PKF EDGE

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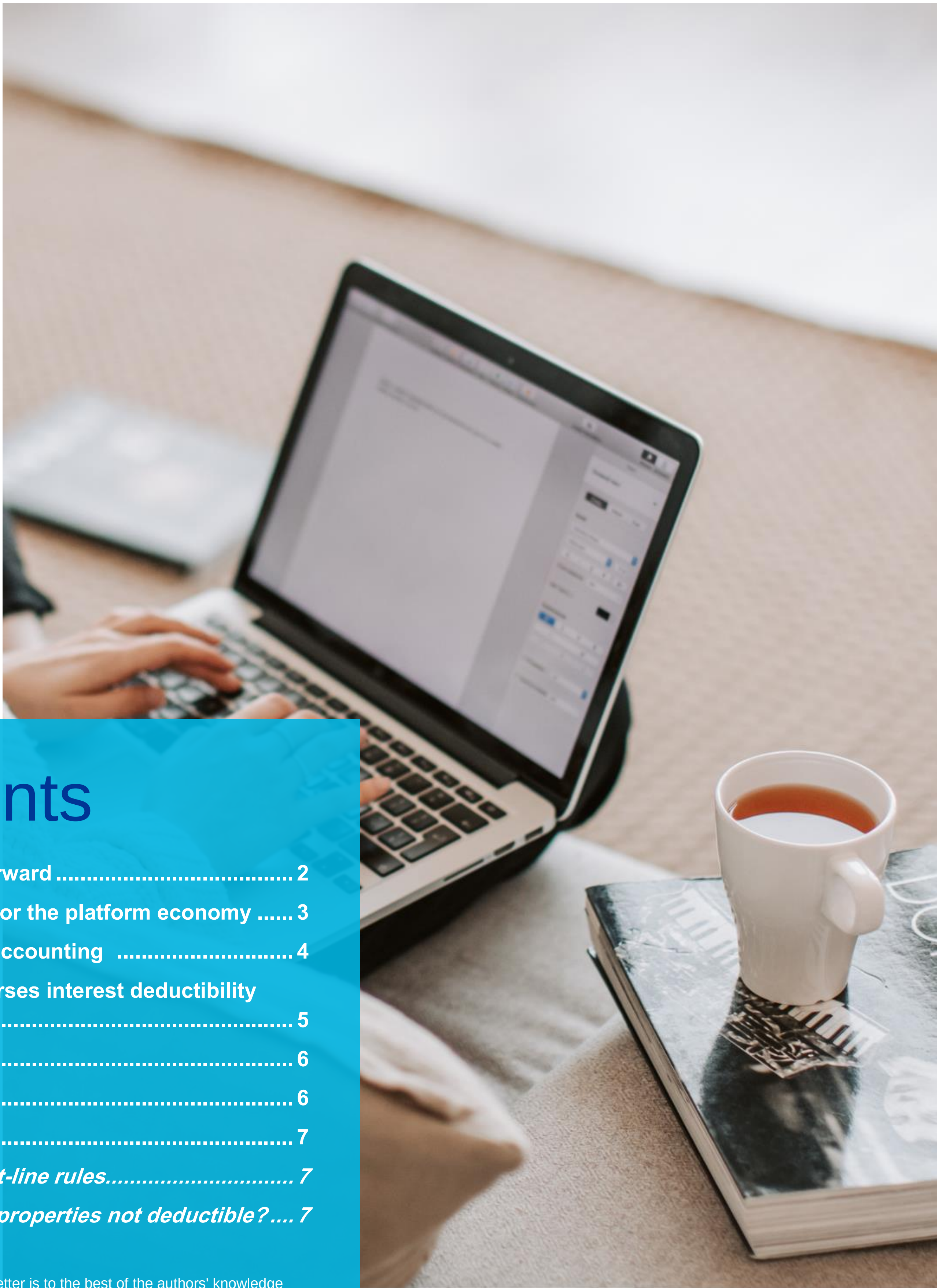

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GenAI – a leap forward

Artificial intelligence (AI) is the new buzzword at the moment, with business leaders touting its importance and the significant impact it will have on the way we conduct business. The reality is that AI has been around for a while, but in the past few years has taken a great leap in terms of its usefulness and accessibility for the general public.

AI is a blanket phrase for computers performing tasks that would usually require human intelligence to perform. It is exceptionally good at recognising patterns and making predictions and is being widely used already. For example, the facial recognition on your phone or the personalised ads you see pop up on the web are all a result of AI. Generative AI (GenAI) is an evolution of this, whereby it can use existing data and patterns to create completely new content. GenAI is what is causing such a stir recently, due to the broadness of its potential applications and how disruptive it could be for many industries.

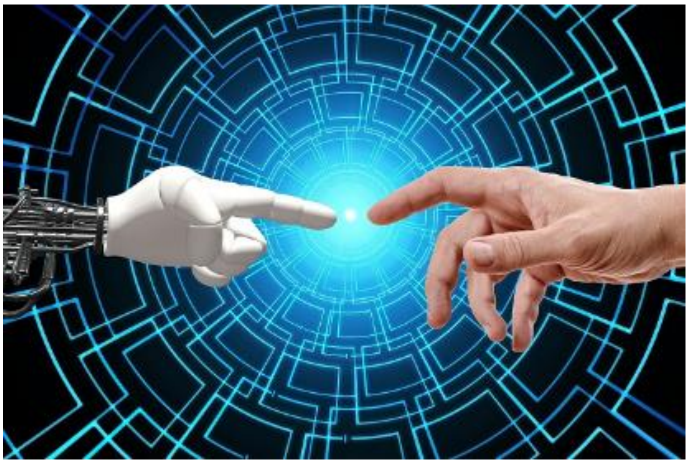
According to PwC's 2023 Emerging Technology Survey, 73% of US companies have already adopted AI into their business, with 54% using GenAI. With many firms creating their own GenAI chatbots, employees can use these to research legislation, summarise spoken meetings using speech to text, or craft an email from scratch. Broader use cases see programmers using GenAI to help them write code, product designers using it to evaluate new designs, or marketers to identify leads and develop marketing strategies. In the creative industry GenAI has been even more disruptive, with unique videos, pictures or songs being crafted from a simple chat prompt.

Every so often a new technology comes along that completely changes the way in which the world operates. In recent times, this has been things like the internet, or smartphones. Many are now claiming that GenAI will be the next big shift, and that its impact on the future will be unprecedented.

The first ever global summit on artificial intelligence was hosted in November last year, where 28 nations declared the need to work together to manage the risks associated with such powerful technology. Public figures like Elon Musk even described it as a 'threat to humanity', given the potential for AI to become more intelligent than its human creators.

While the threat of world domination is hopefully something on the far horizon, when it comes to AI, no one can really say how fast the technology will evolve, particularly when it is able to learn and teach itself.

With access to GenAI available to everyone through platforms like ChatGPT, now is the time to consider whether it can be helpful to you or your business.



Changes to GST for the platform economy

In March 2023, legislation in relation to the platform economy was passed, affecting the GST treatment of services made through an electronic marketplace from 1 April 2024. We saw something similar back in 2019, where the GST rules on imported goods were amended to treat operators of online marketplaces as liable for returning GST, as opposed to individual sellers. Now the rules are being expanded to include listed services, such as accommodation, ride-sharing services and food delivery services.

Previously, large market operators like Airbnb or Uber were not liable for returning GST on services that were supplied through their platform. Instead, the underlying supplier of the services (the home owner or driver) would only have to register for and return GST if their taxable supplies exceeded $60k per annum.

In order to ensure fairness with other operators in the economy, from 1 April 2024, the rules have changed to treat the market operators of these listed services as the supplier for GST purposes. For example, when someone books a holiday home through one of these suppliers, the market operator (the one facilitating the supply of the service) is liable to account for GST on the rental price to Inland Revenue. This applies regardless of whether the underlying supplier (the person that owns the accommodation) is registered for GST or not.

Essentially, the market operator will now be left with less cash from each transaction. It is likely that these market operators will either look to increase the listing price to the end consumer or reduce the net proceeds paid to the underlying supplier.

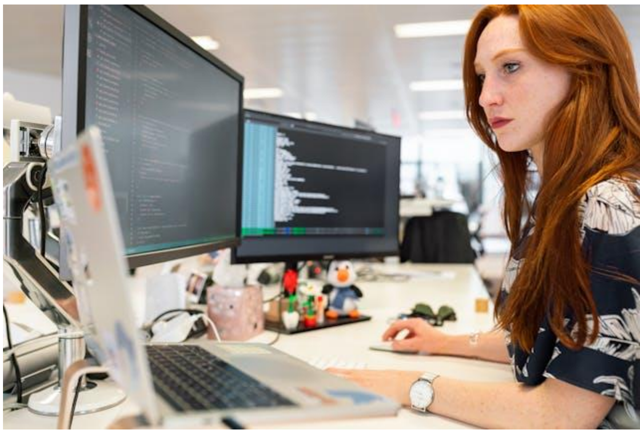
One of the fundamental aspects of the GST system is that GST can be claimed on goods and services acquired for use in making supplies. An underlying supplier that is not GST registered would not be able to do so.

To achieve a similar economic outcome, a flat-rate credit of 8.5% applies. This percentage was determined to be the average value of GST input tax deducted by taxi drivers and holiday home owners and must be taken as a deduction by market operators where the underlying supplier has not notified Inland Revenue that they are GST registered. The market operator must then pass on the credit to the underlying supplier. This has the effect of allowing underlying suppliers a standardised input tax deduction against the GST output tax liability.

There is further devil in the detail that should be worked through on a case-by-case basis, such as how the flat rate credit is treated for income tax purposes and to what extent should income tax deductions be claimed for costs that have a mixed purpose.

These rules are now in effect and should function to promote more equity across the economy, and might explain why the price of some holiday accommodation has just gone up.

Automation and accounting



All too often we get into a routine without stepping back and considering why we are doing things. The same goes with our accounting systems and processes. Your finance team is probably busy keeping on top of their day-to-day workloads but has consideration been given to how productivity can be improved through the use of readily available software? Automation in your accounting system through software could transform your finance function. Not only will it create efficiencies and improve productivity, but the team will appreciate some of the more mundane tasks being removed from their monthly to do lists.

There is a multitude of accounting apps and add-ons to your existing accounting system on the market and these continue to evolve and improve. Determining what is appropriate for your business involves consideration of each element in the accounting process to identify options for improvement.

For example, software solutions could be used to streamline and simplify the following aspects of accounting:

• Accounts receivable – automation can optimise your cashflow through debtor management and acceleration of the accounts receivable collection process. For example, automated invoice reminders can be sent to customers for overdue payments and customers can pay electronically via payment gateways (e.g. Stripe) adding convenience to the payment collection process.
• Accounts payable – repetitive, manual and time-consuming data entry could be minimised through the use of software such as Dext, Hubdoc or the Xero bills function – all of which extract key data from invoices and input it into the accounting system.

Further, e-Invoicing functionality allows supplier invoices to be received directly into your accounting system.

• Inventory management – depending on the industry in which you operate, inventory management software can streamline recording, tracking, and re-ordering of inventory.
• Cashflow management, forecasting and reporting – automated tools which allow real time data analysis and planning to enable timely decision making. The likes of Spotlight Reporting, Figured or Fathom allow businesses to budget, forecast and monitor progress in a timely manner.
• Payroll – cloud-based payroll systems such as PaySauce, iPayroll or Smartly allow employees to record hours, view rosters, request leave and view payslips all via their phones. The payday filing process is also seamlessly managed.
• Industry specific automation – there is a range of sector specific software that may also be relevant to your business.

Each business is unique so factors such as, pricing, features, ease of use, integration into your current accounting system and availability of customer support should be considered to determine the best fit for your business. Investing in automation and technology will empower your business, your finance team and save time.

Government reverses interest deductibility limitations

With the new Government now firmly settled in, legislation has been passed which reverses the interest deductibility limitation rules that were introduced by the previous government in 2021.

As previously introduced, the rules phased out the ability to deduct interest on loans drawn down before 27 March 2021 to purchase residential property over a period of five years. For loans drawn down after 27 March 2021, no interest deductions were allowed unless the property qualified as a 'new build'.

Under National's tax policy released as part of the election process the deductibility percentage was to increase to 50% for the 31 March 2025 year (as opposed to 25% under the then-current legislation), then phase it back in over the following two years. As detailed in the legislation, the restoration is being sped up, with the new rates as follows:

Date interest incurred	% of interest claimable
1/04/24 to 31/03/25	80%
1/04/25 onwards	100%

This phasing applies to all taxpayers, regardless of whether their lending was drawn down prior to 27 March 2021 or not.

This means those who are not currently entitled to deduct any interest will go from 100% non-deductible for the year ended 31 March 2024, to 80% deductible for the year ended 31 March 2025.

Under the old rules, there were various exemptions which meant the rules did not apply to some taxpayers, the most common being a property falling under the definition of a 'new build'. These exemptions continue to apply, with the rules being completely repealed from 1 April 2025 once all taxpayers are entitled to the same 100% deductibility.
Also under the old rules was a provision that would allow taxpayers to claim a deduction for any previously denied interest amounts, if the eventual sale of their property was subject to tax. Importantly, this provision still applies. This means that any taxpayers with denied interest amounts should continue to keep track of these if there is a chance the future sale of their property will be subject to tax.

The phasing back in under this regime should be relatively simple, with only a small amount of complexity existing for those with non-standard balance dates. For example, for someone with a 30 June balance date who has a pre-27 March 2021 loan, when preparing their 2024 income tax return, they would claim 50% of their interest from July 2023 – March 2024, then 80% of their interest for the remaining 3 months.

These changes see the treatment of residential property become more aligned with normal tax principles, reducing complexity and compliance costs for 'Mum and Dad' investors.

Team Updates

(From left to right, Isha and Catherine.)

Welcome to Isha and Catherine who have both joined our Business Advisory team!

Isha brings with her a wealth of public practice experience across a variety of industries. She loves to travel, go hiking and volunteering within her community.

Catherine also brings with her a wealth of experience, not only from within accounting firms, but she and her husband also ran their own vineyard in the Hawkes Bay for 28 years!

Great to have you on board!

New Tax Changes

• From 1 January 2024 online marketplace operators have obligations to collect and report information on registered sellers providing services in New Zealand (for example through Airbnb and Uber)

• From 1 April 2024 online marketplace operators who facilitate the sale of listed services, must collect and return GST of 15%

• Bright-line and the removal of interest limitation backdated to 1 April 2023 and progressing in increments over the next few years

• Depreciation on commercial buildings will be removed

• The mixed-use asset rules will be repealed from 1 April, GST apportionment rules applying from then on for assets such as holiday home, boats and planes

Snippets

Changes to bright-line rules

Along with changes to the interest deductibility rules, legislation has been passed which repeals the current bright-line tests, replacing them with a new (or old) 2-year test.

There were previously three separate bright-line tests which applied to the sale of residential land:

• Land acquired on or after 27 March 2021 that is not a 'new build': 10-year test.
• Land acquired on or after 27 March 2021 that is a 'new build': 5-year test.
• Land acquired on or after 29 March 2018 but before 27 March 2021: 5-year test.

The changes repeal all of these tests and replaces them with a 2-year test applying to all residential land equally (no longer a different treatment between a new build and a non-new build). It applies to disposals that occur after 1 July 2024, i.e. a property purchased before 1 July 2022 and sold after 1 July 2024 will not be subject to the bright-line test.

The main home exclusion that required an apportionment between the time and area that the property was used as a main home is also repealed. Under the two-year regime, to qualify for the main home exemption the home must be predominately (more than 50%) used as such, both from a time and land area perspective.

Rollover relief rules are also extended to capture more types of transfers, allowing the transferee to obtain the original purchase date and cost of the transferor. For example, transfers can now be made between relatives within two degrees of blood relationship without triggering a bright-line disposal.
Each of these changes revert the rules closer to their original intended purpose, which was to bring gains made by property speculators into the tax net.

Repairs to rental properties not deductible?

A recent technical decision summary (TDS 24/02) issued by Inland Revenue involves a dispute with a taxpayer that purchased several residential rental properties. Soon after purchasing, the taxpayer conducted renovation work on the properties to various degrees, such as replacing kitchen units and carpet, adding dishwashers and heat pumps, and cleaning and repairing roofs.

Inland Revenue concluded that the capital limitation applied to the costs involved with the work completed, on the basis the renovation costs formed part of the cost of acquisition of the properties, and the work completed was beyond ordinary repairs and maintenance.

The key facts considered in coming to this conclusion were the condition of the properties when purchased, whether the purchase price was discounted, and the cause of the need for the work. It was found that the properties were in average condition on purchase, and that the taxpayer renovated them to make them more attractive to higher paying tenants. This led Inland Revenue to assert that the purchase price was therefore discounted, as the vendor could have obtained a higher price had they conducted the repairs themselves before sale.

The taxpayer argued that the work was done to restore the properties to their original condition, with no real improvements being made. They asserted that the properties were fit for purpose at the time of purchase, evidenced by the fact that all but one property was tenanted. The less-than market purchase price was due to the fact that multiple properties were being purchased at once, hence a single transaction discount applied. Moreover, the taxpayer had attempted to negotiate a lower price with the vendor at the time of purchase due to repairs being needed but was unsuccessful. The taxpayer asserted that the photos Inland Revenue relied on to prove that the properties were unfit for purpose were not representative of the condition of the properties as a whole, as the taxpayer had used these selected photographs for negotiation purposes.

This has been a topic well covered by previous case law, but one that easily lends itself to interpretation. In this case there is room to disagree with Inland Revenue's interpretation. One would have to assume that price is always impacted by the condition something is sold in. If one were to take a literal interpretation of the Inland Revenue's view, any subsequent repairs made to a recently purchased asset would point to a discount being received on the purchase price and should therefore be treated as capital in nature.

Clearly there is a fine line to traverse in such situations, and we may not have seen the last of this particular case if the taxpayer takes the matter further.

If you have any questions about the newsletter items, please contact us, we are here to help.

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