BC'S BUSINESS BRIEFS

Macro events and the impact on our economy

Its often said that uncertainty is the greatest single thing that impacts economic activity globally and most certainly within NZ's relatively small economy. We definitely seem to have huge uncertainty around at present with both global and local events contributing to this. In no particular order, some things stand out at present;

1. NZ has an election later this year and if all the reporting is to be believed, the result of the election remains too close to call between a right leaning National lead coalition and a left leaning Labour lead coalition. The uncertainty as to what economic direction we will be heading after the election will be widely determined by this election;
2. The world's largest economy and superpower appears to be moving away from being the undisputed leader of the free world using 'soft power' to work with other aligned countries. From the outside, it appears the US is moving to be a more insular country relying on its military and economic might to impose its views on the rest of the world and interact with the rest of the world predominantly on a transactional basis. While one can only wonder what effect this has on the US' future prospects (predominantly negative in this writers view!), the flow on effects provide further uncertainty to us as a country;
3. Related to point 2 above is the ongoing war started by the US President in Iran and the flow on effects on the ability of the world to have a relatively uninterrupted supply chain allowing for the free flow of goods across the world to all countries;
4. As a result of the supply chain disruptions noted above, future prospects for inflation around the world are uncertain impacting on global growth through the potential raising of interest rates amid periods of lower wage growth.

All of the above factors weigh on people's minds and inevitably affect economic activity making it extremely difficult for business' to implement plans for future growth and economic prosperity. Capital spending plans are delayed, increased employment opportunities are either delayed or cancelled and overall economic growth decreases. Survival, rather than growth becomes entrenched and harder to break free from.

It is important that in these times all business' remain positive, but also ensure they have reviewed their costs and structures to ensure they are as well placed as they can be to ride out the current economic conditions and be as well positioned when more certainty returns to the market, as it will inevitably at some point.

Tax update

A number of changes to the tax landscape have occurred in the last 12 months which are either affecting all of us now or will in the near future;

1. Trustee tax rate changes
   a. The new Trustee tax rate of 39% became effective for the 2026 income year and many clients are seeing this in their 2026 income tax returns. Its worth remembering this rate only applies to trustee income over $10,000 with the old

rate of 33% applying where trustee income is $10,000 or less. As a result of this change, increased focus is being placed on allocating income to beneficiaries where the beneficiaries marginal tax rate is less than 39%.

2 New FBT rules

a. The new rules come into effect on 1 April 2027. Of particular interest is the changes to the rules regarding motor vehicles, even though the law is not yet finalised.
b. Under the existing rules, Double Cab utes fall within the definition of 'Work Related Vehicles'. This means that these vehicles are able to be supplied to employees without being caught in the FBT net under certain conditions and as a result the FBT rules have most probably had a significant impact on the mix of new vehicles sold in NZ in the past. Approx. 75% of all NZ new vehicle sales in recent years have come from business and rental fleets.
c. From 1 April 2027, the 'Work Related Vehicles' category will be withdrawn and there will be no differentiation between Cars and Light Commercial Vehicles. Instead, what will determine the amount of FBT payable on work supplied vehicles will be an estimate of the work related running of all vehicles which will be established at time of purchase. I suspect this is going to bring more business' into the FBT net and possibly also impact the mix of new vehicles sold in NZ in future. There will also be lower FBT rates for electric and hybrid vehicles.

3 Repair costs on residential rental properties

a. We have recently been asked on more than one occasion about R&M costs on properties that have been rented out but the owners have ceased the tenancy and decided to sell the property;
b. IRD policy is definitive on this. Any R&M costs incurred on properties after a property has been taken out of a rental situation and is being readied for sale are capital in nature and therefore non deductible;
c. If you are considering selling a rental property and can see the possibility of significant R&M costs being required in order to sell the property, it is always better to incur those costs before ceasing the tenancy.

4 Financial Arrangements – Cash Basis Holders

a. The thresholds on 'Cash Basis Holders' have been raised.
b. This change affects taxpayers who earn significant income from Interest on any sort of investment such as a term deposit.
c. The threshold that a taxpayer must accrue unpaid interest income at year end has gone up from $100,000 to $200,000 while the absolute threshold for financial arrangements held increases from $1 million to $2 million.
d. These changes apply for the 2026 income year and effectively reduce the number of taxpayers who are required to account for interest received on an accrual basis. This is a welcome change.

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