

## Income Equalisation

### Is this an option for you?

Farmers are facing some tough times, with many budgeting losses in 2016, compared to profit in 2015. If this is the case, income equalisation could be an option to ease your tax burden.

### What is Income Equalisation?

Income Equalisation (IE) is a scheme that allows taxpayers from the farming, fishing and forestry industries to deposit income with Inland Revenue, which then becomes a taxable deduction in the year for which they are made. This has to be a physical payment of cash to Inland Revenue. Withdrawals from the scheme are then taxable income in the year they are withdrawn.

In normal circumstances the minimum period for the deposit is 12 months, with interest earned on deposits over 12 months at 3%. The interest earned is also taxable income in that year.

Early refunds may be granted if the taxpayer has suffered an adverse event, will suffer serious hardship or for any other reason at the Commissioner's discretion. Other reasons can include the purchase of replacement livestock, supplementary feed or capital items that are vital to the running of the business.

### What is the benefit of Income Equalisation?

IE defers taxable income to future tax years, so there is an immediate benefit in not paying tax on that income in the current year. In circumstances where there is a profit in the current year and a forecasted loss in a future year, you can use IE to defer the income and use it to offset the loss.

Let's look at an example of IE in action: HC Farming Ltd has taxable income of \$300,000 in 2015 and is forecasting a loss of \$100,000 for 2016. The company has paid \$84,000 of provisional tax for 2015. It elects to pay \$200,000 into the IE scheme, and will withdraw it in the 2016 year.

Before Income Equalisation			After Income Equalisation		
	2015	2016		2015	2016
Profit/(Loss)	\$300,000	(\$100,000)	Profit/(Loss)	\$300,000	(\$100,000)
Income Equalisation	\$0	\$0	Income Equalisation	(\$200,000)	\$200,000
Taxable Income	\$300,000	(\$100,000)	Taxable Income	\$100,000	\$100,000
Tax Payable (28%)	\$84,000	\$0	Tax Payable (28%)	\$28,000	\$28,000
Tax Paid	\$84,000	\$0	Tax Paid	\$84,000	\$28,000
Refund	\$0	\$0	Refund	\$56,000	\$0

By depositing \$200,000 into the IE scheme, the company can reduce its taxable income and get some of the tax it has already paid back. The \$56,000 refund of tax will help fund the \$200,000 IE payment. Total tax paid is reduced from \$84,000 to \$28,000 over the two years and the loss is then utilised in 2016, rather than carrying forward to the 2017 year.

### But what if I can't afford to pay the deposit in cash?

In the above example part of the payment is funded by any tax you have already paid. In our experience, banks are generally willing to lend the money required for the deposit. If the deposit is kept for 12 months, it will earn interest at 3% p.a. So if you think the Income Equalisation scheme is an option you would like to consider, talk to us at HC Partners and we would be happy to discuss your options with you.

# Risk and Reward

## Call before you click

If you have a company, we'll let you into a secret. We know, each year when we speak with you about what you want to do about dividends, that the minute we start to talk about imputation credits and the imputation credit account, we watch your eyes glaze over and we know the 'la la la la la' soundtrack is playing in your head. It's okay. Almost everyone finds them hard to understand. And really, that's okay with us because... that's what we're here for, right?

So, we know it might not occur to you, when you log on to the Companies Office website to update your shareholder details, that you could have made your tax position more complicated by doing yourself out of tax credits.

Because the Companies Office has made it really easy to update details on their website and that's great. Particularly for small companies, it makes it quick, easy and convenient. However, it's not the Companies Office's job to look out for your tax position. It's ours. So when you go to update shareholder details for prior shareholding changes, there's nothing to remind you that if your company's shareholding has changed by more than 33% each year, you lose what they call 'continuity of shareholding'. Put another way, if your company doesn't have 66% commonality of shares in any given year, it loses its imputation credits. You may end up paying more in tax, and you'll lose the credits you built up in previous years and there's nothing you can do about it.

The rules around shareholder continuity are about making sure that this year's shareholders who enjoy the benefits today of the tax losses that were carried forward and the imputation credits that accrued last year are largely the same people who were shareholders when those benefits were building up. To calculate a company's shareholder continuity you generally have to track the voting interests of the individuals who ultimately own the company. This is not always straightforward.

**Size and timing of the proposed change?** If you want to make more than a 50% change to shareholding, can we talk about it to make sure you understand all the implications? Should the company pay a dividend now to utilise available imputation credits, before you make that change in shareholding?

**Tax losses?** Did the company have tax losses last year which were carried forward? If the proposed change in shareholding affects more than 49% of the shares, then the company won't be able to carry the tax losses forward.

**Look Through Company?** If the company is a Look Through Company, a transfer in shareholding may cause the company to fall out of the Look Through Company regime. Will you be happy with that? Do you want us to advise Inland Revenue? Do you want us to arrange for the company to re-elect to be in the Look Through Company regime for the next tax year?

**Directors' interests?** Does the proposed change affect directors' interests in any way? We should make sure the register of directors' interests is updated, in that case.

So, next time you want to just make a quick update to your company details on the Companies Office site, put down that mouse and pick up the phone. Talk to us. We can look at your situation and what options are available. And we can also put together the documentation you need to record the transactions so everything is squared away.



## Use of Money interest rate rises

On 8 May this year, use of money interest - the interest Inland Revenue charges on underpaid tax - rose from 8.40% to 9.21%.

The rate Inland Revenue pay on overpaid tax rose from 1.75% to 2.63%. Remember! If you have unpaid tax owing, this rise will drive up your costs further.

Talk to us if you think this may affect you.

*'Success doesn't necessarily come from breakthrough innovation but from flawless execution. A great strategy alone won't win a game or a battle; the win comes from basic blocking and tackling.'* **Naveen Jain**

## Timely Reminders

Note: these dates apply to those clients for whom we prepare tax returns. Different dates will apply for those clients for whom we don't prepare returns. Please ask us if you'd like more information.

<b>30 June</b>	FBT	Last date for employers to elect to pay FBT annually
<b>29 June (due to 28th falling on a weekend)</b>	Provisional Tax	GST ratio method taxpayers on January, March, May, July, September and November balance dates Standard provisional taxpayers on January, May and September balance dates 6 monthly GST taxpayers on May and November balance dates

## Companies and Partnerships

As the new residency and recording requirements have come in for companies and partnerships, if we don't already know the residency status of partners and company directors, we'll be contacting you soon about this.

We'll also be asking you for details of date and place of birth for partners and company directors if we don't already have this information.



## (A)mending the safety net

The government is giving explicit support for children in hardship. They've tried hard to balance this so as not to undermine incentives to work.

Benefit rates will increase for families with children by \$25 per week after tax. Beneficiaries who work part-time will be expected to find 20 hours' work each week rather than the 15 hours currently required. And while most sole parents and partners of beneficiaries are now expected to be available for part-time work after their youngest child turns five years old, they will now be expected to make themselves available after their youngest turns three.

Childcare assistance for low-income families will increase from \$4 an hour to \$5 an hour for up to a maximum of 50 hours of childcare a week for each child.

### Working and studying for families

Student Allowances for families with children will increase by \$25 a week.

Both the Working for Families (WFF) in-work tax credit and the WFF tax credit abatement rate will increase from 1 April 2016:

- Low-income working families earning \$36,350 or less a year, before tax, will see an extra \$12.50 per week and some very low-income families will receive \$24.50 extra
- Working families earning more than \$36,350 will receive more from WFF, but the amount is dependent on each family's income and it won't be more than \$12.50 a week
- Families earning more than \$88,000 a year will see slightly lower WFF payments, with the average reduction being around \$3 a week



## Swings and roundabouts



### Border Clearance Levy

A new Border Clearance Levy is expected to be introduced from 1 January 2016 to fund biosecurity and Customs activities. Subject to consultation, the levy will be around \$16 for arriving passengers and around \$6 for departing passengers.

### ACC levies

ACC levies will continue to fall, with cuts of \$375m forecast for 2016 and a further \$120m in 2017. If cut as forecast the average motor vehicle levy, including the annual licence fee and petrol levy, could fall to around \$120 in 2016.

### KiwiSaver

The \$1,000 kick-start incentive payment is no longer available to people enrolling in KiwiSaver. However, this does not affect existing KiwiSaver members in any way.

### More flexibility on child support debt

From 1 April 2016, new measures on child support debt mean Inland Revenue can use their discretion more on a case-by-case basis to write off penalties for non-payment of child support. The aim remains to encourage parents to pay what they owe for their children and the new measures strengthen Inland Revenue's ability to work with parents on controlling and managing their child support debts.

### Social housing providers

Payments made to social housing providers will be GST-exempt if the government goes ahead with its proposed changes to the GST legislation.

## Safe as houses

The suspense about whether and when a capital gains tax would be introduced to New Zealand seems to have been drawn out for well over a decade. OK, the suspense is over now. Are you relieved?

The focus in this budget is on damping down property speculation rather taking a slice off the family home.

There will be a two-year window for sales of residential property. If residential property is bought and sold within two years, it will be subject to tax. This does not apply for:

- taxpayers selling their family home
- inherited property, and
- property that is being transferred as part of a relationship property settlement

The new rules will apply to properties bought on or after 1 October 2015. More detail is expected to come out in July.

It's important to note that if you intend to sell a property outside of the 2 year timeframe, the sale may still be subject to tax, as it may still fall within other rules relating to the taxation of property. Please contact us if you are selling a property to see what rules apply.

### IRD numbers

In addition, anyone buying or selling land - both New Zealand residents and non-residents - will have to provide an IRD number as part of the land registration process. All sales of land - other than sales of the main family home - will be subject to this requirement.

In addition to providing a New Zealand IRD number, non-residents will also have to:

- provide their country's equivalent of an IRD number, and
- open a New Zealand bank account



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