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Saturday, August 13, 2016 (Room 5)

8:30 - 9:25 WS #64: Tax Issues for Doctors Investing

9:35 - 10:30 WS #74: Tax Issues for Doctors Investing (Repeated)

South GP CME General Practice Conference & Medical Exhibition

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Tax Issues For Investing

August 2016

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Agenda

Today we will:

- Discuss a number of case studies
- Discuss the differences in the types of structures
- Look at some tax traps to be wary of

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Disclaimer

"The information contained in this presentation is general and is not intended to serve as advice. Users are encouraged to contact **William Buck Christmas Gouwland Limited** professional advisers for advice concerning specific matters before making any decision."

Case Study One

John owns a house in which he lives. John bought the house with mortgage funding of $500,000.

A) John receives an inheritance of $500,000 and decides he would like to buy a rental property. Will the interest on the home property mortgage be tax deductible against the rent received?

B) John decides instead to use the inheritance to pay off his home mortgage, and he then purchases a rental property using a loan from the bank. Will the interest on the mortgage be tax deductible?

C) Will the answer to B) be the same if the mortgage was a revolving facility?

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Case Study Two

Tracey buys a bach for $750,000 settling the property on 15 January 2016 with title registration happening the same day.

The property is rented out for part of the year, when Tracey or her family are not using the property.

In 2018 Tracey decides she doesn't like her neighbours and sells the bach for $850,000. She enters into an agreement to sell 13 January 2018, and settling on 10 February 2018.

A) Is the sale subject to the bright-line test?

B) Could Tracey have done anything to change the answer to A)?

C) Are all Tracey's expenses tax deductible?

Case Study Three

Tom buys a unit in Australia and rents in out in the rental pool. Tom borrows from an Australian bank to purchase the property.

A) Is Tom subject to New Zealand income tax and Australian income tax on the Australian unit?

B) What are the tax consequences of the Australian domiciled loan?

C) Could Tom do anything to reduce his tax exposure?

D) Is Tom subject to capital gains tax in Australia?

E) Is Tom subject to stamp duty on purchase?

F) Is Tom subject to land tax?

G) Do the bright-line test rules apply to this property?

Case Study Four

Mandy buys a house for her family to live in. The house is purchased in a trust. One of the beneficiaries is a New Zealand citizen. This person has not been in New Zealand for the last three years, and has received a distribution of $10,000 in one of the last four years.

If the house is sold within two years of acquisition, will residential land withholding tax need to be deducted?

Case Study Five

Hamish purchased a dilapidated property and undertakes repairs before renting the property out.

A) Will the repairs be tax deductible?
B) Will the repairs be tax deductible if the property was rented out first and then the repairs were undertaken?
C) The following year Hamish adds a deck to the property – is the deck a repair for income tax purposes?
D) What assets can Hamish depreciate for income tax purposes?

Case Study Six

Lucy has bought some shares in New Zealand companies. She receives dividend statements with details of imputation credits and resident withholding tax credits.

What are these credits?

Cast Study Seven

A friend of Lucy’s suggests she invest in PIEs.

What are PIES and how are investors taxed when investing in PIEs?

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Case Study Eight

Adam is considering investing and goes to an investment adviser.

A) He received a plan for which he is charged a fee. Is the fee tax deductible?

B) He then decides to have the adviser monitor his investments. Is the monitoring fee tax deductible?

Case Study Nine

Hannah decides to invest in shares in Australia, the UK and the USA.

Are there any tax rules she needs to be aware of?

Case Study Ten

Sally decides that instead of investing in shares, she will trade in shares.

A) Is trading in shares different to investing in shares?

B) Does it make any difference if the trading is in overseas shares?

C) If Sally borrowed to buy the shares, is the interest paid tax deductible?

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Case Study Eleven

Bruce decides to invest in bonds instead of shares.

Are the gains on bonds taxable?

What Structure to Use?

Trust

- Protects assets from personal liabilities such as guarantees (good for business owners)
- Can allocate passive income to beneficiaries to use up lower tax rates
- Cannot allocate losses against non trust income (such as individual or company income)
- Higher compliance costs than an individual
- Suits share investment and residential land investment
- Suits profit making assets

What Structure to Use?

Company

- Provides limited liability which is useful when dealing with commercial property tenants
- Losses can be offset against profit companies in the same tax group
- Transferring the ownership of the underlying assets is easily done by transferring the shares
- Can’t access capital gains tax-free unless liquidating
- Higher compliance costs than an individual
- Suits commercial property investment

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What Structure to Use?

Look through company

- An ordinary company but for tax purposes deemed to be like a partnership
- Profits and losses are attributed to shareholders for tax purposes
- Loss limitation rules
- A deemed sale of the assets if the shares are sold
- For tax purposes limited liability is lost
- Good for getting capital gains out tax-free
- Dividends are tax-free
- Suits loss making investments

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What Vehicle to Use?

Individual

- Simple ownership
- No limited liability so assets are available to creditors
- Low compliance costs
- Profits assessed at marginal tax rates
- Cannot allocate income to others
- Losses can be offset against other income
- Easy to access capital gains
- Suits low level of investment, or loss making investments, or where individual has no business risk

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Tax Traps to be Wary of

- The bright-line dates for residential property
- Deemed sale if you transfer shares for bright-line test
- Being deemed to be an offshore person for residential land withholding tax
- Attend to repairs after a property has been tenanted
- Negative gearing of rental properties is a political football
- Boundary adjustments are a subdivision
- Increase in value of land due to resource consents or changes in zoning
- Borrowing overseas
- Don’t buy FIF’s just before year end
- Imputation credits and overseas tax credits are not refundable
- Changing shareholders in companies could lose tax losses and imputation credits
- Make sure you return your income correctly as penalties apply
- Provisional tax will apply to rental and overseas income

Summary

The tax rules surrounding investments are complicated so obtain good advice.

Make sure you use the right structure.

Make sure you use all the tax credits that are available.

Thank you

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