



2023 Year End - Tax Planning Checklist

For year ending 31 March 2023

Below is a checklist of matters relevant to all business entities which you should consider, some of which may help you reduce the amount of tax you have to pay for 2023 financial year.

1. Provisional Tax Elections, Use of Money Interest and the 39% top tax rate.

If provisional tax has been paid on the basis that you will be a provisional taxpayer for the 2022 year, but it subsequently transpires that this is not the case (because residual tax is below \$5,000), an election to be a provisional tax payer for the year is required in order to receive use of money interest on provisional tax overpaid.

In case your financial circumstances change or expect your current provisional tax is overstated compared to your actual terminal tax liability for the 2023 financial year, please contact our accountants so we can schedule your annual accounts to be completed before the 7th May 2023 (final provisional date).

Please, note that from 1 April 2021, the top tax rate of 39% is imposed on income exceeding \$180,000.

2. Bad Debts

In order to claim a tax deduction for trade related bad debts, the debt must be physically written off in the accounting records before balance date. If a debt is 'bad' there must be no reasonable expectation of recovery. However, this does not mean taxpayers can no longer pursue recovery of that debt. You will need to let us know if you and the debtor are associated.

3. Donations

Companies are entitled to a deduction for donations made to approved donee/charitable organisations only limited by the amount of company's net income for the year. If you made a donation as a natural person, you will be entitled to 33% donation rebate. Please, send us copies of donation receipts for the rebate claims.

4. Fixed Assets and Depreciation

Assets purchased for less than \$1,000 can be expensed. Depreciation can be claimed from the first day of the month of purchase. However, if fixed asset is sold during the year, depreciation is disallowed for the full year regardless of when the asset was disposed. To maximise the depreciation expense and minimise tax from depreciation recovery, please consider deferring the sale until after 31 March.

You should conduct a review over the fixed asset register in the prior year financial statements and ensure all assets listed in the register are up to date.

5. Prepaid Expenditure

The Income Tax Act applies the principles of accrual accounting to the unexpired portion of deductible expenditure at the end of an income year. The effect is to defer the deduction of any unexpired amounts to the following income year.

Some expenses can be prepaid regardless of the amount or period being prepaid, for example:

Stationery,

- Subscriptions for papers or journals,
- Vehicle registration and road user charges,
- Postage and courier charges,
- Rates,
- Audit and Accounting fees,

Other expenses can be paid in advance only up to a certain limit, for example:

	Max Amount \$	Max No of Months
Rent (if prepayment more than one month)	26,000	6
Rent (if prepayment less than one month)	Any amount	1
Rent or bailment of livestock	26,000	6
Consumables	58,000	N/A
Insurance (where each premium is no more than \$12,000)	N/A	12
Professional or Trade Association subscriptions (where each subscription is no more than \$6,000)	N/A	12
Accommodation or travel	14,000	6
Advertising	14,000	6
Other periodic charges	14,000	12
Other services	14,000	6

The legislation regarding allowable prepayments is complex and we recommend clients discuss with us any plans for prepaying expenses prior to committing to any expense.

Prepaid expenditure on items other than those covered above is only tax deductible to the extent the services have been performed or goods provided. Therefore, a payment for repairs made before balance date will generally not be tax deductible unless the repairs have actually been carried out.

6. Repairs & Maintenance

Generally, no deductions are allowed for a repairs and maintenance reserve. It may be worthwhile undertaking repairs and maintenance prior to 31 March 2023 to obtain a full deduction. Deciding on the nature of the expenses (revenue or capital) is often a difficult decision. Please contact us if you require any assistance in this area.

One year warranty purchased with a fixed asset can be deducted as an expense rather than capitalised. However, if you purchased a warranty that is longer than a year, this will need to be capitalised.

7. Trading Stock

The closing stock value affects the profit or loss of the business. Higher closing stock values result in higher profits whereas lower closing stock value results in lower profits, thus affecting the taxation figure as well. The closing stock value must be true and fair as per IRD's requirements.

For businesses with turnover of less than \$1.3m, you can value closing stock the same as opening stock if closing stock can reasonably be estimated at less than \$10,000. You may be able to use the market value for the closing stock if this is lower than cost. Please, also ensure you take into account for any obsolete stock or stock that is stolen or disposed of for any reason.

8. Shareholding Continuity

Any change in shareholding during the financial year has implications on one or more areas for taxation purposes. These include Imputation credit accounts, losses to carry forward, Qualifying company/Look Through Company status, loss attributions, shareholder salaries, etc.

Shareholding continuity must be maintained in relation to the carry forward and grouping of losses. 49% continuity must be maintained in the loss company from the time the loss is incurred until the time the loss is utilised. The loss, however, can be carried forward if the main business activity is the essentially the same although the shareholder continuity is breached under the new business continuity test.

For grouping, commonality of 66% is required. That is, the same group of persons must own 66% in both companies at all times during the continuity period.

To rely on the wholly owned group exemptions, 100% common shareholding must be maintained throughout the year.

In order to retain the company ICA balance, 66% shareholding continuity must be maintained throughout the year.

Please consult with one of our accountants first if you intend to and/or are expecting any change in shareholding in the company.

From the 2020-2021 financial year, the Inland Revenue introduced the Business Continuity Test and under this method, businesses can carry forward losses unless there is a major change in the business activity within 5 years following a change in the ownership. Under this option, the 49% shareholder continuity does not have to be maintained.

9. Subvention Payments & Loss Offsets

You should ensure that any prior year group loss offsets and subvention payments are completed and lodged with the IRD prior to year-end. Loss offsets and

subvention payments relating to the year ending 31 March 2023 are due on or before 31 March 2023.

10. Qualifying Companies (QC)

For existing QC clients, you need to consider whether it is still appropriate to remain in the regime for various reasons. If you wish to revoke the status by intent you have till end of the year (i.e. by 31 March 2022) to revoke election for that year. It is also important to check number of events (i.e. change in shareholding, change in trustees of trust, dividends paid to trust shareholder not passed out to beneficiaries etc.) to ensure there are no deemed revocation.

11. Look Through Companies (LTC)

If you wish to elect the company to be LTC, you need to elect by 31 March 2023 to become effective from 01 April 2023. Any new companies (including shelf companies if non-active declaration filed) have exceptions whereby they have until the first tax return due date to be filed to make the election. There are various reasons as to why you would want to elect company to be LTC (i.e. if you are planning on restructuring company assets for asset protection purposes etc.). However, there are other factors to consider as well such as LTC entry cost arising from not having enough imputation credits for retained earnings and existing associated person gains.

The benefits of having LTC are now limited for rental property investors for rental losses being ring-fenced and not able to offset income from other sources.

12. Transitional Resident Exemption

This rule applies to individuals who are becoming new residents or residents returning to NZ after 10 years absence from 01 April 2006 for those arriving on/after that date. It allows exemption on all foreign sourced income from tax other than employment and services income derived while NZ resident for 48-month period. There are times when you are better off to elect out of this exemption (i.e. if offshore losses exist with NZ income) so it is prudent to discuss this with us should you fall under this exemption.

13. Company Advances

If you have a company and the company has advanced the funds that result in an overdrawn shareholder current account, loan to associated entities (where not 100% commonly owned), associated trust, staff, shareholder-employee/associated

person, shareholder then it may trigger tax implications. There are ways to deal with any potential tax implications (salary, dividend or restructuring debt) which can be discussed.

14. Imputation Credit Account (ICA)

Please check your imputation credit balance to ensure that it is either a nil or credit balance at year end. If the ICA is in debit balance this will create a 10% imputation penalty which is not treated as a "tax payment" for income tax purposes as well as further income tax payable.

15. Dividend Resident Withholding Tax (DWT)

If dividends declared and /or paid during the year have been imputed at 28% the DWT return and a payment of 5% will need to be filed and paid to IRD by 20th April 2023. Therefore, please advise us if the dividend has been declared and imputed at 28% and forward us dividend statement in order to fully impute the dividends.

16. Accruals

Make a list of all expenses that you owe at balance date i.e. 31 March 2023. These can be claimed as a deduction in the 31 March 2023 income tax return.

17. Home Office Expense

If you have an office in your home, you may be able to claim a portion of all expenses that relate to all your home expenses. The details of expenses that may be claimed are noted in the enclosed questionnaire or please contact one of our accountants for an excel template that you can use to summarise your home office expenses.

During the 2018 tax year IRD introduced an alternative method for calculating home office called the square meter rate option and is calculated based on a rate set by the Inland Revenue Department.

18. Legal Expenses

For the 2010 income year and beyond, legal expenses incurred when buying capital assets used to derive taxable income are tax deductible, provided that the total legal expenses for an income year are equal to or less than \$10,000.

19. Business Expenses Paid Personally

All business expenses which have been paid personally and did not go through the business books or bank account can still be claimed as a business expense for taxation purposes. Please provide lists of such expenses.

20. Fringe Benefit Tax (FBT)

If certain benefits (e.g. motor vehicle) are enjoyed or received by employees as a result of their employment the benefits are liable for FBT. Employers pay tax on benefits provided to employees or shareholder-employees. For motor vehicles however we have new vehicle ownership structure mechanisms available to minimise this FBT exposure. Please contact us for further information on this matter.

Close companies can elect to calculate the deduction for the business use proportion of vehicle expenses as an alternative to FBT. The requirements to use this option are:

1. Employer is a close company
2. Only fringe benefits provided to all employees are 1 or 2 vehicles to shareholder employees
3. Vehicle is acquired or first used for business use on or after 1 April 2017
4. Company gives notice to IRD of election by the income tax return due date for the relevant income tax year

21. Land Sales – Zero-rating Transactions

The GST registered vendor is to charge GST at the rate of 0% on any supply that involves land or in which land is a component to a registered person who acquires the goods with the intention of using them for making taxable supplies.

22. Research and Development

(a) Research and Development Loss Tax Credit

The research and development (R&D) loss tax credit is a refund of R&D business losses. The credit can only be for eligible R&D business expenditure up to 28% of your tax losses from R&D activity companies who are a tax resident of New Zealand dates on or after 1 April 2015.

Generally, you carry forward tax losses to the next income year, however the R&D loss credits are not carried forward but rather cashed out. These losses must then

be repaid when the business begins to make a profit or owes repayment tax following a loss recovery event.

(b) Research and Development Tax Incentive

The research and development (R&D) tax incentive operates as a tax credit, rewarding businesses and individuals who perform R&D activities. This is different to the R&D loss tax credit.

Key features of this incentive include:

- 15% tax credit available from the beginning of business (2020 tax year)
- minimum eligible R&D expenditure of \$50,000 a year
- maximum eligible R&D expenditure of \$120 million a year
- definition of R&D to span more sectors
- limited form of refunds in the first year

In order to take advantage of this, you must be eligible in all three of the following criteria:

- eligible R&D activities
- eligible R&D entities

23. Bright Line Test - Property

The legislative measures enacted in this first stage are as follows:

(a) The following pieces of information are to be supplied to Land Information New Zealand (LINZ) by any person transferring any property as part of the usual land transfer process:

- Their NZ IRD number; and
- Their tax identification number from their home country if they are currently [also] tax resident overseas.

(b) To ensure that NZ's full anti-money laundering rules apply to non-residents, before buying a property in NZ, offshore persons must have a NZ bank account number before they can get a NZ IRD number.

An offshore person is defined as anyone other than a person who is not an offshore person. A person is not an offshore person if:

- They are a NZ citizen and have been in NZ within the last 3 years; or
- They hold a NZ residency class visa and have been in NZ within the past 12 months.

All other individuals will be offshore persons.

A non-individual will be an offshore person if it is:

- Incorporated outside NZ; or
- 25% or more owned (legal or beneficial) or controlled by an offshore person.

(c) There is an exemption from supplying the information to LINZ if the property being transferred is the person's main home. This exemption however is not available to an offshore person, where the property is to be or was owned by a trust, or if the person is selling their main home for the third time in a two-year period.

The second stage introduced a new easy to enforce, objective bright-line test to tax gains from the disposal of residential land acquired and disposed of within two years of acquisition, subject to some exceptions. The rules apply from 1 October 2015. The period that applies has been increased to within 5 years of acquisition; this is started from 1 April 2018.

The main home exemption prior to 27 March 2021 was given based on the 'Predominant Use Test' where a property is considered a person's main home if it is predominantly used as the person's main residence.

However, **from 27 March 2021**, the '**Change-of-use Rule**' has been introduced. Under the new rule, if your main home was not used as your main home for any continuous period(s) of more than 12 months during the bright-line period, the main home exclusion will not apply to the period(s). This will mean that you will pay tax on the portion of gain that relates to the period(s).

The bright line period has now been extended to 10 years for residential properties acquired **on or after 27 March 2021** unless the property purchased meets the definitions of '**New Build**' which then the bright line period remains 5 years. The new build is a property that CCC was issued on or after 27 March 2020.

The start and end dates are specifically defined and may differ depending on the nature of the transaction. The following tables give a summary of the start and end dates for purposes of the bright-line test;

<u>Type of acquisition</u>	<u>Start date of bright-line test</u>
Standard purchase of land	Registration under LTA1952
Sales without registration of title	Latest date property acquired (ordinary rules)
Sales “off the plan”	Date of entry into a contract to purchase
Subdivided land	The original date of registration for the undivided land
Converting a lease with a perpetual right of renewal into freehold title	Date the lease with a perpetual right of renewal is acquired

<u>Type of disposal</u>	<u>End Date of bright line test</u>
Standard purchase of land	Date of entry into agreement for sale
Gift	Date of gift (generally registration of title)
Compulsory acquisition	Date of compulsory acquisition
Mortgagee sale	Date land disposed of by mortgagee
Other disposals where no contract to sell	Date of disposal according to ordinary rules

Only residential land is caught by the new bright-line test. Residential land is land that either has a dwelling on it, the seller of the land is a party to an arrangement that relates to erecting a dwelling on it, or is bare land that is zoned for residential purposes. However, if the land is used predominantly as business premises or is farmland then the land is not residential land.

Other exemptions from the bright-line test are:

(a) Inherited properties - Transfers from the deceased to the estate and from the estate to beneficiaries are deemed to be at cost (no gains arise) and the on-disposal within two years of receipt by the beneficiaries of the inherited property is exempted.

(b) Relationship properties – transfers between the parties pursuant to a relationship property agreement are deemed to be at cost and therefore no gain arises. However, the on-disposal of the transferred property within two years by the recipient party will be subject to the bright-line test.

(c) Resident's restricted amalgamation – the existing rollover relief, where a transfer of property as a result of an amalgamation (held on revenue account by virtue of application of sections CB 9 to 11 and CB 14) is treated as transferred at cost, is extended to include property that is revenue account property of the amalgamating company due to the application of the bright-line test.

Other key aspects of the bright-line test are that:

(a) The cost of the property is tax deductible, including expenditure related to the acquisition and cost of capital improvements made after acquisition. Other holding costs may be tax deductible if sufficient nexus exists with income. Interest costs may be automatically deductible if the property is owned by a company.

(b) Losses from deductions claimable solely against bright-line income are ring-fenced so they can only be offset against gains on other land sales that are taxable under any of the land sale provisions.

(c) Specific anti-avoidance provisions have been included to defeat the use of land-rich companies and trusts to circumvent the intent and purpose of the bright-line tests, such as disposal of 50% or more of shares in the company that owns residential land, which will be subject to the anti-avoidance provisions.

Offshore property speculators now pay a withholding tax on profits from sales of residential land under the bright-line test which is the lower of:

(a) 39% of the vendor's gain on the that property and

(b) 10% of the total purchase price of that property

This withholding tax is known as the Residential Land Withholding Tax ("RLWT").

24. Roll-over relief for Bright-line to certain types of entities

From 1 April 2022, transfer of the ownerships of residential rental properties from/to certain types of entities including partnerships, trusts and look-through companies can be exempt for the bright-line as long as following conditions are met under Section CB6AB of Income Tax Act 2007:

Transfers are from/to look-through companies, partnership and certain qualifying family trusts and

The ownership before and after the transfer must be the same and

Please note that the rollover relief does not cover any transfers from parents to children. Please contact us if you are planning on changing the ownership or gifting any of your rental properties to your children as this may be an option available to avoid any bright-line implications.

25. Disallowed interest deduction for residential rental properties

The government has recently announced that deductions for any interest paid on residential rental properties will not be allowed from 1 April 2021 with a few exceptions including investment in new builds and property development exemption. 75% deduction will be allowed for any interest paid from 1 April 2022 to 31 March 2023.

Interest deductibility then will be phased out eventually to 0% from 1 April 2026. The phasing out rule is applied to residential property acquired before 27 March 2021. Interest deductibility will be immediately ceased for any property purchased on or after 27 March 2021 from 1 October 2021.

If you have mortgages against your rental properties, please contact our accountants to discuss about the new interest deduction rule so we can plan ahead your tax for your rental investments.

26. Trust Act 2019 – new disclosure requirements

The Inland Revenue Department has announced that the new reporting and disclosure requirements will apply to NZ domestic trusts from the 2022 financial year. The new requirements include standards for meeting the minimum requirement when preparing financial statements and the finer details on information mostly around distributions, settlements and vesting etc. This information now needs to be disclosed when filing the annual income tax return for trusts going forward.

From the 2022 financial year going forward, NZ domestic trusts must prepare financial statements with prescribed information and submit it to the Inland Revenue along with trust income tax returns. If the trust does not derive annual income in excess of \$30,000, or does not incur annual expenditure in excess of \$30,000, and the total value of assets does not exceed \$2 million, there will be less reporting requirements imposed, however a minimum requirement financial statements must be prepared and submitted unless trust is inactive.

All trusts should undergo a review about the changes before the 2022 tax returns are submitted to the Inland Revenue. Please, contact our accountants so we can guide you through the changes and provide you with solutions.

27. Cost of Living Payments

In case you have received cost of living payments during the 2023 financial year, you don't have to include these in your income tax return as these are exempt for income tax. In case you have accidentally included this payment as income through GST returns, please let us know and we will attend to making an adjustment.

If you wish to discuss about any listed above or have queries regarding this checklist, please feel free to contact your accountant for assistance.

28. GST and the new AirBnB and Uber Tax

If you offer accommodation or ride share services in New Zealand via an electronic marketplace (e.g., Airbnb or Uber), new GST changes will impact on you from 1 April 2024, although the National Party has stated it will repeal the change if they are elected to Government in October this year.

At present, providers of these services are not subject to GST if their turnover is below the \$60,000 GST registration threshold. However, the Tax Bill which passed through select committee on 2 March 2023 now imposes GST on accommodation and transport services provided through electronic marketplaces, regardless of whether or not the owner of the property or the driver is registered for GST. The Bill is likely to be passed into legislation in the coming weeks.

What is changing

The Taxation (Annual rates for 2022-23, Platform Economy, and Remedial Matters) Bill (No 2) creates a category of services called 'listed services' which incorporate all commercial, short-stay and visitor accommodation (such as Airbnb, Bookabach

and Booking.com), as well as all ride-share and food and beverage delivery services (such as Uber, Ola and Lyft).

This change means the marketplace operator is deemed to be the supplier of the services and is required to collect and return GST at 15% on all services provided to end-users through their marketplace.

The supply between the marketplace operator and a GST registered property owner or driver will be zero rated for GST. For example, Sarah is GST registered and rents out a property via the Airbnb marketplace for \$100 a night. Airbnb is deemed to be the party supplying the accommodation and adds GST to the nightly rate, therefore charging guests \$115. Airbnb pays the \$15 GST to the Inland Revenue. The transaction between Airbnb and Sarah is zero-rated, therefore Sarah includes \$100 as a zero-rated supply in her GST return.

If the property owner or driver is not GST registered, the marketplace operator deducts 8.5% input tax from the taxable supply (referred to as a flat-rate credit), and passes that 8.5% credit to the property owner or driver. The flat-rate credit is intended to approximate the amount of GST that the property owner or driver could claim as input tax if they were GST registered. Therefore, if Sarah was not GST registered, she would receive a credit of \$8.50 (8.5% of \$100) from the marketplace. The marketplace will return net GST of \$6.50 to the Inland Revenue (\$15 - \$8.50). Current commentary is unclear on how Sarah treats the credit in her income tax return and no doubt detailed guidance will be provided once the legislation is passed.

What are the exemptions

Large commercial enterprises who offer over 2000 nights of short-stay accommodation per year via a marketplace enter into an agreement with the marketplace operator to opt-out of the new rules and allow them to continue being responsible for their own GST obligations.

In a nutshell

Ultimately there should be no change to GST registered property owners' or drivers' back pockets, while non-registered property owners or drivers may have additional income to declare in their tax returns due to the flat-rate credit.

Although non-registered property owners or drivers could voluntarily register for GST, this may not be the ideal solution for property owners.

If you require assistance in understanding how you will be impacted by this new GST rule, please contact us.

29. Fundamental GST changes coming your way

Ever since GST was first introduced in 1985, businesses have become very familiar with various aspects of GST which have been fundamental to meeting their GST compliance obligations.

Under the guise of “modernising GST” the Inland Revenue is introducing a number of invoicing and record keeping changes that will apply from 1 April 2023.

These changes have two stated purposes being:

- To reduce the cost of doing business; and
- To support e-invoicing and electronic record keeping.

As part of these changes, there will be a number of key terminology changes:

Tax Invoice will become Taxable Supply Information

- Debit/ Credit Note will become Supply Correction Information
- Buyer-created Invoice will become Buyer-created Taxable Supply Information.

From 1 April 2023, there will no longer be a requirement to keep a single physical document holding the supply information. Instead, various information contained in your accounting system and contract documents may be used to support the numbers used in your GST returns. The thresholds for when you need to hold Taxable Supply Information will also increase.

Whilst clearly the way businesses transact has changed since GST was first introduced, the changes from 1 April 2023 could potentially add additional compliance costs for some businesses as their support for various supplies may need to come from multiple sources/ locations, rather than the old tax invoice.

The above changes are not compulsory and businesses can continue to issue tax invoices and credit/debit notes as they have in the past. You may however find over time that some of your suppliers will change what documentation they produce and

you will need to ensure you have sufficient other Taxable Supply Information documents to support any GST claims made.

The Inland Revenue have stated they will be issuing more information on this, leading up to the date these changes come into effect.

In the meantime, if you have any questions on how the GST changes will affect you, please contact us.

If you wish to discuss about any listed above or have queries regarding this checklist, please feel free to contact your Accountant for assistance.



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