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# SIX WAYS TO STAY ON TOP OF TAX THIS YEAR END

Between Covid restrictions, a downturn in income, government payouts, and tax breaks, we understand if your head is spinning as the financial year wraps up. That's why we've done a round-up of relevant tax information you may have missed, so you can ensure everything is in order and there are no unwanted surprises at the end of your financial year.

## 1. First, let's talk Covid

The two most important things to remember are:

- a) Retain any documentation you have surrounding payments and subsidies you've received from Inland Revenue or MSD.
- b) Got employees working from home? The 2021 COVID-19 Protection Framework means a new approach to covering their costs. Remember, if an employer pays for an employee's expenditure or loss when they fork out for extra power, phone charges, printer ink, home office supplies or equipment, then the payment is tax-free, not subject to PAYE, and deductible for the employer. If you estimate the payment, you need to keep track of (and evidence of) how you calculated it.

## 2. Earning more than \$180K?

- As of 1 April 2021, a new top tax rate of 39% applies. If you earn more than \$180k any interest you earn from New Zealand bank accounts and investments will need to have the 39% resident withholding tax (RWT) rate applied. Update your records by selecting the 39% rate through your online banking portal or contact your bank or investment provider directly.

- As interest payers didn't need to make this rate available until 1 October 2021, RWT will have been under-deducted from 1 April 2021 up until the date it was updated. Due to that under-deduction, you may have an end-of-year tax liability for the 2021- 2022 year.

- Under-deductions of RWT may also affect provisional tax customers, including people who are already provisional taxpayers using the estimation method, or where the under-deduction will result in their residual income tax (RIT) exceeding \$60,000 for people on the standard method.

## 3. It's a matter of Trust

From the 2021-22 income year there are new disclosure rules for domestic trusts. Trustees will need to prepare financial statements and provide extra information with their income tax returns. (refer to separate article)

## 4. Residential property investment?

Now that interest on mortgages taken out for residential property acquired after 27 March 2021 is non-deductible, if you have a property with existing mortgage interest that fits the frame for the interest phase-out applying from 1 October, we can calculate the interest phase-out for this year for you.

And let us know if you bought or sold residential investment property during the year so we can give you an accurate picture of your tax exposure now and going forward. The brightline test for property sales on or after 27 March 2021 is now 10 years (up from 5 years for properties acquired between 29 March 2018 and 27 March 2021).

## 5. Got a Small Business Cashflow loan, or considering one?

We absolutely understand the financial pressure you've been under, and while repayments are not compulsory in the first 24-months, our tip for saving money long-term is to pay off the loan before interest starts being charged. If you're struggling, and your business has experienced a 30% decline in actual or predicted revenue over the period of a month (compared with the same month last year due to Covid) you may still be considering a loan.

Applications are open until 31 December 2023 through the Inland Revenue website.

## 6. Wage Subsidy Scheme reporting

Inland Revenue is reviewing WSS payments that weren't reported in the "Government Subsidies" field of the 2021 IR3/IR3NR income tax returns, so if this was you, talk to us.

Please keep any receipts or documents so when we make the amendment, we can provide supporting information to Inland Revenue. And keep all relevant information together for accurate reporting for the 2022 year.

## INTRODUCING THE CHANGES FOR TRUSTS

From 1 April 2022 a raft of disclosure requirements have become mandatory for the majority of Trusts. Here is a high level summary of the now mandatory disclosure requirements.

### Exemptions

Any trust that makes income in a year must provide additional disclosures, unless they fall under one of the following categories:

- Non-active trust
- Foreign trust
- Charitable trust
- Eligible to be a Maori authority
- Widely-held superannuation fund
- Employee share scheme
- Debt funding special purpose vehicle
- Energy lines trust

### Additional reporting requirements

From the 2022 tax year onwards more information will be required about a trust's

- earnings,
- settlements and settlors,
- beneficiaries and distributions, and
- persons with powers of appointment.

This includes:

- Financial summaries with a statement of profit or loss, as well as a statement of financial position.

They'll also need to provide:

- The details of any person who has made a settlement on a Trust, as well as the amount and nature of any settlement made from 1 April 2021.
- The details of any person who has received a distribution from a Trust, and the amount of the distribution.
- The details of people who have the power to appoint or dismiss a trustee, to add or remove a beneficiary, or to amend the trust deed.

Statements of profit or loss, must include the following information:

- Net profit or loss before tax
- Any Tax adjustments and
- Any Untaxed realised gains and receipts

A trusts statement of financial position, must include information on:

- Assets – including, financial arrangements, land, buildings, shares/ownership interests and total assets
- It must also cover Liabilities – including, financial arrangements and total liabilities, and lastly
- Equity – this is broken down into owners' equity, drawings, current account year-end balances, and movements in beneficiary accounts

Also need to indicate the valuation methodology applied to the Land, Buildings and Shares/Ownership interests categories of assets.

### Settlors & Settlements

You will need to provide the settlors:

- Full name,
- Date of birth or commencement date (for non-individuals)
- Jurisdiction of tax residency
- IRD number, or Tax Identification Number (for those not resident in NZ)

You will also need to provide details of any settlements made during the year, including cash, financial arrangements, land, buildings, shares/ownership interests, services, settlements that have been valued at zero and other (with a description).

### Beneficiaries & Distributions

You will need to provide the beneficiaries:

- Full name,
- Date of birth or commencement date (for non-individuals),
- Jurisdiction of tax residency,
- IRD number, or Tax Identification Number

You will also need to provide details on any movements in beneficiary accounts, including:

- opening balance,
- distributions (accounting income, corpus, capital, use of trust property for less than market value, distribution of trust assets and forgiveness of debt),
- amounts withdrawn or enjoyed, and the closing balance

### Settlor:

- A person or entity that has transferred value to a trust (that is not incidental services).
- The transfer of value is known as a 'settlement'.
- This person does not have to be named in the trust deed, if they transfer value then they are deemed to be a settlor.

### Distribution:

- A transfer of value from the trust to a beneficiary.
- The persons who are beneficiaries of the trust will depend on the terms of the trust deed.
- Transferring value to a person who is not an eligible beneficiary does not deem them to be one.

### Person with power of appointment:

- Any person who has the power to appoint or dismiss a trustee, to add or remove a beneficiary, or to amend the trust deed.

### Person with power of appointment

When adding a person with power of appointment, you must provide their:

- Full name,
- Date of birth or, for non-individuals, commencement date.
- Jurisdiction of tax residency.
- IRD number, or, for those not resident in NZ, the Tax Identification Number.

Persons with power of appointment cannot be added/edited when filing the income tax return, but they will be able to be added or updated at any time through myIR.

## Contact us:

If you would like to talk to us about what this might mean for you and the future of your Trust please get in touch.

## LIVESTOCK HERD SCHEME VALUES

Inland Revenue have recently announced this year's livestock Herd Scheme Values and we think this is a great opportunity to update you on the latest movements.

The Herd Scheme Values are the National Average Market Values as determined by a process involving a review of the livestock market as at 30 April.

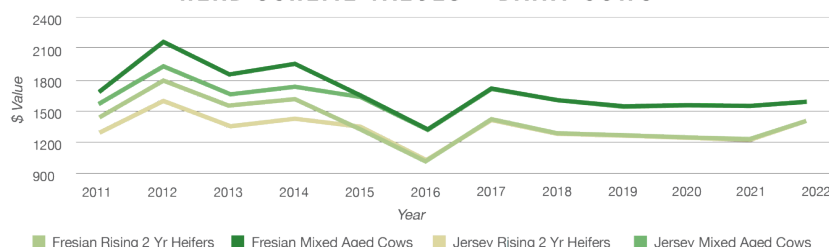
### DAIRY CATTLE

The values for Dairy this year have seen a strong increase across all types with values being the highest since 2014. Values for R1 heifers have rebounded strongly from last year's drop as the impact of change to the live export rules in 2023 is offset by surging commodity prices and demand for high quality replacements.

A Mixed Age Dairy cow now has a National Average Market Value of \$1,697 compared to \$1,528 last year – a rise of 11%. Rising two-year heifers have increased in value by 14%, as have R1 heifers to \$1,472 and \$809 respectively. Continued restrictions caused by Covid-19 have not resulted in a drop in demand for dairy products, with most countries ending restrictions part way through the 2022 income year. The farm gate milk price for 2022 is forecast to be a record for Fonterra, early indications for the 2023 are very favourable and could see the 2022 record being broken. Increases in commodity prices have also seen significant increases in inputs, particularly in relation to imported fertiliser. Continued cost increases will put pressure on farming businesses even with record dairy prices. Uncertainty continues in relation to environmental changes with carbon reporting requirements for all farmers remaining unknown, even though all farmers need to 'know their numbers' by the end of 2022.

Availability of labour remains a significant issue for the 2023 season even though borders have reopened. This will put significant pressure on the farmers when the new milking season starts. Total cow numbers have continued to fall, but per cow production continues to increase which is a positive outcome both for labour units required, but also environmentally.

### HERD SCHEME VALUES - DAIRY COWS

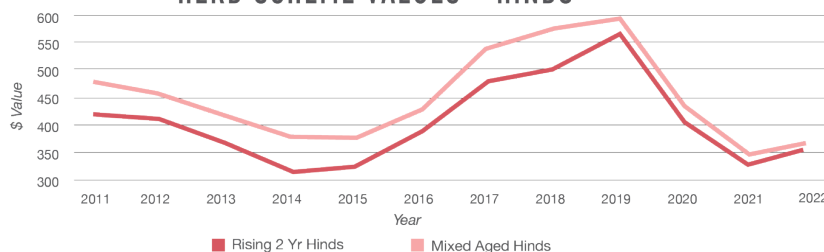


### DEER

Deer values have seen some recover with an average 11% increase in values for Red Deer, Wapiti, and related breeds. The market for velvet has also contributed to an increase in values.

Other deer breeds have recovered slightly from the large losses of 2021 for female stock. Male breeding stock have increased substantially from 2021 values but remain significantly below the peak of 2018. Values have just started to lift as key European and American markets slowly start to reopen as the rollout of Covid-19 vaccines gains pace.

### HERD SCHEME VALUES - HINDS



## SHEEP

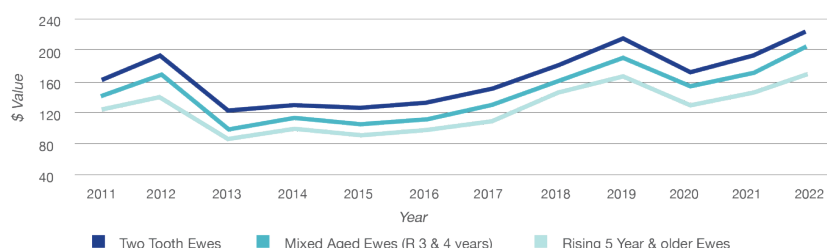
Sheep are at their highest values since the herd scheme commenced in 1987 with an average increase in value of almost 17%. Two tooth ewes increased from \$191 to \$224. For the first time in 25 years ram and wether hoggets have recorded the same value as ewe hoggets on the strength of an \$8.50 schedule and the likelihood of \$10 in the spring meaning male lambs to winter through are being highly sought after.

Drought has continued to be an issue in the 2022 season in some traditional sheep farming areas.

As in prior years sheep numbers continue to fall to less than 26 million, with slightly more than half in the South Island. Whilst wool prices have improved compared to the 2021 season, values are still depressed overall, and the increased cost of shearing means that there is very little profit in strong wool. Covid-19 related issues continue for European manufacturing, but there have been positive signs of increased demand and production.



### HERD SCHEME VALUES - EWES



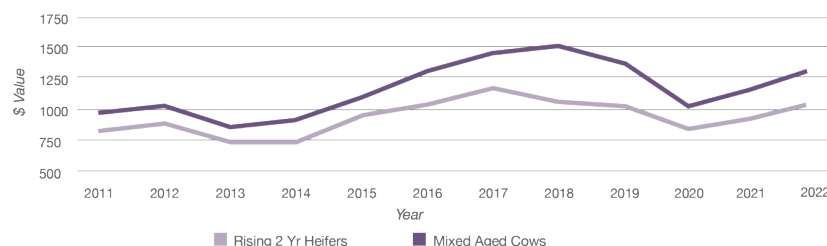
## BEEF CATTLE

As with Dairy, Beef values have increased on average 14% and are approaching the highs of 2017 and 2018.

Whilst increased values and demand for Beef products is positive the impact of Covid-19 continues to be felt across the industry as meat works struggle to keep up with the processing demand. Farmers have increasingly found it difficult to have stock slaughtered due to reduced capacity arising from staff shortages. Increasing inflation and cost of living pressures worldwide will have a negative effect on the demand for quality cuts, just as demand following lockdowns was beginning to increase. The conflict in Ukraine will put further pressure on world food supplies, which will help support overall demand for proteins.

Uncertainty continues to play a part in the domestic market as the regulatory requirements around water quality, fencing and carbon continue to come into force in the coming years and alternative proteins continue to increase in popularity and use.

### HERD SCHEME VALUES - BEEF COWS



## GENERAL

Consider your livestock election choices carefully. Even though changes were made to the Herd scheme in recent years, there is still flexibility around how to value increases in numbers – if you increase your numbers during the year, you can choose an alternative valuation option to value that increase.

Whether you take that option or elect to value the increase using herd values will depend on several factors, such as:

- where we are in the cycle of livestock values (e.g. at the bottom, or at the top)
- if the increase is a permanent or a temporary one
- your longer-term intentions

As the decision is clearly one that should be made on a case-by-case basis, we will naturally discuss your valuation options with you on review of your 2022 Financial Statements and Taxation Returns.

In the meantime, if you would like more detailed information about the Herd and NSC Livestock Valuation methods or about the values themselves, please contact us.

Disclaimer: This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation.