Harvie Green Wyatt
CHARTERED ACCOUNTANTS

Newsletter

WINTER 2024

Budget 2024 Taxation Changes

Tax rate	Old threshold	New threshold
10.5%	0 – $14,000	$0 – $15,600
17.5%	$14,001 – $48,000	$15,601 – $48,000
30.0%	$48,001 – $70,000	$53,501 – $70,000
33.0%	$70,001 – $180,000	$78,101 – $180,000
39.0%	$180,001+	$180,001+

It's almost universally agreed that the adjustment to the personal income tax thresholds shown above was well overdue. The government's decision to implement the new thresholds mid-year will, however, cause a few headaches, particularly in the world of payroll.

Of course, nothing in the world of tax is ever simple. Firstly, the mid-year change in rates means that there will be three extra tax brackets for the 2024-25 tax year. These cover the differences between the old and new thresholds and effectively average the old and new rates. The special tax brackets for this income year are:

12.82%*	$14,001 – $15,600
21.64%*	$48,001 – $53,500
30.99%*	$70,001 – $78,100

People who receive PAYE income won't have to worry about this as payroll systems are being frantically upgraded as we speak to factor in the new rates.

If you manually calculate wages for your employees or have standing automatic payments set up these will all need to be recalculated on 1 August 2024 for the new tax rates.

There are a number of other taxes which are impacted by these changes because they are based on income tax thresholds, like FBT, Kiwisaver Employer Contributions and RWT.

It would pay to review all of your PAYE deductions and allowances with these tax changes.

The government has delayed adjustments to most of these other rates until 1 April 2025 (the exceptions being RWT and attributed-method FBT, which are calculated at the end of the year anyway). This will make life a bit easier in the short term.

Another threshold change has been made to the Independent Earner Tax Credit (IETC). From 31 July 2024, this will now apply if someone earns between $24,000 and $70,000 (previously $48,000), abating from $66,000. This will be worth up to $520 per year for eligible taxpayers. Again, being a mid-year change, there will be a pro-rata calculation required for those who will fall under the new threshold.

Changes have also been made to the Minimum Family Tax Credit and the In-Work Tax Credit. As these fall under the Working for Families scheme, these adjustments should be taken care of by the IRD.

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

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 storm but come out stronger on the other side!

Tax in Family Trusts

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 planning 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%.

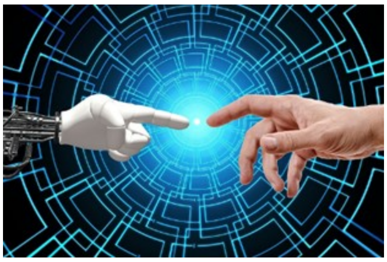
This uneven playing field should please the banks.

GenAI—a leap forward

Artificial intelligence (AI) is the new buzzword at the moment, with business leaders touting its importance and the significant impact it will have on the way we conduct business. The reality is that AI has been around for a while, but in the past few years has taken a great leap in terms of its usefulness and accessibility for the general public.

AI is a blanket phrase for computers performing tasks that would usually require human intelligence to perform. It is exceptionally good at recognising patterns and making predictions and is being widely used already. For example, the facial recognition on your phone or the personalised ads you see pop up on the web are all a result of AI. Generative AI (GenAI) is an evolution of this, whereby it can use existing data and patterns to create completely new content. GenAI is what is causing such a stir recently, due to the broadness of its potential applications and how disruptive it could be for many industries.

According to PwC's 2023 Emerging Technology Survey, 73% of US companies have already adopted AI into their business, with 54% using GenAI. With many firms creating their own GenAI chatbots, employees can use these to research legislation, summarise spoken meetings using speech to text, or craft an email from scratch. Broader use cases see programmers using GenAI to help them write code, product designers using it to evaluate new designs, or marketers to identify leads and develop marketing strategies. In



the creative industry GenAI has been even more disruptive, with unique videos, pictures or songs being crafted from a simple chat prompt.

Every so often a new technology comes along that completely changes the way in which the world operates. In recent times, this has been things like the internet, or smartphones. Many are now claiming that GenAI will be the next big shift, and that its impact on the future will be unprecedented.

The first ever global summit on artificial intelligence was hosted in November last year, where 28 nations declared the need to work together to manage the risks associated with such powerful technology. Public figures like Elon Musk even described it as a 'threat to humanity', given the potential for AI to become more intelligent than its human creators.

While the threat of world domination is hopefully something on the far horizon, when it comes to AI, no one can really say how fast the technology will evolve, particularly when it is able to learn and teach itself.

With access to GenAI available to everyone through platforms like ChatGPT, now is the time to consider whether it can be helpful to you or your business.

Questionable Spending?

Rates are rising across the country, with a recent economist's report showing an average expected rise of 15%. This is the largest rise the country has seen since 2003, which begs the question, where is all the money going?

Inflated construction costs and widening responsibilities take the majority of the blame, but one can't help but wonder if there might be an element of 'questionable' spending involved.

Across the world there are some compelling examples of spending that would be considered less than palatable to the ratepayer. The Gold Coast city council spent \$2 million on an art installation consisting of street lights painted to spell the letters 'Gold Coast'. The catch is, passing motorists couldn't even make out what the lights were supposed to say. A vote to remove the lights has recently been passed, with an estimated removal cost in excess of \$250,000.

Further afield, in Illinois, \$98 million was allocated to a project to research and apply a solution for trains making noise as they come to a stop, after complaints were made from two former clients of the Illinois House Speaker. The city of San Francisco spent four years testing various trash can prototypes, some of which ranged in price from \$11,000 to \$20,000 each. The city of Liverpool spent over £300,000 on three public art installations depicting an elephant in a Viking boat, a tree with a giant frisbee in it, and a large chair with bird wings attached to the back of it.

Are there any similar examples in your city?

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.

TAX CALENDAR

30 June 2024

Last day to apply for annual FBT returns

28 July 2024

3rd instalment 2024 Provisional Tax

(June balance date)

28 August 2024

1st instalment 2025 Provisional Tax

(March balance date)

Changes to Bright-Line Rules

Along with changes to the interest deductibility rules, referred to on page 6, legislation has been passed which repeals the current bright-line tests, replacing them with a new (or old) 2-year test.

There were previously three separate bright-line tests which applied to the sale of residential land:

- Land acquired on or after 27 March 2021 that is not a 'new build': 10-year test.
- Land acquired on or after 27 March 2021 that is a 'new build': 5-year test.
- Land acquired on or after 29 March 2018 but before 27 March 2021: 5-year test.

The changes repeal all of these tests and replaces them with a 2-year test applying to all residential land equally (no longer a different treatment between a new build and a non-new build). It applies to disposals that occur after 1 July 2024, i.e. a property purchased before 1 July 2022 and sold after 1 July 2024 will not be subject to the bright-line test.

The main home exclusion that required an apportionment between the time and area that the property was used as a main home is also repealed. Under the two-year regime, to qualify for the main home exemption the home must be predominately (more than 50%) used as such, both from a time and land area perspective.

Rollover relief rules are also extended to capture more types of transfers, allowing the transferee to obtain the original

purchase date and cost of the transferor. For example, transfers can now be made between relatives within two degrees of blood relationship without triggering a bright-line disposal.

Each of these changes revert the rules closer to their original intended purpose, which was to bring gains made by property speculators into the tax net.

BRIEFS

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.

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.

Automation and accounting

All too often we get into a routine without stepping back and considering why we are doing things. The same goes with our accounting systems and processes. Your finance team is probably busy keeping on top of their day-to-day workloads but has consideration been given to how productivity can be improved through the use of readily available software? Automation in your accounting system through software could transform your finance function. Not only will it create efficiencies and improve productivity, but the team will appreciate some of the more mundane tasks being removed from their monthly to do lists.

There is a multitude of accounting apps and add-ons to your existing accounting system on the market and these continue to evolve and improve. Determining what is appropriate for your business involves consideration of each element in the accounting process to identify options for improvement.

For example, software solutions could be used to streamline and simplify the following aspects of accounting:

- Accounts receivable – automation can optimise your cashflow through debtor management and acceleration of the accounts receivable collection process. For example, automated invoice reminders can be sent to customers for overdue payments and customers can pay electronically via payment gateways (e.g. Stripe) adding convenience to the payment collection process.
- Accounts payable – repetitive, manual and time-consuming data entry could be minimised through the use of software such as Dext, Hubdoc or the Xero bills function – all of which extract key data from invoices and input it into the accounting system. Further, e-Invoicing functionality allows supplier invoices to be received directly into your accounting system.
- Inventory management – depending on the industry in which you operate, inventory management software can streamline recording, tracking, and re-ordering of inventory.
- Cashflow management, forecasting and reporting – automated tools which allow real time data analysis and planning to enable timely decision making. The likes of Spotlight Reporting, Figured or Fathom allow businesses to budget, forecast and monitor progress in a timely manner.
- Payroll – cloud-based payroll systems such as PaySauce, iPayroll or Smartly allow employees to record hours, view rosters, request leave and view payslips all via their phones. The payday filing process is also seamlessly managed.
- Industry specific automation – there is a range of sector specific software that may also be relevant to your business.

Each business is unique so factors such as, pricing, features, ease of use, integration into your current accounting system and availability of customer support should be considered to determine the best fit for your business. Investing in automation and technology will empower your business, your finance team and save time.

Government reverses interest deductibility limitations

With the new Government now firmly settled in, legislation has been passed which reverses the interest deductibility limitation rules that were introduced by the previous government in 2021.

As previously introduced, the rules phased out the ability to deduct interest on loans drawn down before 27 March 2021 to purchase residential property over a period of five years. For loans drawn down after 27 March 2021, no interest deductions were allowed unless the property qualified as a 'new build'.

Under National's tax policy released as part of the election process the deductibility percentage was to increase to 50% for the 31 March 2025 year (as opposed to 25% under the then-current legislation), then phase it back in over the following two years. As detailed in the legislation, the restoration is being sped up, with the new rates as follows:

Date interest incurred	% of interest claimable
1/04/24 to 31/03/25	80%
1/04/25 onwards	100%

This phasing applies to all taxpayers, regardless of whether their lending was drawn down prior to 27 March 2021 or not. This means those who are not currently entitled to deduct any interest will go from 100% non-deductible for the year ended 31 March 2024, to 80% deductible for the year ended 31 March 2025.

Under the old rules, there were various exemptions which meant the rules did not apply to some taxpayers, the most common being a property falling under the definition of a 'new build'. These exemptions continue to apply, with the rules being completely repealed from 1 April 2025 once all taxpayers are entitled to the same 100% deductibility.

Also under the old rules was a provision that would allow taxpayers to claim a deduction for any previously denied interest amounts, if the

eventual sale of their property was subject to tax. Importantly, this provision still applies. This means that any taxpayers with denied interest amounts should continue to keep track of these if there is a chance the future sale of their property will be subject to tax.

The phasing back in under this regime should be relatively simple, with only a small amount of complexity existing for those with non-standard balance dates. For example, for someone with a 30 June balance date who has a pre-27 March 2021 loan, when preparing their 2024 income tax return, they would claim 50% of their interest from July 2023 – March 2024, then 80% of their interest for the remaining 3 months.

These changes see the treatment of residential property become more aligned with normal tax principles, reducing complexity and compliance costs for 'Mum and Dad' investors.