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Everyone is talking about tax

2018 Latest Tax Developments seminar

June 2018

Deloitte speakers

Annamaria Maclean

Partner

Annamaria is a partner in the Auckland office and is in Deloitte's Corporate International team. She has extensive experience in tax and has spent over 3 years as the Tax Manager at a large New Zealand listed corporate. She has assisted clients across many industries with all aspects of tax compliance and tax consulting with a particular focus on tax issues affecting New Zealand corporates and the application of New Zealand's international tax rules.

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Allan Bullot

Partner

Allan is a partner in the Auckland office and leads Deloitte's GST team. He has over 20 years' experience exclusively in GST and indirect taxes. He has practised in both New Zealand and Canada. Allan has assisted clients with all aspects of GST including risk reviews, planning, disputes with Inland Revenue and assisting in obtaining significant GST refunds for clients in a number of industries. He has been listed in the International Tax Review Leaders Guide for a number of years and co-presents the GST paper at the Master of Taxation Studies Course at Auckland University.

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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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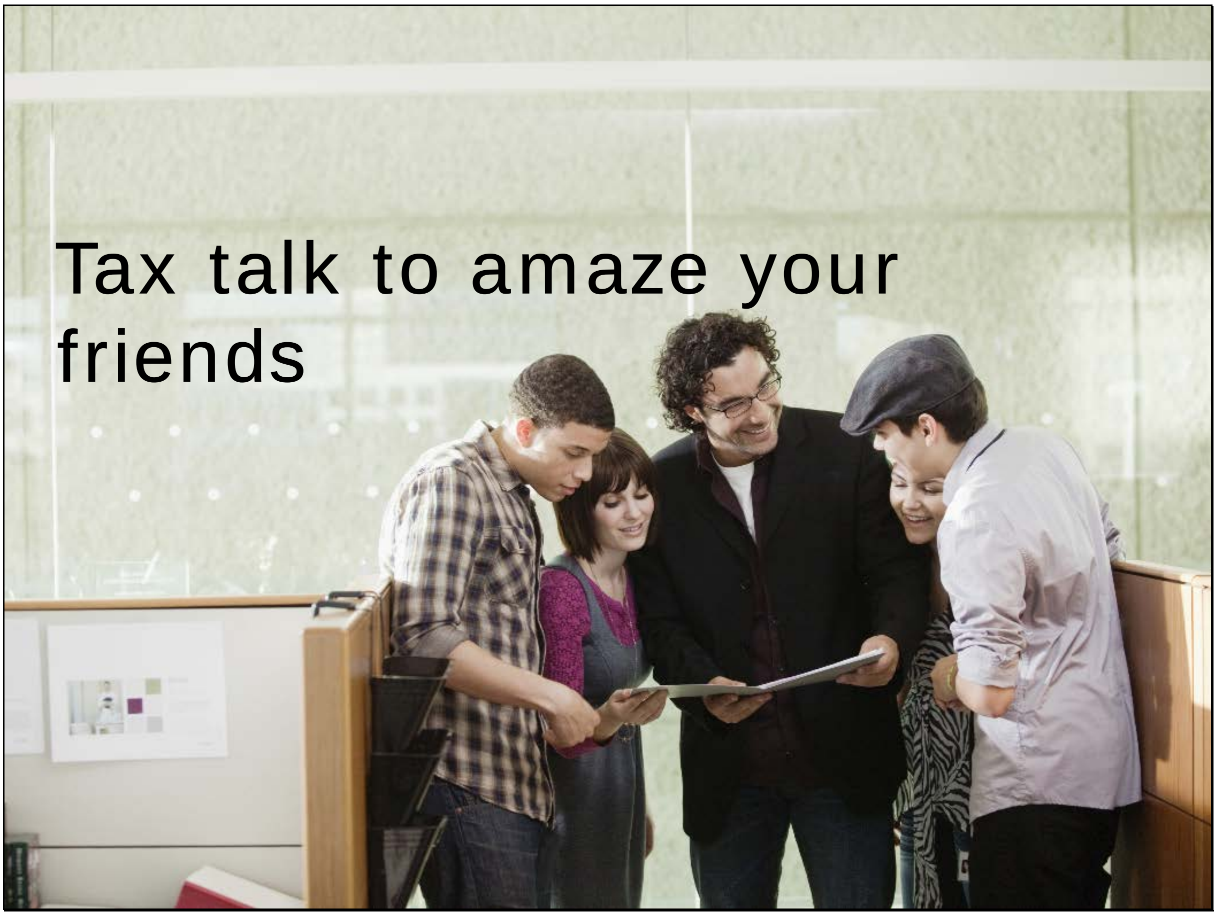
Presentation slides



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Tax Working Group

Tax talk to amaze your friends
Latest Tax developments 2018

Summary
The Tax Working Group (The Group) was established by the Government to examine further improvements to the structure, fairness and balance of the tax system. The Group's terms of reference provide some specific areas for consideration, including whether New Zealand should introduce a **capital gains tax** (CGT).

Over 6,700 submissions were received by the closing date on 30 April 2018. An interim report is expected in September 2018 before issuing final recommendations in February 2019. Recommendations adopted by Government will go through full generic tax policy process and will be included in legislation prior to the 2020 election, although not come into force until after the election.

Further information

Deloitte Insight (Tax Working Group submissions are open)

Background Paper

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?

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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 5 years)

Deloitte Insight (Buyer beware – ring fencing may be here)

Background Paper

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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 (Is AIM the right provisional tax method for you?)

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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 expenditure adjustment)

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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 – it's 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.

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

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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)

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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

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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.

Tax implications of changing accounting standards

Tax talk to amaze your friends

Latest Tax developments 2018

Summary

It will be important to understand how changed financial reporting standards such as NZ IFRS 15 Revenue from contracts with customers, NZ IFRS 9 Financial instruments, NZ IFRS 16 Leases, NZ IFRIC 23 Uncertainty over income tax treatments and NZ IFRS 17 Insurance contracts could affect the income tax calculation. For example, with regard to the new standard NZ IFRS 15 on revenue recognition, it is possible for issues to arise on transition where amounts are recognised under old GAAP in the immediately preceding income year where the new standard requires that income to be recognised in the year of adoption, hence in this case income could be double counted. For these standards, it will be important to:

- understand the accounting treatment under the new accounting standards
- make sure nothing gets missed on transition
- determine whether the tax treatment can follow the accounting treatment.

Further information

Deloitte Insights (Dealing with uncertain tax position in your accounts)

Deloitte Insights (Accounting Alert)

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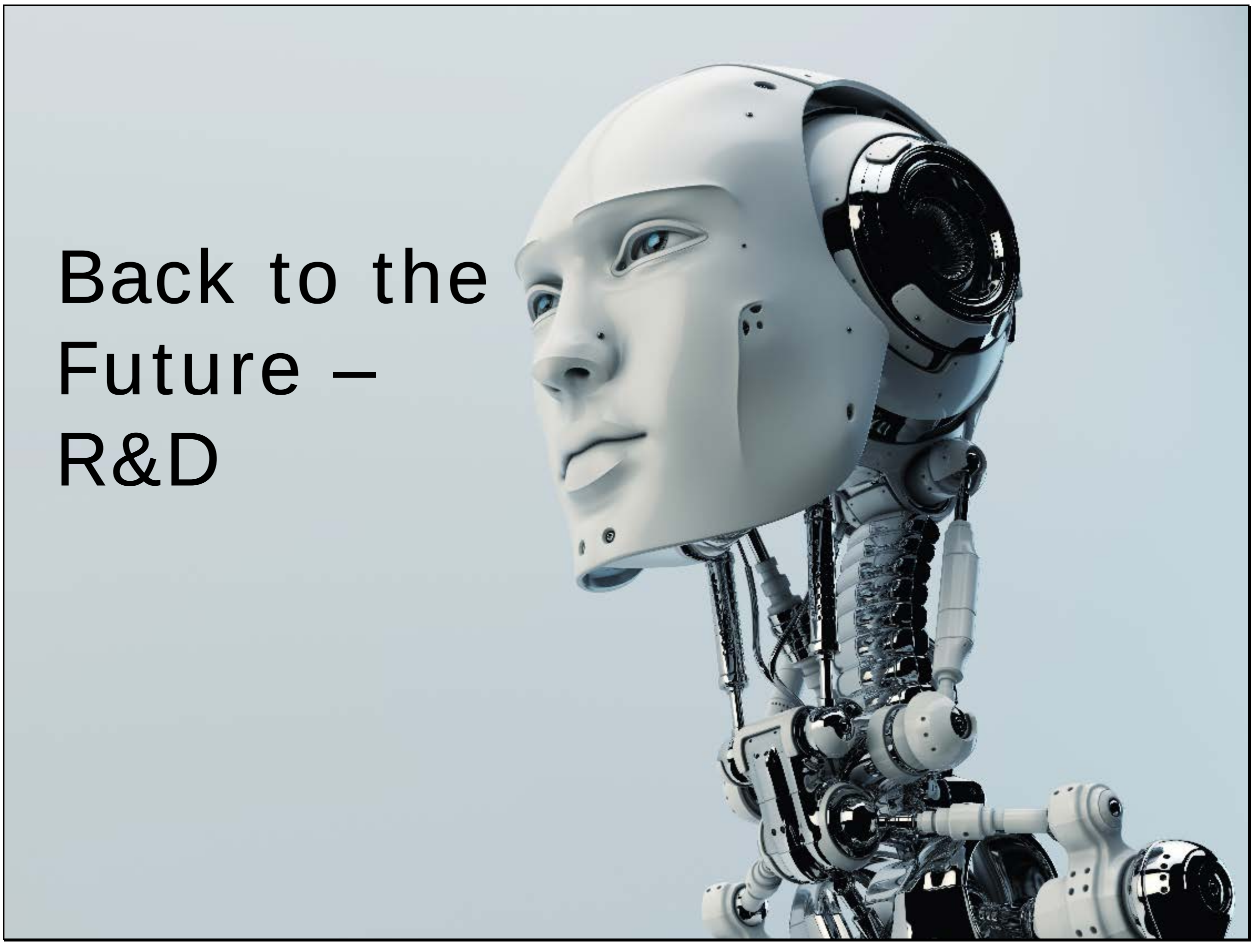
BEPS rules will apply from 1 July 2018

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.

- 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?

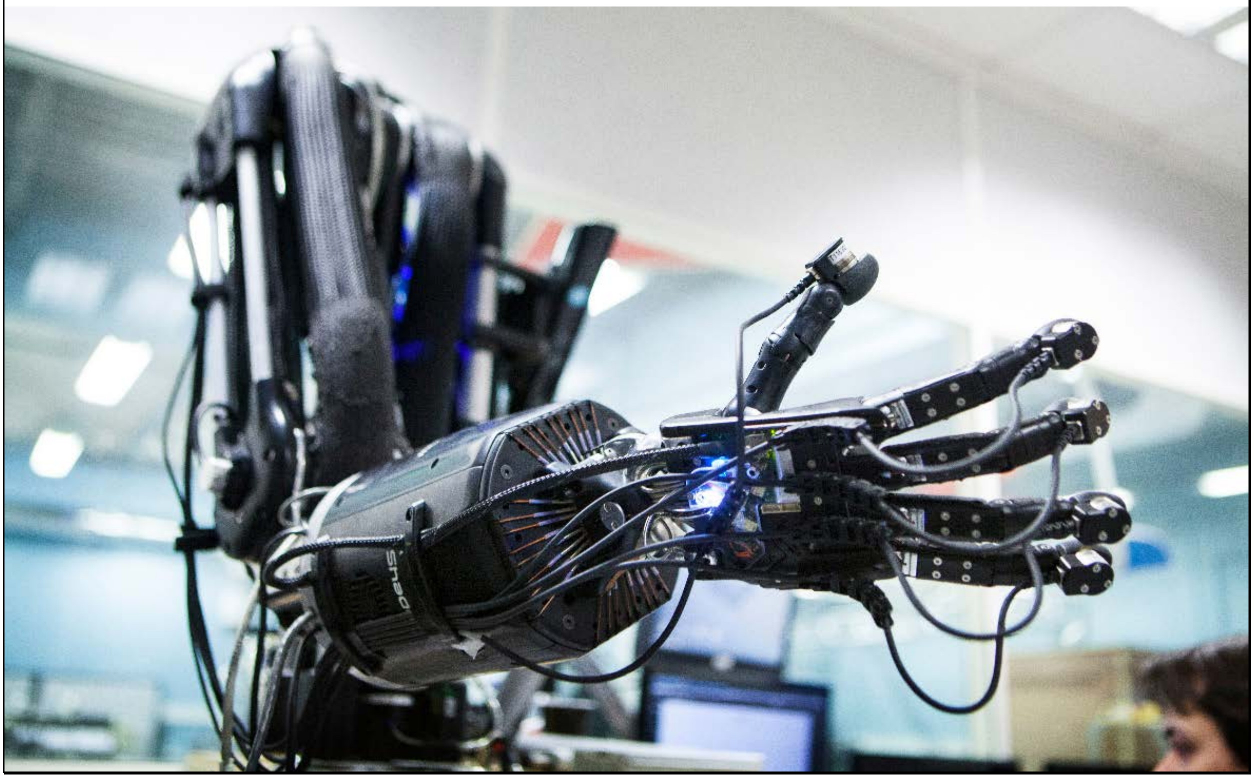
R&D expenditure	$1,000,000
Normal tax deduction @ 28%	(280,000)
R&D tax credit @ 12.5%	(125,000)
Cost of R&D	595,000
Effective cost of R&D investment	**59.5%**

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