

FBT BUT WAIT THERE'S MORE



No free steak knives or cut in half boat shoes, just more bumbling by the Government.

In our last newsletter we outlined changes to Fringe Benefit Tax (FBT) which came into force on the 1 April 2006. However on 18 May 2006 the Government introduced a Taxation Bill which amends some of these changes. At present the Bill is only in commentary form so no exact details are available.

The commentary identifies **retrospective** changes to the FBT treatment of vehicles which were subject to a lease prior to 1st April 2006. It states that "...in general, vehicles acquired before 1 April 2006 should be subsequently valued at cost;".

As far as we can tell, the effect of this will be that vehicles which were subject to 9-5/ Flip leases prior to 1 April 2006 and which are brought into the FBT net after that date, will be subject to FBT based on their **cost** price. Where the vehicle was or is leased from an associated person, the cost price will be the cost price to the associated lessor.

Example:

- Vehicle purchased on 1 April 2004 for \$60,000 GST inclusive.
- Vehicle has been leased to the business since that date.
- Tax book value at 31 March 2006 \$28,400.
- If the 9-5 Lease is left in place after 1 April 2006, or the vehicle is sold to the employer, an FBT liability will arise from 1 April 2006.

Based on current legislation, the employer would calculate FBT based on the "tax value" of the vehicle, being \$28,400. However, under the proposed changes, in this case FBT will be based on the historical \$60,000 cost price, potentially increasing FBT from \$6,536 per annum to \$13,809, an increase of \$7,273 in the first year (they have to fund the benefit somehow).

The retrospective amendments to the legislation mean that much of the planning which has taken place prior to 31 March may now be defunct. Assuming this law change goes through (and there is no reason to believe that it won't), this fundamentally changes some of our recommendations in relation to motor vehicles which were subject to 9-5/ Flip leases prior to 31 March 2006.

We find the haste and lack of thought that has gone into enacting this legislation nothing short of appalling. Certainty of application of tax laws is fundamental to the successful operation of any tax system which relies on voluntary compliance and to business/ tax planning. This type of "off the cuff" legislation does nothing to encourage taxpayers to meet their obligations in an honest manner. The Government is seemingly unconcerned with the impact these changes have on thousands of taxpayers.

What do these latest changes and a speed camera have in common? According to the Government neither are revenue grabbing exercises.

We will in due course be reviewing our treatment of motor vehicles and issuing a more in-depth analysis of the changes (once we have actually seen the legislation).

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Other Tax Changes



UK Dividends

As from the 1st April 2005 (ie the 2005-06 tax year) tax credits on UK dividends can no longer be claimed.

IR3 Tax Guide (Individual) – Error

The figure shown on page 18 for the ACC earners levy – maximum liable earnings figure of \$92,189 is incorrect.

The correct figure for the 2006 year is \$94,226.

Our Website

Our website upgrade is now complete with several more additions planned over the upcoming months aimed at providing you with valuable and useful information. We welcome your comments and any suggestions you may have on how this site could be made more beneficial.

To view go to www.bizvice.co.nz

Student Loans – Interest Fee

From the 1st April 2006 student loans for borrowers living in NZ for 183 consecutive days (approximately 6 months) are interest free.

The IRD will continue to charge interest on these loans but this interest will be written off automatically after the 31st March 2007, and then again at the end of each year.

Even if you do not satisfy the 183 day requirement you may qualify for an exemption – to see if you qualify please contact the IRD directly.

IRD Interest – RWT is no longer deducted

As from the 1st April 2005 the IRD has not deducted RWT from any interest it has paid to taxpayers – they maintain it is the responsibility of the individual to pay the tax – another “Do as I say not as I do” scenario.

Low Value Asset Threshold

Just a reminder that from the 19th May 2005, assets costing less than \$500 no longer need to be capitalised (ie they can be expensed).

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