NEWSLETTER SEPTEMBER 2024

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CHARTERED ACCOUNTANTS LTD

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Xero Price Increase and Plan Changes

We are writing to let you know that Xero is introducing upcoming pricing changes for business plan subscriptions coinciding with the launch of a new line-up of business plans.

From 12 September 2024, the prices for current business plans are changing as follows (all pricing is in NZD and excludes GST):

- Starter plan increasing to $35 per month (current: $33 per month)
- Standard plan increasing to $75 per month (current: $71 per month)
- Premium plan increasing to $99 per month (current: $94 per month)
- Ultimate plan increasing to $113 per month (current: $105 per month)

The price of any optional add-ons you may currently have as part of your subscription does not change. If you have a current Xero promo code, it will continue to be applied to the new pricing, until the code expires. Please note existing add-ons will no longer be available for separate purchase from 12 September for the above plans.

From 12 September 2024, Xero is also launching three new streamlined business plans (Xero Ignite, Xero Grow and Xero Comprehensive) and enhancing the Ultimate plan. The three new plans will replace the Starter, Standard and Premium plans which will no longer be sold from 12 September 2024.

These new plans are designed to provide you with easier access to the tools to help run your business. That means no add-ons, as more key features are included in plans. There is a 12-month transition period to move to one of the new Xero plans from your existing plan and we will be in touch to discuss which plan suits you best and the best time to transition.

UPCOMING TAX DATES

20 September 2024
August 2024 PAYE Due

30 September 2024
GST return & payment due Period ending 31 August 2024

21 October 2024
FBT quarterly return & payment due Period ending 30 September 2024 for March balance date

21 October 2024
September 2024 PAYE Due

28 October 2024
GST return & payment due Period ending 30 September 2024

20 November 2024
October 2024 PAYE Due

Staff Introductions

Cherie Goodwin & Alana Kidd

No doubt many of you have already met or spoken to Cherie, who is Renier's P.A and has been with us since January.

We warmly welcome Alana, who will be taking over the reins at reception from Jo Codlin, who is going to work closer to home. Many thanks Jo and best wishes on behalf of everyone.

Government support to tackle tax debt and compliance

The Minister of Revenue, the Hon Simon Watts, has stated that new compliance funding in Budget 2024 will ensure Inland Revenue is better equipped to catch individuals who are evading their tax obligations.

- the hidden economy and organised crime
- electronic sales suppression tools
- GST integrity
- student loan overseas based borrowers, and increased audit activity

As a result, increased IRD activity is expected.

39% Trustee Rate – will this mean more PIEs?

A portfolio investment entity or PIE is an enitity which invests the contributions from its investors in different types of passive investments. There are several types of PIEs, each with different abilities and tax requirements.

Any proposal to increase tax rates is sure to promote discussion. The legislative journey that has ultimately resulted in an increase to the trustee tax rate from 33% to 39% from 1 April 2024 has been no different. Although the change means there is now alignment with the top personal tax rate, a misalignment remains as companies and portfolio investment entities (PIEs) continue to be taxed at a maximum rate of 28%. While company tax is arguably just an interim tax until profits are distributed to shareholders, investors in PIEs have a permanent tax benefit.

While a 5% tax rate differential already existed between the trustee and top prescribed investor rate (PIR) for PIE investors, this has more than doubled to a headline 11%. With trusts commonly used for holding investment portfolios and their prevalent use in New Zealand for asset protection purposes, the immediate reaction may be to shift to investing via PIEs. It is important to understand that there are pros and cons with the tax settings of different investment decisions rather than the tax rate differential being the only driver. With this in mind, we have set out below some points that should be considered as part of the investment decision-making process in the context of the trust rate change and PIEs from a tax perspective.

What do I need to consider?

A key benefit of the PIE rules is that tax is capped at 28%. This is in line with the fact that the regime is intended to be concessional to promote and encourage savings (note that most, if not all, KiwiSaver schemes have elected to be PIEs). PIEs are taxed in a similar way to direct investments in New Zealand fixed income and New Zealand equities and are generally viewed as being more efficient from a tax perspective for investors with a tax rate above 28% for these investment classes. However, this is not always the case in the context of Foreign Investment Fund (FIF) investments.

Many trusts and individuals have the advantage of flexibility as they can choose to calculate FIF income under either the "Fair Dividend Rate" (FDR) or "Comparative Value" (CV) method, whichever is the most beneficial. For example, the FDR method could be chosen in years where the returns from international equities are greater than 5% and the CV method could be chosen when returns are less than 5% or where the value of equities declines. This option is not available to a PIE, which must use FDR regardless of how the overall market is performing.

The above highlights how the increased tax rate differential resulting from the trustee rate change should not immediately signal a structural change to investments. As the tax settings at play could lessen or even outweigh the 11% headline rate differential, it is important that these are considered before decisions are made. It is also important to understand that while it can be material, tax is just one of many factors that should be considered when reviewing the overall effectiveness of an investment and an investment structure (e.g. factors such as management fees charged and asset performance should also be considered).

For completeness, PIE and company/shareholder misalignment issues are known to Inland Revenue who have stated that they will monitor the effect of the trustee rate change including monitoring structural changes that are made by taxpayers.

An investment in PIE funds must be considered within the strategy of the investment goals and risk profile. Please discuss with an investment advisor whether a PIE fund is to be part of your investment portfolio.

Defined terms:

FDR method – The fair dividend rate (FDR) method deems 5% of the opening market value of FIF investments to be taxable with adjustments for "quick sales" which is a technical term for shares that are both bought and sold during the same year.

CV method - The comparative value (CV) method taxes the actual annual economic return from FIF investments including unrealised gains, realised gains and dividends.