

Editorial

Welcome to this quarters newsletter.

This newsletter details some of the changes that are occurring to the tax system that we have come to know and love. From 1 April the IRD has aligned provisional tax payments dates with GST payment dates and will be introducing a new method called the ratio method for paying provisional tax.

There will also be a change in company tax rate to 30% from 1 April and a tax rate for those who choose to invest in portfolio investment equity. Please take time to read and digest all of the above and contact us if you have any queries.

We are going through the client base at the moment and assessing if any of you will benefit from the ratio method and will make contact with those clients.

However, if you would like to go on the ratio method for provisional tax and haven't heard from us, then please contact Helen Osmond, our tax administrator, who will ensure you are registered. To be able to use the ratio method you need to be registered before 31 March 2008.

End of tax year is also rolling around and you will be getting your annual letter from us assigning a date on which we would like to commence your work. If this date doesn't work for you, then please don't hesitate to let us know and we will commence the work at a time that suits you.

Check lists will also be up on our website by the end of the financial year.

On the staffing front, Ray Wilson has left us and we have employed a graduate who starts with us in mid March called Bryan Downes. In keeping with the multi cultural work place at Taylor Associates, you will be pleased to know that Bryan is an Irishman.

Cheers,
Todrick

Filing GST returns

A CLIENT filed an electronic GST return on 2 April 2007. IRD said it had never received it. Keep receipts for electronic filing. A penalty system is coming in for late GST returns. The first time you offend you will get a warning. Those people posting in GST returns must send the whole form. Some people have been sending only the payment slip because the form no longer has a copy.

Wake-up water

HAVE you ever felt so tired you wonder how you will stay awake? A friend regularly fell asleep when he attended late afternoon seminars. One day, when he was feeling particularly tired, he drank three glasses of cold water before a seminar started. To his amazement he stayed wide awake through the course. Next time you are having trouble staying awake, try copious amounts of cold water. It can be as effective as strong coffee and a lot better for you. And... If you are running a long meeting, be sure to supply plenty of cold water for participants.

Donations

DONATIONS from your private company will become deductible from 1 April 2008. The limit is the company profit, so don't make a tax loss. A potential trap exists here for LAQCs. Likewise, the limit on personal donations is the amount of tax you pay. If you give away all your income, your rebate will not be 33% unless your income is so large you average 33% tax. We calculate this income to be \$145,500 at today's tax rates.

PROVISIONAL TAX CHANGES FROM APRIL 2008

The GST ratio

FROM the beginning of the 2008 financial year i.e. 1 April 2008, business entities paying GST and provisional income tax (refer to "Downsides" subheading below) will be permitted to pay provisional tax based on their sales*. The idea is simple. Calculate the ratio of tax payable to sales made for the last year. If sales were \$200,000 and tax payable was \$7000, the ratio would be $\$7000/200,000 = 3.5\%$, which IRD would round up to 4%. Apply this ratio to the sales declared in your GST return.

Thus, if your sales for a two-month period were \$30,000, then your provisional tax payment would be 4% of \$30,000 = \$1200. You would pay this with your GST.

Why would you want to use the GST ratio?

The advantages of the GST ratio are:

- If your business is seasonal, you will pay your provisional tax based on when you get your money. Currently, provisional tax has to be paid in three equal instalments, regardless of whether you have the money to pay.
- It will help with cash-flow management. Your provisional tax is better spread out during the year.
- Here's the big one. If you use the GST ratio, you are no longer liable to pay Use of Money Interest (UOMI) if your provisional tax payments turn out to be insufficient. If your business gets a surge in income, the GST ratio would save you from becoming liable for UOMI, which is currently charged at 14.24% and back-dated to when the first instalment of provisional tax was due. Look ahead. It might pay to use the GST ratio.

Downsides of the GST ratio are:

It is available only to those entities which pay GST and also pay provisional tax. It rules out:

- You don't receive UOMI if overpaid currently at 6.66%
- Ratio method is only available to monthly and two monthly taxpayers.
- Partnerships, because it is the partners who pay the income tax. Partnerships do not pay tax.
- Companies which distribute all their income to shareholders, because it is the company which pays GST and the shareholders who pay the tax.
- People caught by the attribution rule. They have to attribute their company income to the shareholders. They are the ones who derive their income from personal services to just one customer or related customers. The company pays GST but does not pay provisional income tax.

Other issues

- If you want to use the GST ratio, you have to apply to IRD **before** the start of your financial year. You must pay GST at least six times a year.
- If your business has an annual tax bill (called Residual Income Tax) of more than \$150,000, you are not allowed to use the GST ratio. You may, of course, deduct shareholder wages before arriving at the taxable profit for a company.

A thought

If you pay all company profits to shareholders but expect UOMI could become a problem, you could make your company a provisional tax payer and register for the GST ratio. You would need to leave a profit of at least \$8333 in your company.

Note

- * You pay your provisional tax on the basis of all sales, including asset sales. You may adjust for the asset sales if the amount is large.

Tax rates for PIEs

A PORTFOLIO Investment Entity (PIE) is a managed fund which has tax privileges but which must abide by certain recently created laws.

If you invest in a PIE, at the beginning of each financial year you will get a form asking you for your tax rate. How do you know what to write on the form? We list the rules below:

Individuals

You may choose a tax rate of 19.5% if your income is less than \$38,000 and your share of income from the PIE, when added to your own income, is less than \$60,000. Since PIEs came into existence only on 1 October 2007, PIE income will not be included for the year starting on 1 April 2008 because no one will have a full year of PIE income.

Provided you have satisfied these conditions in either of the last two years, you are entitled to use the 19.5% tax rate. For the year starting 1 April 2008, the last two years are 31 March 2006 and 31 March 2007.

If you understate your rate, you have to complete a tax return and take the PIE income into it. You get credit for tax deducted by the PIE but the income could affect student loan payments, child support etc.

If your income is above these thresholds your rate is 33%.

Joint investments

If you invest jointly, split the investments between you, so you can use your own tax rates. If you invest jointly and have different rates, you have to select the higher one and the overpaid tax is not refundable.

Companies

Companies always use the 0% tax rate.

Trusts

You may choose either zero or 33%. If your trust distributes income to beneficiaries, choose the zero rate if the beneficiaries will be paying tax at 19.5% on the money they get.

New company tax rates

REMINDER – the company tax rate will fall from 33% to 30% at the beginning of the next tax year. If you have a 31 March balance date this means 1 April 2008. If you leave some profit in your company, look at legitimate ways of reducing your income for the year to 31 March 2008. These might include:

- Farmers might be able to use the Income Equalisation Scheme.
- Bring your maintenance forward and get it done before the end of the financial year.
- Expenditure on consumable aids, up to \$58,000, is tax deductible in the year in which it is incurred. You do not need to count your stock of consumable aids. Be careful about what "consumable aids" means.
- Check your printing and stationery as this is likewise deductible in the year the cost is incurred. You do not have to count it as stock.
- Any wages or holiday pay relating to "the 31 March year" is tax deductible if it is paid out within 63 days of the end of the financial year.
- If you are buying equipment, particularly if it is financed by a lease or hire purchase, you might be able to bring forward some expenditure on interest and depreciation.
- If you are selling equipment, make sure you sell before balance date if there will be a loss, or after balance date if there will be a gain.
- Don't forget to write off bad debts before year-end.

Your aim is to defer income and increase expenditure. Make sure what you do is legal. We're here to advise you. A word of caution – don't go overboard or you might be accused of tax avoidance.

Pay out dividends

THE tax rates for companies will be reduced to 30% from the start of the 2009 tax year (for 31 March balances this is 1 April 2008).

When dividends are declared out of these profits, they will carry an imputation credit of only 30%.

The Government realises there are accumulated imputation credits from past years and these represent tax paid at 33%. If you want to use up these 33% credits, you have until 31 March 2010 to do so. After that, all tax credits attaching to dividends will be at 30%.

If a family trust owns most of your company shares, consider paying the dividends as soon as possible, unless you think the tax rate for trusts will be reduced. If individuals own the company shares it could be wise to wait for the next Budget to see if you can declare a dividend in a lower tax year.

Contact Us

Please use the following information to get in touch, should you have any enquiries:

Email enquiries@taylorassoc.co.nz
Web www.taylorassoc.co.nz
Phone 04 384 4161
Fax 04 384 4171

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Foreign company shareholdings of less than 10%

IF you hold any company shares other than those in New Zealand companies and certain Australian companies, you will be liable, when you complete your 2008 tax return, for a new tax called the Fair Dividend Rate (FDR).

There is only one concession. If you own the shares, excluding the exceptions mentioned above, in your own name and they cost less than \$50,000 you do not need to read any further. For shares acquired before 1 January 2000, a taxpayer has the option of deeming their cost to be half their market value as at 1 April 2007.

Note: There is no \$50,000 relief for a company.

If this law change affects you, you need to do two things now:

- 1 Find out what your shares were worth on the first day of your financial year. For most people this is the 1 April 2007.
- 2 If you are going to be liable for FDR, ring us to discuss, because you might find you should be paying provisional tax.