NEWSLETTER

December 2021

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"Be the change you wish to see in the world"

DB CHARTERED ACCOUNTANTS LTD

In this newsletter we cover the small business cash flow (loan) scheme, foreign Investment funds (FIF), rental properties, and changes in business/property.

OFFICE CLOSED

Our office will be closed for the Christmas break from Midday Wednesday 22 December 2021 and will re-open on Wednesday 19 January 2022.

The October/November 2021 GST Returns are required to be paid and filed with the IRD by 17 January 2022. If we complete your GST Returns on your behalf please ensure that you have your information to us so we can complete the return before the Christmas break.

SMALL BUSINESS CASH FLOW (LOAN) SCHEME

The small business cash flow (loan) scheme was first introduced in May 2020. If you received this loan early on, now is a good time to make a plan on how the loan will be repaid. To avoid interest payments the loan needs to be repaid in full within 2 years of taking it out. If you applied for and received the loan in May 2020 this would mean it needs to be repaid by May 2022. Other considerations include:

- If the loan is not fully repaid within the 2 years interest will be charged on the entire term of the loan at a rate of 3%.
- After 24 months you will be required to make regular loan payments of both principal and interest.

If you would like to discuss cash flow requirements in your business we are here to help.

FOREIGN INVESTMENT FUNDS (FIF)

Do you have Investments Overseas? - Foreign Investment Funds (FIF) Taxable Income Explained

<u>What is considered a FIF Investment?</u>
The most commonly held FIF investments are an investment held in a foreign company, or a foreign unit Trust. The FIF rules also apply to investment in a foreign superannuation scheme (prior to January 2014) and an insurer under a life insurance policy not offered or entered in to in New Zealand.

Clients who hold investments as part of a managed portfolio will often have overseas investments that are subject to the FIF rules.

<u>How is the taxable income of a FIF determined?</u>
There are three main methods in which the FIF income to return in your tax return is determined:

- Fair Dividend Rate (FDR)
- Comparative Value (CV)
- Actual Dividends Received

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Fair Dividend Rate
Under the FDR method the taxable income is determined as 5% of the market value of your FIF investments at the start of the tax year (opening market value). Dividends are not included in the taxable income and there is an adjustment for shares bought and sold during the year referred to as 'quick sales'.
Formula: Income = (0.05 x opening value) + quick sale adjustment

Comparative Value
Under the CV method of calculation the FIF income is determined as the movement in the fund, taking in to account gains in the fund as well as costs.
Formula: (closing market value + gains) – (opening market value + costs)
Gains are amounts received from holding (dividends), or disposing, of the interests in the FIF. Gains include foreign withholding tax or other credits.
Costs include the cost of buying your investments plus foreign income tax which is liable to be paid or has been paid on the FIF income.

What gets returned to the IRD?
Of the two methods outlined above, the calculation resulting in the lowest figure is the amount returned in your tax return. However if one of the calculations results in a loss the loss cannot be claimed and there will be no income to return.
If you are an individual investor or a Trust you can swap between the two methods year by year. You are required to use the same method across all your FIF investments in any one year. On occasion there may be an investment which is required to be calculated using the CV method (forced CV). In this situation the particular investment income will be required to be returned under the CV method while the other FIF investments may be returned under the FDR calculation.

Actual Dividends Received
If one of the exemptions apply to your FIF investments the income which is returned in your tax return will be the actual dividends received on your investment.

Common Exemptions are:
De Mimimus Exemption - If you hold your investments as an individual or in a Trust, and during the year the aggregate **cost** of all of your FIF assets is less than $50,000, at all times during the year, you will qualify for the de minimus exemption and will return as income actual dividends received.

ASX listed Australian Companies – This exemption applies when you own shares in a company that is listed on the Australian Stock exchange and is an Australian resident company. The IRD publish a list of companies that meet the criteria which is used to determine the tax treatment of your Australian investments.
Income which is required to be returned on your investments subject to the FIF rules will appear in the Overseas Income box in your tax return.

RENTAL PROPERTIES – WHEN ARE COSTS DEDUCTIBLE?

Rental Properties – Rented or Available for Rent

IRD rules state that rental property costs are tax deductible when a property is either rented out or "available to rent" (e.g. between tenants). Tax deductible costs include interest, rates, insurance, management fees and repairs and maintenance.
Be aware that if a tenant has vacated and you decide to sell the property, any repairs and maintenance costs incurred once the tenant moves out will not meet the "available to rent" test. This means the costs will not be tax-deductible.

This will also apply if you decide to personally move in to the property. If it is likely that a tenanted property will soon be sold you are best to complete any repairs and maintenance work while the property is still tenanted. This will ensure that the "available to rent" test is met and the costs tax deductible.

CHANGES IN BUSINESS/PROPERTY – HAVE YOU CONSIDERED TAX?

Tax issues often arise in the following circumstances and we recommend that clients contact us before initiating any of the below so any tax considerations can be identified before entering into an agreement.

Transfer/Sale of Shares in a Company
If a Company shareholding is changed by more than 34% the imputation credits that the Company holds will be lost.

This means that if a dividend is declared at a later date, tax on the entire dividend will be payable at 33% (instead of 5% if a dividend was completed prior to the share change).
Also be aware that if shareholding has changed by 10% one year and then 30% 2 years later, the total change would be 40% which would impact imputation credits.

Additionally if the shareholding changes by more than 50% it is possible that losses incurred by the company will no longer be able to be carried forward and will be lost.

Sale of Business
A business sale will normally include plant & equipment, stock & goodwill.
Allocation of Sale Items - IRD now requires that the categories of items are allocated a price in a sale and purchase agreement.

If this is not done the vendor then has 3 months to advise IRD of the allocations, which will then determine the allocation for both parties. After the 3 months the purchaser can advise IRD of the allocation.

Depreciation - often for a business there will be depreciation recovered where the agreed value of assets sold (plant and equipment) is higher than book value (if they have previously been depreciated). Tax will be payable on any depreciated recovered and it is recommended to plan ahead for this cost.

GST/Zero Rating – to be zero-rated for GST purposes both parties to the agreement need to be registered for GST on settlement.

Sale of Investment Property – Commercial
GST – both parties (seller and purchaser) need to be registered for GST in order for the transaction to be zero rated for GST.

Allocation of land & buildings – as noted above regarding business sales, IRD also require that commercial property transactions are allocated separate values for land and buildings. If values are not allocated the same rules regarding notification to the IRD by seller/purchaser apply.

Depreciation – where depreciation has previously been claimed as an expense against a building, if the building sells for more than book value, any gain up to the original cost of the building will be taxable (depreciation recovered). While taxpayers have been unable to claim depreciation on residential buildings for the past 10 years, historic depreciation claims still need to be accounted for under these rules.

JOKES

How much does Santa pay to park his sleigh? Nothing it's on the house.

What do you call a bankrupt Santa? Saint Nickel-less.

BOOK REVIEW

THE POWER OF HABIT – WHY WE DO WHAT WE DO AND HOW TO CHANGE. CHARLES DUHIGG

The New Year is coming up and that may include setting your New Year resolutions. This book looks at why habits are hard to change and offers ideas on how to make changes.

In general the brain likes to conserve as much energy as possible. That is why it is quite happy to stick with old routines and habits – it can do stuff without too much thought and effort. That is why it is often difficult to put new habits in place – the brain has to think a bit harder and get out of its normal routine.
Habits are often made up of 3 stages – Cue (need to relax), Routine (have a cigarette), Reward (feeling relaxed).

In order to change a habit people can take a closer look at each stage to identify the Cue, Routine and Reward of the habit. Of these 3 stages it is the routine that will be the area to concentrate on to change the habit (in this way the Cue and Reward remain the same which doesn't overload the brain too much). In the above example while a person still wants to relax, it is finding a different routine to then be relaxed.

The book covers various research to support the theories presented and also looks at how organisations have their own habits which accumulate over time. Even in sport regular habits can conserve the brains energy and reduce urgent decision making (and mistakes).

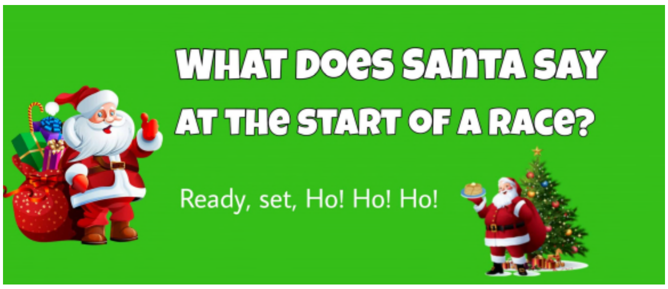
Whether it is an individual or an organisation it is useful to identify habits and put them under the Cue, Routine, Reward analysis to assist with changing or planning ahead for these habits.

IMPORTANT TAX DATES

17 January 2022-	Provisional Tax Due (2nd instalment) October/November GST Return Due
20 January 2022 -	December 2021 PAYE payment due
7 February 2022-	2021 Terminal Tax due (if no extension of time with IRD)
28 February 2022 -	December/ January 2022 GST Return due and Provisional Tax due for GST Ratio option taxpayers.
31 March 2022 -	Final day for Ratio option Provisional Tax applications.
7 April 2022 -	Final date for 2021 Terminal Tax due.

JOKE

Which of Santa's Reindeer has the worst manners?
RUDE –olph



<u>Merry Christmas</u>

Thank you for your support over the past year from the team at DB Chartered Accountants Ltd: David, Elaine, Gaylene, Karen, Kathryn, Katie, Pam & Tyler

If you would like to discuss anything mentioned in our newsletter please contact us at:

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The fine print: The information contained in this newsletter is of a general nature only.
Professional advice should be sought to confirm any matters in relation to any particular situation or circumstances.