Chapmans Business Bulletin Winter 2018

Welcome to the Winter edition of our newsletter.

We say good bye to Anne Hall, who leaves us to pursue other ventures.

Residential Investment Property Loss Ring Fencing

On the 29th of March 2018 officials released a consultation document on restricting ("ring fencing") residential rental tax losses. Proposed to apply from the 2019-20 income year (from 1 April 2019 for most taxpayers), rental losses will only be available to offset rental gains or taxable gains realised on the sale of residential property.
In summary, from the 2019-20 income year (financial year ended 31 March 2020 for most taxpayers) - with potential phasing in over two to three years:
- Residential rental losses will not be able to be offset against other income (for example, salary or wages or business income) to reduce the overall tax liability or to receive refunds of PAYE or other tax paid.
- Rental tax losses from one property will be able to offset rental gains from another property, where multiple properties are owned.
- Losses are carried forward to offset future rental gains or taxable gains on the sale of residential land (for example under the five year brightline capital gains tax rules etc).

- Officials are still considering if the restriction will apply in full from 1 April 2019 or be phased in over two to three years. This would be done by reducing the proportion of losses that could be used to offset other income over a two or three year period, until no losses could be used to offset other income sources. For example, if phased in over two years, 50 percent of residential investment losses could be used to offset other income in 2019–20, and no offsetting would be allowed in 2020–21.
- Note that the rules will not apply to the family home, a bach subject to the mixed use assets rules, or development properties.

Potential Impacts

Given investors will no longer receive a tax benefit in respect of negatively geared residential rental properties they will need to have a stronger view of capital appreciation of the property for the investment to stack up. These new rules could also result in investors exiting the market or potentially increasing rent to tenants.
There may also be less emphasis placed in debt structuring to maximise interest deductions as there will be no immediate tax benefits in doing so. Although this is the case we would advise ensuring rental investments are structured as tax efficiently as possible for the following reasons:
- It is important that where possible debt is structured away from owner occupied properties towards residential rental investments to at least ensure that the rental property is not in a tax paying position. This is particularly important where a taxpayer is purchasing a new home to live and intends on renting their existing property.
- As noted above the new rules could be phased in over two to three years so taxpayers will want to maximise their position during this period.
- Although losses are not able to be used to offset other taxable income, they are carried forward to offset future gains from residential rental properties. These could still have value in circumstances where a taxpayer decides to (or due to circumstances outside their control) dispose of residential property and has taxable income under the five year bright line capital gains rules, or at some stage in the future where debt on residential properties has been reduced to a level where the properties are cashflow positive (i.e. as investor's approach retirement).
- The Government could change in the future and adjust the rules put in place by the current Government.

At this stage how the final rules will look is still unclear. Once the consultation period has been completed we would expect to receive increased clarity on how residential rental investments will be taxed from 1 April 2019. If you would like to discuss your personal circumstances and how the above may impact on your residential rental investment portfolio, please contact us.

You learn more from defeat than you do from victory—Anon.

Chapmans Chartered Accountants Limited
Level 1 Westgate Chambers, Maki Street, Westgate Centre, Auckland
PO Box 84 148 Westgate, Auckland 0657

Ph: 09 831 0205 I Fax: 09 831 0206 I Email: team@chapmans.co.nz I www.chapmans.co.nz

Directors: Graham Chapman, Karl Dickins, Jarrod Walton, Carol Fougere

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OUR NEWSLETTER FOR GROWING BUSINESSES

THE FRINGE ISSUE

Given the importance of keeping your PAYE and GST record-keeping and payments in order, it might be tempting to think that Fringe Benefit Tax, or FBT, is a relatively minor thing. But don't be fooled. In 2017, Inland Revenue created a dedicated audit team to focus on this issue.

One of the team's aims is to ensure employers have the right business structures and documentation in place. And it turns out that many don't.

If this sounds like you, now's a good time to put things right. Regardless of whether you're acting correctly or not around FBT, a lack of proper records leaves you in a weak position and liable to negotiated settlements (that is, having to pay more than you expected) or, worse, serious penalties.

Most FBT revolves around company vehicles, so let's look at what IRD expect from you if you provide one to any of your staff:

- The employee's job description and employment contract
- The company policy on motor vehicles
- Any private use restriction letter in place, signed by the Directors and the employee
- Documentation that shows regular checks on the vehicle to ensure it's not being used for private matters
- The employee's performance review notes confirming they're sticking to company policies.

FBT… SO, WHAT CAN YOU DO?

For an SME owner, that's quite a daunting list, and a good reason to talk to your accountant. An expert, independent set of eyes will help you determine what you need to do in all cases, what you *don't* need to do, and also how to go about doing it (including creating proper documentation).

The value of expert advice is heightened by some of the finer points of FBT legislation. For example, did you know that if an employee takes a vehicle home one evening and returns to work with it the next morning, the laws says it's been available for private use on two days?

Did you know that IRD expects you to check that employees are adhering to restricted use policies at least once every quarter?

Did you know that just because a vehicle has your company logo on it, that doesn't automatically make it a work-related vehicle, which then means it doesn't automatically become exempt from the usual requirements of FBT?

Did you know there is also a new option for some companies that have one or two vehicles to elect to use the motor vehicle expenditure rules rather than pay FBT in certain circumstances?

If you didn't know all those things, take a bow – you're in great company! FBT is complex, to say the least!

The good news is that IRD also recognises this and will work closely with you to help you comply. The best approach is to get professional advice (that's us) and, where appropriate, go to IRD for a written opinion on any matters that aren't crystal clear.

That way, even if IRD disagrees with your FBT return, they'll see that you've taken reasonable care to get things right and may not impose penalties.

So, when are you liable for FBT? Any time you provide non-cash benefits to your staff – which means the list is potentially endless. In practice, however, most non-cash benefits fall into one of these categories:

- Insurance premiums
- Motor vehicles
- Subsidised transport
- Staff vouchers
- Offsite carparks

THINKING OF EXPORTING? DON'T JUST THINK – ACT!

New Zealand's is an export-led economy, driven by a handful of major industries like dairy and wine. But more and more smaller players are also conquering offshore markets with smart, innovative products and services in every sphere.

If you've ever contemplated trying your hand in international markets, remember that you don't have to be a Fonterra to make it. With the right preparation and support, even a small business can take on the world.

We recently interviewed Jim Henderson of Business Consulting for Banking about the keys to international success. Here are some key excerpts from that interview.

Q: Jim, let's start by you telling us about yourself and your business.

Jim: My business is BC4B, Business Consulting for Banking. We're located in Auckland, Wellington and Christchurch. We're independent banking, payments and working capital specialists helping importers and exporters be successful in sourcing and selling product overseas.

Q: What are the main reasons for exporting goods or services?

Jim: Increased sales, more customers, increased profit margins and perhaps increased utilisation of capacity, say production capacity.

Q: What would be some reasons for not doing it?

Jim: The complexity in manufacturing and selling goods successfully overseas is much more than in New Zealand. Understanding what those complexities are and managing those risks is really important.

Q: What are the biggest pitfalls?

Jim: Many businesses have started exporting and come unstuck. Some spectacularly and some have managed to recover, but underestimating what's required in terms of investment and capital and money and time and process to develop a market overseas is a big pitfall. Then there's understanding the working capital investment required to keep that business running and growing overseas. Making and selling goods within New Zealand has a relatively small timeframe from getting an order, producing goods, selling them and getting paid. That financial supply chain is really short. *(continued on page 3)*

CHANGES TO FAMILIES PACKAGE

If you receive the Families Package (formerly the Family Incomes Package), you may be affected by three changes coming on 1 July. They include:

- a Winter Energy Payment to help older people and low income families heat their homes
- a Best Start tax credit for families with young children
- increases to Working for Families tax credits

Because the changes will be made automatically, you don't need to do anything. Anyone who isn't a Work and Income client may need to apply for Best Start tax credit through Inland Revenue.

Boosting Working for Families tax credits

From 1 July the eldest-child rate will increase to $5,878 a year, and for subsequent children to $4,745. The abatement threshold will increase from $36,350 to $42,700, and the abatement rate from 22.5% to 25%. This means that the amount of the family's income at which Working for Families tax credits starts reducing is increased, however the amount of the reduction has increased from 22.5c in the dollar to 25c in the dollar. The result is net increase to families receiving Working for Families tax credits.

Best Start

The Best Start payment of $3,120 a year (or $60 a week) per child is designed to help families meet costs in a child's early years. It will be available to all families in their child's first year and for low- and middle-income families in the child's second and third years. Best Start payments will be abated at 21% for income above $79,000. It will be made available for children born after June 30 and will replace the Parental Tax Credit.

Winter Energy Payment

The Winter Energy Payment is aimed at helping people on a benefit, New Zealand Superannuation or a Veteran's Pension to heat their homes in winter. It provides $20.46 a week for single people, and $31.82 a week for couples or people with dependent children. It will be paid from 1 July to 30 September 2018.

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When selling overseas, that financial supply chain becomes a whole lot longer, so it perhaps takes longer to get an order. The order might be larger, so there's more time to produce the goods. Distance to market, that's greater. Then maybe you've got goods in-country overseas, so you can supply your distribution network or your customers overseas just in time, and maybe it gets longer to get paid. Maybe it's more difficult to get paid overseas. Those are important financial issues to understand at the start.

Then there are customs in different countries. Our biggest markets for exports from New Zealand is Australia. The way they do business is slightly different to ours. Their laws and regulations are different. In a lot of areas they are very similar, but in some key areas they are not. Understanding those issues and how your product might be perceived in that market is important. You need to spend time building relationships. Selling goods isn't just about the value that your product brings to the end-buyer. It's about relationships.

Q: What about compliance issues?

Jim: Australia has different structures in terms of registering business, information that you have to provide, what's available through the Australian Tax Office relative to the IRD in New Zealand. Their customs rates and tariffs require understanding. Not all goods produced or manufactured in New Zealand can be sold into Australia. Apples as an example.

Q: What would your recommendation be about the key sources of advice to put around yourself?

Jim: New Zealand Trade and Enterprise is clearly a key place to go. MBIE is another good place. Business New Zealand is another one. New Zealand is an outward-looking country and so the New Zealand government and associations like the Chambers of Commerce, for instance, provide a lot of specialists to help businesses understand the business model that's going to work best for them in their country. Every business is different and every industry is different.

You'd certainly want to engage your accountant. A lawyer. Your contract, the terms of trade need to be specific to the markets you're going to. Certainly finance is important as we've mentioned, so a bank. One of the services that we offer is an independent source of information and a network to a lot of banks, insurance companies and non-bank providers.

Exporting is more complicated and complex than selling domestically, but the benefits are huge. There's a broad range of people in New Zealand willing to help new exporters discover and work at being successful. Don't shy away from it. Get the right advice, grab the bull by the horns and be successful.

BUSINESS HEALTH CHECK

- By now you should be thinking about whether you have all the information you need to give us to complete your annual accounts. If you haven't, put getting the information together to give to us at the top of your to-do list.
- Run your eye over all your compliance activities – not just FBT. Are you recording all income accurately and paying the right amount of GST? Are your PAYE systems robust? Ask yourself: "If IRD audited the business tomorrow, would I be able to provide them with full and accurate records?" If not, put things right asap. And if you're not sure, call us for a chat.
- Being the beginning of a new income year, it's also crucial that you plan and budget for the coming year if you haven't already – cashflow is king! Managing your cashflow by having a good picture of your expected income and expenses (including tax payments) will help plan for the best timing of capital expenditure or coping with requirements of increased stock levels for your business. We can help you with this – give us a call.

ACC ANNOUNCES CHANGES TO COVERPLUS EXTRA

If you're applying for an ACC CoverPlus Extra policy, it's worth noting that the policy no longer starts on the date of the application, but when you sign the offer letter. So if you have such a letter in your in-tray waiting to be signed, now's the time to get onto doing that.

ACC has also issued a reminder that CoverPlus Extra policies are being cancelled when invoices are not paid by the due date.

Other recent changes include how payment plans and credit payments are managed. If you're affected by these changes, you'll receive an updated schedule from ACC, so there's nothing you need to do. If you want to discuss your payment schedule with ACC, call their freephone number, 0800 222 776. If you would like us to manage that for you, please let us know.

KEY TAX DATES
JUNE 2018

DATE	CATEGORY	DESCRIPTION
5 June	PAYE	Large employer returns and payments
20 June	PAYE	Small employers return and payment Large employers return and payment
20 June	RWT	RWT return and payment due for deductions from dividends and deductions of $500 or more from interest paid during May
20 June	N-RWT / Approved Issuer Levy	Payment and return for May
28 June	GST	Return and payment for May