



TAX SIMPLIFICATION - NEW TAX RULES COMING

From 1 April 2017 there are going to be a number of significant tax changes. Proposals include the following:

USE OF MONEY INTEREST (UOMI)

- UOMI is a charge on higher incomes for short paid tax.
- Currently, if the tax on your personal income for the year is less than \$50,000 after deducting all other taxes paid as you go, you are not liable for UOMI. This threshold is to be increased to \$60,000, which is equivalent to getting \$209,333, assuming no tax has been deducted from the income.
- Companies and trusts are caught for UOMI if their tax liability is more than \$2,500 tax. This threshold is to be lifted to \$60,000. Companies will then be able to earn \$214,285 before UOMI will apply and trusts \$181,815, assuming no tax deductions at source.
- UOMI will no longer be charged on the first and second instalments of provisional tax, so long as the tax is paid based on the standard calculation method.
- UOMI will still apply to the third provisional tax payment.

PAYE FOR THE SELF EMPLOYED - AIM

- Businesses having sales of less than \$5m are to be allowed to use their accounting software to calculate their approximate income (and hence tax) when they prepare their GST returns. IRD calls this the Accounting Income Method (AIM). One and two monthly GST payers will be permitted to pay their income tax with their GST. The accounting software will automatically generate the reports needed for both income tax and GST. 6 monthly GST payers, using AIM, will have to pay tax 2-monthly. Returns will be filed electronically. This change is scheduled to start from 1 April 2018.

WITHHOLDING TAX

- The withholding tax rates are often too high. It is proposed, subject to certain rules, to allow people to select their own withholding tax rate.

- The income of contractors hired out through labour hire firms, like those in the IT industry, will be subject to withholding tax deductions from their income.

TAX PENALTIES

- The present system for penalising late tax payments is too tough. The present system is to charge 1% for a day late, then 4% after four more working days and thereafter 1% per month. The 1% per month is to go.

PRIVATE USE OF MOTOR VEHICLES

- The system of adjusting for private use of motor vehicles is to be overhauled for "close" (roughly this means family) companies.
- The 5000km limit for using mileage rates is to be increased; using a lower rate for mileage in excess of 5000km. IRD will set the rates, annually.



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 cash flow 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.

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.

PAY YOUR PAYE OR GO TO JAIL



If you've got a business which involves paying staff and you are getting into financial difficulty, pay your PAYE immediately it is due.

Recently a taxpayer was initially sentenced to 14 months in jail because he used \$120,000 of PAYE to fund his business instead of paying it to IRD. Although the businessman admitted he was at fault and had attempted to come to an arrangement with IRD, the High Court, reducing the penalty, still made him do 300 hours community service and four months of home detention.

MILEAGE RATE CHANGE

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.

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).

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

CLOUD PROGRAMS HELP YOU KEEP UP.



Keeping up with technology has always been an issue for small businesses.

As a rule, it's worth having the latest and the best you can realistically afford. This ensures you are at least level, and possibly ahead, of your opposition and your clients who expect you to be keeping up.

Nowadays it's a bit easier to keep up because many programs are cloud-based. This means you don't buy a program on a disk or download from the internet, but you "lease" it online.

Instead of paying a one-off price, you pay a monthly fee to use it. Microsoft Office, which costs about NZ\$10 a month for use on one computer, is an example.

While it seems like you'll be paying forever (which you will as long as you need the program), the big advantage is that you'll get regular updates to the program. Essentially, you'll never get left behind.

Another advantage is that you'll never lose your work because it's stored in the cloud (online). If your computer or laptop gets stolen, no problem, your work can be retrieved. You'll also get a reasonable amount of cloud storage so you can regularly back up your work; store your photos or other personal stuff.

The downside is you'll keep paying when once you might have kept a program running for years without having to upgrade it. The overall cost would have been lower than the lease arrangement.

But you also have to consider the tax implications. Generally, you're not buying an asset for which you claim depreciation over time. Usually, the lease payments can be claimed as an operating expense.

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 on page one and two), 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.

THE THREE ELEMENTS OF A GIFT

Inland Revenue says there are three elements to a gift:

- It has been made voluntarily
- It is by way of benefaction – the receiver gets some benefit out of the gift
- The donor doesn't get a significant benefit in return.

One of IRD's concerns is school donations. Donations made to a general school fund are real donations so long as they are not a substitution for fees. Similarly, a donation for a school trip is not seen as a donation because the student gets the benefit of the trip.

MAKE A WILL TO AVOID HEARTACHE FOR YOUR SPOUSE

Make a will when you get married. If you don't, your spouse will probably live to regret your inaction.

When marrying for a second time, your first will automatically becomes void. You must make another.

Why all the fuss about making a will?

According to the website of communitylaw.org.nz if you don't make a will an administrator will need to be appointed. The order of priority for distributions is the spouse or partner (usually of 3 years or more), takes all the personal chattels and gets \$155,000 plus a third of the rest of the estate. The remaining two thirds is shared between the children.

We won't go into details of what happens if there is a separation, no children, etc.

Writing a will is not a do-it-yourself job, unless you want to enrich a lawyer later on. If it is not correctly signed etc it could be invalid.

Anyone can become an executor and they can consult a lawyer for guidance where needed.

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.

ACCOUNTANT'S HUMOUR

THE JOKES ON US

A young lady goes to see her doctor with some very worrisome symptoms. After examining her, he says, "I'm terribly sorry to tell you this, but you only have six months to live." The lady is very distraught, "Oh doctor, what should I do", she asks. The doctor says, "I advise you to marry a chartered accountant. ""Will that make me live longer?" she asks, hopefully. "No" says the doctor. "But it will **seem** much longer."

If an accountant's spouse can't get to sleep, what does he/she do?

Leans over in bed and says "Tell me about work today, honey."



TAX CALENDAR

June 30

Last day to apply for annual FBT returns for those who qualify.

July 28

3rd instalment 2016 Provisional Tax (June Balance Date)

August 29

1st instalment 2017 Provisional Tax (March balance date)

