Deloitte.

Everyone is talking about tax

2018 Latest Tax Developments seminar

June 2018

Deloitte speakers

Melanie Meyer

Partner

Having worked exclusively in transfer pricing for over 16 years, my goal is to provide and implement pragmatic solutions to address opportunities and risks in cross-border activities. With the current heightened global awareness surrounding international profit shifting, I am passionate about using transfer pricing as a mechanism to assist businesses, particularly SMEs, to reach and expand their cross-border potential.

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Mark Lash

Partner

I am passionate about helping my clients realise their potential on a domestic and global stage, ensuring that tax is not an impediment to realising their aspirations. While my main focus areas are working with our private clients and with iwi to create value for the long term, I also work with a number of larger corporate organisations, meaning I can draw on those experiences to add value.

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Ian Fay

Partner

I enjoy helping my clients expand their businesses overseas and managing the inevitable tax challenges that arise. No matter what size a business is, from large corporates through to growing small to medium enterprises I am passionate about helping them reach their aspirations. Ultimately, what I do is find solutions that work best for the specific client – I don't use a one size fits all approach.

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Aaron Thorn

Partner

Aaron is a partner in our Christchurch tax practice and is Deloitte's National Research and Development Incentives Leader. Aaron has a deep experience in the manufacturing and technology fields. Aaron leads a national team of Tax legal, Technical Engineering staff, and R&D specialists experienced in foreign R&D regimes, ensuring a local and accessible R&D team who can help clients from across all key New Zealand industries.

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Robyn Walker

National Technical Director, Tax

I am the National Technical Director within the Tax Team at Deloitte in New Zealand. This involves many things, including preparing submissions on behalf of Deloitte and developing thought leadership in the area of tax. I like to think about how tax developments really impact on Deloitte's clients. I have a particular interest in tax policy and keeping up to date with all the many tax developments.

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Patrick McCalman

Partner

I enjoy helping my clients understand how tax impacts on their business, and the options they have for ensuring that the tax outcomes align with their business needs and aspirations. It's about making my advice real in the context of what they are trying to achieve, and helping them see both the opportunities and the risks that may arise and need to be managed. I work across a range of industries, drawing on my own client side experience to ensure that I give pragmatic, valuable advice.

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Presentation slides

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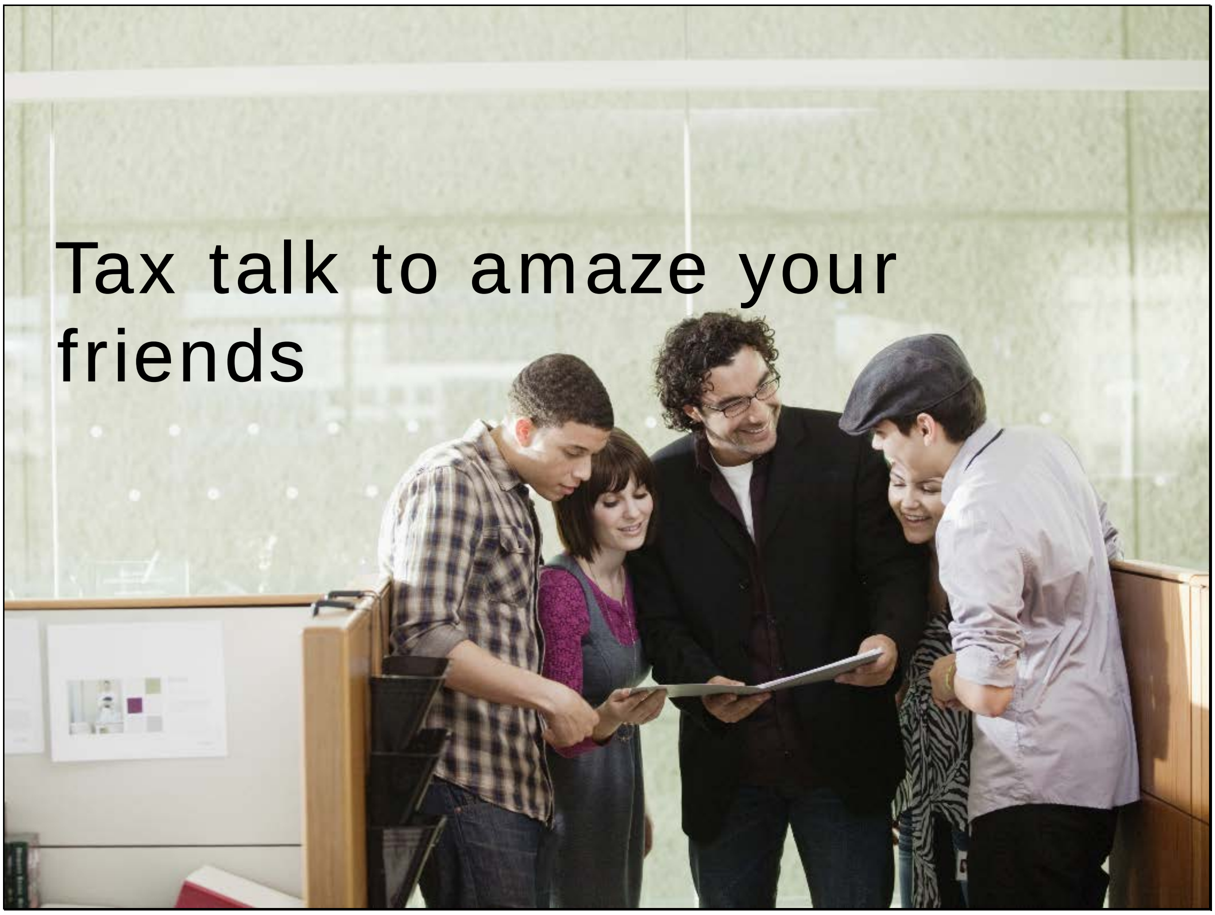

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GST on low value imported goods

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

The Government has announced that from 1 October 2019, non-resident retailers will be required to register for and charge New Zealand GST if they make supplies (or expect to make supplies) of low-value goods (goods valued at $400 or less) to New Zealand end consumers of NZ $60,000 or more in a 12-month period. Submissions close on 29 June 2018. These rules will also apply to online market places and re-deliverers.

Further information

Deloitte Insight (GST on low value goods)

Background Paper

Deloitte.

Tax Treatment of Cryptocurrency

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

In April 2018, Inland Revenue published guidance to say it considers cryptocurrency (e.g. Bitcoin, Ethereum) to be property for income tax purposes and that where this is acquired for the purpose of disposal (selling or exchanging it) the proceeds are taxable. Bitcoin and similar cryptocurrencies generally don't produce an income stream or provide any benefits, except when they're sold or exchanged. Inland Revenue states that cryptocurrencies also have similar characteristics to gold bullion and that QB 17/08 has relevance.

As yet no such statement has been made on GST treatment, which is arguably more complex. In Australia, sales and purchases of digital currency have not been subject to GST with effect from 1 July 2017.

Further information

Deloitte insight (Bitcoin – should you be worried about a tax bill?)

Inland Revenue Guidance

QB 17/08: Are proceeds from the sale of gold bullion income?

Deloitte.

Tax changes for properties

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

New rules were enacted on 29 March 2018 extend the period for the bright-line test for sales of residential land from two to five years. The five year rules will apply if a taxpayer first acquires an interest in the land on or after 29 March 2018.

Also on 29 March 2018, the Government released an officials' issues paper *Ring-fencing rental losses* outlining proposals to introduce loss ring-fencing on residential properties held by "speculators and investors." Once enacted, it will no longer be possible to offset tax losses from residential properties against other income (such as salary or wages, or business income) to reduce an overall income tax liability. In Budget 2018, it was forecast that this change will increase revenue by $325m over four years.

Further information

Deloitte Insight (Extension of bright line test to five years)

Deloitte Insight (Buyer beware ring fencing may be here)

Background Paper

Deloitte.

GST on assets sold by non-profit bodies

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

An officials' issues paper, *GST on assets sold by non-profit bodies*, released on 15 May 2018, sets out proposals to clarify the GST rules for the sale of assets by charities and other non-profit bodies.

The main proposal is to ensure that GST is paid on the sale of assets where input tax deductions have been claimed for costs related to the assets. This applies to insurance receipts and de-registrations, as well as asset sales. The proposed changes will apply from 15 May 2018, with a savings provision to preserve tax positions taken before this.

Further information

Deloitte Insight (A major GST change in the wind for non profit organisations)

Background Paper

Deloitte.

Employee share schemes

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

Changes to the tax treatment of employee share schemes have now become law. It is important for employers who offer these schemes and for employees who are enrolled in them to understand the way the rules will affect them, and how the transitional rules work. In addition, effective 1 April 2018, Inland Revenue has changed the way it would like ESS benefits to be reported.

Further information

Deloitte Insight (Employee share schemes its time to act)

Deloitte Insight (Employee share schemes – time to revisit loan and bonus arrangements)

Deloitte Insight (Further changes on reporting of employee share benefits)

May 2018 Special Report

Deloitte.

Reimbursement of employees' mileage costs

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

The rules have changed for those employers who have been using the Commissioner's published mileage rate as a reasonable estimate of costs to reimburse employees for the business use of their private vehicle. The flat mileage rate has been replaced with a more complicated two-tier set of kilometre rates which potentially means a lot more compliance for employers than is currently the case. Inland Revenue is required to set and publish kilometre rates, and has recently published a draft operational statement proposing a tiered rate method, although the actual rates had not been published (at time of printing this handout).

Further information

Deloitte Insight (New rule for employers reimbursing employees mileage costs)

Deloitte.

UOMI and Provisional tax rules

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

With effect for 2018 provisional tax, change were made to how UOMI applies. In most cases UOMI will only apply from the final instalment for taxpayers who commit to using the standard uplift method provided certain criteria are met. The safe harbour rule has also been extended to companies and trusts. If at the end of the year, actual RIT is less than $60,000, UOMI will only apply from terminal tax date, but only if all instalments have been made using the standard uplift method. While beneficial, these changes have resulted in a few changes to how provisional tax is managed and has given rise to some uncertainties in the past year.

An additional option for calculating provisional tax known as AIM (Accounting Income Method) is now operational for small businesses that use approved accounting software to prepare their accounts with effect from 1 April 2018.

Further information

Deloitte Insight (New use of money interest rules for provisional taxpayers)

Deloitte Insight (Will AIM be the right provisional tax method for you?)

Deloitte.

Payday filing of PAYE information

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

The current requirement for an employer monthly schedule (EMS) has been replaced from 1 April 2019, with a requirement that an employer sends 'employment income information' to Inland Revenue within a few days of each payday. Employers can voluntarily adopt payday reporting from 1 April 2018.

Employers should be starting to think about how these changes will affect them to be prepared.

Further information

Deloitte Insight (PAYE reporting proposals finalised)

Deloitte Insight (April Bill moves towards enactment)

May 2018 Special Report

Deloitte.

Dividend Stripping Revenue Alert

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

The Inland Revenue has released a Revenue Alert RA 18/01 “Dividend stripping – some share sales where proceeds are at a high risk of being treated as a dividend for income tax purposes”. This Alert identifies that Inland Revenue has concerns in certain circumstances where there is a sale of shares between related entities, in certain circumstances Inland Revenue considers that the sale proceeds should be treated as a dividend under the general avoidance rule in section BG 1 and also under a specific dividend stripping tax avoidance rule.

A recent case *Beacham v CIR (2014) 26 NZTC 21-111* involved a dividend stripping transaction.

Further information

Deloitte insight (The Commissioner’s power of reconstruction) :

Revenue Alert

Revenue Alert Q&A

Deloitte.

More data required when paying passive income

Tax talk to amaze your friends
Latest Tax developments 2018

Summary
With effect from 1 April 2019 (optional) or 1 April 2020 (compulsory) it will be necessary for payers of passive income to provide more regular and detailed information of passive income payments to Inland Revenue. The key changes is to require payers of interest (including interest on domestically issued debt subject to the approved issuer levy), dividends and taxable Maori authority distributions must provide investment income information to Inland Revenue by the 20th of the month following the month in which the income is paid.

"Investment income information" includes details of the income recipients name, contract address, IRD number, date of birth (if held), tax rate, the amount and type of income paid, the amount of tax withheld and associated imputation credits, and any further information required by the Commissioner. Where investments are jointly held, information must be provided for each owner.

Where an investor has not provided an interest payer with an IRD number the non-declaration rate of tax will increase from 33% to 45%.

Payers of passive income should be starting to think about how these changes will affect them to be prepared.

Further information

Deloitte Insight (Business transformation steamrolls on)

Inland Revenue Tax Information Bulletin (pages 29-40)

Deloitte.

GST adjustment on entertainment

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

To the extent that entertainment expenditure is non-deductible, a supply is deemed to take place for GST purposes. As a result, an output tax adjustment should be included in the company's GST return which will cover the date on which this income tax return is filed or the GST return that covers the final 31 March filing date for a taxpayer with an extension of time, whichever is the earlier.

From 1 April 2018, the law changed so that the non-deductible GST adjustment is 15% (rather than 3/23rds) of the non-deductible entertainment amount. This is on the basis that non-deductible entertainment expenditure has previously been deemed to be GST inclusive, however from 1 April 2018 it is to be treated as GST exclusive.

Further information

Deloitte Insight (Don't forget your GST entertainment expenditure adjustment)

Deloitte.

BEPS rules will apply from 1 July 2018

Tax talk to amaze your friends
Latest Tax developments 2018

Summary

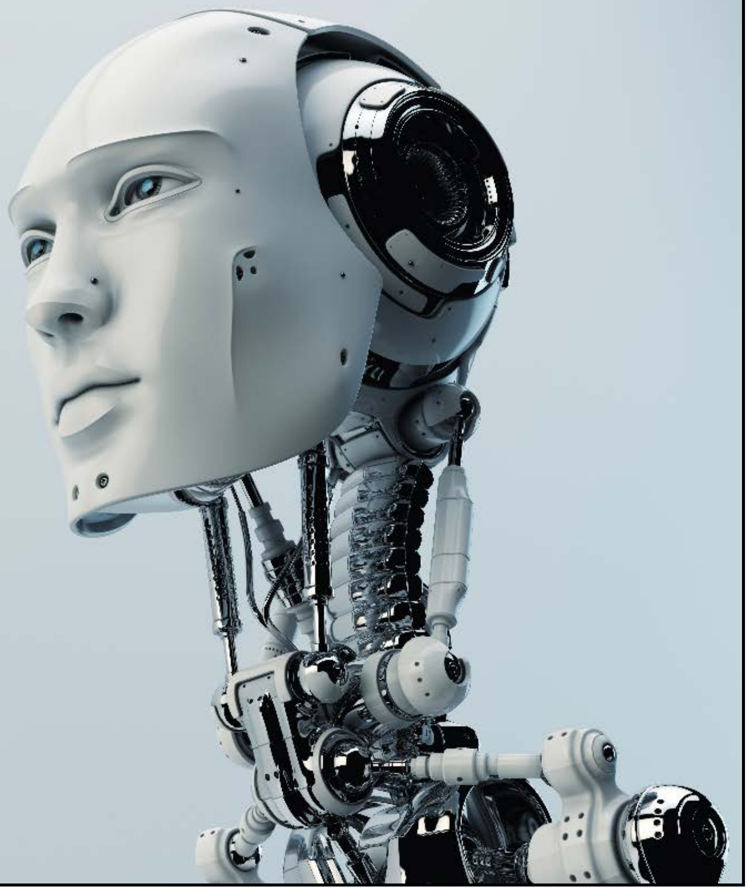
Changes to New Zealand's debt pricing, thin capitalisation calculations and permanent establishment rules, among other things, are now almost law. The new rules will generally apply to income years starting on or after 1 July 2018. Key points to note are:

- Related party debt pricing will be subject to greater restrictions than it has been in the past.
- Many companies currently complying with the thin cap rules could fall foul of them under new calculation rules
- Large multinationals might find they have a permanent establishment under these new rules
- Some common situations (e.g. branch operations, limited partnerships, unlimited liability companies that are treated differently in other jurisdictions, dual resident entities and certain types of hybrid financial instruments) will be soon caught by new hybrid and branch mismatch rules.

Further information

[Deloitte Insights](#) (Parliament reports back on BEPS changes)

Back to the Future – R&D



Trading places

- **Out:** Callaghan Innovation 20% Growth Grant
- **In:** 12.5% R&D Tax Incentive
- Growth Grant transition until 31 March 2020

Why?

The Government has committed to increasing R&D expenditure to 2% of GDP over 10 years (currently 1.28%)

Private R&D is financially risky for businesses and returns are not guaranteed

But, the benefits to the economy are wide:

- Innovative products are profitable
- Improves employees skills and employment
- New Zealand remains internationally competitive
- Retention of key industries and resources in New Zealand
- Better manufacturing infrastructure

So what's on offer?

- 12.5% tax credit
- If you spend more than $100k, up to $120m
- Tax benefit up to $15m, with ability to apply for more
- Imputation credits
- Rules will apply from 1 April 2019

What's in it for your business?

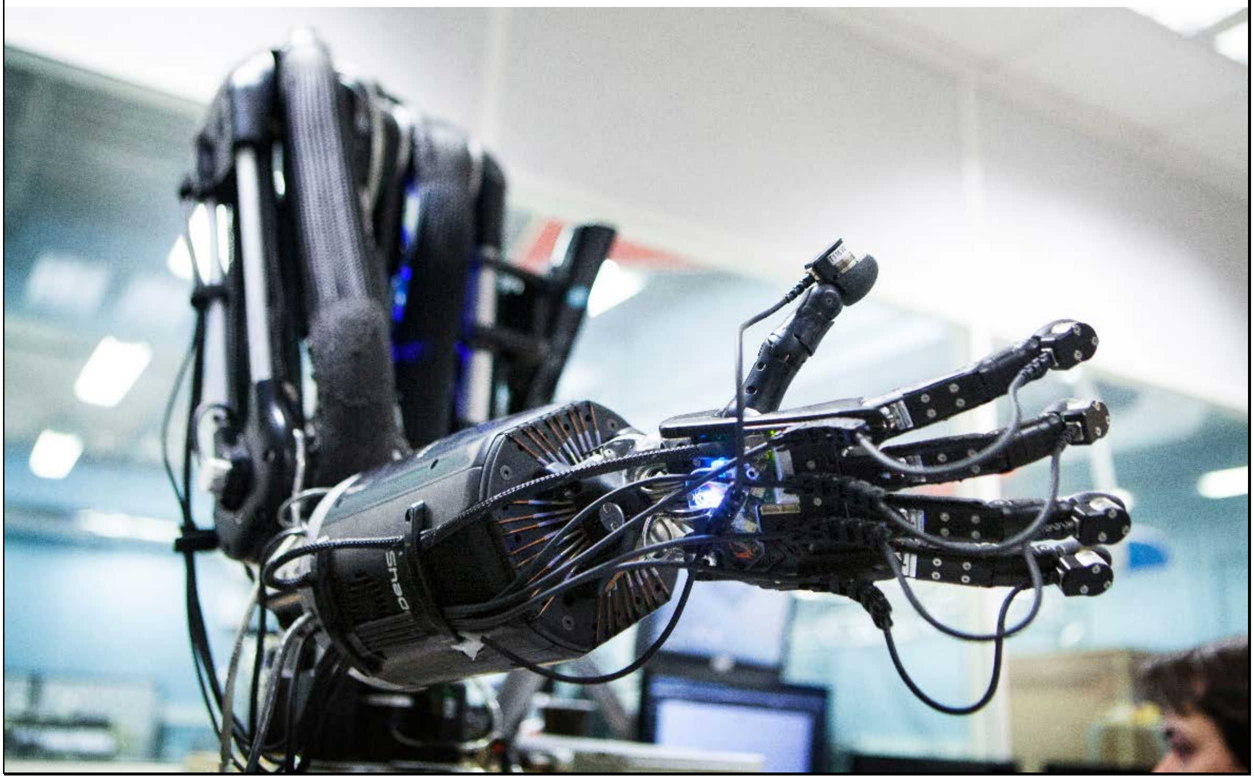
R&D expenditure	$1,000,000
Normal tax deduction @ 28%	(280,000)
R&D tax credit @ 12.5%	(125,000)
Cost of R&D	595,000
Effective cost of R&D investment	**59.5%**

i.e. the Government will fund 40.5% of R&D costs

The credit is non-refundable but can be carried forward (further work will be undertaken on how to support businesses in tax losses)

$1 of tax credit = $1 imputation credit

What is R&D, is it more than robots?



Definition

Core activities:

i) Those conducted using **scientific methods**

ii) that are performed for the **purposes** of acquiring new knowledge or creating new or improved materials, products, devices, processes, or services

iii) that are intended to advance science or technology through the resolution of **scientific or technological uncertainty**

Support activities:

Those that are wholly or mainly for the purpose of, required for, and integral to, the performing of the “core activities”

What’s in and out?

- Ineligible entities
- Excluded activities
- Eligible costs
- Ineligible costs

There are some fishhooks…

- R&D Credit is non-refundable – this doesn't help businesses with losses (yet)
- Overseas spend
- Eligibility requirements
  - Control
  - Financial risk
  - Effective ownership in NZ
- Dual purpose and commercial returns
- Software development

Getting ready

- Legislation expected in September
- Start planning now to maximise your R&D claim
- Think about project identification and documentation

To the Future

Tax Policy Work Programme

- Highlights

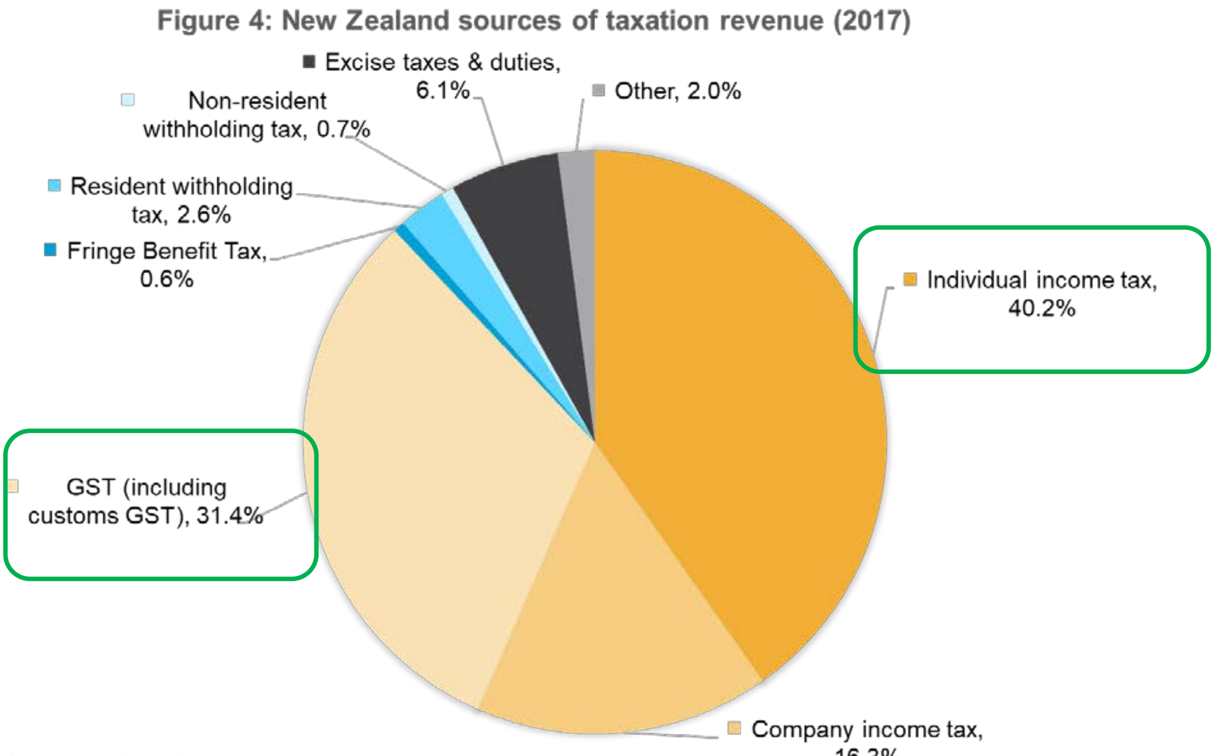
- Lowlights

Tax Working Group

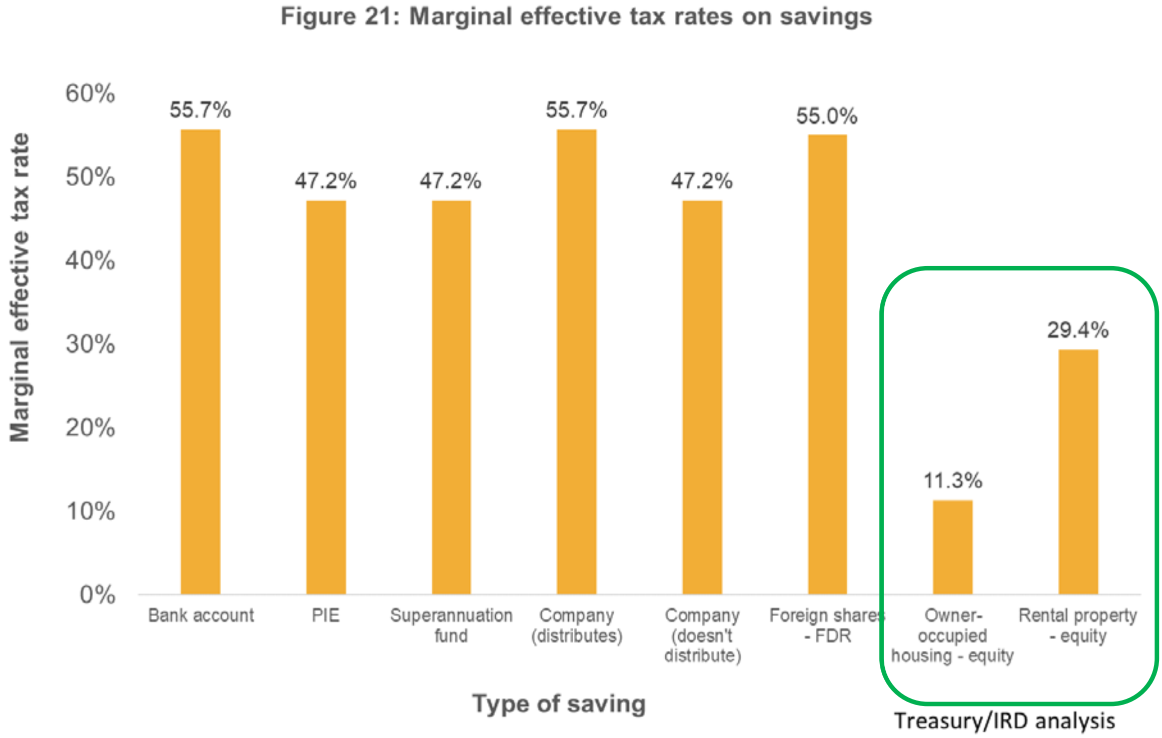
Who are they and what are they doing?

Exclusions

- Increasing tax rates
- Increasing GST
- Inheritance tax
- Anything to do with the family home and the land under it
- The interaction with the welfare system



Source: The Treasury



Treasury/IRD analysis

Is Capital Gains Tax the solution?

- When would tax be payable?
- Would it be at a lower rate?
- Roll over relief?
- What about artwork or boats or holiday homes?
- What about my KiwiSaver account?
- Should everything just be put in a trust?

International developments

- US
- Australia
- Europe
- What does this mean for NZ?