D&D FINANCIAL CONSULTANTS

TAXATION & FINANCIAL SPECIALISTS

Where the client comes first...

Winter 2025

Using a company to circumvent paying trust tax at 39 percent

Inland Revenue has released GA 24/01, which says setting up a company to hold income-earning assets – mainly to take advantage of lower tax rates – is generally not considered tax avoidance, unless it involves artificial or contrived features.

Let's say you inherit a large sum of money and decide to donate it to your family trust. Instead of putting it straight into the trust, you set up a company and have the trust own all its shares. The company would pay 28% tax on income earned from the money, compared to the trust's 39% tax rate.

If that sounds good, there are still a few things to keep in mind:

- The money would count as a loan to the company unless it's used as share capital. If you later forgive the loan, the company would have to pay tax on it.
- If you want to access the income from the company, you'd need to pay a dividend before the end of the tax year. That dividend would be taxed at 39% in the trust, but the company's 28% tax already paid would count as a credit.
- You could minimise the 39% trust tax by distributing the dividends declared to beneficiaries with lower tax rates.
- You can't backdate dividends. If you realise after the tax year ends that you want to pay out a dividend, it's too late. You have to plan ahead.
- Setting up and running a company comes with extra admin costs.
- Depending on what kind of asset you're transferring, there might be tax complications.

Be careful with Inland Revenue's mention of "artificial or contrived features". This isn't a DIY project – if you're thinking about using a company to hold income-earning assets for a trust, get professional advice.

There are other ways to manage the 39% tax on trusts:

- If you have children aged over 16, you can distribute trust income to them, which could help cover things like university costs. For children aged under 16, you can distribute up to $1000 per child before triggering trust tax rates.
- Adult beneficiaries with lower tax rates can also receive distributions to minimise overall tax.

Consider investing in Portfolio Investment Entities (PIEs), which are taxed at 28% with no extra tax owed. The bottom line? There are ways to reduce the 39% tax on trust income, but careful planning is essential. Get expert advice before making any big moves.

Customers don't like smart alecs

Business competitors can sometimes get carried away with how they promote themselves as better than you.

Especially when times are tough, it's tempting to try to discredit a rival, but it rarely succeeds in the long run. One recent example was very public. A local newspaper owner published an article that said a competitor's newsprint was environmentally dodgy. What he failed to consider was that the print process was the same as for his own paper.

The competitor didn't engage in the argument, but their printer did. It resulted in a correction and apology.

If you're going to compete, do it on the basis of what you do best. Promote your positive points of difference, not what a rival might do badly.

Customers don't like smart alecs.

TAX

Travel between home and work

In general, you can't claim tax deductions for travel between home and work.

However, there are some exceptions: Transporting essential work equipment – If your vehicle is necessary to carry bulky, valuable, sensitive, or otherwise impractical-to-carry work equipment that you use both at home and at work.

Itinerant workers – If your job (like a plumber or electrician) means you have to travel between different clients and you don't have a separate business base.

Emergency call-outs – If you're responsible for handling emergency calls before you even leave home and your work requires you to work from home part of the time. Therefore, since a doctor normally works in a medical practice and not from home, if he/she is called out at night, this exception does not apply.

Home as a workplace – If your home is your main workplace or base of operations, travel from home to another workplace is deductible – provided you are working on the same issue before and after the trip. Just doing some work at home isn't enough; you need to have ongoing work-related tasks.

What about stops along the way? If you make a small detour, like stopping at a shop that's directly on your route or very close by, it's considered incidental, so your trip is still deductible. But if the stop is more significant, then you have made two journeys, one of which is business and the other is private.

What counts as incidental?

If your detour adds less than 5% to your total journey OR is no more than 2km extra, it's still considered incidental. The smaller of these two numbers applies.

What's NOT deductible?

- Taking an electric vehicle home to charge.
- Taking a vehicle home for security reasons.

Changes to FIF rules

If you own overseas shares, like stocks in an American company, you might already know about the FIF (Foreign Investment Fund) rules.

Usually, you calculate your taxable income based on either 5 percent of the investment's value at the start of the year or your actual gain, whichever is lower. The government is introducing a new valuation method to provide some tax relief for people moving to New Zealand with foreign investments. This option is called "revenue account method", but since it won't apply to most people, we won't go into the details here.

This new method will be attractive to those who are taxed in their country of origin on a citizenship basis, such as the US.

Refurbishing an asset recently acquired

If you buy something like a rental property or a piece of machinery and it needs repairs, you can't just claim those costs as an expense.

Instead, they may have to be added to the asset's purchase price.

Here's an example:

You buy a building, and during your pre-purchase inspection, everything looks fine. A year later, you discover the roof is leaking and some floor joists are rotten.

These issues weren't obvious at the time of purchase and didn't affect the sale price, so fixing them is tax deductible.

However, if the need for the work was apparent at purchase and reflected in a reduced price the expenses must be added to the cost. Also, if the building was usable to earn some sort of income but wasn't able to be used for the intended purpose, you must add the refurbishment expenses to the cost.

The same goes for an existing business buying a car or piece of machinery that can't be used until the work is completed.

Those costs aren't deductible as expenses; they're considered part of what you paid for the asset which may qualify for depreciation.

Tax on charity business income being considered

The government is considering taxing the business income of charities, bringing New Zealand in line with other OECD countries.

There are two types of charitable businesses:

- directly related to charity work, like schools.
- not directly related, like a food manufacturing business run by a charity.

The proposed tax changes focus on the second type. Right now, it's just a discussion, nothing has been decided yet.

Tripped up by online tricks

Booking travel and managing your life online looks easy – the websites look slick, the offers are tempting, and the tech companies always know just what to say.

But even the smartest among us can find ourselves tripped up. The following real-life examples are reminders that the online world can be more confusing than it should be. Our online user takes up the story.

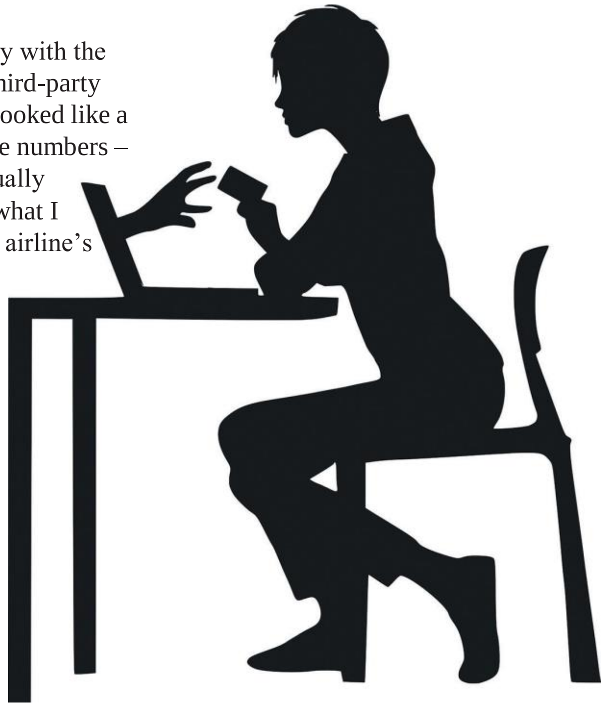
The rail mix-up

I asked Google for "Kiwi Rail excursions", as I was keen to go on one of the country's famed rail journeys. A promising-looking website popped up, so I booked my spot. It wasn't cheap, but I figured that's just what top-tier travel costs. Only later did I realise that while I had booked the correct train, I'd done so through a third-party operator who charged much more than if I'd gone directly to Kiwi Rail. The journey was cancelled due to Covid, and I got my money back, but it was a lucky escape.

An Easter flight that wasn't

I needed to book a flight to Nelson and I knew Air New Zealand was the way to go. I typed it into the search bar, clicked on the first link that popped up, and booked the tickets. All looked fine until I realised I hadn't booked directly with the airline, but through a third-party website offering what looked like a discount. I crunched the numbers – the "20% off" was actually about 20% more than what I would have paid on the airline's official site.

How easy it is to be misled by search engine tricks.



Dropbox drama

Another near slip-up came via a message supposedly from Dropbox. It said my laptop had only 100gb of storage left, and unless I upgraded my subscription, I'd lose access. I almost reached for my wallet, but fortunately I consulted the household IT expert– my grandson. After a quick glance, he reassured me that not only did I already have a Dropbox subscription and it had more than enough storage to spare. Grandparent 0, grandson 1.

Lessons learned

What I learned from these experiences was, first, never assume the first link on Google is the right one. Always look for the official website.

Two, just because something looks like a bargain doesn't mean it is.

Online booking platforms make money by offering the convenience of "any time, anywhere" systems, but sometimes that "deal" just isn't what it seems to be.

And three, always consult someone tech-savvy before clicking "buy now" on anything digital.

In the end, the internet remains a powerful tool, but one that needs to be handled with care.

Small size means big impact for customer service

One of the advantages of being a small firm is you can look after your customers in a way the big firms can't or don't want to.

A marketing guru from Melbourne once said: "Love your customers to death".

Here are some thoughts:

- Get a real person to answer the phone.
- Answer the phone quickly.
- Answer your emails quickly.
- Keep in touch: How about a tip sheet say once every three months or even once a year if you haven't got much to talk about? It is so easy and economical to communicate with emails and text messages. Even a dentist could send a tip sheet. How about telling us about the teeth that don't get sufficiently brushed? How long should we brush? What type of toothbrush should we use, what type of dental floss, the best unit for water flossing? Which order – floss, water floss then brush?
- For the bigger customers, get on the phone if you want to know what they thought of your service. There's no point in sending email requests for reviews as the big firms do – they just get deleted, don't they? Have just a couple of questions to ask – remember, your customer is busy.
- Smile. It's welcoming. People can sense, even on the phone, whether you are smiling.
- Never start your correspondence with "Dear valued customer"! If I'm valued then why don't you use my name? Also, spell the name correctly. A marketing company once wrote to Norman "Dear Normal"!
- Remember customer preferences. It makes them feel important.

Two dangerous words in email – ‘Reply All’

It started so innocently.

A manager at a small firm was seeking advice from a colleague by email about a client’s bill. The client had previously explained the bill in an email and included the email addresses of several sub-contractors and suppliers.

It had been circulated around the office via email. The manager hit “Reply” to his colleague . . . or so he thought. Instead, he hit the dreaded “Reply All”.

In the blink of an eye, his candid question about the client’s “unusually creative” expense claims went out to everyone – office staff, the business owners, the client and their suppliers, who were still copied in.

Cue instant panic. Phones started buzzing. A flurry of follow-up emails (“Please disregard the last message!”) only made it worse. It took an apologetic phone call and a lot of smoothing over to repair the relationship.

Thankfully, the client had a good sense of humour, but it could have been much messier.

Always, always double-check your recipients before you hit send. In business, confidentiality and professionalism are key.

Quick tip: If your email system allows it, turn off “Reply All” by default for group emails – or at least add a pop-up warning. A two-second pause can save you weeks of embarrassment.

Remember, nothing travels faster than an email you wish you hadn’t sent.

TAX CALENDAR

31 May 2025
Deadline for Fringe Benefit Tax returns

30 June 2025
Last day to apply for annual FBT returns

28 July 2025
3rd instalment 2025 Provisional Tax (June balance date)

28 August 2025
1st instalment 2026 Provisional Tax (March balance date)

Auto save not always the saviour it should be

A worker was in the office late, polishing a complicated cash flow model, using the cloud.

Trusting auto-save, she didn’t bother making a manual backup. At midnight, the wi-fi dropped and the latest version vanished.

Oops. Gone were three hours of detailed work, with her spreadsheet replaced by an old version missing all the updates.

After a lot of frantic clicking – and a lot more muttering – she had no choice but to start again.

She now had not only the hassle of added work time, but also the risk of error because she was now under even more pressure.

Lesson learned: Even with the cloud it pays to hit “Save As” regularly and keep a copy on your own computer.

Coffee a classic test of pricing strategy

Terrible coffee crops in places like Brazil and Vietnam have meant there’s a shortage of beans – that’s putting prices for the Kiwi cuppa through the roof.

Cafés who have tried to keep prices down by absorbing previous minor coffee price rises have a dilemma. Do they try to live with a big price rise by making a marginal increase, or put prices up in line with the wholesale price?

The smart cafés look regularly at their margins. If the overall prices that go into making a cup of coffee – including milk, wages, rent etc – are up 20 percent, they lift their prices accordingly.

There’s always the classic danger of not lifting prices in small bites regularly. If you don’t, you’ll be forced to make an even bigger price rise later.

And in a situation as now with a big lift in coffee bean prices, let your customers know why they have to pay more.

The same applies to any business facing rising costs, not just cafés.