The Tax Lady

Accounting Services for Small Business
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Client Newsletter [June & July 2017]

Overseas Pensions

Overseas pension can be tricky when it comes to tax treatment. Regular pension payments are treated differently from lump sum receipts and also differ from country to country depending on the Double Tax Agreements.

Fortunately, the IRD has some information that outlines the tax treatment of such pensions located at the following sites:

- www.ird.govt.nz/international/nzwithos/income/dta-overseas-pensions-a-j.html
- www.ird.govt.nz/international/nzwithos/income/dta-overseas-pensions-k-z.html#uk

Lump sum cash withdrawals are taxed in two ways using either a schedular or formula method. The application and detailed method for both of these is located on the IRD website.

A four-year exemption from being liable for income tax generally applies to lump sum foreign superannuation withdrawals or transfers. It will start at the beginning of the month after the month in which the taxpayer becomes resident for tax purposes in New Zealand provided you have not previously had an exemption period.

Overseas pensions can be a complicated area of tax so if you are in receipt of payments from overseas and need some guidance, contact us as it is important to get it right from the start.

Contractors and Taxes

Some contractors are subject to withholding tax on their earnings depending on whether the work they perform is listed in a schedule to the Income Tax Act 2007 .

These rules previously applied to workers in certain industries, eg forestry and real estate, who were taxed at a flat rate. However, the existing rules were expanded as of 1 April 2017 to include almost all contractors. It allows them to pick a rate, from 10% to 100% if they are NZ tax residents, to have tax deducted from their payments. These payments are referred to as "scheduler payments".
The changes were introduced to give a greater choice to contractors and make it easier to meet their tax obligations.

If a contractor does not receive scheduler payments, they may elect to voluntarily have tax deducted from their earnings. If they wish to have tax deducted from their earnings or wish to choose a rate they want, they must provide the person paying them with a tax rate notification for contractors (IR330C) to advise them of the rate at which tax is to be deducted.

Where contractors do receive scheduler payments, they are obliged to provide the payer with an IR330C to advise of the rate at which to deduct tax from their earnings. If a recipient of a scheduler payment fails to notify the payer of their name and IRD number, the payer must withhold tax at the rate of 45% from their earnings. If they provide this information but fail to nominate a tax rate, the payer must withhold tax at the rate listed in the schedule.

National Average Market Values of Specified Livestock Determination 2016

For the purposes of the Income Tax Act 2007 , the national average market values of specified livestock on hand, applicable for the 2016-2017 income year, are set out by Inland Revenue. This list can be found on the IRD website at www.ird.govt.nz/technical-tax/determinations/livestock/national-averages

Budget 2017

The 2017 Budget was delivered by the Finance Minister on 25 May 2017. In the Budget, it was stated that the economy is expected to grow over 3.1% over the next five years, reaching 3.8% in 2019 and included the following announcements:

Family Incomes Package

- From 1 April 2018, the $14,000 income tax threshold will rise to $22,000, and the $48,000 tax threshold will be lifted to $52,000;
- The Independent Earner Tax Credit (IETC) of up to $10 a week will be discontinued; however, the taxpayer will be compensated by the increase in the $14,000 tax threshold to $22,000;
- The Family Tax Credit rates for children under 16 will increase to the level of those for children aged 16 to 18;
- The abatement rate for Working for Families Tax Credits will rise from 22.5 cents to 25 cents in the dollar and the abatement threshold will decrease from $36,350 to $35,000 per year;
- The Accommodation Supplement maximum amounts will be increased; and
- The weekly payments of the Accommodation Benefit for eligible Student Allowance recipients will be increased to $20.

Feasibility expenditure

The Government proposes to improve the tax treatment of feasibility expenditure for businesses. To that effect, the Government issued the discussion document, *Black hole and feasibility expenditure*. In this document, the Government proposes a new definition of "feasibility expenditure" so businesses will be able to apply International Financial Reporting Standards (IFRS) to determine whether the expenditure is immediately deductible or must be capitalised. Another proposal is to allow taxpayers a deduction for expenditure that would have been deducted over time if the expenditure had been successful, but is denied a deduction because the expenditure did not result in a successful asset. Public feedback on this document closes on 6 July 2017.

The Government also expects to raise $250 million over the forecast period in additional revenue from the Government's work to prevent multi-national tax avoidance.

Farming expenses

For most farmers, freight and cartage costs are regular expenses. Since they live rurally, it is often cheaper and faster to have the goods delivered rather than for the farmer to go and collect them. Common freight costs include bringing purchased livestock to the farm, wool to the wool store, livestock to grazing or freezing works, fertiliser cartage and spreading, assets being delivered or taken away for repair. The recording of the freight cost differs depending on what is being transported. Most farmers' charts of accounts have a freight code, but this should not be used as a dumping ground for all freight costs. There are a number of situations when freight costs are not to be coded to freight some of which are below.

Cartage of new fixed assets - Freight costs associated with the purchase of assets need to be added to the purchase cost of the new asset.

Cartage of personal goods - Freight costs on private goods should be added to the relevant individual's personal expenditure.

Cartage of livestock purchases - The cost of the inward freight needs to be added to the purchase cost of bought in livestock.

Fertiliser cartage and spreading - These costs should be coded to fertiliser expense. Fertiliser expenditure may be deferred to the income years in which it is applied provided it is within the four years in which the expenditure is incurred.

Cartage of farming supplies - Freight costs on farm supplies, such as fence posts, stock food, fuel, etc should be coded to that particular item of expense as the freight is an additional cost of acquiring those supplies.

Freight costs - Cartage of livestock to sale yards or freezing works, wool to wool sale or livestock to and from grazing can be coded to freight as other cartage that cannot be identified.