BUSINESS & TAX ADVISORS Ltd.

Newsletter – April 2014

Foreign Superannuation, pensions and life insurance

One of the most sweeping changes to taxes in recent years was passed through Parliament in late February 2014 and for most taxpayers took effect from 1 April.

This change introduced new rules for the taxation of lump sum withdrawals from foreign superannuation schemes and to transfers from such schemes to New Zealand or Australian superannuation schemes or Kiwi Saver.

In essence, from 1 April 2014 withdrawals from foreign superannuation schemes (including transfer to Australian and New Zealand schemes) suffer tax on a percentage of the amount withdrawn depending upon how long the person has been in New Zealand.

The longer a person has been New Zealand tax resident the greater percentage of the withdrawn/transferred amount will be taxed.

For most new arrivals there is however a 4-year “window of opportunity” to withdraw/ transfer funds without the impost of New Zealand tax.

Past Withdrawals

If you have withdrawn a lump sum or transferred your foreign superannuation scheme to New Zealand after 1 January 2000 and have not complied with the “old rules" you may have tax to pay.

Under a transitional rule there is a concession whereby any person who has not meet their obligations to include 15% of the amount withdrawn or transferred in their 2014 or 2015 tax return.

Inland Revenue knows who has transferred lump sums into New Zealand superannuation schemes from 1 January 2000 and is to monitor who is correcting the situation by paying tax on their withdrawals and transfers.

Failure to pay tax on 15% of the amount may result in Inland Revenue action after the 2015 returns are processed.

We have been quite surprised by the number of clients with foreign superannuation interests who have not told us about them.

It seems to us that migrants and returning Kiwi’s do not seem to regard their foreign superannuation scheme interests as foreign investments that are taxable or they simply put them out of their mind!

We simply urge you to talk to us if you have worked overseas and have (or think you have) funds in a foreign superannuation scheme or have had funds in such schemes in the past.

Life insurance

Many new arrivals also have foreign life insurance policies that are in effect an investment. New Zealand regards these policies as investments and imposes tax on the returns from them as they grow in value.

If you have a foreign life insurance policy you may not have thought there would be tax implications in New Zealand – but there could be.

Again, we simply urge you to talk to us if you have a foreign life insurance policy.

Pensions

New Zealand also likes to tax most pensions that a New Zealand tax resident receives from overseas.

We are discovering a number of migrants who have been receiving pensions and have not told us about them and have not paid tax in New Zealand on them.

In one instance, we are aware of a person who has not returned their foreign pension income since 1992!

The other catch with foreign pension income is that many source countries under New Zealand’s international agreements do not have the right to tax the pension. New Zealand has the sole right to tax it.

If New Zealand has the sole right to tax the pension but tax has been paid or deducted in the foreign country Inland Revenue cannot give a credit for the foreign tax. The foreign tax has to be recovered for the Tax Department in the foreign country.

Again, we simply urge you to talk to us if you receive a foreign pension.

Mixing business and love

Small businesses are the "back bone" of the New Zealand economy. Many of those businesses, be they farming, trade, retail or hospitality, are owned and run by couples (whether male/female, same sex, de facto, civil union, married) in a relationship.

Being in business together and being in love can place a strain on both relationships but can also be rewarding and satisfying.

While working together is by no means easy here are 5 things that we think are important to a successful business operated by a couple:

1. **Commitment**. It is important for both partners to be equally committed to the business. If both are giving equal time and effort to the business they can feed off each other and gain energy and vision.

2. **Common Vision.** If one partner wants to puddle along with the business doing as it always has while the other wants to grow it and take on the world there will be stress. It is important for both to be on the same page and to work towards the same goals and vision for the business.

3. **Know each others role and let them get on with it.** We all have different strengths and abilities. Recognising those attributes and letting our partner use them for the success of the business is an important element for success. The strong marketer should get out there, eat the lunches and sell the business to customers, while the strong "doer" is busy making the product or sourcing the stock. When it comes to paperwork (we hear you groan) the person with the attribute should keep things in order and if neither has that strength maybe we can help so you can go out and make the profits.

4. **Respect each other.** It is essential for a successful personal relationship and a successful business relationship to respect your partner. When both are required in the one relationship it can be hard to achieve. Going into business as a happy couple and lead to an unhappy couple and a failed business or just general misery. The relationships come first before the business and it may even be that in going into business there is agreement that if the business starts to affect the relationship the business goes! Regardless, it is important to respect each other.

5. **Turn-off.** It is hard enough to run a business. It is really important then that the business stays at work and at home time it is left there. Business issues should be dealt with at work and left there and not talked about at home. Home is the place for fun, laughter, rest and relaxation. Even couples in business to take time to enjoy each other and turn-off from the business. It is so easy for the business to consume 24 hours of the day – not a good idea!

This is a text box, click in here to add Your Company Details

Happy New Year

For most business people the new financial year started on 1 April and we are now gearing up to do your financial statements and tax returns.

It really assists us in completing you work as effectively and efficiently as possible if you accurately and fully fill in our Information Questionnaires.

We know they are "a pain" but they provide us with the majority of the information we need to complete your work.

The Information Questionnaires also include a checklist of all the supporting information we need. The idea is to assist you to give us what we need so we don't have to bother you too much.

All going well, the better the information you give us the more accurate is our work and the lower our fee will be.

Inland Revenue also expects us to do our work based on accurate information.

You must (by law) retain all your business records for seven years. We retain our files for the same period just in case Inland Revenue needs to take a look.

Please be a little patient with us. We want to get your work done as quickly as possible but if all our clients want things "done yesterday" we can get "snowed under".

If you need your work early for some reasons please talk to us!

The voice of experience

"A man who stops advertising to save money is like a man who stops a clock to save time"

- **Henry Ford**