

TAXTIME



Double Taxation of Trans-Tasman Dividends

The New Zealand taxation rules have been altered over recent years to encourage overseas investment into New Zealand. We have seen the introduction of Limited Partnerships because overseas investors wanted the taxation relief of a look through vehicle and the anonymity of a closed “register”. A Limited Partnership is an entity from a legal and commercial perspective, but the public’s ability to search details of the partners and the financial position of the Limited Partnership are limited. From a taxation perspective, it is a look through entity, thereby eliminating much of the double taxation that can arise if investing in a company.

It has recently been reported that business lobbyists in New Zealand are continuing to push policy makers for a change to the double taxation of dividend returns that cross the Tasman, saying it deters investment and holds back economic growth.

At the present time, if imputation credits from New Zealand are attached to dividends paid to a non-resident shareholder, the credit for the tax is generally not able to be claimed by that shareholder. Similarly, if franking credits from Australia are attached to dividends received by a New Zealand resident shareholder, the credit cannot be claimed in New Zealand and the net dividend is taxable in the hands of the

New Zealand shareholder.

It has been reported that mutual recognition of imputation and franking credits, where businesses provide against tax on shareholder returns for tax paid at the company level, would lift Trans-Tasman gross domestic product by \$5.3 billion by 2030.

Australia has consistently opposed mutual recognition of the tax credits for many years because it claims it would cut Australia’s national Federal tax take for New Zealand’s benefit.

Since 2009, New Zealand and Australia have been working to accelerate the creation of a single economic market by aligning a range of areas in business law.

However, it seems unlikely that in the near future we will see mutual recognition of tax credits being introduced.

How it affects you

We are seeing more and more cases of people being affected by the “double taxation” of Trans-Tasman dividends. It is an additional cost that people often do not consider, and in some cases the amount of “additional tax” can be significant.

- From WHK’s Sharp-As Tax

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Foreign Currency Amounts - Conversion to New Zealand

Legislation enacted in September 2010 (effective from 1 April 2008) permits the Commissioner of Inland Revenue (the Commissioner) to set currency rates and approve methods of calculating exchange rates. The Commissioner can set rates for general use by taxpayers or for specific taxpayers. The exchange rates acceptable to Inland Revenue for converting foreign currency amounts to New Zealand dollars are stated below as per the Income Tax Act 2007 ("ITA 2007").

The ITA 2007 requires foreign currency amounts to be converted into New Zealand dollars by applying one of the following methods:

1. Actual rate for the day for each transaction, or
2. Rolling 12-month average rate for a 12-month accounting period or income year, or
3. Mid-month actual rate as the basis of the rolling average for accounting periods or income years greater or lesser than 12 months

1. Actual rate for the day can be used:

- Where the ITA 2007 does not provide a specific currency conversion rule and the transaction is required to be measured then the close of trading spot exchange rate on the date can be used for conversion; or
- Where a person chooses to use the actual rate for the day

for calculating their foreign investment fund (FIF) income or loss, or to convert foreign income tax paid by a controlled foreign company (CFC).

Inland Revenue does not supply the daily actual rates (except for the 15th and the last day of the month).

2. Rolling 12-month average table:

- Inland Revenue uses wholesale rates from Bloomberg for the rolling 12-month average. This table is the average of the mid-month exchange rates for that month and the previous 11 months i.e. the 12-month average.
- This table should be used where the accounting period encompasses 12 complete months. It can also be used for FIF income or loss and under certain CFC rules.

3. Mid-month actual table:

- Again, the Inland Revenue uses wholesale rates from Bloomberg and this table sets out the exchange rate on the 15th day of the month, or if no exchange rates were quoted on that day, then on the preceding working day on which they were quoted.

If you need an exchange rate for a country or a day not listed in the IRD tables, you can contact one of New Zealand's major trading banks.

Fuel Rebates

What is it?

An excise duty tax applies to all petrol sold in New Zealand. Diesel does not attract an excise duty tax. Instead, the owners of diesel operated vehicles pay what is known as a road user charge (RUC). Both the taxes imposed are for the building and maintenance of the country's roading infrastructure. If vehicles using petrol or diesel are used off road then the excise duty and RUC respectively can be refunded.

This is beneficial for rural businesses using off road vehicles in their operations that consume a lot of fuel, such as tractors, quad bikes, chainsaws and generators. For example, a farmer using 2,000 litres of petrol per annum may claim well over a \$1,000 rebate for the year.

Refund Process

Rebates have to be claimed quarterly by filing the claim form (MR70), available from the New Zealand Transport Authority website www.nzta.govt.nz, which also provides a fact sheet of the refund process. Information required for completing the form will consist of details such as fuel usage, proof of purchase, opening and closing stock.

If you miss the quarterly claim, the rebate can still be claimed (up to two years) but you will lose 10 per cent of the refund.

Taxability

If you have been claiming the petrol as an expense then the refund is also taxable. It is also subject to GST output tax.

GST Return e-Filing

You may have noticed the improved online filing service for GST returns. The IRD now has a secured online facility through *myIR* from September 2012.

The improvements include:

- built-in checks such as automatically calculating GST thereby reducing errors;
- doing away with the document lodgement number (DLN) to file the return as required before;
- tracking the status of the GST returns - whether ready to be filed, saved as a draft, being processed or completed;
- being able to save a copy of the return for your records; and
- receiving immediate confirmation that the return has been filed and received.

The non-personalised online GST form is and will still be available at www.ird.govt.nz but this link will be retained only for the agents by the end of 2013.



Retirement Villages

Ever since the Retirement Villages Act 2003 (the Act) came into force, there have been a variety of villages, some with resort-style facilities, for intending residents to choose from. It is not surprising as the Act was designed to provide greater protection to residents by laying a clear legal framework for operators. The Act legally defines the term 'retirement villages' and incorporates a range of operations by focusing on the substance and economic effect of the village operations rather than the form or description of a document. All village operators have to comply with the industry's Code of Practice, which makes sense as operators deal with a relatively vulnerable section of society. In addition, some of the other requirements of the Act include:

- that every village has a Resident's Rights document containing detailed provisions about residents' rights in the period before an intending resident enters a retirement village, during their occupation, and after they leave;
- that every village operator register each village with the Registrar of Retirement Villages. Registration requires an inclusion of a disclosure statement, title documents and deed of supervision amongst other documents;
- that the village operator provide a complaints facility and dispute resolution process for residents; and
- that the village operator provide audited financial statements annually.

Whether you are a prospective village operator or have a family member who may be moving to a retirement village, further details of these regulations can be found on the New Zealand Legislation website.



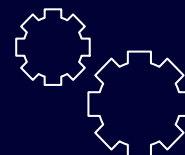
question time >>

Q: Do I have to pay FBT?

A: It depends on your business

As an employer, you have to pay tax on any benefits you give your employees. This is called fringe benefit tax. These benefits are generally not cash and can include:

- Motor vehicles
- Free, subsidized or discounted goods and services
- Low-interest loans



GST SOLUTIONS

Are you finding it a hassle to do your own GST Returns? We have a solution for you. We can save you time and money and a lot of stress by doing your GST returns for you. Our services includes sending you a reminder letter when you GST return is due so that you can get your records to us in time and ensure your GST Return is filed on time in order to have you avoid being charged late penalties. Contact us today for more information.



WEB SOLUTIONS

Have you check out our website lately? We have a variety of really useful calculators which you can download free of charge. These calculators are designed to help you manage and grow your business better by applying proven principles to your business.



PROHUB SOLUTIONS

Do you require a CRM system in your business? We have developed our own CRM system called PROHUB CCM. This system is designed around the all important concept of ensuring every sales lead is recorded and then every lead is properly followed up until the sale has been made. Contact us today for more information on how this program could help your business prosper.

Mixed-Use Assets **Change Progresses**

Earlier this year, the Government announced that it intended to reduce tax relief available to those with assets used partly for "business" and partly for private purposes.

One of the key targets of this legislation has without doubt been those who have claimed tax relief in relation to financing and maintaining holiday homes.

The first indication of how these changes may apply was released recently. The Bill proposes, from 1 April 2013, to apply a new apportionment formula to all expenditure on mixed-use assets that is not directly attributable to either private use or a taxable use. The formula limits a deduction for such expenditure to the fraction of the income-earning use of the asset over the total actual use of that asset in the income year.

These changes will apply to all land and any asset that costs more than \$50,000 that is not used for at least 62 days in an income year if the asset is used both privately and to earn income. The meaning of private use will include use by any person associated with the taxpayer and any use at less than market value. This means that a property owner offering the use of a beach house to family friends or renting it out to family, even at a market rental, will increase their amount of

"private use" under the formula and reduce the amount of deductions they can claim.

Taxpayers can still claim a reasonable proportion of the indirect costs associated with owning the property provided the private use is kept to a minimum. If renting the house at fair market value still generates a net loss after the apportionment of indirect expenditure, the Bill proposes to ring-fence this loss where the gross income from the asset is less than 2% of its cost or rateable value. Ring-fenced losses can only be carried forward to offset against future net income from the same asset.

Owners deriving income of \$1,000 or less from the asset may elect to treat the income as exempt (and not claim any deductions).

Motor vehicles and mixed-use assets, such as home offices, are excluded from these rules.

How it affects you

We expect the impact on many will be great. Very few holiday homes, for example will be used for 10 months of an income year, and most will struggle to reach an annual gross income greater than 2% of the rateable value of their holiday home.

If you have a mixed-use asset, we recommend you contact your Advisor to discuss what these changes will mean for you. - From WHK's Sharp-As Tax

Quick Quote

The world is round and the place which may seem like the end may also be only the beginning
~ Ivy Baker Priest



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