Accountable News

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11 Picton Avenue • P.O. Box 1621 • Christchurch • Ph 348 4403

Provisional Tax

Provisional Tax Payment Dates to Change

You will be familiar with the new GST payment dates by now, being the 28th of the month following the end of the relevant period. Inland Revenue are now moving to the next stage an alleged tax simplification process by changing provisional tax payment dates to match the GST dates. Both types of tax will be paid at the same time as from the beginning of your 2008/09 tax year, which for most people will be 1 April 2008.

If you file GST monthly or two-monthly, the three basic Provisional Tax payment dates will be the 28th day of the 5th, 9th and 13th months after your balance date, except where a payment falls due in either December or April, in which case it is deferred until 15 January (for the December payment) and 7 May (for the April payment).

For example: The most common balance date is 31 March therefore the usual Standard or Estimtion Provisional Tax payments will be due on:

- 28 August (along with GST for the period ending 31 July)
- 15 January (along with GST for the period ending 30 November)
- 7 May (along with GST for the period ending 31 March)

All other GST payments for other periods will be due on the 28th of the month following the end of the period.

If you file GST on a six-monthly basis, you will now only be required to pay Provisional Tax twice a year on the 28th day of the 7th and 13th months after your balance date, except where a payment falls in either December or April, in which case it is deferred until 15 January (for the December payment) and 7 May (for the April payment).

For example: Based on a March balance date the Standard or Estimation Provisional Tax payments will be due on:

- 28 October (along with GST for the period ending 30 September)
- 7 May (along with GST for the period ending 31 March)

Quote

"Nothing in the world is more dangerous than sincere ignorance and conscientious stupidity."

-Martin Luther King, Jr.

DODD & ASSOCIATES LTD
Chartered Accountants

info@dodd.co.nz

www.doddonline.com

Business Tip

Margin is Everything

More Changes to Provisional Tax

Inland Revenue are also introducing a new way of calculating your Provisional Tax payments. This is called the Ratio Option and is now based on your prior years (or the one before if the prior year has not been assessed) Residual Income Tax divided by the GST Taxable Supplies for the relevant year. Every two months you simply multiply your GST Taxable Supplies for the two month period by the Ratio Percentage (Inland Revenue calculates this for you) and pay this to Inland Revenue as Provisional Tax.

If you qualify for this and your circumstances suit the methodology the benefits of this system are:

- you only pay Provisional Tax once you have earned income
- there are no Use of Money Interest charges if your income increases later in the year
- if your income reduces at any stage you pay less Provisional Tax than the Standard method would require; and
- it is easier on your cash flow to make six smaller payments compared to two or three large ones.

There are, however, certain criteria that need to be met for you to be eligible for the Ratio Option. The two easily identifiable criteria are that you currently pay both GST and Provisional Tax and that you file your GST returns either monthly or two-monthly. We will be contacting current clients that are eligible on the above basis, or could be with a change in GST filing frequency, to arrange a meeting where we will able to work through the other necessary criteria to determine whether the Ratio Option will be beneficial to you.

If you don't meet the above criteria at the moment, or simply don't think there is any benefit to you at the present time, please keep in mind that circumstances are continually changing and you may need to reconsider this in years to come. The Ratio Option is going to have major benefits for some taxpayers but one drawback is that you need to apply to be in the system before the start of your income tax year – it is no good waiting until after your 2008 Income Tax Return has been filed to determine that it would have been beneficial to you to be under the Ratio Option for the 2008/09 year.

Companies Office

The Companies Office now requires all companies to provide an email address for communication. If we are the registered office for your Company we will use our email address for communication. However, if we are not your registered office you will need to provide a valid email address to the Companies Office. You need to be aware this email address can be viewed by anyone conducting a search of the Companies Office database.
Please remember also if you are a director of a Company for which we are your registered office and you move house you need to advise your new address to us within 5 working days of moving. Under the Companies Act we must update the Company's register with this information or the Registrar of Companies can impose a fine.

Company Dividends

As from 1st April 2008 the income tax rate for companies will reduce from 33% to 30%. This has a number of implications for companies who have been paying income tax or declaring dividends.

With the reduction in the tax rate any dividend which is declared out of profit will carry an imputation credit of only 30%. The Government have been responsible enough to realize that many companies have accumulated imputation credits from past years and these represent tax paid at 33%. Rather than losing these imputation credits companies have until 31 March 2010 to declare dividends with 33% tax credits. After that date all tax credits attached to dividends will be at 30%.

If a family trust owns most of your company shares, you should consider declaring the dividends as soon as possible. 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. Given indications from the major parties it seems that there may be tax advantages for individuals to wait.

If you have a business which is generating good profits in excess of $38,000 and you are not a company then you should be talking to us now. There could be tax savings by forming a company for the 2009 tax year.

Workforce Planning

Are You Prepared?

If you think finding good staff is difficult it is only going to get tougher. The number of qualified people available is going to change rapidly. Current forecasts show New Zealand will be over 100,000 people short within 20 years to fill vacancies available. This together with the fact that by 2050 25% of the population will be retired will result in a very tight labour market in the future.

As well as a shortage of people there is also a more diverse ethnic mix within New Zealand. Within 15 years over 33% of the population will identify themselves as something other than New Zealand European.

To be competitive and attract good employees businesses should look at:

- What gives us our good reputation as an employer and what makes people want to work here?
- What can we create to motivate staff to encourage loyalty?
- What can we automate to reduce the number of employees?
- How can we change so staff have flexibility to meet competing demands on their lives?

Businesses need to start thinking about these questions now as it will affect how to source staff and structure work in the future.

IRD Can Be Fair

Most taxpayers consider Inland Revenue to be aggressive and draconian in applying penalties. However a discussion document released by IRD shows that they can be fair. This document looks at the issue of penalties. The highlights of the document are:

1. Penalties for an "unacceptable tax position" be replaced with one of the following three options:
   - returning to the pre-2003 "unacceptable interpretation" wording;
   - limiting the penalty to income tax, i.e. excluding GST and withholding taxes; or
   - increasing the thresholds at which the shortfall penalty applies.
2. If an accountant prepares a return based on information from a client and that return is later found to have an error, a shortfall penalty for lack of reasonable care is unlikely to apply. Use of an accountant to prepare a return is recognised as taking reasonable care as long as the accountant is given adequate instructions and information. IRD proposes to formalise this in the legislation but also charge a penalty where a tax shortfall has occurred in the past and the same error or action has been repeated.
3. The IRD is proposing to introduce a warning system for late payment penalties. If a payment is not made on time a taxpayer will receive a warning letter and a new due date before a late payment penalty is charged. However, once an extension is given, no further extensions will be given for two years.
4. It is proposed that if a taxpayer voluntarily discloses a tax shortfall to the IRD within two years of the tax position being taken, a penalty for "lack of reasonable care" or "unacceptable tax position" will not be charged.

There were a number of other proposals rejected. We are disappointed to see that a proposal rejected would have seen no shortfall penalty imposed where taxpayers correct their tax position before the tax due date. At least the above proposals go some way towards the system being fairer for taxpayers. Inland Revenue will still retain the ability to punish bad taxpayers and rightly so.

"Inland Revenue will retain the ability to <u>punish bad taxpayers</u>"