



# Clive Knauf & Associates

## New Zealand Investment Properties – GST (Goods & Services Tax) Registration

While the rental of residential accommodation is an “exempt activity” for GST purposes, there are some circumstances, particularly with serviced apartments and the like, which can have GST implications.

### GST on Purchase

It is essential when purchasing any property to be very clear as to the GST treatment. The sale and purchase agreement should clearly state the basis on which GST is treated. The price will be stated as:

Inclusive of GST, or

Plus GST, (GST exclusive), or

Zero-rated. As a safeguard, sellers will usually add that this is “plus GST, if any”.

Serviced apartments and other short term accommodation will often be sold as “zero-rated” for GST purposes. This means that (instead of GST of 12.5% being included in the purchase price) GST has been charged at 0%.

In order for this to apply, there are a number of conditions which must be met.

- it must be a “going concern”. This means that there must be a lease or management agreement in place which clearly demonstrates that the property is being used in a “taxable activity”. The lease must be in place before, and continue after, the sale of the property.
- the parties (buyer and seller) must **both** be GST-registered, and
- agree that the sale is of a “going concern”.
- If the purchaser is not GST registered, GST of 12.5% will be added to the purchase price.

For example – where the purchaser **is** GST registered:

	GST Inclusive	GST Exclusive	Zero-rated
Contract price	225,000	225,000	225,000
GST to be added	0	28,125	0
Amount payable on purchase	225,000	253,125	225,000
GST refundable if GST registered	25,000	28,125	0
Net cost after GST refund	200,000	225,000	225,000

### GST on Income

Essentially, the way GST works if you are GST registered is that, you collect the GST on the rent you receive, and pay it on to the IRD, after deducting the GST content of any expenses incurred.

If your annual total “taxable supplies” (rent income) is less than \$50,000 you can opt not to become GST registered. You would then not be able to claim any GST charged on expenses such as body corp. fees, rates, maintenance items etc., and you would not receive GST in addition to the basic rent.

For example:

	GST registered	Non-registered
Rent income	2,000	2,000
Plus GST (if in management agreement)	250	0
Total received	2,250	2,000
Expenses with GST content	675	675
Net rent	1,575	1,325
GST collected for IRD	250	0
Less GST content of expenses	75	0
GST payable to IRD	175	0
NET rent after GST	1,400	1,325



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## **GST on Sale**

On eventual sale it is again essential to be very specific as to the GST treatment.

If the property is still subject to a management agreement / lease and GST registered, the property may again be sold as a “Going concern”, and “zero-rated” for GST purposes, as above.

If the price is not specific it will normally be taken as being “inclusive of GST” and one ninth of the sale price will be payable to the IRD as GST.

Similarly, if the property ceases to be subject to the management agreement, and not used in a “taxable activity”, for example is occupied as a residence, then GST will be payable on the value of the property at the time of change.

## **The Registration Process**

Our GST registration process is as follows:

- a) If the purchase is by one individual we apply for IRD and GST registration for that individual.
- b) If the purchase is in the joint names of two or more owners (e.g. husband and wife) we need to apply for IRD registration for each as individuals, **and** as a partnership – i.e. obtain IRD numbers. We then register the partnership for GST.

We also register as your tax agent which allows us to manage your contact with the IRD. At the same time we apply to file your returns for a 30 June year to align with your Australian filing.

## **Return Filing**

You can opt to file GST returns monthly, 2-monthly, or 6-monthly. We recommend 6-monthly.

Each six months we update your accounts and file your GST return. You will need to pay the GST we calculate to the IRD by the 28<sup>th</sup> of the month following the end of the period (usually July and January).

After the end of the financial year we complete annual accounts for the property, allocating the income or loss equally among the owners, and file individual tax returns for each.

Alternatively, if you opt **not** to become GST registered, we would register you only as individuals, and prepare accounts for the property. The income is then shared equally between the owners, and income tax returns filed for each.

## **GST Rate Change 1 October 2010**

The budget announcement on 19 May 2010 gave notice of an increase in GST rate to 15% effective 1 October 2010. The figures in the above tables should be recalculated for periods after this date.

You should also look at the information on our website at [www.knauf.co.nz](http://www.knauf.co.nz) under “Resources/ For Non-Resident Investors”.

1 July 2010

Please contact us if we can be of further assistance.

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