

TAX TALK

Property Tax

Budget 2015 - Extra property tax measures

The Government is taking extra steps to bolster the tax rules on property transactions – including those by overseas buyers – and to help Inland Revenue enforce them.

The 2015 Budget confirms that, from 1 October this year, the following will be required when any property is bought or sold:

All non-residents and New Zealanders buying and selling any property other than their main home must provide a New Zealand IRD number as part of the usual land transfer process with Land Information New Zealand.

In addition, all non-resident buyers and sellers must provide their tax identification number from their home country, along with current identification requirements such as a passport.

And to ensure that our full anti-money laundering rules apply to non-residents before they buy a property, non-residents must have a New Zealand bank account before they can get a New Zealand IRD number.

In addition, a new “bright line” test will be introduced for non-residents and New Zealanders buying residential property, to supplement Inland Revenue’s current “intentions” test. Under this new test, gains from residential property sold within two years of purchase will be taxed, unless the property is the seller’s main home, inherited from a deceased estate or transferred as part of a relationship property settlement.

To further ensure overseas property buyers meet both existing tax requirements and those of the new test, the Government will investigate introducing a withholding tax for non-residents selling residential property.

Finance Minister Mr Bill English reiterated owner-occupiers of residential property will not be affected by the new measures when they sell their main home, or if property is inherited from a deceased estate or transferred as part of a relationship property settlement.

Since Budget 2010, the Government has provided Inland Revenue with \$33 million more for property tax compliance and enforcement. In return, up to March this year, this has resulted in an extra \$258 million of assessed tax revenue – a return of over \$7.80 for every \$1 invested.

The 2015 Budget will provide Inland Revenue with a further \$29 million for property tax compliance, taking its total budget for work in this area over the next five years to \$62 million. This is expected to generate around \$420 million of additional assessed tax in the coming five years.

Revenue Minister Mr Todd McClay says the extra information disclosure requirements for property buyers, particularly for non-residents, will help Inland Revenue track and identify transactions that are likely to be taxable.

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"In particular, they will allow Inland Revenue to share information about non-residents with overseas tax authorities," he says.

"Under the current law, anyone buying property with the intention of selling it for a gain is liable for tax on that gain. As the extra tax assessed confirms, Inland Revenue has had good success in enforcing the existing rules in recent years.

"The new bright line test will create a clearer rule that ensures buyers who sell properties within two years are taxed on their gains, subject to the few exemptions we've set out.

"They will still be subject to tax under existing rules if they buy a property with the intention of selling the property for gain – even if they do so outside the two-year "bright line" period," Mr McClay says.

Please do be aware that there are many situations that could arise that may bring property transactions into the new tax rules that you previously didn't have to worry about. For example if you acquire a property for long term renting but due to sickness, financial difficulties, break-up of relationship or any other reason you are forced to sell it within the 2 years, any capital gain you make will be taxable under the new rules.

If you have any concerns please contact us.

Good systems breed success

Success in business has a lot to do with systems. Get your systems right and your work will flow better. Your systems will save you time and costs.

Here's some useful tips for good systems:

- Start each day by planning what you're going to do and the order in which you are going to do it. You'll get interruptions and you may not finish the work. Put the most important work first so the remainder can be safely held over until the next day. Don't confuse urgent with important. Organising your golf for next Sunday might be urgent but it might not be important for your business. Make it wait until after work.
- Use checklists. Whenever you have repeating work, develop checklists so you don't overlook anything. If you've made a mistake in a costing, for example, change your checklist so it never happens again.
- Keep a notebook. Any ideas you get should be written down immediately. If you leave this till later you're sure to forget that good idea.

- When you're organising papers to take to your accountant, get a system to make the job easy. For example, if you receive dividends and interest, have a folder or some place where you always put the details of each amount when you receive it.
- Systems apply just as much to selling. Some situations call for scripting exactly what your staff member is to say when selling.



Read important documents

The Insurance and Savings Ombudsman said recently that customers of financial advisers should keep all documents, read them carefully, and always ask questions.

This includes insurance companies.

Who has the time to read all this detail? When it comes to these documents, you need to make the time. You should challenge anything you read and don't like. Get it deleted or changed. If the company won't negotiate, look elsewhere.

A woman took off her expensive diamond ring and put it on her dressing table. It was stolen. The policy required the ring to be always worn or put in a locked safe—no claim.

Be careful of open homes when selling a property. Before you start, read the policy and see if there are any nasty clauses.



Changes to use-of-money interest rates

Use-of-money interest rates are reviewed regularly to reflect the current market interest rates. These rates changed on 8 May 2015.

The new rates are:

Underpayment rate - 9.21% (up from 8.4%)

Overpayment rate – 2.63% (up from 1.75%)

The changes were made by Order in Council on 30 March



question time >>

Q: A company is in the business of selling building materials. The company is considering donating some of its plywood to the Red Cross for its Nepal earthquake relief work. How is this treated for income tax and GST purposes?

A: See below for detailed answer

Section DB 41 of the Income Tax Act 2007 allows a company a deduction for a charitable or other public benefit gift that it makes to a donee organisation.

A charitable or other public benefit gift is a monetary gift of \$5 or more that is paid to a society, institution, association, organisation, trust or fund described in s LD 3(2) or listed in sch 32 (Recipients of charitable or other public benefit gifts) of the Act.

Although the Red Cross is listed in sch 32, because the company is donating goods and not money it is not entitled to a deduction for the cost of the donated plywood under s DB 41.

The company will need to return the market value of the plywood as income under s GC 1.

Relief from this requirement has been provided for those donating goods to the Canterbury earthquakes (s GZ 3), but does not extend to other natural disasters.

There is also an exclusion under s GC 1(5) for self-assessed adverse events, but this only applies when the goods are given to another person for use by the other person in a farming, agricultural or fishing business that is affected by the self-assessed adverse event. As Red Cross is not engaged in a farming, agricultural or fishing business this exclusion will not apply.

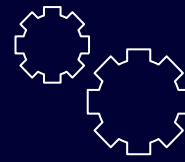
However, the company will obtain a deduction for the cost of the donated plywood under the normal tax rules applying to trading stock. That is, because the company has disposed of the plywood the company will be entitled to a deduction for the cost of the plywood.

From a GST perspective, the company will be making a supply of the plywood for no consideration. There is no provision in the Goods and Services Tax Act 1985 that will deem a consideration in these circumstances. Therefore, the company will not need to account for GST on the donated goods.

REFERENCE:

Income Tax Act 2007, ss CH 1, DB 23, DB 41, EA 2, GC 1, GZ 3, YA 1 ("self-assessed adverse event"). Goods and Services Tax Act 1985, ss 5, 8, 10(19).

CCH/TEO Question and Answer Service



PAYE SOLUTIONS

Are you using the correct PAYE Tables? Each year the PAYE deduction tables change, even if it's very slightly. This occurs even though tax rates may be unchanged. It's caused by changes in ACC levies. IRD does not send out new PAYE deduction tables. You can however get them off the IRD website or ask IRD to send you out the latest copy.



WEB SOLUTIONS

If you're a borrower or a lender the website interest.co.nz should be useful to you. You can find out quite a lot about what banks are offering and you can compare banks. You can also use their calculator. An investor for example can compare a PIE investment at one bank with a term deposit at another. If you wanted to reinvest interest as you go, you could work out what you could earn over the term of the loan.



PROHUB SOLUTIONS

Are you looking for an online Job Management system? Our Prohub Online system now has a Job Management system in it which links perfectly to the online Time Sheets. This Job Management system allows you to take a job through whatever stages your jobs normally take and can be passed from one Team Member to another. It also tracks how long jobs are taking and you can also set deadlines for when jobs are to be completed by and it has a reminder dashboard of upcoming job completion deadlines. In due course we will have it linking to our online Accounting system which will enable you to monitor the costs of jobs with precision accuracy.

Take notes as evidence

Occasionally you'll encounter a conflict, which you'll usually try to resolve on the telephone.

Sometimes you'll succeed.

Recently a traveller took out a travel insurance policy for a year. Towards the end of the year he was heading overseas on his last business trip which would be covered under this policy. As a precaution, he told the insurance company something that had arisen recently, that he thought they should know. When he talked to the claims department he was told that if any illness resulted while overseas it would not be covered.

Since he was travelling via the United States, you can imagine this was alarming. After a stressful three or four hours he managed to contact a more senior person in the firm who acknowledged the first claims manager was wrong. The traveller asked for confirmation by email and when he hung up he took detailed notes of the conversation.



Our message is clear. When you have conflict such as this, write notes immediately of what was said. They form excellent evidence if you ever have to take the matter to court or if there's further argument. Be sure to make a note of the date and time you wrote the notes.

These days, all you need to do is make a note on your smart phone or send yourself an email which will have the date & time on it – excellent evidence!

Quick Quote

One measure of leadership is the caliber of people who choose to follow you. ~Dennis A. Peer



The power and risk of social media

Social media such as Facebook can be both powerful and risky for businesses.

Powerful because it has the ability to reach a wide audience instantly and risky for the same reason. What's important to business people is what goes onto Facebook, as our example.

Remember, what you post goes public (unless you adjust your privacy settings). So you can promote your product or service to your heart's content. However, observe the same rules of good writing and comprehension as you would for any print publicity. Bad writing indicates sloppy work practices, whether the work is or not.

Other risks come with the messages you convey. Sacking a staff member "because things are tight at the moment" and posting a photo showing you at Lake Taupo on your new boat will not sit well with staff. Beware especially of business functions, where everyone can take photos on their cell phone and post on Facebook. Do you look drunk or overly friendly with a staff member?

Staff, too, need to be careful. Employers and especially prospective employers check social media to what sort of person they might have on staff. Gripping about work on Facebook or posting a fun photo at the rugby when they've called in sick is a sure path to the door.

Stephen Larsen and Co
TAX AND BUSINESS ACCOUNTANTS

Important: This is not advice. Clients should not act solely on the basis of the material contained in the Tax Talk Newsletter. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Tax Talk Newsletter is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.

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We care about your Business Prosperity