Auckland Chartered Accountants

Tax Update April 2023

Tax Myths

The following are a few Tax Myths we often come across:

Myth #1- If you work a second job, you get secondary tax which means you are paying more tax and getting punished for working 2 jobs!

For individuals in NZ we have marginal tax rates i.e the more you earn the more tax you pay. The rates are as follows;

Income	**Tax Rate**
0-14,000	10.5%
14,001-48,000	17.5%
48,001-70,000	30%
70,001- 180,000	33%
180,000+	39%

With this in mind lets take the example of Jordon & James

1. Jordon earns $90,000 from his one and only job
2. James earns $70,000 from his main job and another $20,000 from his second job

Q- Who pays more in tax?
A- They pay exactly the same amount of tax

The reason people think that James pays more is when he gets his second job he is required to use a secondary tax code which uses a higher tax rate. This is because James already earns $70,000 and so any additional income he earns should be taxed at 33%

(just as it is for Jordon). If he were to use the same tax code for his second job as he does for his main employment, he would end up paying too little in tax and end up with a tax bill at the end of the year.

Secondary tax codes exist to help you pay the right amount of tax upfront throughout the year and avoid a large tax bill at the end of the year. They don’t exist to penalise you for having more than one job.

Myth #2- I'm getting the company car sign written because then you don't have to pay any FBT!

False- if you have an ordinary passenger vehicle it makes no difference if the vehicle is sign-written to your FBT obligations. (note it does make a difference for work-related vehicles such as utes and vans- more on this below).

Myth #3- My company Ute is sign-written so I am exempt from FBT

There is no FBT exemption for utes as such but there is an exemption for “work-related vehicles”. Many utes and vans will meet the criteria to be a work-related vehicle for FBT purposes.

In short, to qualify as a work-related vehicle;

1. The vehicle must not be predominantly for carrying passengers (a double cab ute is okay),
2. The vehicle must have prominent signwriting with the business name or logo (magnetic signs are not sufficient) and
3. The only private use of the vehicle can be home to work travel with only incidental stops on the way (all other private use must be prohibited).

The common misconception if it meets the criteria of a work-related vehicle than it does not matter if you use it privately. This is incorrect.

If the Ute is used for private purposes on the weekend i.e. putting the boat in at the boat ramp or taking the kids to Saturday sports, FBT needs to be paid on these days. You are still eligible for a partial FBT exemption i.e. you might only pay FBT on the weekend days instead of the full week so the FBT cost is significantly less compared to an ordinary vehicle.

Lastly, we note it is not uncommon for IRD to park up at boat ramps, golf courses, and sports fields and note down the sign written vehicles then follow up to check if FBT is being paid.

Myth #4 New Zealand has no capital gains tax

It would be fair to say NZ has no comprehensive capital gains tax, however, to say we have no capital gains tax at all is incorrect. Although your main home, or long-term shareholdings are generally tax free on disposal, there are lots of situations where capital gains are considered taxable. Examples include;

1. Property- bright line property rules taxes capital gains on property sold within 10 years (5 years for new builds)
2. NZ shares- capital gains on shares may be taxable if you are a trader or bought with the intention of disposal
3. Cryptocurrency- capital gains on crypto are usually taxable
4. Foreign share investments- if you have overseas shares costing more than $50k then you will fall into the Foreign Investment Fund (FIF) rules. This is effectively a form of capital gains tax. There is several methods you can use to calculate the income but the most common is the FDR method which taxes you on the assumption that you've made a gain of 5% of the market value each year, while the CV method taxes you on any realised and un-realised capital gains.

Kind Regards
The team at Auckland Chartered Accountants

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