February 2014

DAA Bulletin

Provisional Tax and the Ratio Method

Now is the time to seriously consider whether you should be applying to Inland Revenue to pay your provisional tax under the Ratio Method for the income tax year 1 April 2014 to 31 March 2015. Applications need to be received by Inland Revenue prior to 1 April 2014.

The Ratio Method enables you to align your provisional tax payments with your business cashflow because it bases your payments on a percentage of your GST taxable supplies.

You can use the ratio option to calculate your provisional tax if:

- you've been in business and GST-registered for all of the previous tax year, and part of the tax year prior to that
- your residual income tax for the previous year is greater than $2,500 and up to $150,000
- you file your GST returns every month or every two months
- you're not a partnership
- your ratio percentage that Inland Revenue calculate for you is between 0 and 100% (they'll let you know if it's not).

Ratio percentage = [residual income from previous year, divided by GST taxable supplies from previous year] x 100.

Each time a provisional tax instalment is due, your *GST and provisional tax return (GST103)* will instruct you to calculate your instalment amount by multiplying your ratio percentage by your GST taxable sales figure for the latest two-monthly period. The higher your income in each period the higher the provisional tax you pay BUT if your income reduces, so does your provisional tax payments

If you apply the ratio option correctly and pay the provisional tax calculated using the ratio option, you won't have to pay use-of-money interest (UOMI) if your provisional tax payments fall short of the end-of-year liability. This is particularly useful for businesses that are going through a period of growth as you don't need to keep re-estimating your provisional tax in order to avoid a UOMI bill at the end of the year.

Conversely if you have a significant drop in income your provisional tax bills reduce automatically without you having to risk preparing a formal estimate or guessing how much to short pay.

If you wish to apply for the Ratio Method please contact us ASAP – the cost for each application is $35 + GST.

Quote

"We are living in a world today where lemonade is made from artificial flavors and furniture polish is made from real lemons"

- Alfred E Newman

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Quote

"One great thing about getting old is that you can get out of all sorts of social obligations just by saying you're too tired."

- George Carlin

Employee or Contractor Trap

If you are taking someone on as a contractor you need to be very careful or it can prove costly and you may inadvertently have that person treated as an employee under the law. If you are looking to engage contractors everything must be documented correctly from day one and with extreme care. If you are uncertain call us here at DAA and we will take you through the criteria of employee or contractor.

A case (Stocker v Car Giant Limited) heard before the Employment Relations Authority has highlighted just how easy it is to fall into the trap of a person being treated as an employee. Mr Stocker worked for Car Giant Limited as IT manager from September 2011 to May 2012 when he was dismissed and told no further payment would be made as he was a contractor. For performing his work he was paid one rate for IT work and another rate for website and car photography work.

There was no employment agreement, earnings paid to Mr Stocker had PAYE, student loan and ACC deductions and annual leave was accruing. The Company provided office space, full use of a company car, fuel card, cellphone and uniform. Car Giant Limited in the hearing stated that at some point Mr Stocker was to eventually become a full time employee but they never got to that point. They always assumed that he was a contractor and never an employee as that was their intention from the outset.

The Authority ruled that based on the evidence and particularly the fact that PAYE was being deducted that Mr Stocker was an employee and not conducting business in his own name. To further support this the Authority made mention of the fact that Mr Stocker provided evidence from Inland Revenue showing his only earnings were from Car Giant Limited.

The fact Mr Stocker was an employee has even further implications and has proven to be financially costly. The Authority has ruled fair procedure was not followed in dismissing Mr Stocker by Car Giant Limited. They failed to consult on making his position redundant and indeed there was questions over whether the position was redundant as Mr Stocker was to train his replacement.

The Authority awarded Mr Stocker lost wages of $19,878.22 and $8,000 compensation for hurt and humiliation.

PIEs or PIR

We have noticed that some clients are overpaying their tax when they invest in a Portfolio Investment Entity (PIE). If you're in any doubt of the correct tax rate to use, called Prescribed Investor Rate (PIR) please get in touch with us.

It's based on the lower rate applicable for the last two income tax years. Everytime you get a request to supply your PIR you need to reconsider the rate you are using.

If your latest accounts have not been done and can not be estimated sufficiently to determine the PIR, the practical solution is to use the rate based on the previous years tax return.

7 Quick Tips for End of Financial Year

- Get rid of dead or old stock
- Get rid of the suspect assets
- Chase customers owing money hard
- Use debt collector for dodgy customers
- Write off bad customers
- Read our DAA bulletin
- Sign up to TriTec or Xero – 1 month free