

BDO Webinar - Eyes on Tax Special

Tax, tax, and more tax?

24 MAY 2023

PRESENTED BY:

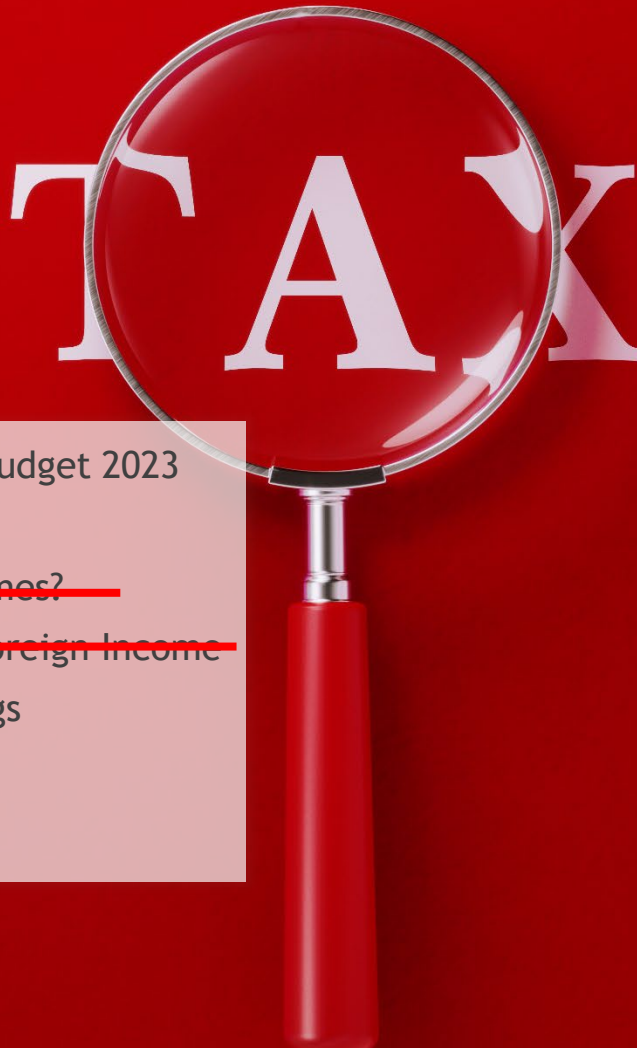


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AGENDA

- ▶ Tax Announcements from Budget 2023
- ▶ ~~Recent GST Changes~~
- ▶ ~~Can tax deliver ESG Outcomes?~~
- ▶ ~~New Disclosure Rules for Foreign Income~~
- ▶ High-wealth project findings
- ▶ An Eye on the Future
- ▶ Q&A

39%

BUDGET 2023

- ▶ 39% Tax Rate for Trusts
- ▶ International Tax - OECD Pillar 2
- ▶ Timing of Lump Sum Receipts - ACC and MSD
- ▶ Tax Principles Reporting Bill



HIGH-WEALTH PROJECT

Home / Business

Budget 2023: Trustee tax rate hike could catch middle-income Kiwis in crossfire experts warn



By Duncan

PREMIUM

18 MAY 2023

Trustee tax change to improve fairness



HON DAVID PARKER

Revenue

The trustee tax rate will be aligned with the top personal tax rate of 39 percent from April 2024, improving the fairness of the tax system and reducing opportunities for high-income taxpayers to circumvent the top personal tax rate.

"When the Government put in place the 39 percent top personal income tax rate in 2021, IRD and Treasury also recommended aligning the trustee rate to 39 percent," David Parker said.

"Ministers made clear then that if analysis indicated high income earners were circumventing the rate through greater use of trusts, the Government would move to address this issue."

Comments

Stuff

Richest Kiwis pay about half as much tax on the dollar as the average New Zealander

Tom Pullar-Strecker · 16:45, Apr 26 2023

business

Rich effectively paying less than 10% tax



BUSINESS / ECONOMY

Rich paying their fair share of tax, study concludes

10:32 am on 18 April 2023

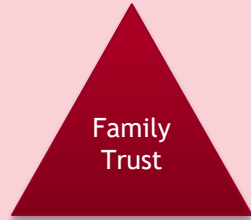
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TRUSTEE TAX RATE - 39%

Current Tax Rates

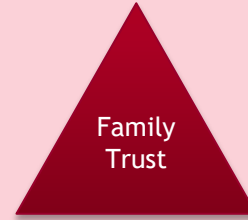
Trustee Income
Tax Rate 33%



Beneficiary Income
Tax rate 10.5% - 39%

For 2024/25 Income Year

Trustee Income
Tax Rate 39%



Beneficiary Income
Tax rate 10.5% - 39%

TRUSTEE TAX RATE - 39%

Beneficiary Income

- Income distributed or paid to beneficiary
- Income allocated and credited to the beneficiary's current account
- Income allocated for them to possess at a future date or event

Trustee Income

- Income which is not beneficiary income

Exceptions

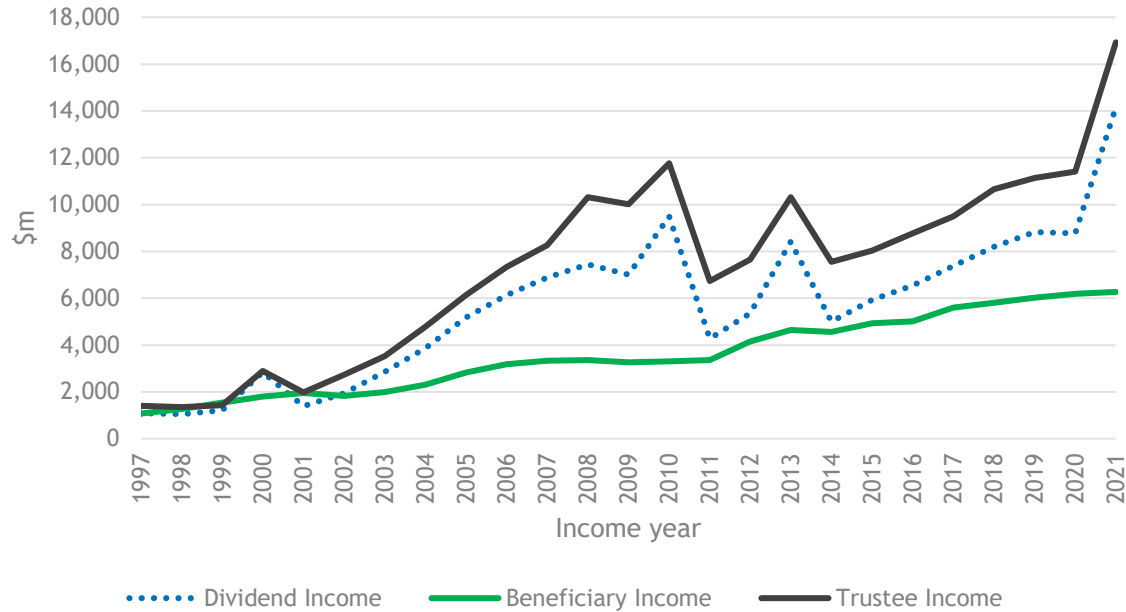
- Deceased estates
- Disabled beneficiary trust

Social Policy

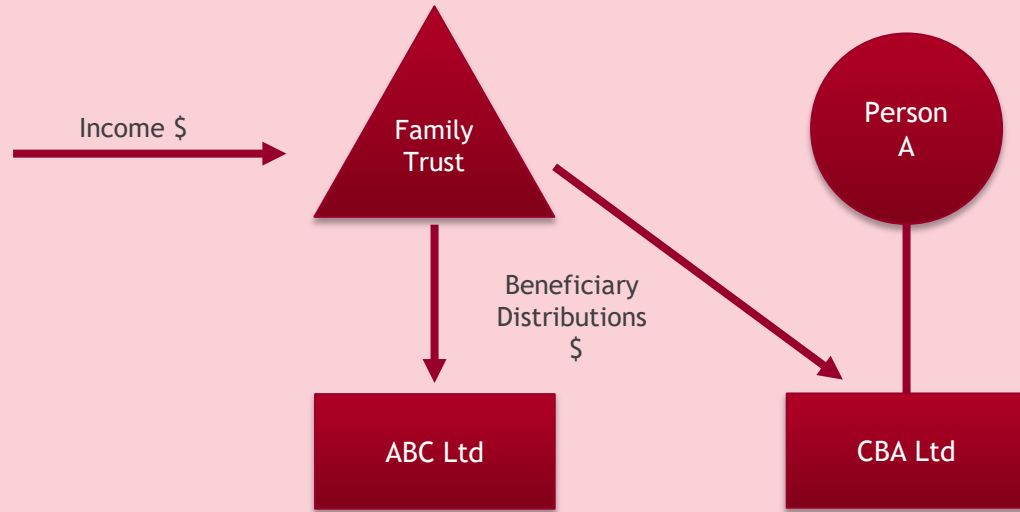
All distributions of beneficiary income and trustee income included in assessments for social policy considerations (e.g. working-for-families; child support and student loans)

TRUSTEE BEHAVIOUR

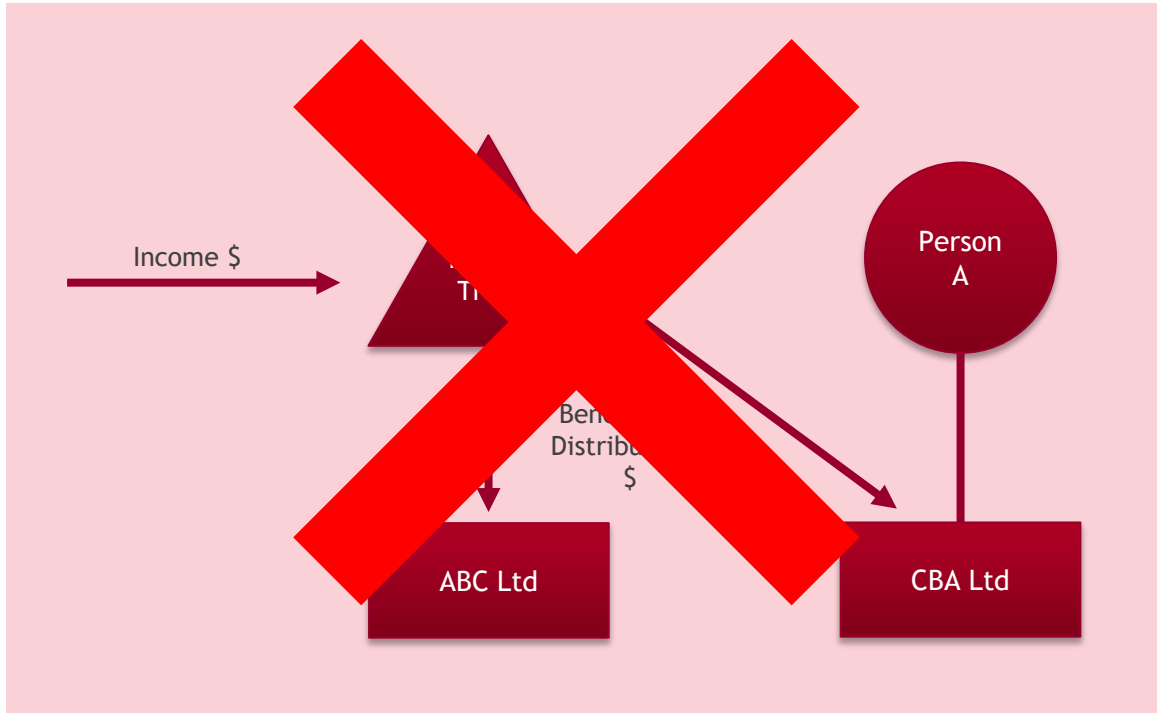
Figure 1: Income reported on trust tax returns 1997-2021



COMPANY BENEFICIARY = 28%?



COMPANY BENEFICIARY = 28%?



Distributions to corporate beneficiaries will be taxed at 39%.

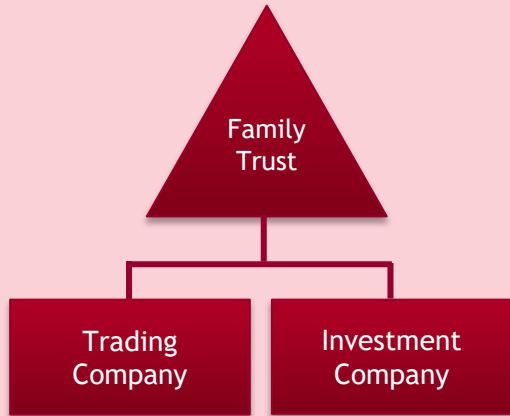
WHAT IS THE LIKELY IMPACT?

- ▶ Trustee's likely to be “forced” to invest in portfolio investment entities.
- ▶ Don't be lazy i.e. distribute the income to the beneficiaries and if you need to, get them to gift it back!
- ▶ Will paying fully imputed dividends before 31 March 2024 be seen as tax avoidance?
- ▶ Consider introducing a holding company structure for commercial investments.

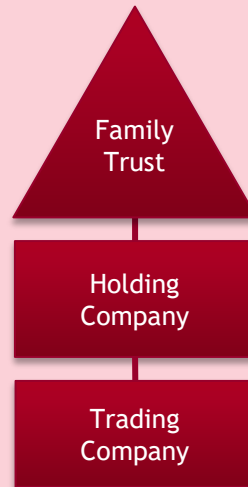


COMPANY STRUCTURES

Flat Structure



Holding Company Structure



Discussion Points

- Excess cash in trading company to be used to make non-private investments.
- A loan from trading company to investment company leaves investment assets at risk if loan called up.
- A dividend to family trust is taxed at 39% so less funds available to provide to invest company.
- Dividend to holding company is exempt income. So 11% more available to invest.

AN EYE ON THE FUTURE

- ▶ Tax system needs a reset and an overhaul.
- ▶ The ever increasing cost of bracket creep - a double edged sword.
- ▶ Big data and disclosure.





Q&A