

AUGUST 2017

TRANSFORMING GST



Inland Revenue are rolling out other changes to how New Zealanders file and manage their GST as part

of ongoing business transformation. More than half New Zealand's businesses now file their GST through Inland Revenue's secure online service myIR, or direct from their accounting software. If this includes your business, you may have noticed there's a new my GST tab on your my IR account. This will provide access to all your GST information.

Taxpayers are now able to use this to register for GST, register as a preparer of tax returns, amend GST returns and accounts, file and pay GST at the same time, set up payment plans, and track GST payments and refunds online.

This is on top of the recent changes for some taxpayers who are now able to prepare and send GST returns to Inland Revenue from their accounting software.

If you would like to talk about how your GST is currently being managed and how the changes might work in practice for you, please contact us

FASTER GST REFUNDS

It is now compulsory for Inland Revenue to provide GST refunds by direct credit to a taxpayer's identified account, resulting in faster GST refunds. Obviously it's important that Inland Revenue has your correct banking details. If you would like us to confirm they have your current account details please let us know.

From here on, Inland Revenue will only make GST refunds by cheque if they do not have a customer's bank details or if there are extenuating circumstances, such as hardship.

'After the Australians move in July, New Zealand will have the highest effective tax threshold for offshore purchases. While most jurisdictions require tax to be paid on imported goods worth more than between

\$20-30, New Zealand's threshold for most goods is a whopping \$400. This gives foreign retailers a distinct unfair advantage when selling to New Zealanders.'

Greg Harford, General Manager for Public Affairs, Retail NZ

UP AND COMING CHANGES

There has been a raft of legislative change recently introduced which will affect businesses when it becomes effective. At present we are just flagging the changes to you without going too deeply into detail. That said, let's sketch in how it's looking.

PROVISIONAL TAX

The provisional tax changes mentioned last year will apply from 1 April 2018. These include the proposed accounting income method (AIM) of paying provisional tax.

While current methods for calculating and paying provisional tax will still be available, AIM proposes that you pay provisional tax from your accounting software, where you are a business with less than \$5m annual gross income. AIM capable software will calculate provisional tax owing throughout the year and enable you to pay provisional tax direct to Inland Revenue. So the year-end tax return becomes more about verifying payments made through the year and making any adjustments or corrections needed.

This could work well for new businesses in particular. Currently, a new business doesn't have to worry about tax in its first year. But when it enters its second year, it has to meet not only its tax obligations for that second year but also its provisional tax for the following year. This is something of a double whammy businesses struggle with. With AIM, new businesses would start paying tax when they start making a profit, paying instalments over the year timed to the business operating cycle.

With AIM capable software we could monitor tax paid direct from your business and contact you if we notice anomalies requiring further investigation or adjustment. If you are interested in exploring what this method can do for your business, we can discuss how we could help you best

PAYE SALARIES FOR COMPANY OWNERS

The law has just been changed. Provisional taxpayers will be permitted to take a PAYE salary and still remain provisional taxpayers.

Some people have been doing this already, but it has never been entirely correct.

If you are a shareholder employee of your company and want to get some of your tax paid as you go, you can be an employee of your company and come into the PAYE system. Any profits left over at the end of the year can still be credited to you in the usual way.

However, the profits will be much smaller and although you will still have to pay provisional tax and year-end tax, the amounts will be much less daunting.

You should note if you do put yourself on PAYE, you must continue with a PAYE salary for the life of your company. You cannot change your mind and be a full provisional taxpayer again.

This doesn't mean you have to continue with the same amount of salary. If the company is not performing too well, it's logical to reduce your pay.

You should also note you will have to guess your provisional income in the year you make the change to a PAYE salary. If you underpay the provisional tax, Inland Revenue will require use of money interest at a rate more than 8% a year.

If the company makes a loss as a result of your PAYE salary, you will not be able to reduce your income by the amount of the loss unless your company happens to be a look through company. The loss will be locked into the company until it can be set off against profits in future years.

There has been no provision for allowing a self-employed person to have a PAYE salary. If you are one of these, the best thing you can do is make monthly payments in advance into your account at Inland Revenue, which is not entirely satisfactory.

DANGER IN CASHING UP WHEN COMPANY SELLS

If your business is in a company, you need to understand tax on capital gains.

Tax law dictates you must not take any capital gains out of the company except when winding up.

Here is the big danger. You sell your business for a nice profit of, say, \$200,000. Naturally, the first thing you think of is how you can use this. So you take the money out of the company and, whoops, you've "broken the law".

What should you have done?



If you're going to wind up the company, you should first have passed a special resolution of shareholders to this effect. Not until then are you entitled to have that money. If you want to continue using the company, you must leave the money in it.

We can repair the damage by treating the withdrawal as a loan to you but this can be expensive. You would have to be charged interest at Inland Revenue rates, which are currently a little under 6%, if you have been working for the company and been paid a salary.

So often we see clients who have sold their businesses and not been aware of the rules. This can occur a year or more after the transaction and the interest bill referred to above can be quite significant. When it comes time for you to sell, please remember to talk to us before you take out any of the money.

A few of our clients are look through companies. This rule does not apply to them because, from a tax perspective, they are partnerships.

MONEY LAUNDERING HITS ACCOUNTANTS



From 1 October next year accountants are going to have to start behaving like banks. If you want us to create a company for you or you want to send more than \$1000 overseas, we are going to need identification. We will have to save this in our computer. We'll have to keep a record of your name, birthdate and address. That's not too difficult. But we will also probably have to take a copy of your driver licence or passport and evidence of who you are acting for, in case you are setting up the company for someone else. Similar rules are going to apply to lawyers from 1 July 2018, if they create a company or trust for you. We're sorry if you find these requirements irritating.

LOW OR ZERO INTEREST RATES NOT SO GOOD



Don't be taken in by very low interest rates for hire purchase, or even those offering zero percent.

Many retailers occasionally offer "special deals" of 0% percent interest on hire purchases. Does it mean you pay only the ticket price over the term of the loan?

The answer is no, and in fact the total price can be very expensive.

If you add up establishment fees, annual fees and any other cost the vendors may add, you will get some idea of the cost of the borrowing.

For example, an appliance costing \$700 could be financed by one of the leading dealers at 0% finance. The deal included an establishment fee of \$55 and what appeared to be an annual account fee of \$52. The salesperson was a bit vague.

That would make a total of \$211 (\$55 + 3 times \$52) for a 30-month agreement.

If you take the average between the debt at the start of the contract and the debt at the end of the contract, you get an average debt of \$350. You can now see why the \$211 is such an enormous figure to be paying.

Divide it by 30 months and multiply by 12 months and you have the cost per year of about \$84. That's an interest rate of 24% (\$84 divided by the amount borrowed being \$350).

Even if these figures are not entirely accurate, do your homework and determine the true cost of borrowing. You might be a lot better off with a bank overdraft.



You must pay FBT on a work-related vehicle, if it's available for private use. It doesn't matter that the vehicle is a commercial vehicle and not a car, nor that it's been sign-written to comply with Inland Revenue requirements.

What matters is whether the travel to and from home is necessary in, and a condition of, employment. A plumber usually goes to different jobs every day. It would be impractical to return to the employer's premises. The employee's home becomes a place of work. The employer should give a written instruction to the employee about taking the vehicle home and state it is not to be used for private purposes. We recommend getting the employee to sign confirming he/she understands the instruction. If you comply with this, no fringe benefit tax has to be paid.

If the employee doesn't deviate significantly from the route home and stops off at, say, the supermarket, that's not counted as being available for private use.

The work-related vehicle exclusion is applied on a daily basis. If the employee has unrestricted private use on work days but is not allowed to use the vehicle on days he isn't working, the fringe benefit tax liability can be reduced proportionately.

PAY PROVISIONAL TAX WHEN IT SUITS



Did you know that you don't have to pay provisional tax when Inland Revenue tells you to?

Tax Management NZ is an IRD-approved payment intermediary that lets you choose how and when you make your upcoming provisional tax payments, while eliminating late payment penalties and reducing IRD interest costs by up to 30 percent.

Please contact us if you would like to know more.

HOW TO WIN THE EMAIL WAR

We all know we can clear our inbox and then another email swarm arrives. How do we avoid spending too much time on emails? Prioritise and don't be afraid to delete. Discipline yourself to accept you can't read them all and prioritise your reading. You may have to forgo opportunities by pressing the delete button so you have enough time to deal with the important emails

MORE UP AND COMING CHANGES USE OF MONEY INTEREST

Another part of the package of changes apply from the 2018 income year (ie from 1 April 2017 for standard balance date taxpayers) is to remove use of money interest from the first two provisional tax instalments (for those who pay in three instalments) and who continue to use the standard method to calculate and pay provisional tax (commonly referred to as the 'uplift method').

Businesses (including companies) and individuals with residual income tax of less than \$60,000 and paying provisional tax in three instalments using the standard method will not be subject to use of money interest.

CHANGES PROPOSED FOR MOTOR VEHICLES

Currently close companies (such as LTCs and QCs) providing a motor vehicle for the private use of shareholder-employees must pay FBT on the value of the benefit provided. This value is based on the availability of the vehicle rather than its actual private use and this means higher FBT compliance costs for close companies.

NEW OPTIONS FOR CLOSE COMPANIES

The recently introduced legislation changes this for the 2018 tax year (ie from 1 April 2017 for standard balance date taxpayers). Under the new rules close companies which provide one or two vehicles to shareholder-employees could elect to use the motor vehicle expenditure rules instead of paying FBT. This would mean that, like sole traders and partnerships, close companies could measure the business use of a motor vehicle and calculate the tax deductions allowable for motor vehicle expenditure based on business use.

NEW METHOD FOR CALCULATING BUSINESS USE TO CLAIM DEDUCTIONS

Also introduced is a new simplified method of calculating business use for vehicles. The new option would allow you to choose to calculate your business usage and resulting deductible expense differently. The new method does not have a ceiling (currently the ceiling in place is 5,000 kilometres of business use).

WHAT YOU NEED TO KNOW

If you are self-employed or if you operate through a close company and this applies to you, you would need to know the total mileage travelled each year and be able to work out what proportion of that is business use. The actual requirement would be for you to keep a vehicle logbook for three months every three years.

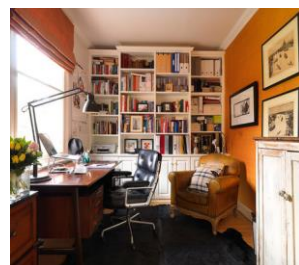
When it comes to calculating the tax deductible amount, the calculation is 'two tier'.

1. For the first 10,000 kilometres, the rate is calculated on the proportion of business use for the vehicle (say 60%) multiplied by Inland Revenue's first tier rate (for example 75 cents/km but the IRD will advise the rates each year)
2. For every kilometre after that, the rate is calculated on proportion of business use for the vehicle (e.g. 60%) multiplied by Inland Revenue's second tier rate (for example 25 cents/km but again subject to change)

WHAT YOU NEED TO DO

To gear up for the change, at close of business on 31 March record your odometer reading. Diarise to do the same thing next year. You want to be able to tell us the total number of kilometres travelled in the tax year when you bring in your records. And sometime during the year starting 1 April 2017 keep a logbook for each vehicle for a three month period to record mileage, costs and when the vehicle is being used for business or private purposes. If you're in any doubt as to whether this affects you, please contact us.

HOME OFFICE



There is also a new alternative option for calculating home office applying from 1 April 2017 (for standard balance date taxpayers). Under the new option, home office deductions can be determined by using a 2 step calculation. The first step involves taking the ratio of the area of the premises used for business purposes to the total area and multiplying this by a specified rate set by the IRD. The second step then requires the mortgage interest, rates and rent paid for the year to be multiplied by another specified rate set by the IRD and adding this to the amount calculated in the first step. Depending on your circumstances, this new option may be beneficial to you and we will discuss this with you if it applies to you.

Disclaimer:

This publication has been carefully prepared, but it has been written in general terms only. The publication should not be relied upon to provide specific information without also obtaining appropriate professional advice after detailed examination of your particular situation