

CONTENTS

Update to Residential property Bright-line Rules.....	1
Company Law – How does the Structure Work?.....	2
IRD Audit and Tax Arrears activity	3
Planning for a Sustainable Business..	3
Family Boost – Applications for 1 st payment open	4
Personal Properties Securities Register (PPSR).....	4
Important Tax Dates....	4

DB CHARTERED ACCOUNTANTS LTD

In this newsletter we cover updates to residential property bright-line rules, Company Law, IRD audit and tax arrears activity, planning for a sustainable business, Family Boost first payment and the Personal Properties Securities Register.

UPDATE TO RESIDENTIAL PROPERTY BRIGHT-LINE RULES

From 1 July 2024 the bright-line test is reduced to 2 years. This means if you have owned a residential property for 2 years, or less, and it is sold after 1 July 2024, any gains will be taxable.



Generally the bright-line rules do not apply to your main home (provided the property is used more than 50% of the time as your main home during ownership).

For the rules prior to 1 July 2024 see our October 2021 newsletter.

Deductions

There are limits as to what costs are allowed to be offset against bright-line income. Capital improvement costs will generally be deductible however interest or holding costs are unlikely to be deductible, unless the property has been rented out during its ownership.

Bright-line start and end dates

For a standard purchase of property, the bright-line period starts from the date the property's title is transferred - generally the settlement date.

For a standard sale, the bright-line period ends when you enter into a conditional or binding sale and purchase agreement to sell the property – not the final settlement date.

Remember, IRD has wide ranging resources to confirm changes in property ownership as well as information on the timing of all residential property sales. If a taxpayer does not correctly declare bright-line income the IRD will likely send a "please explain" letter if they consider tax obligations have not been met.

Bright line Exclusions

The bright-line test does not apply in the following situations:

- Sale of your main home.
- Sale of business premises and farmland.
- If you are the executor or administrator of a deceased estate.
- If you inherited the property.
- Property sold to crown or local authority due to adverse nature event.

"By failing to prepare, you are preparing to fail"

- Benjamin Franklin

COMPANY LAW – HOW DOES THE STRUCTURE WORK?

A company is a separate legal entity that on the face of it entitles shareholders to “limited liability” if things do not work out.

The shareholders are the owners of the company and they vote on who the directors are to be. The directors are then responsible to govern and manage the company in a responsible manner.

In reality, a shareholder may not have “limited liability”, as a bank or equipment financier will often hold a personal guarantee, meaning that if a debt is not paid, the obligation to pay falls onto the individual shareholder.

Directors have certain duties that they are required to abide by. This includes a duty to act in good faith and in the best interests of company, exercise powers for proper purpose, comply with the Companies Act and the company constitution, not agree to, cause or allow the business of the company to be carried on in a manner likely to create a substantial risk or loss to the company’s creditors and only incur obligations if they are able to be fulfilled.

Directors also have other obligations under the Health and Safety at Work Act, the Commerce Act (which restricts non-competitive activities) and the Fair Trading Act.

Major Transactions – when a company acquires or disposes of an asset, or part of the company, which is more than half the value of the company’s assets before the acquisition or disposal, shareholders must approve this by special resolution. This means an approval by at least 75% of the shareholders.

Share Transfers – under the Companies Act 1993 a shareholder can decide to transfer their shares to any other party at any time. To limit this ability a Company Constitution can enforce pre-emptive rights. With pre-emptive rights shares must first be offered to existing shareholders. This is a good safeguard so that if disagreements occur between shareholders, a shareholder is then unable to sell their shares to an external 3rd party who may not have the best interests of the company at heart.

Shareholder Loans and Advances – these loans are unsecured. This means that in the event of a company liquidation or wind-up, these loans will be among the last to get paid. To protect shareholders the company could grant a General Security Agreement (GSA) to the shareholders. This means shareholders can obtain priority over the assets and other debts on wind-up of the company.

The above sets out some matters to consider if operating under a company structure. If you have any queries regarding your company feel free to get in touch to discuss.

JOKE

A young boy enters a barber shop and the barber whispers to his customer, "This is the dumbest kid in the world. Watch while I prove it to you."

The barber puts a dollar bill in one hand and two quarters in the other, then calls the boy over and asks, "Which do you want, son?" The boy takes the quarters and leaves.

"What did I tell you?" said the barber. "That kid never learns!"

Later, when the customer leaves, he sees the same young boy coming out of the ice cream parlor. "Hey, son! May I ask you a question? Why did you take the quarters instead of the dollar bill?"

The boy licked his cone and replied "Because the day I take the dollar the game is over!"



IRD AUDIT AND TAX ARREARS ACTIVITY

After being allocated additional funds in the 2024 budget, the IRD now has additional staff on board to bolster its audit activities and pursue unpaid taxes more vigorously.

This means that taxpayers with outstanding tax debts can expect to be followed up by IRD directly in a more timely manner. We generally find that IRD is willing to accommodate payment arrangements when a tax payer front foots contact with IRD and puts in place an instalment arrangement. Where in the past IRD would let unpaid taxes drag on for a long time they are now taking action to get taxes paid.



If you are behind in your tax payments you can contact us and we can assist you to sort out a payment plan with IRD.

With the boost in funding from the 2024 budget, the IRD has also expanded its audit programs. We are finding that even small GST refunds or donations rebates that would have normally been paid out within a few days are attracting enquiry from IRD before they are paid out.

From us, be aware that we may be asking for more information than in the past so that we have information at hand if IRD queries specific matters.

PLANNING FOR A SUSTAINABLE BUSINESS

Being in business is a long-term venture and business owners have to juggle the art of making decisions today to manage the business operations on a day to day basis, as well as looking ahead to ensure that the business will still be viable in the next 2-5 years.



While a business may be able to with-stand a down-turn for a short period, a business owner also needs to be considering the long-term implications for a business.

If a business is not generating surplus cash or profit on a monthly basis, any shortfall in funds will need to be found from elsewhere. Not paying creditors or the IRD is not a long-term or viable strategy. Refer to our June 2023 newsletter for further ideas on improving cash flow (all our newsletters are on the news tab on our website).

If the owners do not have sufficient resources to top up any cash shortfall, then a plan is required to assess how the business can continue to be viable. This may include:

- Re-assessing the goods or services that are sold
- Assessing the cost structure of the business
- Considering how the business may look in 4-12-24 months.

While these decisions can be challenging, often hard decisions need to be made to ensure the future viability of a business.

If you are in a situation where the cash flow or profitability of the business is struggling contact us to discuss your situation.

FAMILY BOOST – APPLICATIONS FOR 1ST PAYMENT OPEN

As previously mentioned in our June 2024 Newsletter, the Government has introduced a new childcare payment called Family Boost. The payment is available to low – middle income families with children aged 5 and under. Families can be reimbursed up to 25% of their early childhood education costs – up to a maximum of \$75 per week per household.

If you are eligible to receive the Family Boost you need to register for Family Boost through your MYIR – registrations opened from September.

After you have successfully registered for Family Boost you will need to apply for the payment each period. To do this you will need to upload your early childhood invoices in MYIR for the period.

The payments will get paid out quarterly. Applications for the first payment opened 1 October 2024 for the period 1 July 2024 to 30 September.

PERSONAL PROPERTIES SECURITIES REGISTER (PPSR)

The Personal Property Securities Register (PPSR) is an online register that records security interests in personal property. The register is publicly accessible, allowing anyone to search the register for existing security interests in an asset before making a purchase or entering into an agreement.

Creditors can register their security interests on the PPSR, which gives them priority over other creditors in case of default. Registration involves providing specific details about the debtor, the secured party, and the property.

For example if an individual or business purchases a vehicle or equipment (or leases for more than 12 months), the creditor will register a security interest on the PPSR. In the event that the asset is later sold the buyer can confirm if there is a registered security. Additionally if a business goes into liquidation, or fails to make loan payments, an asset registered on the PPSR can be repossessed by the creditor. Without the PPSR registration the asset would become part of general business assets and liquidator funds.

If you have surplus plant that you are leasing to a 3rd party, or have sold an asset and are still owed funds, we would recommend that the asset is registered on the PPSR.

IMPORTANT TAX DATES

- 21 October 2024** - September PAYE Payment due – Payday returns to be filed 2 days after pay day
- 28 October 2024** - 2025 (1st Instalment) Provisional Tax (6 Monthly GST filers).
- 28 October 2024** - April-September 2024 (6 monthly & 2 monthly) GST Return Due.
- 20 November 2024** - PAYE Payment due - Payday returns to be filed 2 days after pay day



Why did the employee get fired from the calendar factory?

He took a day off.



Thanks from the team at DB Chartered Accountants Ltd:
David, Elaine, Emma, Gaylene, Karen, Kathryn, Katie & Stephanie.

If you would like to discuss anything mentioned in our newsletter please contact us at:

DB Chartered Accountants Limited.

E-Mail: office@dbchartered.co.nz

Phone: (07) 847 8154

Website: <https://www.dbchartered.co.nz>