

BC'S BUSINESS BRIEFS

CHANGES TO RESIDENTIAL PROPERTY TAX RULES

In the 2015 Budget, an announcement was made to introduce a two year bright-line test from 1 October 2015, which would tax all sales of residential land within two years of acquisition, with few exceptions. The Taxation (Bright-line Test for Residential Land) Bill was introduced in Parliament on 24 August 2015, has passed its first reading on 8 September 2015, and its final report will be available on 22 October 2015.

Basically, from 1 October 2015, if you sell residential property within two years of acquisition, it will be taxable. The exceptions are an owner's main home, inherited property and the transfer of relationship property. In determining if the application date of 1 October 2015 applies, the date that a sale and purchase agreement is entered into is relevant. Thus for an agreement that is entered into before 1 October 2015, the new rules won't apply. For agreements entered into on or after 1 October 2015, the actual date of acquisition for calculating the start date for the two-year period will be the date title is registered. Whereas the disposal date is the date a person enters into an agreement for sale and purchase, and not when title passes. The inconsistency in determining the acquisition and disposal dates means that more transactions will be caught by the test.

The main home exemption means that if a property is your main home, then selling your main home and buying a new main home would not be taxable. Only New Zealand citizens and New Zealand residence visa holders are eligible for the main home exemption. However, you're not eligible for the main home exemption if you:

- are a New Zealand citizen who has been overseas continuously for the last three or more years;
- Have a New Zealand residence visa and have been overseas continuously for the last year or more.

You're also not eligible for the main home exemption if you're transferring property that's in trust. Therefore, in a valid restructuring of personal assets into say a family trust, a tax liability would arise if the transaction involved residential land acquired and sold within two years.

Inherited property and relationship property transfers will also be exempted from the two year rule. This exemption extends to all transfers of residential land upon death, from the deceased to executor/administrator, and from executor/administrator to beneficiaries. However, subsequent sale by a beneficiary could be caught if sold within two years of original acquisition date.

The bright-line test supplements the existing purpose or intention test, which taxes anyone buying property with the intention of selling for a gain.

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Bright-line tests are generally hard and fast rules, relatively straight forward to administer but often inequitable. This new two year rule is being rushed through Parliament in a relatively short amount of time, it is still in its infancy stage and may incur unintended consequences. It is likely that amendments will be added periodically as issues arise.

Therefore, watch this space.

GETTING CUSTOMERS TO SETTLE DEBTS

Good credit management is critical for maintaining business cash flow and profitability. Thus, making sure an invoice gets issued and paid on time is an important business strategy that all businesses need to master. Before a debt recovery process commences, which may delay payment further and damage a customer relationship, it is worth the effort for businesses to establish a few operating procedures to avoid customer bad debt in the first place.

Prepare your customers

Making sure your customers understand their payment terms from the beginning is the first step in training them to keep track of outstanding invoices and payment due dates.

Keep detailed records

Businesses should maintain all customer records such as payment term agreements, customer limits and outstanding sales and update records regularly.

Follow up regularly

Start following up procedures once a payment becomes overdue. It is very important to know exactly who to speak to regarding payment matters. Being consistent when following up debts will help businesses maintain good customer relationships.

Upfront payments

For labour and time intensive work, it is a good idea to ask for a part payment or deposit up front. This not only shows that the customer is financially committed to the project, but also allows a business to better manage cash flow.

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