NEWSLETTER

December 2024

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"An investment in knowledge pays the best interest"

- Benjamin Franklin

DB CHARTERED ACCOUNTANTS LTD

In this newsletter we cover the tax rate for Trusts, Wills, and Overseas Investments & Foreign Investments (FIF)

OFFICE CLOSED – CHRISTMAS BREAK

Our office will be closed for the Christmas break from 3pm on Friday 20 December and will re-open on Wednesday 15 January 2025.

The October/November 2024 GST Returns are required to be paid and filed with the IRD by 15 January 2025.

If we complete GST Returns on your behalf please ensure that you have your information to us early so we can prepare the return before the Christmas break.

TRUST TAX RATE – 39%

From 1 April 2024 the tax rate for Trusts increased from 33% to 39%.

The 33% tax rate will still apply in the following situations:

- Trusts that earn $10,000 or less in a tax year
- Deceased estates in the year of death and the first three full income years following death
- Disabled beneficiary Trusts
- Energy Consumer Trusts

In all other situations, trusts will be subject to the new rate of 39%.

While this change will have minimal impact on trusts that distribute their annual income to beneficiaries, trusts that retain income will face increased tax liabilities at the end of the 2025 income year.

For example, if a trust were to receive a gross dividend of $500,000, tax credits of 33% would be deducted at source, consisting of imputation credits and resident withholding tax.

With a 39% tax rate, the trust would then have to pay an additional 6% in tax. In this scenario, the result would be an additional $30,000 of tax to pay. This would impact terminal tax and provisional tax calculations. If this resulted in annual tax payable of over $60,000, the trust would be subject to IRD use of money interest (UOMI) at 10.91% from 7 May 2025 until the tax is paid.

Trusts that typically retain income could consider distributing it to beneficiaries. The income is then taxed at the beneficiaries personal tax rates. When doing this, this could impact the beneficiaries provisional tax position. Additionally the amount declared as beneficiary income is a debt owed to the beneficiary, and the beneficiary could request payment of this amount from the trust.

Note that income distributions to beneficiaries under the age of 16 will remain taxed at 39%.

ARE YOUR PERSONAL AFFAIRS IN ORDER?

After a busy year running a business, creating wealth and looking after our families, now is the perfect time to make sure that when we are no longer here our wealth is distributed according to our wishes, and that if there is a time when we can't look after ourselves there is someone we trust to take over that role.

Some questions to ask yourself:

- Do I have a will? Is it up to date?
- What assets do I have?
- Who would I like to leave my assets to (beneficiaries of my will)?
- What would I like to give to each of the beneficiaries?
- How are my assets held? If your wealth is held in a family Trust you should consider preparing a memorandum of wishes. A memorandum of wishes will guide the remaining Trustees in making decisions regarding the distribution of the assets when the Trust is wound up.
- Who do I trust to make decisions for me if I am not in a position to make decisions for myself?

Appointing enduring power of attorney over your welfare and property decisions is an important way to ensure you have a trusted person, who has your best interests at heart, making decisions on your behalf.

There are two types of Enduring Power of Attorney, you can appoint different people to each of the roles:

1) Property – someone to look after your day to day financial decisions as well as ensuring your assets and wealth are maintained.
2) Welfare – someone to look after your personal health and wellbeing decisions.

- Do I, or anyone I know over the age of 18, have a Kiwisaver balance over $15,000 but perhaps no other assets?

As outlined in our September 2020 newsletter, "Why anyone over 18 with Kiwisaver should consider making a will", if a person over the age of 18 passes away and has a Kiwisaver balance over $15,000 and no will it can be a lengthy, costly and difficult process to get the funds distributed.

JOKES

A man is interviewing for a job, and the interviewer asks, "What would you say your biggest weakness is?"
The man thinks for a second and says, "I would say my biggest weakness is being overly honest."
The interviewer responds, "Well, I don't think being overly honest is a weakness."
The man replies, "I don't really care what you think."

Intern: "I have a great idea!"
Boss: "Go on, tell me."
Intern: "What if we just skip this whole meeting and go home early?"
Boss: "That's not quite the idea I was expecting."

OVERSEAS INVESTMENTS & FOREIGN INVESTMENT FUNDS (FIF)

A number of clients will have seen the taxable income from their overseas investments, that are subject to the Foreign Investment Funds (FIF) rules, increase over the past year. Why is this?

Investments subject to the FIF rules will generally include foreign/overseas share investments where the total holdings are greater than $50,000 (but excluding the majority of shares listed on the Australian ASX).

Investments subject to the FIF rules are generally taxed using either the :

Fair Dividend Rate (FDR) method ***or*** **Comparative Value (CV)** method

Taxable Income Calculations:
FDR method - taxable income is determined as 5% of the market value of the FIF investments at the start of the tax year (opening market value), with an adjustment for shares bought and sold during the year.

CV method – taxable income is determined as the movement in the market value of the fund, taking into account gains in the fund as well as costs.

Actual dividends received are not included in either of the above calculations.
This means that the taxable income will be calculated on either the FDR or CV method, irrespective of the level of dividends declared or paid during the year.
A taxpayer is able to choose which method to apply in any income year – and can choose the lowest (more beneficial) calculation.

In prior years, with the overseas share markets being relativity stagnant, using the CV method meant that minimal tax was paid, as share investments were not increasing significantly per year. For the year ended March 2024, this has changed and both FDR and CV method calculations often return taxable income no matter which method is selected.

This can result in taxpayer's taxable income being higher than in previous years even though there has been no significant change in their investment portfolio. This can also result in higher terminal and provisional tax payable – however you are still entitled to the tax credits on overseas dividends paid.

For further details on the FIF investments regime, refer to our December 2021 newsletter. All our newsletters can be accessed via our website www.dbchartered.co.nz on the "News" tab or search "FIF dbchartered".

BOOK REVIEW

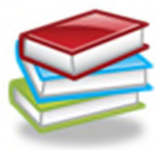
THIS IS THE F#$%ING NEWS – PADDY GOWER (2024)

This book covers Paddy's career from initially working at the NZ Herald, to working at the Press gallery at Parliament, chasing stories and hounding politicians, overseas travels, the shift to TV and becoming the Political Editor. He covers the documentaries he has fronted covering drugs, booze and meth and his own "Paddy Gower has Issues" TV series, as well as how the original "This is the ******* News" incident came about. Previously a heavy drinker he has finally given up and discusses how this came about.

As a journalist his main aim is to get the story, and Paddy details his personal thoughts and stories on certain situations of the times as well as some of the major stories he has covered including the Pike River explosion and the Christchurch mosque shootings.

BOOK REVIEW

KILL YOUR MORTGAGE & SORT YOUR RETIREMENT – HANNAH MCQUEEN (2024)



This book is an update to Hannah’s original book published in 2015. The book expands on the 5 main areas to improve your money and wealth position. This includes Money and You - where you are now, what is your money nature and how to create a cash surplus by removing the frittering of money, without cramping your lifestyle. This is mainly by understanding where your money currently goes and planning ahead of how you intend to spend it in the future. The goal is to provide a cash surplus to allow you to reduce your debts and pay the mortgage off more quickly – this then provides additional funds (from saving significant bank loan interest) for the retirement years.

From there the book looks at wealth creation with a preference to investment property as a means to create wealth. Planning for retirement means understanding what the number is to be able to retire comfortably and how investments and funds can be spent in retirement. The book details how to work this out and how to head in the right direction.

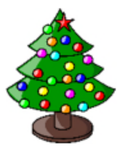
The main point from the book is to take a stock of where you are and take action as well as providing guidance on how to head in the right direction. Small gains create momentum to then progress further. The book provides good information on improving your financial position. Hannah also uses the book to promote her enable.me business, which provides personal coaches to help people get ahead financially.

IMPORTANT TAX DATES

15 January 2025 - Provisional Tax Due (2nd instalment).
15 January 2025 - October/November GST Return due.
20 January 2025 - December 2024 PAYE payment due.
7 February 2025 - 2024 Terminal Tax due (if no extension of time with IRD)
28 February 2025 - December/January 2025 GST Return due and Provisional Tax due for GST Ratio option taxpayers.
31 March 2025 - Final day for Ratio option Provisional Tax applications.
7 April 2025 - Final date for 2024 Terminal Tax due.

JOKE

Why did the office Christmas tree get a promotion?



Because it was *branching* out and really *leafing* an impression!

<u>Staff update:</u> Elaine returned back to work In November.

<u>Merry Christmas</u>
Thank you for your support over the past year from the team at DB Chartered Accountants Ltd: David, Elaine, Emma, Gaylene, Karen, Kathryn, Katie, & Stephanie.

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

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