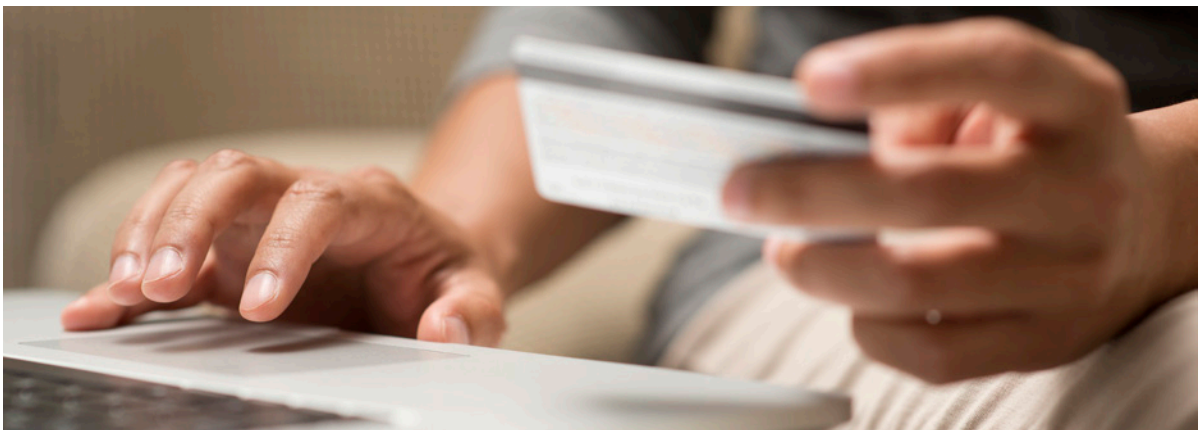
Tax Alert

A focus on topical tax issues – August 2015



In this issue

GST: Online purchases – What will be caught and when?

By Allan Bullot and Sam Hornbrook

GST and online purchases of goods and services has been a topic attracting much commentary lately around the world as the importance of this often "untaxed" area of commerce increases. In New Zealand, the Minister of Revenue released a discussion document entitled "GST: Cross-border services, intangibles and goods" on 18th August 2015. The discussion document focuses on the collection of GST on "remote" services – services and intangibles (including digital downloads) supplied remotely by an offshore supplier to New Zealand-resident consumers. GST on the purchases of goods online from overseas is briefly considered in the discussion document, but while the issue is mentioned, it is seen by Inland Revenue as a "phase 2" issue, with services being the area that will have GST changes made first.

However, in addition to this, there have also been some very interesting developments in relation to the importation of goods into Australia. These developments have significant impact on the potential future landscape surrounding imports into New Zealand.

No specific implementation dates are included in the discussion document, but Inland Revenue is likely to want the changes for GST and imported services to take effect from some time in 2016. We consider that such a timeframe may be ambitious, particularly when suppliers' own internal development lead time is considered. Instead we consider thought should be given to a July 2017 timeframe to align any New Zealand changes with Australia's own start dates in this area.

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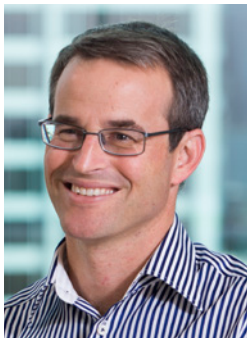

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Changes to GST on "remote" services for New Zealand

The proposed new rules for GST on imported services for New Zealand will operate as follows:

- "Remote" services supplied to New Zealand-resident consumers will be treated as being performed in New Zealand and subject to GST.
- A wide definition of "services" is proposed, which will include both digital services (downloads etc.) and more traditional services (such as consultancy and advice).
- Offshore suppliers will be required to register and return GST if their supplies of services to New Zealand-resident consumers exceed a given threshold in a 12-month period. The threshold has not been set yet, but values of $10,000 per annum and $60,000 per annum are discussed.
- As electronic marketplaces such as online app stores are generally in a better position to register and return GST on supplies compared with the underlying supplier, they may be required to register for GST instead of the principal supplier registering.
- It is the preference of the Minister of Revenue that these proposals will only apply to business-to-consumer transactions, and not business-to-business transactions.
- Significant fines, of up to $50,000, would apply to New Zealand resident consumers that represent to an overseas services supplier that they are a business.

Submissions on the discussion document can be made until 25 September 2015.

The rules need to work efficiently and effectively in the real world

As noted earlier, in some circumstances an electronic marketplace may be treated as the supplier and be required to register for GST. This will be in situations where customers would normally consider the marketplace to be the supplier, and this is reflected in the contractual arrangements between the parties. This is a significant change from the normal manner in which GST operates, as the GST rules will be ignoring the legal structure of the agent / principal relationships of the parties. However it is closely following the approach that Australia is to adopt from July 2017 for services imported by Australian consumers. This is a pragmatic response to the issue of many small international suppliers operating through a central market place.

Several different options for offshore suppliers to register for New Zealand GST are being considered. These include the existing domestic registration system, a pay-only registration system, or a regional system involving only having to register for GST in one jurisdiction out of a group, similar to how the European Union operates.

The Deloitte View

Overall we consider the discussion document is drafted in a pragmatic way that provides for a number of different options and is at least asking the right questions in this difficult area. Once the parameters have been pinned down, we will have a clearer picture of any likely hurdles to implementation, and there may be many.

The challenge will be to ensure that the final form of the GST legislation is able to work in an efficient and effective manner in the real world. This needs to be in a manner that allows for the collection of GST, without needlessly imposing costs or delays on New Zealand consumers or foreign suppliers, and importantly does not lead to some foreign businesses deciding not to supply to the New Zealand market if we become too difficult to deal with. >>

Based on international experience we would expect the large established international suppliers of services to agree to register for GST and to collect GST on sales to New Zealand consumers. However smaller suppliers may take longer to comply, if they comply at all. Given that realistically there is a low chance of non-resident suppliers who only have a small volume of sales into New Zealand complying, we strongly recommend that the GST registration threshold be set in line with the domestic registration of $60,000 per annual. Countries that have set their registration threshold for imported services too low are experiencing significant practical compliance issues and we understand some are considering raising their GST registration threshold levels.

Recent Australian developments

In their budget announcements earlier in the year, Australia announced changes to require non-resident suppliers of services into Australia to register for GST from 1 July 2017, in a manner that is broadly similar to the New Zealand approach discussed above. There are some differences in the detail, but the broad thrust of the changes is consistent.

In late August it was announced that from July 2017 the Australian GST threshold for imported goods will be reduced to zero (down from $1,000) for any non-resident supplier who sells over AUD$75,000 of goods into Australia. These large non-resident suppliers will be required to register for GST and charge GST at source (i.e. when the Australian consumer orders the goods they will be charged GST).

For all non-Australian suppliers who make less than this threshold limit, business will continue as usual. That is, the AUD $1,000 per shipment GST threshold will still remain in place, so it is somewhat misleading to think of the Australian changes as simply a reduction in the GST threshold from $1,000 to zero. However we view the proposal as a very pragmatic approach. It is essentially targeted at the very big suppliers who supply millions of dollars' worth of goods into Australia, rather than companies that may be just above or below the AUD$75,000 threshold level. Australia will continue to have many goods purchased online arriving without GST being charged on them, provided the individual parcels are under AUD$1,000. However the "80/20 rule" may well apply here and the proposal is a pragmatic attempt to collect some additional GST that is currently not being caught, without imposing a system that will have compliance costs for the parties that exceed the GST collected.

Australian treasury officials have acknowledged that this is the strongly preferred option, although more work is needed to work through the proposals. New Zealand officials will be watching developments very closely and we consider that they should seriously consider the Australian approach. If an equivalent approach was adopted in New Zealand, then we would expect non-residents who are supplying more than NZD$60,000 worth of goods per annum into New Zealand to be required to register for New Zealand GST. We would also expect them to be required to charge New Zealand GST at source online to New Zealand consumers, regardless of the value of the individual parcel. >>

However, there would be no change to the current GST/duty threshold of $60 (i.e. $400 of goods if no duty) for smaller suppliers.

While this approach of only forcing non-resident suppliers of online purchased goods to register if their online sales into a country are over the domestic GST registration threshold is lacking a certain degree of consistency at a policy level, it is brutally pragmatic and that may be what is needed as a first phase for GST and online commerce. It allows for the large non-residents supplying online goods into New Zealand to be brought within the New Zealand GST net, while potentially not imposing overly excessive additional costs on the New Zealand postal, courier and customs systems.

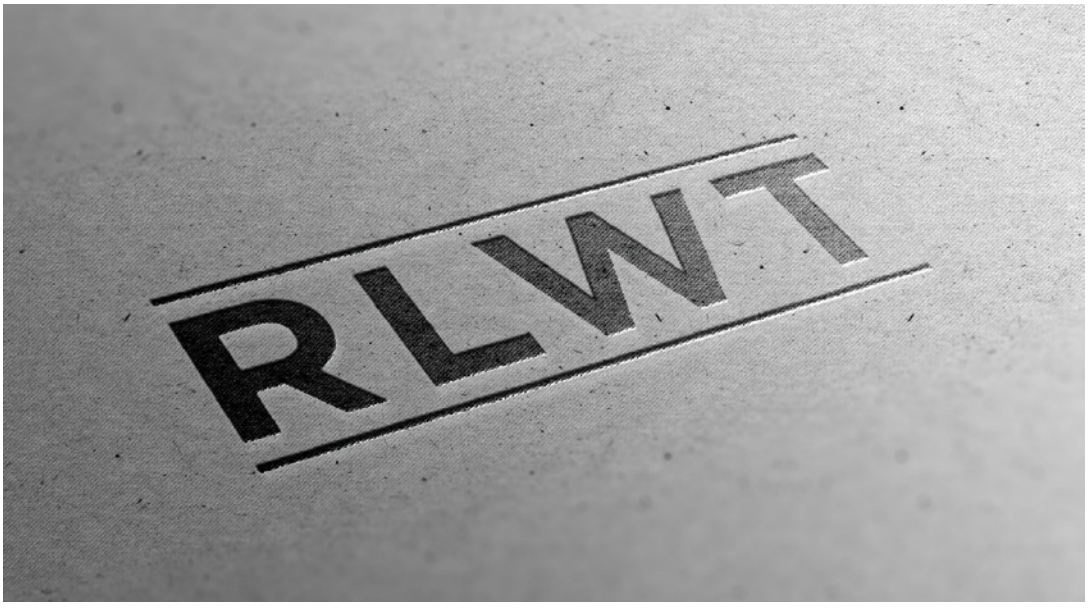
New Zealand policy officials will be watching Australian developments closely

It will also be interesting to see what the possibility is of some form of joint GST registration approach for both Australia and New Zealand for non-resident suppliers. If New Zealand does go down that route, then we would have to expect a start date of 1 July 2017 for these changes, as it is unlikely that Australia would change their timing to suit us.

In terms of the suppliers playing ball and registering for GST, we do need to be realistic and accept that it is more likely that they would comply for both Australia and New Zealand, than just for New Zealand.

There are likely to be significant further developments in the details of these various proposals for online purchases of goods and services before they come into force. Businesses directly impacted by these changes, either in New Zealand, Australia or the wider international context, will need to consider how they will react to the various changes, some of which may come into force with relatively little notice.

Resident land withholding tax proposals announced and a new acronym to learn



Budget 2015 announced measures to ensure that people buying and selling residential property for a profit pay their fair share of tax, and proposed a new two-year bright-line test for the sale of residential property. So far we have had an **issues paper** outlining how the bright-line test will work, draft legislation to enable Inland Revenue to collect more information about people who are dealing in land and draft legislation to bring the bright-line proposals into law (see our other article in this issue). And now this week, the Government has released another **Officials' issues paper** seeking feedback on proposals for a residential land withholding tax. There is now a new acronym to learn - "RLWT" which stands for resident land withholding tax. The paper suggests introducing a requirement for a RLWT to be withheld on the sale by an offshore seller of residential land in New Zealand which is subject to the bright-line test.

When would RLWT apply?

It is proposed the RLWT would come into effect from 1 July 2016 when:

- The seller is an "offshore person". This can include non-individuals;
- The property being sold is "residential land"; and
- The property is sold within two years of acquisition (i.e. the property is subject to the proposed bright-line test for residential property).

We note that while the proposed bright-line test would apply to residential land regardless of the geographic location, Inland Revenue has suggested that the RLWT be restricted to residential land in New Zealand.

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RLWT rate

The issues paper proposes that RLWT should be withheld at a rate that is the lower of:

- The standard rate: 33% of the seller's gain (the difference between the purchase price and vendor's acquisition price); or
- The default rate: 10% of the total purchase price.

Under the standard option, no deductions other than the vendor's acquisition price will be allowed to calculate the gain. The default rate would apply in situations where the conveyancing agent cannot calculate the standard rate because there is insufficient information regarding the acquisition price, or there is no acquisition price.

Who is liable to withhold?

In most property transactions, conveyancers or solicitors will be used by the buyer and/or seller. The paper proposes that these conveyancers and solicitors will be required to act as withholding agents and withhold RLWT on affected transactions where settlement occurs on or after 1 July 2016. Officials suggest the preferred option is for the primary obligation to fall on the buyer's conveyancing agent, with a secondary obligation falling on the seller's conveyancing agent if the buyer's conveyancing agent fails to withhold the correct amount.

The proposals place significant compliance obligations on withholding agents who will need to:

- Register as an RLWT withholding agent;
- Confirm whether the seller is an offshore person and whether the RLWT applies;
- Calculate whether the standard or default withholding rate applies;
- Withhold the RLWT amount at the time of settlement;
- Pay the withheld amount of RLWT to Inland Revenue; and
- Provide the required information in a form approved by the Commissioner at the time of payment.

The paper canvasses options for agents to pay over withheld RLWT amounts to Inland Revenue on a transaction by transaction basis, or for those who handle large volumes of transactions, on a monthly basis. It is further noted that the Government suggests monetary penalties should be imposed on the withholding agent where there is a failure to withhold and pay over the RLWT.

Officials also state that the withholding and priority of RLWT should occur before payments are made in relation to the property (such as rates, repayment of the seller's mortgage etc).

Credit for RLWT paid

For the offshore person, the RLWT will not be a final tax. The seller will be obliged to return the profit/losses in their annual income tax return and claim a tax credit for RLWT withheld. Where the RLWT results in over-taxation, a refund may be issued to the offshore person. In other words, the Government wants the tax deducted first, and then the onus will be on the offshore seller to file a tax return to claim a refund.

Conclusion

The closing date for submissions is 2 October 2015. If you have any questions in relation to the above or wish to explore the details further, please don't hesitate in contacting your usual Deloitte advisor.

Draft legislation provides detail on bright-line test for residential land sales

On 24 August 2015, the **Taxation (Bright-line Test for Residential Land) Bill** was introduced into Parliament. This follows consideration of submissions made on the **Officials' issues paper** "Bright-line test for sales of residential property" released on 29 June 2015 subsequent to the Budget 2015 announcements.

The main feature of this Bill is the proposed new objective bright-line test for land sales which will impose income tax on any gains from residential property acquired and disposed of within two years. An exception is provided where the disposal is of a person's "main home" as defined. The bill essentially follows the **proposals** in the issues paper with some refinement based on submissions. Key features of the new rules are:

- The 2-year period for the bright-line test runs from the date of acquisition of the land to the date of disposal. The date of acquisition is the latest date on which the person acquires an estate or interest in land (generally the date the instrument to transfer the land to the person is registered for the purchase of the property);
- The draft legislation makes it clear that the rules will also apply to disposals of residential land outside New Zealand. For example, if a New Zealand resident purchases an Australian rental property after 1 October 2015 and disposes of it within the two years, this would appear to be subject to tax in New Zealand under the bright line test;
- Deductions in relation to losses from disposals can only be used against other income arising from prescribed income tax provisions in relation to property; and
- All existing property will be grandparented. That is, property acquired before 1 October 2015 will not be subject to the proposed rules.

Please contact your usual Deloitte advisor for more information.

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Inland Revenue clarifies "clarifying legislation" on acquisition date of land

By Phil Stevenson and Aran Bailey

Inland Revenue have issued an exposure draft PUB00220 *Income Tax – Date of Acquisition of Land.*

This is the latest in a long line of documents about determining when land is acquired for the purposes of the land taxing provisions in the Income Tax Act 2007 ("the Act").

The date of acquisition is important because many of the taxing provisions require an assessment of the taxpayer's intention for the land at the time of acquisition. Other provisions apply only if land is disposed of and land related activity has occurred within a 10 year period (e.g. a scheme of development or division of the land commences within 10 years of acquiring the land). Accordingly, we need to know at what point the land is actually acquired.

With the overheating property market in Auckland and other buoyant markets throughout the rest of the country, such as Queenstown, the potential for large gains from the disposal of land exists. Inland Revenue have an increasingly well-resourced Property Compliance Unit who have been paying close attention to taxpayers' intentions with respect to their land transactions and finding the correct point in time to measure those intentions remains a point of contention. >>

The date of acquisition is particularly important where a section is purchased in a subdivision "off the plans" subject to title later being issued. A substantial period of time may pass between the agreement being signed up and title being available. During this period a taxpayer's purpose or intention can change (for example, a couple who purchase a section with the intention of building and retiring there, however an unexpected injury or illness requires a change in plans and the couple decide to on sell the section). At the time of signing the agreement there was no purpose or intention of disposal, however, at the time of title becoming available the couple intended to dispose of the property. If the later time is considered the date of acquisition the sale proceeds would become taxable.

Taxpayers would have been better served if the amending legislation had been better drafted

Until recently, most tax advisors would have been reasonably comfortable advising their clients as to when land was acquired for the established land taxing provisions. There was case law establishing that an equitable interest in the land was sufficient and therefore it was generally understood that land was acquired when an agreement to purchase the land becomes unconditional. This is the logical time to assess the purpose or intention given that this is the time when the purchaser commits to purchase the land.

However, Inland Revenue started adopting a different interpretation of when land was acquired arguing that a taxpayer acquires different interests in land at various points in time and that the relevant time to consider the taxpayer's purpose or intention is determined by the interest that is being disposed of. Where a section was bought subject to title, the date of acquisition was deemed to be the date that title passed to the purchaser. Inland Revenue's view lead to the Department seeking to reassess the tax returns for the typical couple scenario described above. After extensive debate, Inland Revenue consulted the public by issuing a discussion document as part of Budget 2013 and then proceeding with legislative changes. Section CB 15B of the Act was enacted with effect from 22 November, 2013.

Section CB 15B provides a general rule for when land is acquired, being:

"(1) For the purposes of this subpart, a person acquires an estate, interest, or option that is land (the land) on the date that begins a period in which the person has an estate or interest in, or an option to acquire, the land, alone or jointly or in common with another person."

The stated intention of the section was to clarify the position and confirm that a taxpayer's purpose or intention should generally be tested at the date a binding agreement is entered into. However, this could not be construed by reading the provision and the clarification could only be found in the accompanying officials' report.

In our February 2014 Tax Alert we noted that we did not think that section CB 15B would provide the intended clarity. When submitting on the amending legislation we suggested that, if the amendment was to proceed, the details contained in the officials' report needed to be included in the legislation. We suggested that the legislation specifically set out that land is acquired by the purchaser when a binding agreement is entered into and also define what constitutes a binding agreement (rather than leaving this fundamental content to the officials' report which is much less authoritative). >>

Officials failed to heed our advice and have now issued the current exposure draft (PUB 00220), stating that the exposure draft has been issued because:

"It has been suggested that further clarity on how the new provision operates would be useful. In particular, we have been asked to confirm when the Commissioner considers that an estate or interest in land will arise for the purposes of s CB 15B…"

The problem with providing clarification by way of exposure draft rather than actually providing clear and unambiguous legislation is that officials can change a taxpayer's outcome simply by revising their published interpretation statements. Taxpayers would have been much better served and would have more comfort with their tax positions if the amending legislation had been better drafted.

The draft will need to be revised and qualified once the bright-line test is enacted.

The conclusion is that a purchaser has an equitable interest in land from the time a binding contract exists, even if it is conditional. This is when equitable remedies are available to protect the purchaser's rights under the contract, though specific performance in the strict sense may not yet be available. This is earlier than what practitioners previously understood the position to be. An agreement subject to conditions (such as finance or building reports) will still trigger acquisition under the exposure draft as long as the agreement is binding.

However, just as some resolution emerges from this unnecessary and protracted process the recently proposed bright-line test appears. The bright-line test will apply to residential land disposed of within 2 years of acquisition and it is intended to help cool the overheated markets by taxing disposals occurring in the 2 year window. The date of acquisition will have a completely different test to the one contained in the exposure draft for determining when land is acquired for the existing land taxing provisions in the Act.

The date of acquisition proposed for the bright-line test will generally be the date of registration of title because it provides a definitive date, which is recorded independently by Landonline, and can be used by buyers and sellers for withholding tax purposes. Tax professionals are questioning the logic of this approach which is inconsistent with the exposure draft. It is fair to say the current proposals do nothing to simplify the answer for taxpayers who want to work out for themselves when they acquired their land for tax purposes

Additionally, persons like the couple in the scenario above, buying off the plans but having a change in circumstances, may find themselves back in a tax paying position. All the work to get to the sensible answer with section CB 15B is undone, if the 2 year bright-line period cannot start until title is registered. People in this position will now find themselves casualties of the attempt to cool the Auckland housing market.

Deadline for comment on the exposure draft is 17 September 2015. However, don't expect to see the exposure draft finalised in the same form. Officials have already indicated that it will be revised and qualified once the bright-line test is enacted.

Business Transformation and the rise of tax pooling

By Iain Bradley and Paul Dixon

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Inland Revenue (IR) have released two papers recently outlining the proposed Business Transformation Process and seeking input from taxpayers on the suggestions and questions outlined therein. These papers are:

- Better Digital Services Paper; and
- "Making Tax Simpler" Green Paper.

This article looks at the potential greater use of tax pooling and how tax pooling factors into the business taxation section of the Green Paper and the Green Paper's proposed re-think of the provisional tax system (referred to in the Green Paper as "business taxation").

Business Taxation Transformation

The Green Paper sets out reasons why the current provisional tax system is not working. The issues that taxpayers face were identified as:

- High use of money interest exposure;
- Cash flow concerns; and
- Compliance costs.

The Green Paper also discusses potential changes / overhaul of the provisional tax system to alleviate these issues. As a solution it is suggested that the "payment of business income tax could be done more "on account" as income is earned during the year – much like a PAYE system for businesses." Additionally, the Green Paper considers whether the calculation of provisional tax could be changed to be calculated in accordance with:

- Accounting profits (after being adjusted for key non-taxable items); or
- A bespoke percentage of a business' turnover.

In short, the solution and different calculation method suggestions do not appear to adequately alleviate the three issues outlined as the reason behind a potential provisional tax review. It is likely that each of the issues outlined above will simply affect any new method of paying tax/tax obligation calculation method, particularly if the number of tax instalments increased. >>

One of the key comments from the Green Paper is that any solution should consider and "[make] use, as much as possible, of existing business processes and technology" and "[make] it easier to comply" for taxpayers. While the review process offers a chance for taxpayers to seek an optimal position for provisional tax, these changes (if any) will likely still be some years out and may not be as optimal as taxpayers will push for. However, there is a business process and technology that already exists in the form of "tax pooling" and part of the solution could readily be the wider application of tax pools across small to medium enterprises which will likely alleviate (but not necessarily remove) the majority of the issues outlined in the Green Paper.

What is tax pooling?

To give some background, tax pooling is a government approved scheme whereby 'approved intermediaries' operate tax pooling accounts with IR. Taxpayers will then pay their provisional tax payments directly into a tax pooling trust account at IR held by independent trustees (the tax pool). These funds can then be used to meet the taxpayer's tax obligations. However, where the taxpayer has funds deposited with a tax pooling intermediary in excess of the amount it needs to satisfy its tax liabilities, the intermediary can arrange to sell excess deposits to other taxpayers. Similarly, taxpayers, who are in a position where they have not paid enough tax and need a top up, can purchase the deposits which can then be applied to settle their tax obligations. The role of the intermediaries is to match people who have excess deposits with those who have underpaid tax, effectively increasing the return on overpayments and reducing the Use of Money Interest (UOMI) on underpayments.

Is tax pooling the Solution?

Chris Cunniffe, CEO of Tax Management New Zealand, observes that tax pooling is already used by thousands of taxpayers to achieve the same goals set out in the Green Paper.

He goes on to state that, *"In our role as a tax pooling intermediary, we already address many of the concerns identified in the Green Paper. After all, tax pooling legislation was introduced to provide taxpayers with more certainty, minimise UOMI exposure while still incentivising taxpayers to pay the correct amount of tax to IR.*

Tax pooling has also evolved over time to allow taxpayers to finance their provisional tax payments, providing taxpayers the flexibility to pay their tax when it suits them, instead of when IR tells them to. In uncertain economic times and with UOMI rates sitting at 9.21% for underpayments and 2.63% for overpayments, it is important for all businesses to understand how tax pooling can be used to help their businesses."

Tax pooling can help in the following scenarios:

- Taxpayers can reduce UOMI and eliminate late payment penalties by purchasing backdated tax from a tax pool to settle unpaid/underpaid income tax for current year tax liabilities;

- Taxpayers can purchase historical tax credits from a tax pool where IR has reassessed, following an audit or voluntary disclosure. Historical tax purchases can be made for income tax, PAYE, fringe benefit tax, resident withholding tax, non-resident withholding tax and GST;

- Taxpayers can improve their cash-flow during provisional tax dates by financing their tax through a tax pooling intermediary. The funding cost is usually much lower than short term funding rates provided by a bank. For example, if a taxpayer wanted to defer a 28 August 2015 provisional tax obligation of $10,000 to a later date i.e. let's say August 2016, it would only cost the taxpayer $538 to defer this payment. This interest payment is calculated at the rate of 5.65% and will vary depending on the length and size of the arrangement.

Impact on Your Business

Until the Green Paper progresses and more definitive issues papers are released there is no change to taxpayers' current provisional tax obligations or processes. However, the question is, should you and your business already be using tax pooling to help deal with the concerns/costs that are driving this shake up of the provisional tax system?

If you would like to discuss the potential use of tax pooling and the benefits it could provide to you and your business please contact either your usual Deloitte tax advisor or Paul Dixon on (09) 303 0722.

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Deloitte Integration Report 2015: Useful insights for CFOs and tax professionals when considering your M&A strategy

By Hadleigh Brock

With 2014 showing very strong global M&A activity, Deloitte recently undertook a survey of more than 800 executives to determine what drives successes, and what companies can do pre-emptively to ensure a successful integration and realisation of deal synergies and value. These results have been published in the recent "Integration Report 2015 – Putting the pieces together" which can be found **here.**

The survey results illustrate a number of learnings and insights - and emphasises that those responsible for tax in an organisation should have a 'seat at the table' and active involvement in determining an organisations integration strategy as realisation of tax benefits (say through effective structuring) can give rise to tangible deal value. This is particularly important because tax is often one of the first and least complex opportunities for unlocking deal benefits.

In our experience, pro-actively developing integration strategies before transactions close has traditionally been more successfully implemented in countries such as the US, UK and in Europe – normally in larger scale deals. We in New Zealand have been relatively late to the party in understanding the benefits of proper post-merger integration (PMI) strategies which can support successful execution and add real deal value. It's worth therefore reviewing the survey results in more detail. >>

Surprisingly high rate of non-success

Despite 74 percent of respondents stating that they entered into a M&A transaction with a formal integration strategy, almost 30 percent of respondents said that their integration fell short of success. Considering some commentators have suggested the cumulative value of these deals amounted to almost US$3.5 trillion, this is an incredibly discouraging statistic. Of these respondents almost 20% said they also fell short of synergy targets. Arguably worse, 10% weren't sure if they met their targets.

This is a significant number when you consider the cost, effort, and drain on resource required to negotiate M&A opportunities. This emphasises the importance in ensuring that PMI is part of the upfront M&A planning process so that all the hard work put in before transaction execution ultimately doesn't go to waste (through lost opportunities and value). This includes ensuring planning around design of tax function and implementation of best practice procedures is included in that strategy.

"Failing to plan, is planning to fail"

Respondents agreed that the key drivers for successful integration were executive leadership support, involvement of management from both sides, development of a project plan that often included creating a dedicated integration team, and communication. None of this is necessarily rocket science, but it emphasises the importance of doing the basics right, having a pre-emptive planned approach, methodology, and process for integration. As the saying goes, "failing to plan, is planning to fail". This is consistent with the results of the survey with respondents noting that the inability to deal with unexpected challenges and lack of preparation were the primary factors for failure. This begs the question of whether some of these challenges were unexpected purely because there wasn't adequate consideration of them in the first place – or whether appropriate advice wasn't sought from the outset.

So how should you plan for integration – and how can you, as someone responsible for tax within your organisation, play a key part in this process?

Tax has the ability to feature and ultimately drive the PMI planning process – rather than take a back seat – as realizing tax advantages is often less complex than realizing other synergies such as, for example, cross-selling across the value chain.

Therefore your role in an organisations M&A strategy shouldn't finish at transaction execution. There are synergies and value that can be realised by, for example, re-designing the management of tax function, consolidating tax compliance procedures, or implementing tax structural change which we as tax professionals have the opportunity to help drive. In addition, we can play a key part in "Day 1" preparation by ensuring the necessary tax registrations and tax processes are in place to facilitate ease of business. A common example of this is ensuring PAYE processes are in place so employees will be paid!

Proper integration planning doesn't require long drawn out integration plans - but instead focussed and concise documentation. This is supported by the survey results with almost 9 in ten respondents stating that the integration life cycle extended no longer than two years.

Integration planning should also be a constantly evolving process. It's not, and shouldn't be, a process that stands still but integration tools should be constantly reviewed and re-evaluated. This was noted as one of the critical lessons learned by executives and is another key area where tax can play a part in ensuring continual improvement in tax processes >>

An opportune time to redesign your operational model and supply chain?

One of the great opportunities an M&A transaction provides is the opportunity to pause and evaluate your existing supply chain and operational model and ask some big picture questions that are often addressed at the inception of a company and then never revisited. This provides a great opportunity to consider the benefits implementing structural change to realise tax benefits – particularly in a global sense. However it equally applies in the context of how you are doing business (e.g. branch structure, subsidiary etc). Change brings the opportunity to do things differently and sometimes is the catalyst needed for an organisation to implement plans that until now it had only briefly considered.

This is emphasised in the results to the survey where it was noted that another factor in facilitating the success of a transaction involved redesigning not only an organisational model but also an effective operating model – one that was set to address questions such as where will the company operate, what products will it sell, which customers and segments will it target, and what operations will be outsourced.

As outlined above, this is very obviously an area where tax professionals and those responsible for tax within your organisation should have an input so we can help bring these issues to the forefront of deal teams. For those that have taken the opportunity to consider operational change at these points the results appear to have been very successful with almost two in three executives stating that their new organisation redesign was effective (with 40 percent saying it was very effective).

If you would like to discuss any of the survey findings, including how you can implement successful PMI strategy planning into your next transaction, please contact me or your usual Deloitte adviser.

Commissioner has dropped the mileage rate

The Commissioner has completed her annual review of the mileage rate for expenditure incurred for the business use of a motor vehicle. The rate has reduced to 74 cents (from 77 cents for 2014) per kilometre for both petrol and diesel fuel vehicles for the 2015 income year (1 April 2014 to 31 March 2015). The reduction is largely due to lower average fuel costs during the 2015 income year compared to the 2014 income year and to some extent more efficient motor vehicles.

Self-employed people can use this rate to calculate the cost of using a vehicle for work purposes, but only up to a maximum of 5,000 km of work-related travel per year. For distances greater than 5,000 km actual vehicle expenses must be kept. The mileage rate is set retrospectively because if reflects the average motor vehicle operating costs for an income year. The Commissioner does not propose to amend the returns for taxpayers who have already filed their 2015 returns using the 2014 mileage rate.

The mileage rate is commonly used as a basis on which to reimburse employees for work-related travel. Inland Revenue will accept the standard mileage rate as being a reasonable estimate of the costs likely to be incurred by an employee. The reimbursement is exempt from income tax "to the extent to which it reimburses the employee for expenditure for which the employee would be allowed a deduction if the employment limitation did not exist". Employers who reimburse employees for business travel in excess of 5,000 km will need to consider whether the mileage rate is still a reasonable estimate of the employee's costs. The rate applies irrespective of engine size or whether a vehicle is powered by a petrol or diesel engine. The mileage rate does not apply to motor cycles.

Employers may use an alternative estimate other than the Commissioner's vehicle mileage rate when reimbursing employees for use of their private vehicle for employment related use. For example, rates published by a reputable independent New Zealand source representing a reasonable estimate (for example New Zealand Automobile Association mileage rates). The other alternative is to use actual costs.

If you have any questions in relation to this, please don't hesitate in contacting your usual Deloitte advisor.

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