

BC'S BUSINESS BRIEFS

2019 almost done

Perhaps it's a sign of the authors increasing number of grey hairs, but this year seems to have disappeared into the rear vision mirror ever faster. It has been another busy year here at Baigent Consulting. We have welcomed two new staff in Manreet and Marina who will by now be familiar to many of you.

We would like to take the opportunity to wish all our clients a happy festive season and an enjoyable break over the holiday period.

While we all look forward to the summer and some pleasant weather, our system chugs along and the following are some items both new and old on the tax front that may be of interest to you

Tax Update

Ring fencing of residential property rental losses

As many people will be aware the Government changed the law regarding rental losses effective the beginning of the 2020 income year. This means the law applied for most people/entities from 1 April 2019 but for those with early Balance Dates, it could potentially have applied from 1 November 2018 despite the fact the law was eventually passed well after the 1st April 2019.

The effect of the law change is to not allow those taxpayers with losses being sustained on residential rental property to offset those losses against other income. In the writers opinion, the change is absurd in that it singles out residential rental property for different tax treatment to every other kind of business enterprise. Good sound tax law is consistent across asset classes so that it doesn't have the ability to distort the market. This law clearly runs directly across that premise.

As commercial property rental is not treated in this fashion, will it mean that commercial property becomes more desirable as a result? Will it also mean there is less residential rental property available as a result, thus increasing demand for rental housing while supply lessens and forcing upward pressure on rental prices?

While the change was obviously politically motivated, the actual drafting of the law produced an initial version that required rewriting into what became the final version. Only time will tell whether significant unintended consequences occur as a result of this hastily thought out piece of legislation. Very recent statistics would tend to indicate that while the intended goal was to artificially cap the residential property values, it will most likely have minimal impact on that as overall supply and demand economics will determine the long term trends in values. With prices beginning again to show signs of life, any benefits in this area may be short lived.

This newsletter is for guidance only, professional advice should be obtained before acting on any information contained herein.

Fringe Benefit Tax

With the increasing numbers of commercial vehicles appearing on our roads and in particular Utes, we thought it worthwhile to review long standing FBT law, particularly as it relates to the provision of motor vehicles to employees.

All motor vehicles provided to an employee as part of their employment, which are available for private use, are in the first instance subject to FBT. Any vehicle which is available to be driven home from work and back is deemed to be available for private use. There are limited exceptions for work related vehicles which are defined in the Income Tax Act as vehicles which are not principally for the carriage of passengers. A work related vehicle may be used by an employee to travel from work to home and back, so long as it is sign written and is necessary for the employee to perform their work function. It must be also not available for private use.

Does a Ute (particularly a Double Cab Ute) fit the definition of work related vehicle and therefore qualify for the exceptions provided to drive the Ute home? A single cab Ute clearly is not principally for the carriage of passengers and so clearly qualifies. The current thinking is that a Double Cab Ute also qualifies as it is no more principally for the carriage of passengers than it is principally for other uses. In other words it is not deemed to have a dominant principle purpose but is deemed to be genuinely multi-purpose. However it is important to note that to qualify for the exception the Ute must be signwritten in the employers business identification.

It may also be the case that certain other cars (such as Station Wagons) may fit the Work Related vehicle definition if they have the second set of seats permanently affixed down or removed so passengers may not lawfully ride in them. It has been relatively common with vehicles of this nature to have cargo cages fitted behind the front seats and rear seats either welded or bolted down to ensure that vehicles of this type qualify for the work related vehicle exception.

Finally, while FBT is pretty much universally despised by business people as a tax, there are instances where it can be beneficial to have an employer owning a vehicle and providing it to their shareholder employee and proving to be extremely cost effective, even after the payment of FBT.

Xmas Break

The office will close for the Xmas break on Friday the 20th of December and will reopen for business on Monday 13th January.

Finally from us here at Baigent Consulting, thank you for your business and we wish you a Merry Christmas and Happy New Year and we look forward to being of service to you in the new year.

Kind Regards,

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