NEWSLETTER

June / July 2022

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"If you are happy doing what you love, nobody can tell you that you are not successful"

DB CHARTERED ACCOUNTANTS LTD

In this newsletter we cover the tax treatment of Crypto-assets, an explanation of Provisional Tax, the Bright Line Rules, Cost of Living Payment, Updated Use Of Money Interest, and Motor Vehicle Kilometre Rates.

TAX TREATMENT OF CRYPTO-ASSETS

While the value of some Crypto-Assets/Currency has fallen recently, IRD has confirmed the tax rules for business or individuals buying, selling, trading or mining crypto-assets.
In most cases, the amounts you get from selling, trading or exchanging crypto-assets will be taxable (this includes when you exchange one type of crypto-asset for another).

Generally the IRD deems that the purpose for acquiring crypto-assets is to sell or exchange them, therefore any gain on sale or transfer will be taxable.

A NZ tax resident is required to pay tax on their worldwide income. This means that crypto-asset income or realised gains, even if you acquire and dispose of it overseas - such as when you use a crypto exchange based outside New Zealand, will be taxable.

Airdrops & Hard forks - if you receive or dispose of crypto-assets from an Airdrop or Hard Fork, this may be taxable either on receipt, disposal or both. This will depend on if you have a crypto-asset business (or profit-making scheme), whether you provided services to receive the airdrop (and how often they are received) and crypto-assets acquired for the purpose of disposing of them

Mining crypto-assets – if someone is mining as a business, profit-making scheme or to create income, then any crypto-assets they receive will be deemed taxable income (as will any gain, when they are ultimately disposed of). GST will also need to be considered if income is over $60,000 per year.

Providing crypto-assets to employees - if an employer provides crypto-assets to their employees, PAYE or FBT will need to be considered and accounted for on these payments.

In summary if the purchase and sale/transfer of crypto-assets has resulted in a gain, the gain will be taxable. IRD has the ability to impose significant penalties for those not meeting their tax obligations.

PROVISIONAL TAX – AN EXPLANATION

IRD requires provisional tax to be paid when a tax payer has residual income tax (RIT) greater than $5,000. Provisional tax is based on 105% of the prior year earnings, or 110% of the year before that if the prior year income tax return has not been filed.

As an example:
A Company has annual profit of $100,000 for the year ended 31 March 2022.
Tax at 28% would be $28,000.

For the 2023 income year (1 April 2022 – 31 March 2023), it will be required to pay provisional tax of $29,400 ($28,000 x 105%).

If paid in 3 instalments this would be paid as follows:

28 August 2022	$9,800
15 January 2023	$9,800
7 May 2023	$9,800

If the Company has an increase in profit, to say $250,000, for the 2023 income year its actual annual tax payable will be $70,000 ($250,000 x 28%).

As the provisional tax paid ($29,400) is less than the actual calculated tax based on earnings ($70,000) the Company will have **Terminal Tax** to pay of $40,600. Note that:

- The Terminal Tax is not payable to the IRD until 7 April of the following year (13 months after the income has been earned). Businesses should ensure they set adequate funds aside so that tax payments can be made when they fall due.

- Where the annual tax is greater than $60,000 IRD will charge Use of Money Interest (UOMI) from 7 May until it is paid (in this example if not paid until 7 April 2024 UOMI would be calculated at 7.28% for 11 months)

- With an increase in the profit for the 2023 income year, the provisional tax payments from August 2023 will also increase (to 105% of 2023 earnings)

For your specific situation, if you would like to get a better understanding of whether provisional tax paid will be enough to cover the actual tax for the year, please get in touch. We can also confirm how much you should be setting aside each month/quarter so that you have sufficient funds available for tax when it is payable.

JOKE

A guy goes door to door looking for work. One homeowner hands him a brush and a can of paint and offers him $150 to paint his porch.

A few hours later, the guy comes back to the homeowner and says, “I’m finished. But you should know that your car’s a Ferrari, not a Porsche.

BRIGHT LINE RULES

In our Newsletter last month, we outlined the bright-line periods in relation to residential property sold within the 5 or 10 year taxable period. This month we outline situations where the main home exclusion provisions may not fully apply and what records you need to keep.

Main Home Exclusion

To meet the requirements of the main home exclusion for a property that was purchased on or after the 27 March 2021 you must have:

- Used more than 50% of the area of the property as your main home, this includes the yard, garden and garage.
- Used the property 100% of the time as your main home.

For properties purchased before 27 March 2021 the rules are slightly different in that the exclusion applies if you used:

- More than 50% of the property's area as your main home and
- You used the property as your main home for more than 50% of the time you owned it.

If you don't meet the above requirements the property will be taxed under the bright-line property rules. There is however provision for a reduction in the tax payable based on how much of and how long the property was used as your main home.

When determining the taxable portion of the profit on the sale of your residential property under the above situation there is a formula to calculate the reduced income portion as well as the reduced cost portion of the profit. Each calculation considers the days where 50% or less of the property was used as your main home (being non predominant days – including where there is more than one dwelling on the property) as well as the number of days where 100% of the land was used as your main home (main home days).

You can only have one main home. If you live in 2 houses the property that is your main home is the one to which you have the greatest connection.

As you can appreciate there are complexities in determining taxable profit when you have a property that does not meet the main home exclusion. If this applies to your situation it is important to keep accurate records of the dates when, during the bright-line period, you used your property as a main home.

Deductions

When you sell a property that is subject to the bright-line rules you can make a deduction for the costs of the property including the following:

- Initial purchase price.
- Costs associated with purchasing the property, for example legal fees, valuers, real estate agent fees.
- Capital improvements to the property.
- Incidental costs associated with disposing of the property.

It is a requirement to provide evidence of these costs to support any deduction claim. This includes keeping records of costs associated with the property including sale and purchase agreements, settlement statements, invoices for capital renovations including resource consents, architects fees etc. This is particularly relevant if you are completing renovations or improvements to a holiday home or rental property or the main home if it is not exempt. Keeping good records will ensure that if a property is sold within the 10 year bright-line period, relevant costs can be included to reduce the tax impact.

In summary the bright-line rules can be complex and require good records of dates that you have lived in a property as well as good records of the expenditure associated with a property that could potentially be taxable under the bright-line rules.

UPDATED USE OF MONEY INTEREST RATE

The IRD Use of Money Interest (UOMI) rate on underpaid or late paid tax increased to 7.28% (up from 7%), from 10 May 2022.

The interest rate for overpaid tax remains at nil.

BOOK REVIEW –
FAMILY TRUSTS – THE MUST-HAVE NZ GUIDE - MARTIN HAWES 2020.

In this book Martin explains the components of a Family Trust, the parties involved (Settlor, Trustee, Beneficiary), how Trusts operate and the advantages and disadvantages of operating a Trust. The book also explains the requirements of the recently established Trusts Act 2019 and Trustees obligations under this Act.

For those considering setting up a Trust, or who already have a Trust and are wondering if it is still worthwhile, this book provides a good explanation of what to consider.

COST OF LIVING PAYMENT

As announced in the latest Budget, $350 is being paid to eligible individuals over 3 instalments on 1 August, 1 September and 3 October.

Generally this will be paid to individuals who earned $70,000 or less in the period 1 April 2021 to 31 March 2022, once their 2022 income tax position is assessed by the IRD. Note that those who receive the Winter Energy Payment via NZ Super will not be eligible for the payment.

IRD will pay the Cost of Living Payment directly into a bank account (based on the details held in myIR). If IRD do not have the bank account details they will contact you to update your details in myIR – they will NOT ask you directly for your bank account details – watch out for SCAMS.

Always contact us if you are unsure.

MOTOR VEHICLE KILOMETRE RATES

The rates for the 2021/2022 income year onwards have been set by IRD. These will be:
Tier One rate (up to 14,000 km per year) – 83 cents per kilometre
Tier Two rate (over 14,000 km per year) – Petrol/Diesel 31 cents, Petrol Hybrid 18 cents, Electric 10 cents.
These rates can be used to calculate expense claims for the business use of a motor vehicle as well as reimbursing employees for the use of their private motor vehicle for business purposes.

IMPORTANT TAX DATES

28 June 2022 - Third instalment 2022 Provisional Tax due (May balance date).
20 July 2022 - PAYE Payment due – Payday returns to be filed 2 days after pay day.
20 August 2022 - PAYE Payment due - Payday returns to be filed 2 days after pay day.
28 August 2022 - First instalment 2023 Provisional Tax Due (March Balance Date)

JOKE

What Happened to the pirate who tried to recite the alphabet?

He got lost at ‘C’

What kind of bear has no teeth?

A Gummy Bear

Thanks 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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