Advisors and Accountants

Investment Tax Traps / Tips

1. Use of a Company for holding investments can limit the maximum tax rate to 28%.

2. Income from investments (other than shares) has to be returned on an accruals basis, rather than when received, where the total value of financial arrangements held by the taxpayer exceeds $1m, or income from investments exceeds $100,000 or the difference between Accrual and Cash income is greater than $40,000.

3. Taxpayers on a tax rate of greater than 28% may be able to reduce tax on investment income by investing in a PIE.

4. Where possible put income earning investments in the name of the taxpayer on the lowest marginal tax rate.

5. The transfer of funds between family members for investment should be recorded by an Acknowledgment of Debt, otherwise the IRD may not accept the splitting of interest income.

6. Remember that the "capital gain" on the sale of Government stock, Capital Notes etc is taxable.

7. Investments in shares not listed on New Zealand or Australian stock exchanges are subject to tax on 5% of the opening market value each year, irrespective of dividends actually received or changes in value of the shares. Individual and family trusts have the option of paying tax on the actual return for the year (both dividends and capital gain) if this is less than 5% but cannot claim a loss if total return is negative.

   Nor can the negative return be carried forward and offset in future years.

   Individuals are exempt from the above if total "foreign" investments cost less than $50,000.

   As a general rule non New Zealand/Australian shares should not be owned by a company (as a company has to return 5% of opening market value as income).

   If however, you are a share trader 5% is the total income on the shares (each year). Actual gains/losses are ignored (other than for NZ or Australian listed shares).

   For successful share traders a company may be an advantage.

8. The question of who is a trader depends on the facts of each case; the number of times you buy and sell shares and the amount of time involvement are critical factors.

   If you are in the unfortunate position of showing a loss on shares you should consider trying to make yourself a trader so that losses can be claimed.

9. If you have foreign investments (not shares) you may be required to account for unrealised foreign exchange gains/losses – once again taxpayers with less than $1m of investments do not have to account for exchange gains/losses until the investment matures.

10. Remember that income derived by a child (under 16) from a Trust is subject to a minimum tax rate of 33%.

    This is not so if Trust created by Will (and Trust has not received any other assets by way of interest free loan or gift).

11. **Property Investment** (see our article "Tax on Rental Properties")

    Common mistakes include:

    a) not identifying chattels separately and thereby missing out on an enhanced depreciation benefit.

    b) not structuring ownership to stream losses to the taxpayer on the highest marginal tax rate.

    c) paying tax on depreciation recovered when a building is sold without identifying whether it is the land or buildings which have increased in value.

    d) forgetting that interest is only deductible on funds borrowed to directly buy the investment property.

    e) allocating all the loss to the partner on the highest tax rate even though the property is jointly owned.

12. **Persons shifting to New Zealand after 1 April 2006**

    Persons who move to NZ after 1 April 2006 and have not been a tax resident in the previous 10 years are entitled to a 4 year tax exemption on most income derived form overseas. See separate article – tax Issues for Non Residents.