your tax + business newsletter

Winter 2016

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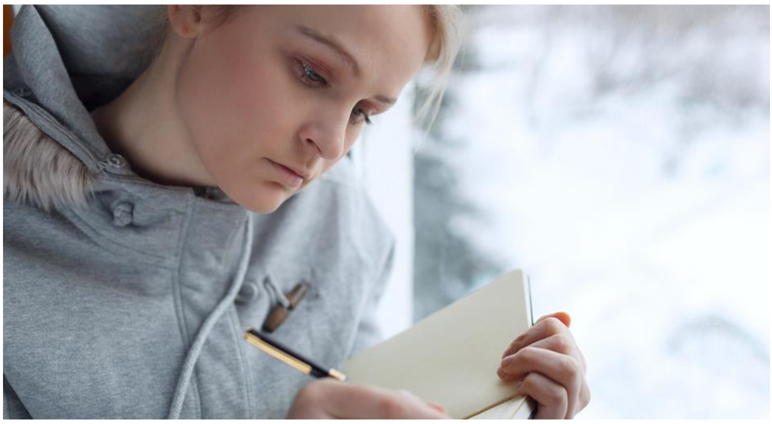


Risk and Reward

Underpaid income tax?

Underpaid provisional tax can cause a few headaches.

Maybe you did not keep up with your provisional tax payments throughout the year? (oops) Perhaps you did not end up paying enough because you had a better-than-expected financial year (yay! but damn, an increased tax liability). It could be that seasonality or volatility make it difficult to forecast your provisional tax payments.

Whatever the case, owing the taxman additional income tax can put pressure on your business' cashflow. With Inland Revenue's interest clock continuously ticking at 8.27 per cent (and at 9.21% for tax debt incurred up until 8 May 2016) while that tax remains unpaid, the cost can quickly add up.

Tax pooling

An option we have discussed before is tax pooling. It is a service designed to reduce interest costs and provide payment options for provisional taxpayers.

How does it work?

For underpaid income tax, you can settle what you owe IRD by paying through a tax pooling intermediary such as Tax Management NZ (TMNZ) at an interest cost lower than the interest IRD charges on underpaid tax.

The payment you make is essentially a purchase of tax that TMNZ paid to IRD on the original date the provisional tax was due.

As this payment is date-stamped, IRD treats the tax as paid on time once it has processed the transfer from the tax pool to your IRD account. Any late payment penalties and interest showing on your account will be reversed once this happens.

When might this be useful?

Tax pooling can be used if you have underpaid income tax for the current tax year (2016) or the one just completed (2015).

Is tax pooling secure?

Tax pooling intermediaries are registered with IRD and operate under legislation set out in Income Tax Act 2007 and Tax Administration Act 1994.

The system was proposed by IRD so private markets could provide ways for provisional taxpayers to manage their income tax obligations and reduce their compliance costs.

The tax pool accounts operated by tax pooling intermediaries are held at IRD and managed by an independent trustee. The independent trustee also oversees the bank accounts in which your payments are made.

Timeframes for using tax pooling

Tax pooling gives you an extra 75 days past your terminal tax date to pay what you owe IRD. So, if you have a 7 April terminal tax date, you have until **15 June** to settle underpaid provisional or terminal tax liabilities for the 2015 tax year. For underpaid income tax relating to the 2016 tax year, you have until mid-June 2017.

What to do next

Contact us if you would like to discuss tax pooling as an option to clear up your underpaid provisional tax debt.

Making tax simpler

In April, the Government announced proposals to simplify business tax, with legislation to be passed in August this year. They asked for feedback by end May on the best way to implement these proposals. The earliest of the changes would take effect from April 2017, with more coming online in 2018. At the moment, this would change the tax landscape to look something like this:

From 1 April 2017

Use of money interest 	Hundreds of thousands of taxpayers will be better off following the government's proposed revamp of business tax, as they will be removed from Inland Revenue's use of money interest regime, says Tax Management NZ chief executive Chris Cunniffe. Taxpayers using the standard uplift method (paying 105% of last year's tax bill) will no longer be charged interest if they underpay at their first and second provisional tax dates, provided they pay the income tax they owe at their last provisional tax date. Businesses and individuals who have residual income tax below $60,000 will also not be subjected to interest. It is expected that 67,000 taxpayers will benefit from this.
Penalties	Incremental late payment penalties will be removed from new debt for goods and services tax, income tax and working for families tax credits.
Credit reporting of tax debt	Inland Revenue can disclose significant tax debts to credit reporting agencies, so that other businesses considering extending credit can make more informed commercial decisions.
Information sharing	Inland Revenue can share information with the Registrar of Companies to help enforce company law requirements. This will help weed out non-compliant companies continuing to trade with an unfair commercial advantage over compliant businesses.
Withholding tax and schedular payments	Contractors will be able to elect their own withholding tax rate. Contractors working for labour-hire firms can be covered by withholding tax. Contractors and their payers can forge voluntary withholding agreements so that contractors can have tax withheld on a payday basis, reducing the impact of provisional tax.

From 1 April 2018

A new way to calculate and pay provisional tax

The accounting income method (AIM), which will be available to taxpayers with turnover of $5 million or less, will allow those who have IRD-approved accounting software to pay income tax on a two-monthly basis. Up to 110,000 taxpayers will be eligible.

Companies can pay tax as agents for shareholder-employees in respect of their shareholder-employee salary. This will reduce the impact of provisional tax for shareholder-employees.

Taxpayers who are forced to use the estimate method due to volatility or seasonality may find tax pooling a useful option to manage income tax payments, as they will be subjected to IRD interest.

Tax pooling would also provide businesses with cashflow constraints greater flexibility around when and how they pay their provisional tax payments.

But what will it mean for me?

The outcome of the consultation phase on tax simplification may still change how or whether some aspects are implemented but it seems certain that the broad outline of the changes will go through.

Best case scenario for small businesses: this should reduce complexity and make it easier to pay tax. You'll pay tax more frequently based on your business' actual income. You may end up paying less in tax, penalties, and interest. However paying tax more frequently may require you to keep a closer eye on cashflow to keep money coming in to pay the bills.

Worst case scenario for small businesses: you may end up paying more tax if you don't stay aware of your tax obligations and ensure the accuracy of the data input into your business software. We can assist you with regular monitoring and checking your systems are accurate and fit for purpose.

New GST online filing

The first steps towards tax simplification lie in the new option for taxpayers for online filing of GST returns. Inland Revenue has been working with two software providers to pilot a service so taxpayers can file their GST returns directly from their business software. At present this can be used for GST only returns or for combined GST and provisional tax returns, although this option is not open to taxpayers who use the ratio option to calculate provisional tax.

To use this service you need two things: you need to be using the software but you also need confidence that your systems are set up to capture your GST position correctly. You want to be sure you won't be exposed to tax penalties for underpayment further on.

If you would like to discuss this further please contact us.

R&D Tax credits

Does your business conduct research or development which is making a tax loss? Let us know, as you may be eligible to cash out your R&D tax losses for the 2015/16 tax year. We'll need to check your eligibility and register your business in the Investment Management System (IMS).

Mileage rate changes

Inland Revenue announced in May that the Commissioner had reduced the mileage rate from 74c to 72c/km for the 2016 tax year (1 April 2015 to 31 March 2016 for standard balance dates). If you rely on the standard mileage rate when reimbursing your team for travel, make sure your payroll system is updated to reflect the reduced rate.

Budget Perspective

No drama

The 2016 budget has come and gone and the only people really shouting about it are the Opposition and the tobacco companies.

Perhaps the Government felt they have already given businesses enough to be excited about with their pre-Budget announcements of the proposed tax simplification and business transformation. Beyond the reform of the provisional tax system and other changes announced to be staged over 2017 and 2018 (covered here on page 2), there were no dramatic shifts for business.

New spending: Health and education will see most of the new spending, $2.2b and $1.44b respectively over the next four years. However, total annual new spending will be around $1.6b shored up by whatever additional funds can be found in other cuts or underspends. $258m goes to provide more social housing in the epicentre of the nation's housing crisis, Auckland, with an additional $100m freeing up Crown land for housing. Science and innovation projects will receive an extra $410.5m over the next four years, with increases to support tertiary education and apprenticeships in science, engineering and agriculture as well as regional R&D initiatives.

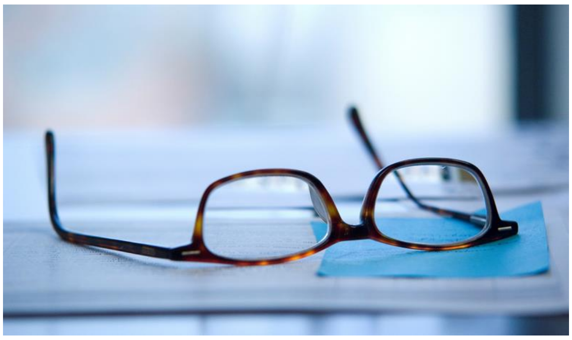
Debt reduction: while net debt is forecast to peak round 25.6% of GDP in 2017, the plan is for overall reduction, bringing it within the Treasurer's target of 20% for 2020. Surpluses are forecast for the next few years. Some of the figures, however, seem to rest on the hoped for dairy price recovery which remains to be seen.

ETS subsidy: From 1 January 2017, the Emissions Trading Scheme subsidy will be removed. This was only ever a temporary measure during the global financial crisis, allowing some businesses to pay one emissions unit for every two tonnes of pollution emitted.

Tax: There is some promise of tax cuts and of lowering tax rates and thresholds, primarily to take some pressure off lower and middle income earners. However, that's on a wait and see basis for next year's Budget.

Inland Revenue's new tax administration system has been allocated $503m in new operating funding and $354m in new capital funding. This is closely aligned with giving effect to what the Government has planned for tax simplification and business transformation. A reshaping of Inland Revenue also seems inevitable. Balancing the additional allocations are cuts to Inland Revenue's existing budget – $284m over the next four years – those savings to be recycled back into business transformation. The overall aim, however, is to generate more tax revenue with a smoother system ensuring better tax compliance.

The Government announced that they will be making further changes targeted at multinational companies, to make it harder for them to avoid paying their fair share of tax. What those changes are, we don't yet know but it is probable they hinge on sharing tax compliance information internationally as the Government is now party to the OECD multilateral competent authority agreement. This enables automatic sharing of country-by-country reporting and is part of a larger OECD project to reform the international tax framework. Disclosure requirements for foreign trusts will also come under scrutiny.



Changes to land sales could affect you

Are you selling residential land? From 1 July 2016, a new withholding tax – residential land withholding tax (RLWT) – may need to be deducted from a property sale/disposal where the property being sold/disposed of is in New Zealand and meets the definition of 'residential land', and the vendor:

- acquired the property on or after 1 October 2015, and
- has owned it for less than two years before selling or disposing of the property, and
- is an offshore RLWT person

Obviously, this affects non-residents. Less obviously, an 'offshore RLWT person' includes New Zealand resident companies who have shareholdings of 25% or greater held by foreign persons, and trusts where more than 25% of the trustees are foreign persons. Just because your business is New Zealand company, it doesn't mean that you will not be caught by these new rules. It is possible for certificates of exemption to be applied for affected taxpayers. Contact us if you think this may affect you.

Timely Reminders

Note: these dates apply to those clients for whom we prepare tax returns. Different dates will apply for those clients for whom we don't prepare returns. Please ask us if you'd like more information.

Tax Type	Who / What	When it's due
PAYE	large employers return and payment	7 June (as 5th falls on a weekend and 6th on Queen's Birthday) 5 July 5 August
	large and small employers return and payment	20 June 20 July 22 August (as 20th falls on a weekend)
GST	return and payment	28 June 28 July 29 August (as 28th falls on a weekend)
FBT	last date for employers to elect to pay FBT annually	30 June
	quarterly return and payment, if you pay it quarterly	20 July

Provisional Tax

I pay provisional tax...	And my balance date is...	So my provisional tax is due next...
2 monthly (6 times a year)	January, March, May, July, September or November	28 June AND 29 August (as 28th falls on a weekend)
	February, April, June, August, October or December	28 July
4 monthly (3 times a year)	January, September or May	28 June
	February , June or October	28 July
	March, July or November	29 August (as 28th falls on a weekend)
6 monthly (twice a year)	May or November	28 June
	June, or December	28 July
	January or July	29 August (as 28th falls on a weekend)

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