

GUEST BLOG: Special Tax Codes

by Phillip Smith

Phillip Smith is a Chartered Accountant with Enable Business Ltd specialising in tax, in particular, relating to property investment. He talks here about taking advantage of the tax benefits your rental property provides – so have a read, and make sure you're on the money with your investment property.



Probably the two most popular topics of conversation in New Zealand are real estate and the weather. And you'll no doubt have an opinion on both.

This article focuses on residential investment property as I am a lot more qualified to talk about this. In particular, one of the tax advantages provided by the IRD is something you may have heard of – special tax codes.

A special tax code allows you to receive your tax refund during the year, rather than as a lump sum when you complete your tax return. It means you can reduce the tax deducted from your salary or wages each month, giving you more in the hand.

With depreciation on buildings no longer available, the benefit of a special tax code has reduced somewhat. However, for those whose rental properties are making a taxable loss, it is still well worth considering.

I recommend that a conservative approach is taken when estimating the rental loss for the year. It is better to receive a small refund as part of the wash up at year-end, rather than having to pay tax. No one likes paying tax, no matter how small the amount!!

However, a word of caution if you have a special tax code. It is vital that your increased net wage is not spent on holidays or stuff for your personal home. It should be either used to repay additional debt (non-deductible first) or to fund any cash shortfall for rental expenses if these can't be paid from normal after-tax earnings. If paying down personal debt, over the long-term this can save substantial interest costs and assist you to pay off your home loan quicker.

You should contact your bank to determine what the terms of your personal home loan are, to see if you can increase the repayments by the additional net wages available through the special tax code. You also need to ensure that there is flexibility to alter this again should circumstances change.

I am more than happy to have a chat at no cost, to any [Iron Bridge Property Management services](#) client about whether a special tax code is something you should be considering.

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