wage Increase

From the 1st of April the Adult minimum wage increased 50 cents an hour to \$15.25. Starting out and training minimum wage increased to \$12.20, which equates to 80% of the adult wage.

The increase is also the same amount as the prior year, being 50 cents for the Adult Minimum Wage and represents a 3.4% increase despite inflation being less than 1% again this year.

The Adult Minimum Wage is for all those who are 16 years of age and who are not on the starting out wage, for employees who are 16 and 17 year olds that they have worked less than six months in their current employment, or training wage, for employees who are 20 years or older and who are completing recognised industry training in order to become qualified.



## ACC levy reductions

The Government has agreed to the following changes to levies in 2016/17:

- 11% reduction to the average work levy taking it to 80 cents per \$100 of liable earnings
- 4% reduction to earners' levy, taking it to \$1.21 per \$100 of liable earnings
- 33% reduction to combined average motor vehicle levies (the petrol levy and annual licence levy), from an average of \$194.25 currently, to \$130.26 per vehicle



## Parental Leave

From 1 April 2016, the amount of paid parental leave that eligible people can take has been extended from 16 weeks to 18 weeks.

Parental leave payments now also apply to more workers, with eligibility extended to people in less-regular jobs, in particular to people who have recently changed jobs, seasonal and casual workers, and workers with more than one employer. 'Home for Life' caregivers and people with similar permanent care arrangements will also be eligible.

## Mileage rates

If you're self-employed you can use the Inland Revenue mileage rate to calculate the cost of using your motor vehicle for business purposes. Last year the commissioner reviewed the mileage rate for the 2015 tax year and decreased it from 77 to 74 cents per kilometre.



## Health & Safety

As accountants we have a role in advising our clients with regards to business risk so they can seek assistance in minimising this risk. The Health and Safety at Work Act, which came into effect on 4 April 2016 to replace the current Health and Safety and Employment Act and will require employers to take steps to manage health and safety risks at work.

We have provided some updates and commentary on this topic in previous newsletters and there has been a lot written about the act in the media, so people have been aware that changes are looming for some time now.

You must be aware that under this act the PCBU (Persons Conducting a Business or Undertaking) is defined and they cannot contract out of this legislation. In some cases Trustees will be a PCBU, so be forewarned that if you are a trustee you must understand how this act will affect you.

We want to emphasise that you cannot afford to be ignorant in regards to the legislation, especially if you have employees.

## Foreign Trusts

Recent activity in the media on the back of documents leaked from a Panamanian law firm have thrust the spotlight on Foreign Trusts in New Zealand.

Just to be clear on this, Foreign Trusts are, as the name implies, New Zealand Trusts who have been settled by a Foreign resident, but who have New Zealand resident Trustees. So, if you are a New Zealand tax resident you cannot settle a foreign trust.

These trusts pay tax on any New Zealand sourced income, but are exempt from paying tax on any foreign sourced

income. Having a Health and Safety plan is the first step. It is also very important to discuss this topic with your staff and getting them to assist in building policies and procedures around Health and Safety in the workplace that form your Health and Safety plan. This ensures you get buy in from everyone and more importantly that they understand their roles and responsibilities under the act.

Items you need to focus on include, but are not strictly limited too, hazard identification, managing all known risks, ensuring employees are adequately trained to complete set tasks and they are provided with the correct equipment to allow them to complete the task in a safe manner.

If you this is something that you are concerned about feel free to give us a call.

income. In most cases these trusts may own investments which are not in New Zealand, but which are simply taxed in the jurisdiction the investments are held in. Further to this any income distributed to a New Zealand tax resident from a Foreign Trust is taxable in New Zealand.

So Foreign Trusts don't work for New Zealand Tax residents. It seems to us they are being used as a political tool currently. The Government is conducting a review and the result of that will be available in a few weeks and no doubt will result in further political squabbling!

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