



# Clive Knauf & Associates

June 17, 2011

## Information for Non-Resident Property Investors.

We have a number of overseas investor clients (particularly in Australia) whose NZ tax filing obligations we manage. While we have some understanding of the Australian tax system, we do not hold ourselves out to be experts in that area, and recommend that you consult your local accountant for specific advice relative to your local tax system. There are significant differences between the two countries, and all advice should be considered from the perspective of **both** systems.

The most frequent issues which arise are:

1. Requirement to Register for Income Tax: Since you will be earning income in NZ it will be subject to NZ income tax provisions. You will need to obtain a NZ IRD number, and file income tax returns.
2. Tax Year: NZ has a 31 March tax year. There may be special circumstances which allows us to seek change in balance date.
3. Form of Ownership:  
Joint Ownership/ Tenants in Common: Where joint ownership is contemplated (e.g. husband and wife) be aware that unless specific provisions exist, the income or loss will have to be split equally.  
Corporate ownership. There are a number of considerations specific to non-resident companies operating in New Zealand. Please ask us for our information sheet.
4. Capital Gains Tax: While there is no Capital Gains Tax in NZ, Australian CGT will apply on eventual sale. In NZ it is the investor's intention at the time of purchase which may render any capital profit on sale taxable. i.e. if your intention at the time of purchase is to resell at a profit, then the resulting profit would be taxable. If your intention is to earn an income from rental income as a long term investment, then a capital profit arising on sale would not be taxable.
5. Stamp Duties: NZ has no stamp duties on sale or purchase of property.
6. Depreciation will not be able to be claimed on buildings from the 2012 tax year and onwards. Chattels will be the only form of depreciation claimable. We strongly recommend that you obtain a chattels valuation to provide the basis for depreciation claims.
7. Depreciation Recovery on Sale: Note that on eventual sale, a sale at a value greater than the written down book value may trigger a recovery of depreciation claimed, and result in income tax being payable on the excess up to original cost. But talk to us first.
8. Interest on capital borrowed for the purpose of earning income is deductible. In NZ the deduction is subject to the "Thin Capitalisation" rules which limit the deduction to the interest paid on 75% of the value of all New Zealand assets. **From the 2012 tax year this will change to 60%.**  
For example, assume the total of all New Zealand assets is \$400,000, borrowings total \$380,000, and total interest paid is \$28,500. The claim for interest expense will be limited to \$22,500.  
i.e. (in simplified terms)  $400,000 \times 75\% / 380,000 \times \$28,500 = \$22,500$   
Under the Australian rules investors are currently allowed up to \$250,000 of "debt deductions" (e.g. interest) without restriction. i.e. if interest is greater than \$250,000.
9. Losses: In many cases investors will incur a loss for tax purposes. This loss is offset against other NZ-sourced income, and the balance carried forward to be offset against the first future income.



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10. Credit for New Zealand Tax Paid: If the property earns a taxable income in NZ, it is understood that the tax paid in NZ is able to be claimed as a foreign tax credit against Australian tax payable under the double tax agreement which exists between the two countries.
11. Calculation of Taxable Income: We understand that there are some differences in the base for calculating taxable income, and that you may need to recast the figures which we would provide you, for inclusion in your Australian return. The NZ situation is that it is the net profit (rental income less all allowable expenses) which is taxable.
12. Goods and Services Tax (GST) is included in the purchase price of the property. The supply of residential accommodation is an “exempt supply”. You do not have to account for GST on the receipt of rental income, and are unable to claim the GST content of costs incurred.
13. Australian Withholding Tax: A withholding tax obligation may exist if you borrow from a lender who is based in NZ. Check this aspect with your proposed lender.
14. Acquisition Costs: Costs relating to the acquisition or disposal of the property are deemed to be capital in nature, and so not deductible. This would include legal fees and real estate agents commissions. Costs relating to borrowing to finance the purchase are deductible.
15. Our Service: The service we offer is tailored specifically for overseas investors, and comprises the total management of the investor's income tax obligations in NZ, and the provision to you of the information we compile for inclusion in your Australian tax return.

Disclaimer. The information contained in this document is of a general nature only, and is believed to be correct at the date of publication. Readers are strongly advised to seek advice relating to their specific circumstances since even minor changes in circumstances may have significantly different tax consequences. We disclaim any liability arising from reliance on the information provided.