BC'S BUSINESS BRIEFS

2024 – a new government with different priorities and how might this affect us in business?

Following last year's election and the drawn out process that eventually produced a three party coalition (for the first time in our history) the new Government has, in the main, made a solid start to their term, sticking to their pre-election messaging and appearing to be well focused on their stated goals. The 100 day post-election plan appears well underway on the big ticket items of repealing '3 waters' legislation, repealing the Auckland Regional Fuel Tax and 'Ute tax', restoring the Reserve Bank's focus to be solely on price stability, repealing 'Fair Pay' legislation, introducing legislation to disestablish the Maori Health Authority and make access to health care based on need with no overarching race based priorities, while making changes to the Education system to force schools to place more emphasis on the basics of the three 'r's' of reading, writing and Arithmetic.

If the first published political polls of the new year are to be believed, the public are in support of the governments initial steps.

What tax changes are coming and how will they affect us all?

The previous government introduced legislation to increase the trustee tax rate from the current level of 33% to the top individual rate of 39%. This legislation lapsed prior to the election and while there has been no formal comment on this since by the current government, indications are that this legislation may still be passed this term and applying from 1 April 2024 (for most taxpayers) as they look for additional revenue to support their efforts to reign in projected government deficits as a result of ballooning government spending and likely lower tax revenue, as the economy either slips back into recession or at best, remains very flat with anaemic growth.

This likelihood of this change still being passed was increased when the government scrapped their plans to tax foreign buyers on high value residential property purchases arising from the coalition agreements, creating a hole in their revenue raising plans.

The major changes that both National and Act campaigned on to restore interest deductibility for interest paid on loans by Landlords owning residential property have come to fruition. Landlords paying interest on loans raised to support their residential property investment portfolios will be able to deduct 60% of the interest they have paid in the 2024 income year, 80% in the 2025 income year and 100% in the 2026 income year.

Many independent commentators have commented that the repeal of the interest limitation laws signals the end of what was extremely flawed law. Treasury in their report to the government of the day indicated that in addition to being totally flawed in its concept of disallowing interest deductions to residential landlords while every other business operator in NZ was able to continue deducting interest in calculating their taxable income, it wouldn't achieve its stated aims of making the residential property market more affordable as it was likely to increase rental costs. It would be fair to say this has transpired over the last couple of years as investors fled the residential rental market.

Alongside the changes to interest deductibility for landlords of residential property, the Bright Line test for profits on residential property sold is being amended from the current 10 year period back to the original 2 year timeline which was effective when the Bright Line test law was first introduced in 2015. This change will be effective from 1 July 2024 and while the law has not yet been introduced, we expect it to include the same exemptions for someone's 'main home', along with other exemptions for rollover relief when properties not considered a 'main home' are transferred within essentially the same group of taxpayers such as from an individual or individuals to a family trust.

While the government has not yet enacted its plans on tax reductions for individuals as they campaigned on, we expect some form of change to occur from 1 July 2024. This is likely to include include a realignment of tax brackets initially with perhaps a further series of changes to be phased in over the next three years (just this writers opinion – no inside knowledge here!) to address the issue of 'bracket creep' which has affected thousands of New Zealanders over the last few years who have received pay increases from their employers in these times of high inflation, only to find themselves paying tax at a higher % rate which has effectively put them back further. We expect a higher threshold for the minimum rate of 17.50% at $15,600 (currently $14,000) and changes through the range to $78,100 (currently $70,000) where the rate goes from 30% to 33%. One would imagine the extent of any tax changes will be determined by the government's ability to find savings in their spending programs over the next few years.

While not a change to tax law directly, the government has agreed to increase funding to Inland Revenue ('IR') to allow it to put more resources into the audit function of IR. As a practitioner of some considerable years, it has been very noticeable that the audit activity of IR has significantly declined in the last 20 years. Twenty years ago full blown income tax audits and GST audits were pretty common. In the last 3-4 years, these seem to have dropped away to virtually nothing while 'desk audits' where a letter will be sent out to a taxpayer on a specific income tax or GST issue that has come to IR's attention. Even these types of enquiries appear to have been less over the last year or two. While this writer has no detailed knowledge of whether that appearance is in fact reality (being based solely on personal experience and discussion with other practitioners over that time), the additional funding said to be being made available would indicate the government expects the additional investment to produce a return in the way of additional tax being collected in future.

The above items are a brief synopsis of those tax changes considered likely to be in place in the next few months (if not already) that may have a direct or indirect effect on all may of us as self-employed people in one form or another. No doubt it will have an impact on this writer particularly as a tax agent for many of you more directly than other.

Finally, may 2024 lead to better times than the last couple of years. Here's hoping we start to see the first real signs of a drop in interest rates leading to more business confidence and a chance to see some real economic growth for the first time in the last 2-3 years.

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