

Reducing your New Zealand income tax as an individual foreign resident

1) What is taxable?

This is all rental income received (including any insurance payouts). You are normally taxed when you receive the rent for the financial year. It does to matter what period it relates to. The tax period is 1 April to 31 March each year.

2) What expenses can I claim?

The most effective way to reduce your tax payable is by claiming your **tax deductions** correctly. For some expenses you can claim them immediately against your taxable income when incurred while some you can only claim them in the future.

There are **two** main categories of rental expenses:

a) Expenses that you can claim immediately:

- **Bank Interest on loans**
- Secretarial and bookkeeping fees
- Tax-related expenses (ie tax advice and lodgement of income tax returns)
- Travel expenses (ie air tickets, accommodation etc to New Zealand for inspection of the property etc)
- Property agent's fees and commission
- Advertising for tenants
- Leasing fee
- Bank charges
- Owners corporation fees and charges
- Insurance
- Cleaning
- Council rates
- Water rates
- Gardening and mowing
- Pest control
- Legal fees to recover outstanding rent
- Repairs
- GST charged on rental expenses
- From 1 April 2009 you can claim legal fees for buying a property provided the total legal fees are less than \$10,000.
- The costs of arranging the mortgage or finance
- Depreciation on the building up to 31 March 2011 is claimable

b) Expenses that you cannot claim

- Acquisition and disposal costs of the property
- Expenses incurred when the property is for private use.
- Depreciation on the building from 1 April 2011

3) How much income tax do I have to pay?

Mr Tan owns one property in Auckland. The property cost \$500,000 and he receives rent of \$30,000 per annum. His assessable income for the year ended 31 March 2013 is \$30,000. He has the following expenses:

Advertising for tenants	65.00
Owners Corporation fees	2,738.00
Council rates	812.00
Insurance	275.00
Interest on loan	5,220.00
Property agent commission	1,275.00
Repairs and maintenance	132.00
Travel expenses	428.00
Water rates	502.00
Postage	30.00
Leasing fee	240.00
Accounting fee	880.00
GST charged on expenses	131.00
Total tax deductions	12,728.00
Net profit	17,272.00
Tax payable	2,042.60

Conclusion:

It is important that to maximize your deductions to ensure that you do not have a tax liability in New Zealand. Legitimate tax deductions can significantly reduce your taxable income. Hence, you want to make sure that you are correctly claiming these deductions and not missing out on your entitlements.

Therefore you may need to consider how much you borrow to acquire the property and also which currency you borrow in.

For financial year ended 31 March 2013
(ie 1 April 2012 to 31 March 2013)

Taxable income	Tax on this income
0 to \$14,000	10.5 cents for each \$1
\$14,001 to \$48,000	\$1,470 plus 17.5 cents for each \$ from \$14,000 to \$48,000
\$48,001 to \$70,000	\$7,420 plus 30 cents for each \$1 from \$48,000 to \$70,000
\$70,001 and over	\$14,020 plus 33 cents for each \$1 over \$70,000

Capital Gains Tax:

Generally, you don't need to pay tax when you sell your rental property except for any depreciation recovered. However, each time you sell a rental property it is important to consider if you are still a residential rental investor or are now a dealer in rental properties.

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