



## RING FENCING RESIDENTIAL RENTAL PROPERTY LOSSES



With the Taxation Act 2019 receiving Royal Assent at the end of June, the legislative changes to limit the offsetting of residential rental property losses are now in effect with the new rules having an intended application date of the start of the 2019/2020 income year. For people with a standard 31 March balance

date, the rules apply retrospectively from 1 April 2019.

The legislation intends to end landlords offsetting losses incurred on residential rental properties against other sources of income (for example salary or wages and investment income) which generally results in a reduced tax liability and in some cases an income tax refund.

This exercise was not a subsidy or indeed a loophole – it is a standard tax practice that is applied broadly in thousands of businesses across New Zealand and is based on the principle that the costs associated with establishing and running a business should be deductible from overall income.

According to Inland Revenue data, 116,000 property owners declared an average property investment loss of \$7,138 in the 2016/17 year.

Conversely, under the new legislation, any ring fenced losses may not be permanently lost – instead they are deemed to be ‘quarantined’ and can be carried forward and offset against any future income derived from residential rental property. In some cases, this could include any taxable income arising from the sale of the property itself.

If more than one rental property is owned, the legislation requires taxpayers to determine whether they hold their properties on a portfolio basis or a property-by-property basis. If a taxpayer does not make an election the default position is that the portfolio basis would apply.

For existing residential rental property owners, the election must be made in their income tax return for the 2019/20 income tax year (i.e. the first income tax return that is affected by the new rules).

The key difference between the two methods is that:

- Where a taxpayer elects a property by property basis, the expenses of one property cannot be offset against income from other properties. However, if the sale of land becomes taxable due to the land being sold within a certain time-frame (i.e. under the bright line test) the ring fenced losses for that property can be released and offset against other taxable income of the owner.
- Where a taxpayer elects the portfolio basis, the expenses of one property can be offset against income from other properties – however, there are restrictions on the ability to release ring fenced losses on the taxable sale of a property.

The choice to treat residential rental properties on a portfolio or property-by-property basis isn't necessarily a straightforward one and it may depend on the expectation of what will happen in the event of the property being sold.

Ring fencing rental property losses so that they can be used only to offset against taxable income from rent might sound reasonable – until it is realised that an investment property in one of the major metropolitan centres generally makes a loss for up to ten years before it starts making a profit. In a sense, such property investors are actually subsidising their tenants – a claim which will draw howls of outrage from some quarters but is nevertheless true.

### Comment:

**While the new rules refer to the “ring fencing” of rental property losses, the rules actually operate to stop a loss being created. The legislation limits a taxpayer’s deductions in an income tax year to the extent of the taxable income that arises from a residential rental property owned by the taxpayer. Any additional expenses that exceed the taxable income (this amount would normally be the loss component) are carried forward as “quarantined expenses” to the next income tax year where they can be applied as deductions to that year’s residential rental property income.**

**The consequences of this law change may mean that some landlords will look to recover this additional cost through increased rents; others may exit an increasingly hostile rental environment which has seen their costs increase through new compliance requirements.**

**In all, this legislation removes the incentives which have made private citizens the dominant providers of rental accommodation in this country – and at a time when the country needs more rental housing than ever before.**

**As the rules are now in place, we recommend you consult your Graham & Dobson advisor to ensure you understand all the tax implications to owning a rental property.**

## EMERGENCY LOCATOR BEACONS

For many farmers the geography of the country limits cell phone coverage. There may be some signal when up on the hills but once in the gullies, the signal is non-existent. Signal also varies between telecommunication providers, depending very much on where their nearest cell phone tower is located. So, emergency locator beacons provide an alternative means of contacting emergency services.

Once these small cell phone sized devices are activated, their signal is picked up by satellite and/or aircraft. An alert message is relayed, along with the beacon’s location, to the Rescue Coordination Centre of New Zealand and the rescue operation is then started.

Emergency locator beacons provide a continuous signal to broadcast the location until the battery runs out. They do not allow the user to make or receive any other communication with the rescue centre or friends/family. The battery life on these beacons is approximately 5 to 7

years before the batteries need replacing. Due to the high cost of replacement batteries, most beacons are replaced rather than repaired.



Recently there have been a number of satellite messenger devices released. These use satellite systems to send messages or emergency distress notifications. Services differ between devices and require a monthly paid subscription to access the service. The advantage of these is the ability to have two-way communication in areas that do not have cell phone coverage.

The size and price of these satellite messenger products continues to decrease as technology improves. Devices such as Garmin Inreach currently cost between \$550 and \$750, with subscriptions starting from approximately \$26 per month. Emergency locator beacons can be purchased from most hunting or fishing stores for between \$300 to \$500.

Devices with a cost over \$500 should be capitalised and depreciated. Devices with a cost of less than \$500 should be expensed as farm expenses. For farmers who hunt or tramp there may be a personal use element. However, as long as the device is primarily purchased for use on the farm and is predominantly used on the farm, this can be ignored.

## THE BLACK ECONOMY

It's known by many names: the shadow economy, the black economy, the cash economy, and of course, its real definition – tax evasion. Tax dodgers leave the Inland Revenue Department a billion dollars short each year, according to Chartered Accountants Australia & New Zealand (CAANZ). This figure is central to recommendations put forward by CAANZ in its submission to the Government's Tax Working Group which continues to examine the fairness of New Zealand's tax structure. Addressing the black economy is one of the easiest ways in which the Government could increase its annual tax take.

The billion dollar amount is based on research showing that New Zealand is missing out on about \$850 million in its annual tax take due to the country's self employed under-reporting their income by about 20%. It is further estimated that when other legal entities such as companies are included, the amount of undeclared tax from the black economy is likely to be in excess of that figure per year.

John Cuthbertson, NZ Tax Lead for CAANZ, believes work needs to be done in changing Kiwi attitudes to tax evasion as it is not a victimless crime. "Under-reporting income, manipulating your expenses and slipping a tradesman some bank notes is not okay," he said.



There is a cost to this behaviour and that cost is less money for the huge range of government services in need of more funds. The \$850 million, for example, is equal to one year's investment in hospitals and other facilities as announced in the 2019 Wellbeing Budget.

## FAKE IRD TAX REFUND E-MAIL

The Inland Revenue is unsure how many Kiwis have been scammed off the back of a fake tax refund e-mail requesting bank account details – however they have received more than 1170 reports from the public about e-mail scams since the end of June. Scams have become more sophisticated over time as they are right on point with the language and up-to-date information the people would expect the Inland Revenue to include, especially if they have not previously had a connection with the IRD.

**Inland Revenue**  
Te Tari Taake

**Your Income Tax Update**

July 2019

**Dear**

You are eligible to receive a refund of \$319.27 NZD.

You have GST returns for period ending **1 July 2018**, due **31 July 2019**, now available for refund!

**Remember:** We tried to send it to you automatically but were unable to do so as we don't have your details on file.

**Ready to refund it now?**

- Have your credit/debit card ready.
- Open the application form below in your browser and login to your myIR account.
- Follow the instructions on your screen.

Remember, If you are not the intended recipient of this email, please reply to inform us that you have received this email in error and then delete it without retaining any copy.

**Note:** Make sure all your income, benefits and family details are up to date in myIR, this will help make sure you're getting the right entitlements.

### Comment:

- Always check the actual sender 's email
- Never follow links in emails – type the address into your browser yourself.
- Never give out internet details or credit card details
- Where you do need to enter credit card details, ensure it is a secure site ("https" at the start of the address)
- Ensure you have good anti-virus protection on your computers and phones

## GOOD PLACE FOR A BUTT!

TerraCycle was founded in the USA with a mission to "recycle the non-recyclable" and has raised nearly US\$45 million for charities through their rewards system.

In Australia TerraCycle has partnered with major cigarette importers to recycle cigarette butts into useful products like park benches! Cigarette filters look like cotton fibre but are made from cellulose acetate, a polymer which can take years to break down. The shredded filters can be compounded into plastic pellets to make a variety of products.

Between 18 and 22, a woman is like Africa . Half discovered,  
half wild, fertile and naturally beautiful

Between 23 and 30, a woman is like Europe. Well developed  
and open to trade, especially for someone of real value

Between 31 and 35, a woman is like Spain. Very hot,  
relaxed and convinced of her own beauty.

Between 36 and 40, a woman is like Greece. Gently aging  
but still a warm and desirable place to visit.

Between 41 and 50, a woman is like Great Britain.

With a glorious and all conquering past

Between 51 and 60, a woman is like Israel. Has been through war,  
doesn't make the same mistakes twice and takes care of business.

Between 61 and 70, a woman is like Canada. Self-preserving,  
but open to meeting new people.

After 70, she becomes Tibet.

Wildly beautiful, with a mysterious past and the wisdom of the ages.

An adventurous spirit and a thirst for spiritual knowledge

#### THE GEOGRAPHY OF A MAN

Between 1 and 100, a man is like North Korea and the United States.

Ruled by a pair of nuts!! 🤪🤪🤪🤪