Belton, Smith & Associates Ltd

CHARTERED ACCOUNTANTS

JULY 2021

2021 has seen New Zealand way ahead of most other countries in the world in minimising the effects of Covid 19. Whilst our International Tourist market is nearly nil the rest of the economy seems to be flourishing with many Trades being the busiest they have ever been.

The property market seems to have slowed somewhat locally, but it seems that the Reserve Bank has signalled it is likely to increase the OCR in the near future, so we need to start preparing for higher interest rates.

So how does one prepare for that?

Here are some tips:

1) Reduce personal debt as much as you can.
2) Ensure that you have adequate emergency cash reserves so if you need some extra working capital you don't have to borrow anymore.
3) Limit the amount of plant equipment you buy using borrowed money.
4) Look at locking in current interest rates – it may be worth it.

Let's hope New Zealand has another good year over the next 12 months – ie No Covid and a strong economy.

Recent Tax changes

Recent tax changes include:

- Allowing businesses to deduct feasibility expenditure
- Loosen loss continuity rules
- Require consistent allocation of the purchase price of property in an asset sale
- Increase in the top tax rate to 39% over $180,000 from the 2022 tax year
- Increase in the Bright-line Test 5 years to 10 years

166 Wicksteed Street
PO Box 4386, Whanganui 4541
RAWLINSON & HUNTER NZ

T (06) 345 1166
F (06) 345 1167
E admin@beltonsmith.co.nz
W www.beltonsmith.co.nz

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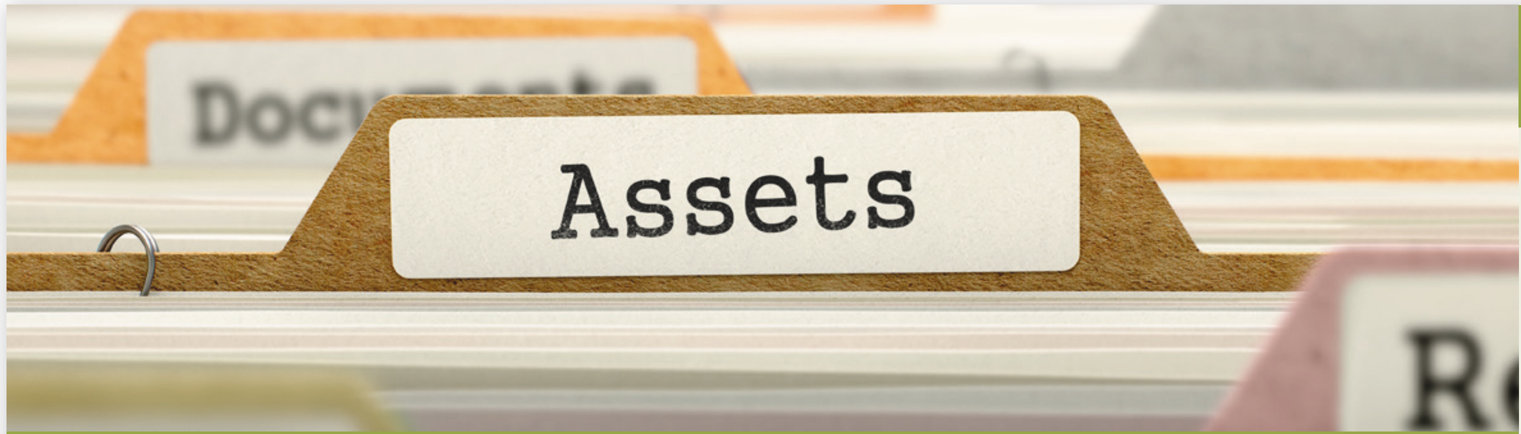


Asset Sales

The IRD have introduced new rules requiring the allocation of asset sale prices to match purchase prices where the buyer and the seller are not related parties.

Where the buyer and the seller agree on how the asset sale price is allocated between taxable, depreciable and non taxable assets, then the values should be used for tax purposes. The agreement should be made and documented before either the seller or the buyer file their tax return which includes the position for the sale. Neither party needs to notify the IRD about the agreement unless requested. IRD have the right to reallocate asset prices if they believe the agreed process does not reflect market value.

Where the buyer or seller do not agree on amounts allocated and the total purchase price is $1million or more, or where the only assets are residential land (including buildings and chattels) with a purchase price of $7.5 million or more the following rules apply:

Within 3 months of settlement of transaction, the seller:

- May determine the amounts allocated
- Must notify both the buyer and IRD of the amounts. The amounts cannot be less than the greater of the market value or the sellers tax book value for the assets.

If the seller does not determine and notify the amounts to the buyer and IRD within the 3-month timeframe, then within a further 3 months (within 6 months of settlement) the buyer:

- May determine the amounts allocated
- Must notify both the seller and IRD of the amounts. The amounts cannot be less than the greater of the market value or the sellers tax book value for the assets.

Once a valid notification is made by either party the amounts must be used by both the buyer and seller for income tax purposes.

If the buyer does not make a notification within the further 3-month timeframe then:

- IRD may allocate amounts to each asset
- Any tax deduction that the buyer is entitled to may be denied until the following years tax return

Where the IRD allocate an amount to each asset, the IRD may use an allocation made by either the buyer or seller notified after the 3 or 6 month timeframes, or based on market value subject to certain thresholds for low value depreciable assets.

Notification can be made through myIR as a web message or in writing.

The notification should include the phrase - "Purchase Price Allocation" in the subject line.

The following details are required in the notification:

- Both parties names, IRD/GST number and contact details
- Date of agreement to the transaction
- Date of settlement
- Global/total price
- Price allocated to each class of property sold – trading stock other than timber or a right to take timber, depreciable property, other than buildings, buildings that are depreciable property, financial arrangements and purchased property where disposal does not give rise to the assessable income for the seller or a deduction for the purchaser.
- A statement that the amounts have been allocated in accordance with section GC21.

If you earn over $180,000 per year your 2022 Tax Rate will be 39% on any income over $180,000

From April 1 2021 any personal income over $180,000 will be taxed at 39%

This will effect fringe benefit tax (which will increase to 63.93% for an all-inclusive pay over $129,681), Resident Withholding Tax, ESCT.

We can review your current tax position in light of this new higher tax rate – just contact Hayden or Bryce.

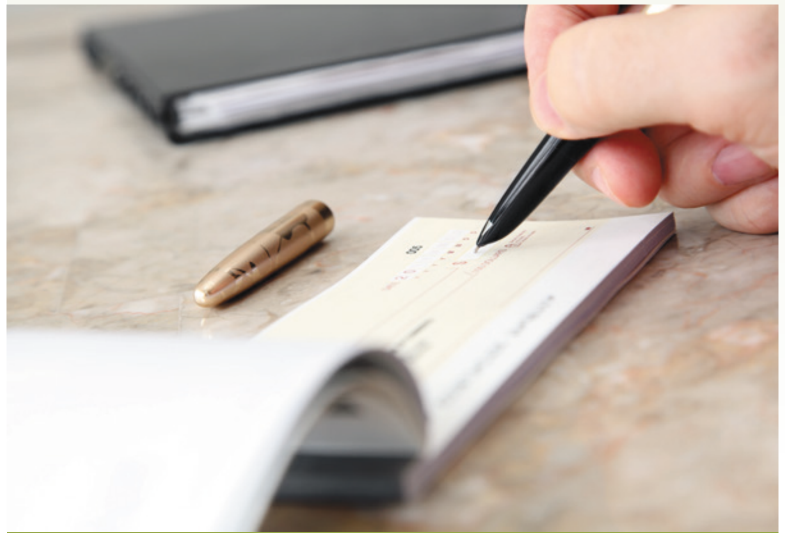
Extra Information Required by IRD for Trusts

As a result of the new highest tax rate of 39%, IRD are focusing on the use of Trusts to avoid tax. IRD are now requiring more financial information to be supplied by Trusts including full financial statements (previously only highlights were sent to the IRD), details on all distributions from and settlements on Trusts including names, birth dates, tax resident information and IRD numbers for the settlor and names, birth dates, tax residency information and IRD numbers for every person who has the power to add or remove Trustees and Beneficiaries.

It is important to note that any Trust that has a beneficiary account in excess of $25,000 will be deemed to be a settlor unless interest is paid at market rates on that amount. The IRD have the right to request this information going back to 2013.

These disclosure obligations will not apply to Charitable Trusts, Trusts that are not required to file tax returns and foreign Trusts.

We will assist in providing this extra information to the IRD, but we may need your help.



Cheques – End of an Era

Who would have thought that cheques would disappear from our lives? Cheques have been around since the 9th century so no one expected that by the end of June 2021 there would be no more cheques!

All IRD payments must now be made electronically, by credit card or over the counter at a Westpac branch, although if you choose the over the counter option you will need a barcode from your myIR on the IRD website. The barcode can be printed out from the IRD website once you have logged into your account.

It is a bit hard to see how this is an improvement on simply writing a cheque, but progress isn't always good progress.

At Belton Smith we will still be happy to be paid in cash or electronically.

New Rules for Interest Deductions on Residential Property

The Government announced its new housing policies on 23 March 2021 in a bid to put the brakes on a rampant property market. These announcements include some significant tax changes.

Any residential investment property where a binding sale or purchase agreement is entered into, on or after 27 March 2021 will be subject to a new bright-line test. The bright-line period has been extended from five years to ten years. This does not apply to "new-builds" which will only have a five year bright-line, however the Government is yet to define clearly the definition of "new builds". This is likely to come later in 2021.

These means that the bright-line periods are now:

2 years -
properties purchased between 1 October 2015 – 28 March 2018

5 years -
properties purchased between 28 March 2018 – 26 March 2021

10 years -
properties purchased after 27 March 2021

The main home exemption has also been amended and any residential investment properties acquired on or after 27 March 2021 will have a new change in use rule applied. This means that if a residential property is used as a main home for six out of eight years, 25% of the gain on sale in year 8 will be taxable. This will apply to existing and new build properties.

The second major change for investors is the removal of a tax deduction of interest paid on property loans. For all properties acquired after 27 March 2021 there will be a phase out of deductibility of interest for all existing investment properties. The government is yet to confirm how this will effect new residential rental builds, but interest deductibility does not change for developer and builders or any commercial investment property.

Here is how interest deductibility will work:

Income year	% of Interest claimable
1 April 2020 – 31 March 2021	100%
1 April 2021 – 31 March 2022	1 April 2021 – 30 September 2021 100%
1 April 2022 – 31 March 2023	1 October 2021 – 31 March 2022 75%
1 April 2023 – 31 March 2024	75%
1 April 2024 – 31 March 2025	50%
1 April 2025 onwards	25%
	0%

This change in policy is intended to dampen investor demand for residential properties. At the time of writing it appears that there is currently much lower interest in residential properties as a type of investment – so maybe this change has worked – or maybe the market was going to quieten down anyway.

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.

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Changes to your employment obligations

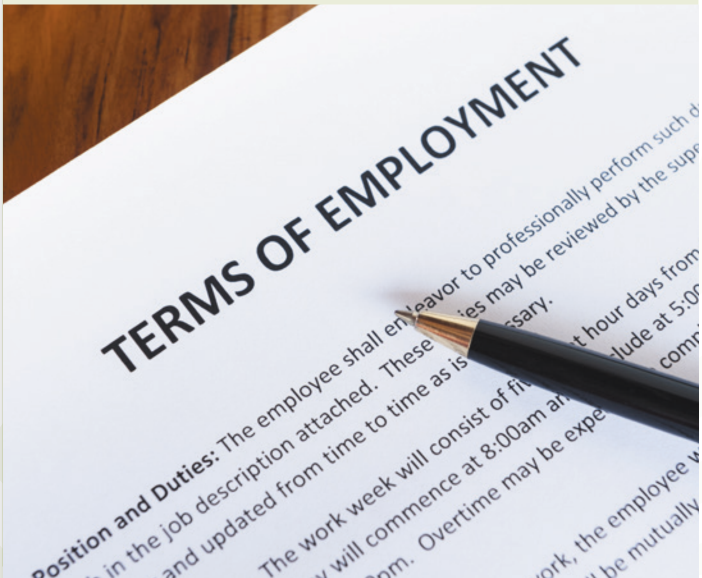
There have been some changes in the employment sector that all employers need to be aware of.

On the 1st of April 2021 the **minimum wage** in New Zealand saw another increase from $18.90 to $20.00 per hour. There was also an increase to the starting-out and training minimum wage which is now $16.00 per hour.

On 25 March 2021, the government announced a **three day bereavement leave** for mothers and their partners that have suffered a miscarriage or still born. This allows families to come to terms with their loss, without having to use their sick leave.

A new **sick leave bill** was passed on the 27 May 2021. This means that all employees are entitled to an additional 5 sick leave days per year, a new total of ten days. All employees will receive these entitlements on the anniversary of their sick leave – six months after they started their current job.

Finally, a **new public holiday** was announced in February, Matariki. This holiday will be a moving holiday similar to Easter but will fall around June/July. The first Matariki holiday will be Friday 24 June 2022 and this holiday celebrates the rising of the star cluster Matariki marking the start of the Maori New Year.



Pay income tax how and when it suits you, using the Tax Pool of TMNZ

Last year the government changed the rules for how the IRD charges interest on late payments.

If the tax payer pays one provisional tax payment late and has to top up their tax for that year, interest is charged back to the first provisional payment date. This can mean a large interest bill for a payment that is just a few days late.

One way to counter this is to buy tax credits from a tax pooling company who has credits available with the correct due date so that the IRD don't charge interest on penalties. The savings can be significant.

See below for a further explanation of how one of these pooling companies – TMNZ- works.

Tax Management NZ (TMNZ) allows you to align income tax payments with cashflow. TMNZ operates an IRD-approved Tax Pool under the tax legislation.

This enables tax overpayments by some taxpayers to be offset with underpayments by others. With TMNZ, you can choose how and when to make income tax payments.

Tax pooling eliminates IRD interest and penalties. TMNZ's interest rates are at least around 30% below IRD interest rates. Tax pooling also provides you with additional time to pay provisional or terminal tax.

With TMNZ, there are no set amounts or payment dates. You pay what you can and when it suits you, up to 75 days after your terminal tax date.

TMNZ's traditional product is called Flexitax. This is most suitable for underpaid past tax.

If you have missed the August 2020 provisional tax payment, you can chip away at it until June 2022. The tax will be backdated in your IRD account because Flexitax allows you to purchase historical tax.

Should you struggle to pay the 7 May 2021 or later provisional tax instalments, you can finance that. Tax Finance is one of TMNZ's innovative products, with sharp interest rates.

Tax Finance lets you defer provisional tax to a future time that suits you. For example, if you wish to defer the 7 May 2021 instalment, you may push it out up to June 2022.

TMNZ's Tax Finance rates are normally around 2% p.a. This is well below usual bank overdraft rates.

For businesses, Tax Finance represents a commercial approach to growth with tailored working capital solutions.

Please feel free to contact us at Belton Smith to discuss your options.

You can also visit the TMNZ website at tmnz.co.nz or call their Support Team at 0800 829 888.

Keep in touch...

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