

# TAXING TIMES

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## Promised Tax Cuts Cancelled

Alas, the extra pocket money promised by the previous National Government, to come into effect from 1 April 2018, have been cancelled by the current Government. That's not all. They have also established a Tax Working Group, to consider improvements, with the objective of having a tax system that is efficient, fair, simple and collected. This will include (amongst other matters) whether a Capital Gains Tax will improve the tax system.

## AIM - new provisional tax option for small businesses

At the moment, provisional tax is usually paid in 3 instalments – 28 August, 15 January and 7 May. The exceptions are if a taxpayer is registered on a 6-monthly GST cycle or has elected into the ratio method of calculation. From April 2018 small businesses which have a turnover of less than \$5 million per annum can work out their provisional tax using the accounting income method (AIM) and pay every 1-monthly or 2-monthly, depending on whether the client is registered on the 1-monthly or 2-monthly cycle for GST. The rationale behind this is that paying monthly or 2-monthly smooths out cashflows over the year. It is claimed that it will suit new businesses or growing businesses, businesses with irregular or seasonal incomes or where it is difficult to forecast income accurately.

In order to use AIM, you must use an IRD approved accounting software package from 1 April 2018 (MYOB AccountRight or Essentials, APS software or Xero Tax Practice Manager). To elect using AIM you simply complete the set up in your accounting software, which will generate a Statement of Activity and which must be sent to IRD by the first due date (every month or 2 months).

If provisional tax is calculated and paid on time, using AIM, IRD will not charge penalties or interest.

The downsides are that you must have the appropriate software, provisional tax is paid much earlier, which may not suit your cashflow and as one tax commentator has stated 'the new software capable systems will allow IRD to look directly into your accounting information, just so they can help you get your tax payments right (and for no other reason...hmm)'. If you are still keen to try this new method – once you elect in, you have to be in for 12 months, please contact the office.

## IRD Interest (Use Of Money)

Provisional tax for the 31 March 2019 is usually based on 105% of the 2018 residual income tax, if the 2018 tax return has been lodged or 110% of the 2017 residual income tax, if the 2018 tax return has not been lodged. This is called the 'standard uplift method', or 'Safe Harbour Method'. Provided that provisional tax for 2019 is calculated under the standard uplift method **AND** the instalments have been paid by due date, then, if the 2019 residual income tax exceeds \$60,000 (income of more than \$180,000 with no tax deducted at source) IRD will charge interest from 7 May 2019 on any tax shortpaid above the \$60,000. Previously, IRD would have charged interest from 28 August 2018. This balance of tax (called Terminal Tax) is not due to be paid until 7 April 2020, but IRD interest will continue to accumulate until it is paid in full. This does not apply to taxpayers who are in the first year of trading or are on a different Provisional tax payment method. Interest could apply from August 2018.

If you think you have an exposure to IRD interest, please contact us immediately.

## Bright-Line Test on Properties

The Government has announced that it will extend the Bright-Line Test from 2 years ownership to 5 years,

effective for properties acquired after the date of Royal Assent (likely March 2018). The proposal is to tax the profit from the sale of residential property, which is not the family home. Who said New Zealand did not have a Capital Gains Tax?

### **Employment 90-day trial & meal break**

The 90-day trial period is restricted to employers (including associated employers) with less than 20 employees. Note that the trial period is only applicable to new employees. It cannot be applied to a returning employee. Prescribed rights to meal breaks, with very few exceptions are proposed.

### **Payday filing of PAYE Information**

Current proposals will require employers to file their PAYE information each payday directly from their payroll software. Employers with over \$100,000 of PAYE, all payroll intermediaries and employers using payroll software, will be required to file their PAYE information by the second working day after payday. The due date for PAYE information from other employers would be seven working days after payday. Under the proposed changes, employers will be able to file their PAYE information each payday from 1 April 2018 but it will be compulsory from 1 April 2019.

### **PAYE Guide**

The new PAYE table is now available for download from the IRD web-site. Alternatively copy the link below:

<http://www.ird.govt.nz/forms-guides/number/forms-300-399/ir340-guide-paye-2019-weekly.html>

### **Our Mailing Address**

NZ POST does not recognise our physical address at 3 City Road, Auckland 1010 for delivery of mail. Please send all mail to P O Box 5247, Wellesley Street, Auckland 1141. Courier packages only to the physical address, please.

### **FBT annual return filing threshold**

Employers paying less than \$1m of PAYE and ESCT deductions annually, can file annual FBT Returns instead of quarterly. However, application to do so must be lodged before 30 June for the March 2019 year. A retrospective election will not be accepted after that date.

For 'Close Companies' where the only benefits provided are up to 2 vehicles, the FBT return can be lodged together with the tax return, subject to the same PAYE and ESCT deduction thresholds.

### **Minimum Wage Rates**

From 1 April 2018, the minimum wage rate will increase to \$16.50 per hour. The starting-out and training minimum rate will increase to \$13.20 per hour.

### **GST Registration for 6 monthly cycle**

IRD has relaxed the rules on who can adopt a 6-monthly GST filing cycle. Previously, if taxable supplies (income) exceeded \$500,000 you could not have a 6-monthly cycle. If total taxable supplies exceed \$500,000 but 80% or more of their taxable supplies in an income year are made:

- within a six-month period that ends at any day within the last month of the person's income year, and
- the person has not had a six-monthly filing frequency under this criterion in the 24-month period before the application.

### **Vehicle Log Books**

You are required to keep a log book for 3 months, every 3 years to justify/substantiate the business use claim. A new logbook should be started if the business use of the vehicle changes by more than 20% from the previous logbook. For smartphone users, there is an App called 'Logify', which can be downloaded for free and once installed correctly, will automatically log all trips (using Bluetooth) from when the engine is started to when it is switched off. The user will still have to download the log and classify each trip as business or private.

### **Audit Shield Insurance**

This policy covers professional fees for attendances due to an investigation, review or an audit, in relation to a return lodged with Inland Revenue Department (IRD). The policy however does not cover any short paid taxes, interest and penalties charged by IRD. This policy has been put into place as a service to our clients and participation in the policy is voluntary, subject to the payment of the premium. However, given the increase in audit and risk-review activities by IRD, we believe it is important that you should consider this cover.

The cost of an audit can be quite significant as the matter is normally handled by senior and Partner level resources. It is not unusual for the response to their initial letter of enquiry to cost in the region of \$3,000. The policy covers these costs. Please reconsider if you had previously declined to participate.