

# Newsletter

## March 2021



A year since the start of New Zealand's first lockdown has had different effects on all small businesses. Some have unimaginable growth and others a short sharp halt.

We hope the start of a new financial year begins with a positive note for all of us.

### Government Housing Announcements

2 days ago, the new government package was unveiled. Below is a summary of the key facts:

- Changes to the deductibility of loan interest
- Bright-line period increased from 5 to 10 years.
- Changes to thresholds for the first home grants cap

#### Interest deductions on residential property income:

Currently the loan interest relating to the purchase of the property can be deducted against the rental income received along with other related costs such as rates and insurance. Tax is then paid on an overall profit earned.

The proposed changes are from 1<sup>st</sup> October 2021:

- Interest on loans for properties acquired before 27<sup>th</sup> March 2021 plus new loans relating to this property and borrowed after 27<sup>th</sup> March 2021:
  - o 1/4/20 to 31/3/21 = 100% interest can be claimed
  - o 1/4/21 to 30/9/21 = 100% interest can be claimed
  - o 1/10/21 to 31/3/22 = 75% interest can be claimed
  - o 1/4/22 to 31/3/23 = 75% interest can be claimed
  - o 1/4/23 to 31/3/24 = 50% interest can be claimed
  - o 1/4/24 to 31/3/25 = 25% interest can be claimed
  - o 1/4/25 onwards = 0% interest can be claimed
- Interest on loans for properties acquired on or after 27<sup>th</sup> March 2021:
  - o 1/4/21 to 30/9/21 = full interest deduction claim
  - o 1/10/21 onwards = zero interest deduction claim
- Please also note if the property is sold and is caught under the bright-line test rules then interest may be able to be deducted at the time of sale.
- Property developers and builders will still be able to claim their interest expense. They pay tax on the full value of the property sales each year.

### Bright-line Rule Changes:

Currently if you sell a residential property within a set timeframe after acquiring it, you may be required to pay income tax on any profit made through the property's increase in value. There are several exemptions such as, your main home, you inherited the property, or you are an executor/administrator of a deceased estate. The government has announced an increase in the current timeframe from 5 years to 10 years. So, if you sell the property within 10 years and this was not your main home, this will be caught by the bright line rules and tax is payable when the property is sold.

Below is some information regarding the timelines:

- 1) Properties purchased before 1<sup>st</sup> October 2015 – not caught by the bright-line property rule.
- 2) Properties purchased between 1<sup>st</sup> October 2015 and 28<sup>th</sup> March 2018 – the bright-line property rule will apply if you sell it within 2 years of buying.
- 3) Properties purchased between 29<sup>th</sup> March 2018 to 26<sup>th</sup> March 2021 – the bright-line rule will apply if you sell within 5 years of buying.
- 4) Properties purchased on or after 27<sup>th</sup> March 2021– the bright-line rule will apply if you sell within 10 years of buying (or 5 years for new build).

Please also note:

- If the property was your main home, this property is excluded from the rules.
- However, if your main home was switched to a rental for more than 12 months during the time you owned it, the sale is caught under the bright-line rules. There will be an adjustment to the final bright-line profit to reduce the proportion of time the property was used as a main home. Please advise us if there are going to be any changes.

### First Home Grants and Loan:

The First Home Grants and First Home Loan is designed to help first home buyers (or those not currently owing a home) to buy a first home.

- The grant is up to \$5,000 for existing properties or \$10,000 for new properties.
- The loan helps buyers to secure a loan with only a 5% deposit (rather than normal 20% deposit for banks).

Requirements to be eligible:

- Grant & Loan: buyers must earn income below the income cap, purchase a property below the house price cap, see below.
- Grant also requires individuals to have contributed to KiwiSaver for at least 3 years.

From 1<sup>st</sup> April 2021 the new income cap and house price cap will increase from:

- Single persons threshold from \$85,000 to \$95,000
- Two or more buyer's income threshold from \$140,000 to \$150,000
- Increase in property cap from \$550,000 to \$650,000 (Wellington region plus changes to other regions).

### Other matters of interest:

- The government announced at the beginning of March 2021 free online Digital Boost courses to help businesses. These include booking and payment systems, websites, marketing and more. We recommend you look at the website [digitalboost.co.nz](http://digitalboost.co.nz) for more information.
- The new 39% personal tax rates start 1<sup>st</sup> April 2021:
  - o for employees earning over \$180,000 per year. If your employee is employed on a secondary tax code, please update to 'SA' if their total income will be \$180,000 or over.
  - o Please note the PIR rate of 28% will remain for those earning over \$180,000.
  - o A new bank interest RWT of 39% will be available from 1<sup>st</sup> October 2021.
- If you have been calculating your employees PAYE manually or using IRDs online calculations, please prepare new calculations from 1<sup>st</sup> April 2021.
- Fringe Benefit tax rate will also increase from 1<sup>st</sup> April 2021 from 49.25% to 63.93%.
- For the 2021 tax returns there is increased trust disclosure required to be submitted as part of your trust tax return. Please keep a look out in our questionnaires for more details needed.

### **Tax payments**

By now you should have received your 7<sup>th</sup> April 2021 payment letters. If you have any queries, please call us. If you need to set up any repayment plans, please call Sally.

Future tax payment dates:

- 2021 terminal tax: 7<sup>th</sup> April 2021.
- March 2021 GST filing & payment date: 7<sup>th</sup> May 2021.
- Third 2022 provisional tax date: 7<sup>th</sup> May 2021.
- First 2022 provisional tax date: 28<sup>th</sup> August 2021.

### **Current Mileage rates for petrol/diesel cars**

- 82 cents to each business km in first 14,000 km
- 28 cents for kms above 14,000km

### **2021 Tax Returns**

2021 questionnaires will be posted within the next 2 weeks. Please keep a look out for them and if you have any questions please contact us.

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