

ACCOUNTING MATTERS

Presentation to the Consulting
Surveyors of NZ

Topics

- ▣ General business structures
- ▣ Expenses
- ▣ GST
- ▣ Property tax

Wealth Creation Strategy

- ▣ Salary or self-employed (limited)
- ▣ Business (leverage staff, products, borrowing, capital gain)
- ▣ Equities (leverage, capital gain)
- ▣ Property (leverage, capital gain)

General Business Structures

- ▣ Sole trader
 - ▣ Partnership
 - ▣ Company
 - ▣ Trust
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- ▣ Which to use depends on your exit strategy.

Expenses

- ▣ Claim any costs incurred in deriving assessable income
- ▣ Need to show connection
- ▣ Take reasonable approach
- ▣ Include home office and transport costs
- ▣ FBT on low cost vehicle
- ▣ Use an accounting system such as Xero (www.xero.com)

GST

- ▣ Claim on purchase price of land
- ▣ Used for a taxable activity
- ▣ Claim 1/9 th of the price
- ▣ Pay on sale
- ▣ Includes land and building
- ▣ None if sale of a going concern
- ▣ Effect of change of use

Asset Depreciation

- ▣ Accounting and tax definition: allocation of cost across useful life
- ▣ No depreciation on land
- ▣ Depreciation of 3% DV on buildings, 2% SL
- ▣ Additional 20% on new assets except buildings

Property Tax

- ▣ No capital gains tax in NZ and unlikely in near future
- ▣ But tax payable on income from business activity
- ▣ Business activity if:
 - Recurring
 - Intention to make a profit

Purchase Intention

- ▣ CB5: If property is purchased with intention to sell at a profit then pay tax on any profit (claim any loss)
- ▣ Intention to make a profit: onus on taxpayer to disprove
 - Have a business plan
 - Structure makes a difference
- ▣ Legislation provides guidance

- ▣ Land dealers
- ▣ Developers and subdividers
- ▣ Builders
- ▣ Zoning changes
- ▣ Residential rental

Land Dealers

- ▣ Dealer buys and sells land without making alteration CB6
- ▣ Any capital gain on sale within 10 years of purchase = taxable income
- ▣ Exceptions:
 - Own residence
 - Business use
 - As part of relationship property split

Developers

- ▣ Develops land CB8
- ▣ Any capital gain made on a sale within 10 years of purchase = taxable income
- ▣ Exceptions: as for land dealers

Builders

- ▣ CB 9
- ▣ Taxed on any gain if sold within 10 years of completing improvements or erecting a building on the land
- ▣ Builder not necessarily a land dealer so can sell a piece of land (with a building) without being taxed if no work done on it
- ▣ Same exemptions

Zoning Changes

- ▣ CB12
- ▣ If property owned less than 10 years, taxed on the whole gain if 20% or more of the profit is due to re-zoning or resource consent
- ▣ Profit reduced by 10% for each year the property has been owned prior to the change
- ▣ Useful to get a valuation before re-zoning change or resource consent granted
- ▣ Same exemptions

Subdividers - Minor

- ▣ CB 10
- ▣ Property owners who subdivide land within 10 years of acquisition taxed on any gain if the work is of more than a minor nature.
- ▣ Courts tough on this
- ▣ *Costello v C of IR (1994)*
- ▣ Subdivision commences with implementation (can include legal process for resource consent)
- ▣ Not taxed if property investor subdivides land to build rental units

Subdividers - Major

- ▣ CB 11
- ▣ Taxable if significant expenditure on earthworks and roading even if held more than 10 years
- ▣ However if held > 10 years pay tax on the profit from the subdivision only, not on the capital profit from the land
- ▣ Valuations important

Private Residence

- ▣ CB15
- ▣ Anyone can subdivide their own residential land without paying tax
- ▣ Beware of a pattern = business activity
- ▣ But not if property owned by a family trust

Associated Persons Rules

- ▣ A person can be tainted by an associated person who is engaged in building, land dealing , developing or subdivision activity
- ▣ Associated person : husband, wife, son, daughter, parent, business partner.
- ▣ New tighter rules from 1 April 2009?

Summary

- ▣ Liability to pay tax depends on intention
- ▣ Document
- ▣ Beware of associated persons rule