Newsletter 21 WINTER 2024

Trust Tax Rate Changes

As you will probably know, trusts are to be taxed at 39% if their income exceeds $10,000.

It is reasonable to expect a large number of trusts will have exactly or almost exactly $10,000 of income because the tax rate will be 33%. Be aware if you go just one dollar over the $10,000 threshold, all of the trust income is taxable at 39%.

Inland Revenue has issued a statement explaining what it will accept as legitimate tax avoidance and therefore acceptable. It includes the following:

- Where a company is owned by a trust, a change in dividend policy is acceptable. For example, you could reduce trust income by just not paying dividends.
- Distributions to beneficiaries who have a lower tax rate.
- Trustees could create a company and transfer income earning assets to it, which would then be taxed at 28%. However, see the last bullet point below in the list of unacceptable ways of avoiding the high rate of tax.
- Winding up the trust.
- Using PIE investments, which are taxed at 28%. Comment: Is this going to take money out of the bond market and possibly have an impact on the interest rates offered by issuers?

Inland Revenue will not accept artificial and contrived ways to dodge the high rate of tax. Examples include:

- Allocating income from a trust to a beneficiary who later resettles this money (gives it back) to the trust.

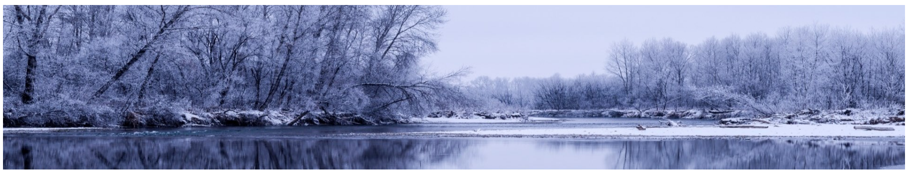
- Allocating income to a beneficiary who has no knowledge they have received the money or expectation of being paid it.
- Using loans from a company to get funds into a trust instead of paying dividends to it. The loans could then be on-lent to beneficiaries.
- Artificially altering the timing of income or expenditure, particularly where it is linked to existing contractual terms or practice.
- Creating artificial expenditure, such as the trust paying management fees to a company, which cannot be commercially justified.
- Making distributions to a company beneficiary where that company shares are owned by the trustees. Where this happens, the distribution has to be taxed at 39%.

When does a bond give you a better yield than a PIE?

Suppose you invest in a PIE yielding 5% gross. After-tax at 28% you will have 3.6%.

Suppose you invest in a bond yielding 5.9%. After tax at 39% you will have 3.599%.

This uneven playing field should please the banks.



Waitara Office

The landline has been removed so if you need to talk to Ross on a Tuesday ring 027 433 9090

Bright line test on property held briefly

Residential rental property owners will know they could be subject to tax on any gain on sale if they've owned the property for only a short period of time.

The name for this short period is "the bright line test".

There were three bright line tests – for two years, five years and 10 years. Effective from 1 July 2024 it is proposed to replace the three bright line tests with just one test.

It will be for a two-year period regardless of whether the property was bought before or after 1 July 2024.

Note the start of the bright line test is from the date of settlement on purchase. It is not from the date of signing the sale and purchase agreement, unless it is a purchase off the plan in which case it is the date the agreement is signed. This has always been the case. The bright line period ends at the time of signing a sale and purchase agreement for the sale of property.

Image by Gerd Altmann from Pixabay

Main home exclusion

Here are some points to remember:

Where the bright line end date is after 1 July 2024 the main home exclusion will be based on the predominant use of the land.

The land must be used most of the time as the main home.

The exception is for a new build. When determining the predominant use, you ignore the period under construction.

Interest deductions on residential rentals

There have been significant changes to the tax deductibility of interest paid to buy residential rental property.

Previously, subject to certain transitional rules, the interest on money borrowed to buy property where the sale and purchase agreement was dated after the 27 March 2021 was not tax deductible.

Limits were imposed on property bought before this date.

The current situation is:

Year ended 31 March 2024 – 50% of interest is claimable on property where the sale and purchase agreement was dated on or before the 27 March 2021.

Year ending 31 March 2025 – the cut-off date is dropped and interest deduction is partially allowed for all borrowing. The claim is limited to 80% of the interest incurred.

Year ending 31 March 2026 onwards – full tax deductibility of interest is restored.

Your public perception

How you treat your customers, employees and suppliers is key to success in business, but what about the general public? Their opinion matters too, even if you don't realise it. Think about it this way: Is your company car a mess, with bald tyres? That might make people wonder if you cut corners with your work, too. Same goes for personal actions. A lawyer stumbling out of a bar isn't exactly confidence-inspiring for clients. For small businesses, image is everything. A big company can bounce back from a bad PR hit, but a small business might not. Being a good business also means being a good citizen. Give back to the community. Look for a position of responsibility in a non-profit organisation such as the local chamber of commerce – it will make you more visible.

Knowing your numbers

In these crazy times of change and uncertainty, it's more important than ever to have a handle on the vital signs of your business – you know, the numbers that keep the engine running smoothly.

Businesses can hit a rough patch just because they're not keeping tabs on those key numbers. Not knowing where your leads are coming from, how well you're turning them into customers, or the value those customers bring, can lead to chaos and a shaky future.

On the flip side, those who stay on top of their numbers are the ones who can spot trends on the horizon and pivot like pros. They're not just surviving; they're thriving.

So, what's important for a small business?

You should watch your balance sheet ratios – that's the equity you have in the business. In tougher times, like right now, you should have more equity in your business than in good times. Take the example of a property investor who can rely on increasing property values when times are good. A 20% equity works fine. But when times change you need more, otherwise there's too much borrowed money and too much interest to pay.

Keep an eye on your KPIs – that's your key performance indicators. These are things like:

Revenue growth. This measures the increase in revenue over a period of time. It indicates the business's overall financial performance.

Profit margin. It shows the percentage of revenue remaining after all expenses are deducted, reflecting the efficiency of operations.

New customer cost. Knowing what it costs to get a new customer gives you a good idea of how effective your marketing and sales are.

Customer lifetime value (CLV). This estimates the total revenue a business can expect from a single customer over their lifetime, guiding decisions on customer retention and loyalty programmes.

So, keep your eyes on the prize, stay agile, and remember that with the right insights, your small business can not only weather the

FamilyBoost on the way – main points explained

FamilyBoost has been introduced to help pay early childhood education fees. The main points are:

Starts 1 July 2024.

It pays 25% of early childhood education (ECE) fees with a maximum of $75 a week.

Payments are to be subject to application and will be refundable quarterly. If you have youngsters going to preschool, be sure to find out about this and get your application sorted out.

You pay for the first 20 hours and the subsidy kicks in after that.

If there is any MSD childcare subsidy, this has to be used up before FamilyBoost kicks in.

If the family income exceeds $140,000, the subsidy starts to reduce. Families are no longer eligible when income reaches $180,000.

Keep the invoices from childcare. They need to be submitted to Inland Revenue through the Inland Revenue website, MyIR

You can find details of how to apply on the IRD website via this link https://www.ird.govt.nz/working-for-families/applying

Giving trading stock to a charity

The Government proposes to allow businesses to make donations of their trading stock to recognised charities.

Normally, if goods are taken out of a business, they need to be valued at their market value. Tax needs to be paid on the difference between market value and cost, which is the profit.

However, from 1 April 2024, it is proposed these donations can be made at their cost price, which means the business does not have to account for any profit on the goods given away.

Tech ideas to get you going

If you're thinking about bringing some new tech into your retail business, here are a few suggestions to get you going.

Get what you need. Work out what's not working with your current setup and what you want to achieve. Whether it's sorting out stock, getting closer to customers or crunching sales numbers, pinpoint your targets.

Do your homework. Look around for what's going to work best for you and your budget. Think about things such as cost, ease of setup, and if it works with what you already have.

Try before you buy. Don't go all-in right from the start! Do a small-scale trial first. Pick a section of your operation and test things with any new tech. Get feedback from your team and tweak things if you need to.

Get the team on board. You want your team excited about the new tech, so show them how it'll make their lives easier. Get them involved in the decision-making and discuss any concerns they might have.

Ease into it. Don't rush! Roll out the tech bit by bit across different areas. Keep an eye on how things are going and make tweaks along the way.

Show it off to customers. Show your customers how the new stuff can improve their shopping experience. Whether it's flashy apps, DIY checkouts, or personalised tips, make it part of their experience.

Keep improving. Tech moves fast, so keep an eye on what's new. Listen to your team and your customers for ideas on how to make things even better.

Check your numbers. Keep tabs on how the tech is doing. Are sales going up? Are customers loving it? Use those numbers to fine-tune your game plan.

Make life easier with email assistants

Several AI apps are on the market, such as Gemini and Shortwave.

Gemini is a stand-alone app. You can use it at any time to get information. For example, in our article above, Gemini could help you do your homework for bringing new tech into your business.

You will also be pleased to learn it's free. For more highly advanced work you can buy Gemini Advanced, but for most everyday things you're not likely to need it.

Shortwave only works with Gmail. You can ask it to:

Summarise an email thread.

Suggest responses to an email thread.

Find information from previous emails.

Find information from your Google Drive files.

Some apps can also talk to your calendar and make appointments for you.

TAX CALENDAR

28 July 2024
3rd instalment 2024 Provisional Tax
(June balance date)

28 August 2024
1st instalment 2025 Provisional Tax
(March balance date)

Keep customers satisfied

A customer was seen recently complaining he had not received his coffee after 20 minutes in a busy cafe.

The cafe owner checked the docket, which showed a meal on the order, but no coffee. She had served the customer herself, and knew he had not ordered a coffee. She could have gone back to him and shown him the docket.

Instead of getting into an argument which could only be resolved with CTV footage, she made him a coffee, apologised for the delay and wished him a good day.

Was it worth swallowing a bit of pride? Of course. The customer will likely return.

Attached is a summary from www.budget.govt.nz