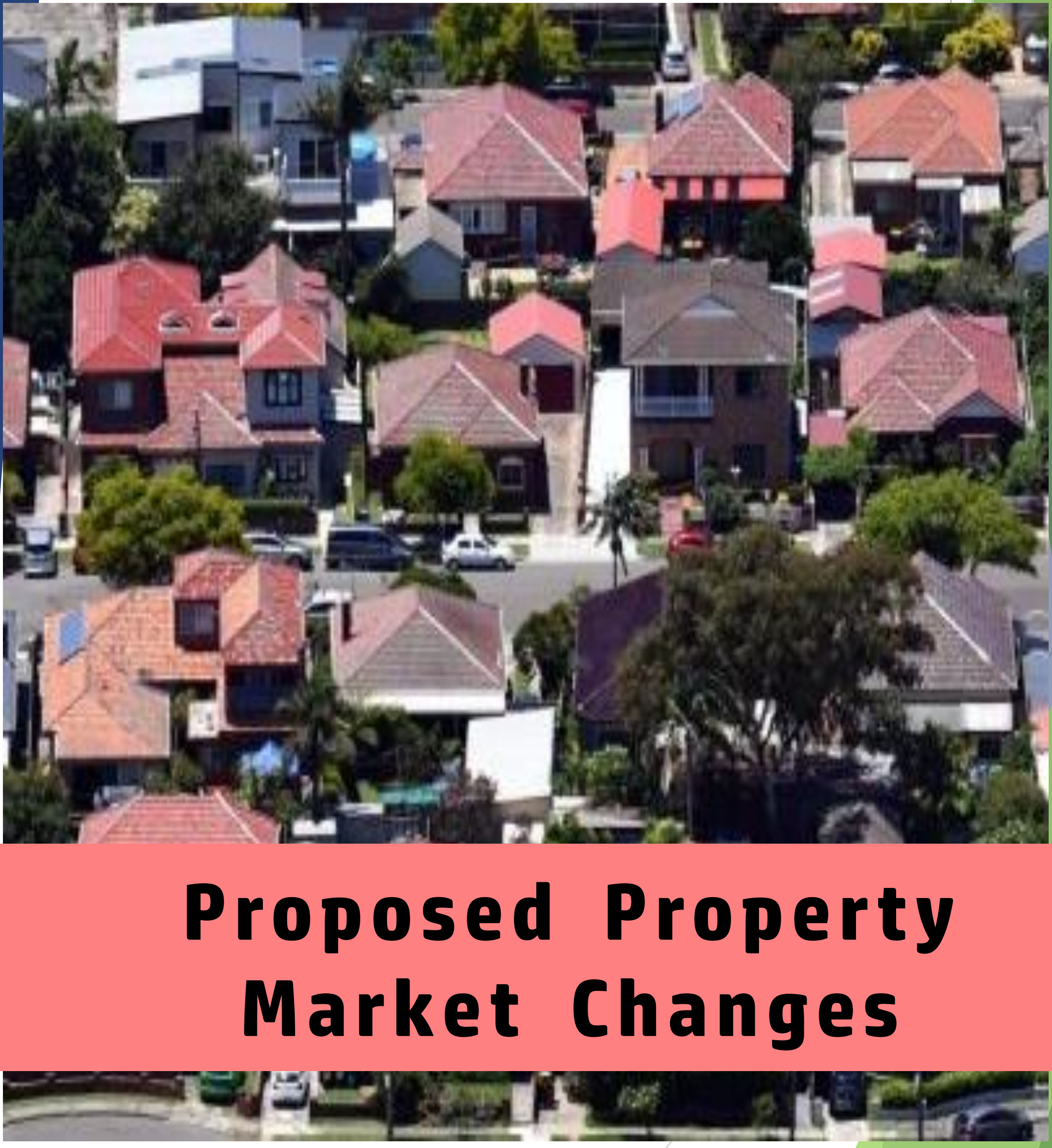
UHY Haines Norton
Chartered Accountants

Newsletter

April 2021



Proposed Property Market Changes

Contents

Bright-Line Test Extension to 10 Years

The government has announced the changes it is introducing to make the property market more accessible for first home buyers. One of these major changes is the bright-line test extension, which is doubling from 5 years to 10 years.

The bright-line test taxes profits from the sales of residential property if they are sold within a set time period. The government intends to increase the bright-line test period from 5 years to 10 years. The exceptions to this are:

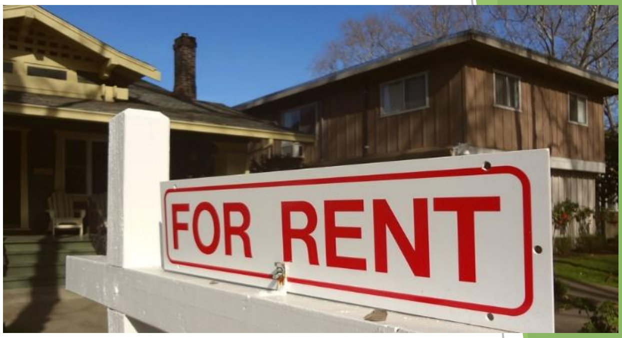
- Newly-built houses – which remain subject to the 5-year test period. The definition of a "new build" is still to be clarified, but it is expected to include properties purchased within one year of receiving their code of compliance certificate.
- Inherited properties – which remain exempt from the bright-line test.
- Main homes – which are excluded if they meet the main home exclusion criteria. However, the criteria is being modified from 27th March 2021 to require an apportionment calculation if it was used as the owner's main home for a period of less than 12 months.

The 10 year bright-line test will apply to residential properties purchased on or after 27th March 2021.

For tax purposes, a property is generally acquired on the date that a binding sale and purchase agreement is entered into, however under the bright-line test the bright-line period commences on the date legal title is acquired and ends when a binding agreement to sell is signed.

Note, however, that where title is not obtained before a subsequent agreement to sell is signed, then the bright-line period will commence when the agreement to purchase was signed. This would have application where a purchase off-the-plans was made but the land was later sold before title to the land was issued to the vendor.

Removal of Deductions For Interest



The Government has announced its plans to make the housing marketing more accessible for first home buyers. One key change is the proposed removal of deductions for interest on residential rental properties. The rules will apply to all investment properties other than ***potentially*** new builds. These rules have not yet been finalised and the Government will consult on the detail of these proposals, and legislation will be introduced shortly thereafter.

Currently rental property owners can claim the interest paid on loans relating to those rental properties as an expense, thereby reducing their tax, but new legislation restricting interest deductions will apply from 1st October 2021. The changes will now mean that interest deductions will not be permitted for residential investment properties purchased on or after 27th March 2021. Although interest on loans for properties purchased before 27th March 2021 is still deductible, it will be on a reducing basis over the next four years until it is completely phased out by the 2025/26 income year.

The new legislation will not affect property developers, or business loans secured against a residential property.

There is no change to the rules regarding claiming expenses such as rates, insurance, repairs and maintenance.

Claiming Interest On Properties Purchased Before 27th March 2021

Interest on properties purchased before 27th March 2021 would still be claimed on a reducing basis over the next four years.

For example, if you purchased a rental property in 2017 and pay $1,250 in interest each month ($15,000 annually), then the proposed change will affect your interest deductions like this:

Income Year	Amount of $15,000 Annual Interest You Can Claim
1 April 2020 – 31 March 2021	100% = **$15,000**
1 April 2021 – 31 March 2022 (transitional year)	1 April 2021 – 30 September 2021 = 100% of 6 months' = $7,500 1 October 2021 to 31 March 2022 = 75% of 6 months' = $5,625 to a total of **$13,125**
1 April 2022 – 31 March 2023	75% = **$11,250**
1 April 2023 – 31 March 2024	50% = **$7,500**
1 April 2024 – 31 March 2025	25% = **$3,750**
From 1 April 2025 onwards	0%

Claiming Interest On Properties Purchased on or after 27th March 2021

Interest on properties purchased on or after 27th March 2021 would still be claimable in the 2021 tax year for the remainder of the year ending 31 March 2021. Furthermore, interest would also remain deductible for the 2022 tax year, for the period 1 April 2021 to 30 September 2021. Thereafter the interest would no longer be deductible.

Amendments to Main Home Exemption Rules

The bright-line test's main home exemption rules have been amended for residential land acquired on or after 27 March 2021. From that date the exemption rules will not be applied on an all-or-nothing basis for those property purchases, but instead the exemption will apply only for the period during which the property is **actually used** as the owner's main home.

The original all-or-nothing exemption rules were suitable for the shorter bright-line test period. However, now the period has been extended to 10 years for residential property acquired on or after 27 March 2021 and therefore some of the gain on disposal of a home could be taxed.

For example, under the new rules, a person will have to pay tax under the bright-line test for a property that was rented out for three years even if they also used it as their main home for four years.

A full exemption will now only apply where a property is used as the owner's main home for the full bright-line period. But there is a **12-month buffer,** for the days when the property is not used as the main home thus allowing those days to still be treated as main home days, if:

a) The number of non-main home days **total 365 days or less**; *and*
b) The non-main home days are **immediately before or after** a period where the property is used as the person's main home.

Case Study

Jonathan purchases a property in 2023 and lives in it for five years before renting it out for three years. He sells the property in 2031. Under the original rules, Jonathan would have qualified for the main home exemption as the property was his main home for more than 50% of the time of ownership. However, the amendments mean that the main home exemption only partially applies as the property was not Jonathan's main home for the full ownership period which totalled to eight years. For tax purposes, his income from the sale of the property will be reduced to reflect the five years that the property was his main home.

Non-Tax Measures to Help First Home Buyers

In addition to the extension of the bright-line test and the proposal to remove interest deductibility for residential rentals, the government has announced they will introduce two non-tax related measures to help first home buyers and boost the housing supply:

1. The annual income cap for first home buyers accessing government assistance is due to increase to $95,000 for singles (up from $85,000) and $150,000 for multiple buyers (up from $130,000).
2. The house price cap is due to increase depending on the location of the property and whether it is a new build or existing property.

These changes will come into effect on 1st April 2021.

Loans for Rental Property Renovations

As part of the government's proposed changes to claiming interest deductions against residential property income; the interest deductions for rental properties acquired on or after 27th March 2021 (other than for new builds – but yet to be confirmed) will not be permitted from 1st October 2021. If money is borrowed on or after 27th March 2021 for any rental property repairs or renovations on properties acquired before 27th March 2021, the new loan will be treated the same as a loan for a property acquired on or after 27th March 2021 - therefore interest on it cannot be claimed as an expense from 1st October 2021.

From an accounting perspective, it is more beneficial to draw down a separate new loan for any residential rental property renovations or repairs, rather than topping up an existing loan. This helps to minimise the accounting costs related to calculating the loan interest apportionment between deductible and non-deductible interest. Otherwise you could run the risk of the increased accounting fees for calculations to apportion the interest claim, potentially cancelling out the value of the claim.

This also applies to funding by overdraft or revolving credit. For example if someone paid back the full balance of their overdraft by 26th March 2021 and then drew down additional funds as new borrowings, the interest on the draw down might be subject to full non-deductibility of interest from 1st October 2021 - under the proposed new rules.

Bright-Line Test When Acquiring Property From Co-Owners (Case Study)

It's becoming more common for a residential property to have several owners as this can significantly help with financing the purchase. It does, however, raise questions in regard to the bright-line test when acquiring property from co-owners. Here we look at whether the bright-line test applies in the scenario where a part owner of residential land acquires full ownership of the property due to a transfer from their co-owners in the property.

In 2016, Matthew purchased a residential rental property with financial assistance from his parents. The ownership was split equally between the three of them.

Matthew is now in the position of being able to buy out his parents and transfer the property title solely to himself. How is this treated under the bright-line test?

Matthew's original 1/3 share of the rental property is not affected by the rules, so the bright-line test period that commenced in 2016 does not restart for that 1/3 share. However, the other 2/3 of the property ownership that was his parents' will be treated as Matthew purchasing it on the date the new title is registered. Therefore, if he sells the property within 10 years of the date of the new title being registered, the bright-line test will apply to 2/3 of the property.

This is also the case where ownership of a property is as joint tenants.

Anti-Money Laundering (AML) Checks

Legislation has been introduced in New Zealand that requires all accounting firms to put preventative measures in place to help identify and prevent money laundering under the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009.

This legislation requires us (along with all other accounting firms) to conduct '**AML checks**' on all of our clients to help us verify identities and understand ownership structures. These checks are required by law - even if you have been our client for a long time.

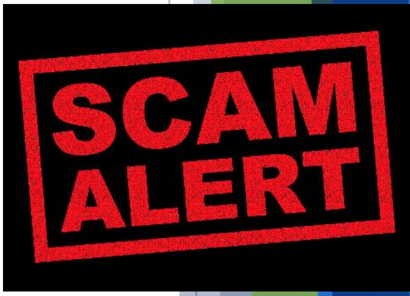
We have engaged the services of a company called ***First AML*** who specialise in this area to help us with conducting the AML checks. Some of you may have already been contacted by First AML, who are gradually working through these AML checks for all of our clients over the coming months. They will explain exactly what information is required from you, and you are also provided with contacts both at First AML and here at UHY Haines Norton should you have any questions or concerns regarding the process.

We understand that these AML checks could be frustrating and are making every effort to make the process quick and easy for you.

Xero Users: Multi-Factor Authentication

Xero is in the process of implementing multi-factor authentication (MFA) for Xero users as an additional security layer. All New Zealand Xero users are being notified and provided with instructions for setting up MFA, which will be available from 4th May and mandatory after 1st June 2021.

IRD Scams



From time to time there will be an IRD email, phone or text scam that does the rounds. Inland Revenue have a dedicated section on their website here which includes details of the latest scams as well as a facility for reporting anything suspicious.

There are certain things to be aware of that may signify that your communication from the IRD is in fact a scam. These include:

- Specification of a dollar amount in your email.
- Links to action a tax refund that are not to an IRD email or url address.
- A sender email which is not an IRD email address.
- Spelling or grammar mistakes, or poor wording or formatting.
- A request for your password or bank account details.
- A threat of being fined or arrested if you do not respond.

If in doubt always check the IRD website and report anything suspicious.

Xero Tips & Tricks:
Bank Reconciliation Report

Does your Dashboard bank account “Balance in Xero” never match your imported statement balance, even when you have no more transactions left to reconcile?

While Xero shows you a nice green tick and the word “Reconciled” on your Dashboard, your bank account in Xero may not reconcile to the actual bank account. To check this, you should run the Bank Reconciliation Report. Go to “Accounting” along the top blue banner, select “Reports”, and then click on the star beside the “Bank Reconciliation Summary” to add it to your favourites – to access the report easily next time. Click into the report, choose your bank account and the date you want to check and hit the blue “Update” button. If you see transactions under “Plus Outstanding Payments” or “Less Outstanding Receipts” then these transactions are the culprits. NB: “Plus Un-reconciled Bank Statement Lines” are your bank transactions that are still waiting for you to code them.

Bank Reconciliation Summary | Bank Statement | Statement Exceptions

Bank Account: 090 - Checking Account
Date: Sep 6, 2018
Update

Bank Reconciliation Summary
Checking Account
Demo Company (US)
As at 6 September 2018

Add Summary

Date	Description	Reference	Amount
6 Sep 2018	**Balance in Xero**		**5,126.07**
Plus Outstanding Payments			
6 Sep 2018	Payment: Truxton Property Management		1,181.25
Total Outstanding Payments			**1,181.25**
Less Outstanding Receipts			
5 Sep 2018	Payment: Ridgeway University		6,187.50
Total Outstanding Receipts			**6,187.50**
Plus Un-Reconciled Bank Statement Lines			
6 Sep 2018	Gateway Motors		(411.35)
Total Un-Reconciled Statement Lines			**(411.35)**
6 Sep 2018	**Statement Balance**		**(291.53)**

If you are unsure how to fix the issues in the Bank Reconciliation Report, please contact your accountant who can have a look at these for you.

We would recommend that you check this report at least each GST period prior to filing your GST return to ensure you are not over- or under-returning GST simply based on double-up transactions. However, if you are coding Xero more regularly, then it is best to check at least monthly at the end of the month.

Claiming Donations

If you have made any donations of $5 or more during the financial year, you may be able to claim these as tax credits.

For claiming donations as tax credits:

- The charity or organisation you donated to must be an approved donee as per the IRD's 'Approved Donee Organisations' list ;
- The donation must not have provided any direct benefit to you or your family; and
- The donation must not have been given to satisfy a full or partial debt.

In addition, only individuals can claim donation tax credits, i.e. you are not permitted to claim on behalf of a company, trust or partnership. However, if your company makes donations to approved charities, then the company is able to claim a deduction for the donation i.e. company taxable profit is reduced by the amount of the donation payment. The amount of the company deduction is limited to the company's net taxable income (excluding the donations).

For an individual's donation tax credit, you can claim 33.33 cents for every dollar of eligible donations. The total you can claim in one financial year is the lesser of 33.33% of your total donations or 33.33% of your taxable income. However, it's worth noting that if your total donations add up to more than your taxable income you can split the claim with your spouse/partner.

Donation receipts can be uploaded online in myIR throughout the tax year.

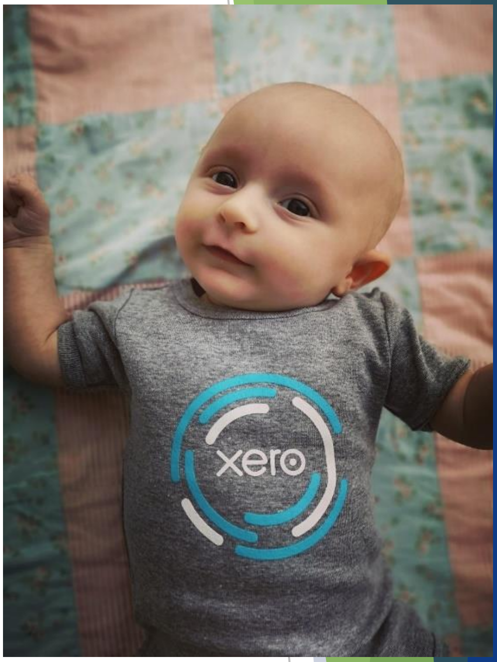
For more information visit 'Tax Credits for Donations' on the IRD's website.

Taxing Matters

- If your business received the Covid-19 Resurgence Support Payment (RSP) these funds must have been used to cover business-related expenses, such as wages and fixed costs. It is not subject to income tax, and the expenses funded by the RSP are not deductible. For GST-registered businesses, the RSP is subject to GST and needs to be included in your GST return. This treatment is different from the wage subsidy.
- The IRD has launched a new campaign targeting the real estate industry. This is based on their belief that real estate agents are claiming a high level of expenses relative to their income and that personal expenditure is involved.
- Tax refunds can now be transferred to offset Small Business Cashflow Scheme (SBCS) loan balances. Tax credit transfers into a SBCS account are by request only, which can be made via the 'Financial transfer' service in the myIR online portal, messaging in myIR or phoning the IRD. It is possible to make partial transfers of tax credits, as well as transfer the refund to another customer's SBCS account.
- On 1st April 2021 the minimum wage was increased from $18.90 to $20.00 per hour.
- From 1st April 2021, a new top tax rate of 39% will be applied to individuals earning over $180,000 per annum. The annual income threshold of over $180,000 includes bonus payments, back pays and redundancy payments.
- As per normal, the IRD is issuing automatic assessments of income tax returns based on wage/salary information, interest earnings data and dividend earnings data. If IRD require more information they will contact you.

Staff News

Introducing the newest member of the UHY Haines Norton Xero certified team: Administrator **Sharon Courtney** and Kumeu Manager **Paul Eckford**'s daughter MacKenzie Eckford. Now four months old, MacKenzie is looking extra cute modelling the latest Xero merchandise!



We are excited to welcome back **Arpita Khanwalkar** as the new Manager of our Helensville office. Arpita was previously a Senior Accountant in our Kumeu office and is taking over the role from **Erin Gibson**. Erin has relocated to our Henderson office in her Associate role.

We have recently said goodbye to Auditor **Sunil Sharma** and Accountant **Marica Markovina**. We wish them both the very best for the future.