GLENDINNINGS
CHARTERED ACCOUNTANTS

ACCELERATE

JULY 2017

“ALL NEW ZEALANDERS DESERVE THE OPPORTUNITY TO MAKE THE MOST OF THEIR POTENTIAL, BUT WE CANNOT PROVIDE THAT OPPORTUNITY WITHOUT A GROWING ECONOMY.”

Bill English, Sharing the benefits of growth, Media Release 25 May

A FAMILY SHOW

The early hints of tax relief for families have been fleshed out in the Family Incomes Package which will take effect from 1 April 2018. The legislation giving the changes effect was passed by Parliament the Friday after the Budget was read and at time of writing awaits Royal assent.

TAX BRACKETS

There’s a broad recognition that while the average wage has risen, the tax rates haven’t flexed to accommodate it. Moves into a higher tax bracket bit into wage rises for lower and middle income families. The Government aims to tackle this by stretching the lower tax brackets. From 1 April 2018, the $14,000 income tax threshold will increase to $22,000 and the $48,000 threshold to $52,000.

The tax rates aren’t changing but the points where they cut in are changing (though there’s no change for the top tax bracket). If you were earning $22,000 a year, you receive a $560 tax saving each year; if you were earning $52,000 a year, it’s an annual tax saving of $1,060.

Tax Rate	Current Bracket	New Bracket
10.5%	$1-14,000	$1-22,000
17.5%	$14,001-48,000	$22,001-52,000
30%	$48,001-70,000	$52,001-70,000
33%	$70,001+	$70,001+

Some changes to specific types of companies:

CLOSELY HELD COMPANIES (CHC)

Small Closely Held Companies represent a significant proportion of New Zealand’s 400,000 companies. The new rules, which are intended to simplify compliance, cover Resident Withholding Tax, capital gains, and the payment of provisional tax.

LOOK-THROUGH COMPANIES (LTC)

These limited liability companies operate with a tax structure that allows the company to transfer income and expenditure directly to shareholders. Changes to the legislation are designed to ensure LTCs operate as closely controlled companies (as originally intended). The changes are complex, and while the changes include removing the deduction limitation rule for most LTCs, they also affect LTC-owning trusts and their beneficiaries, and the amount of foreign income that can be earned, among other things.

CHANGES TO ‘SAFE HARBOUR’ RULES

As part of the changes to the provisional tax rules, the Bill increases the current ‘safe harbour’ threshold at which UOMI applies, from $50,000 to $60,000, and extends the safe harbour to companies rather than just individuals.

The safe harbour threshold basically means that if you have paid tax on the standard uplift method of paying provisional tax (last year’s tax bill, plus 5%) and your tax bill is less than $60,000, you won’t be hit with interest. UOMI may be applicable only from the third instalment.

Before the third provisional tax payment we can assess your year’s trading and work out how much tax you need to pay.

The amendments also add three requirements to tighten application of safe harbour rules. These will 1.) require a taxpayer to actually make the three instalments required under the standard method to enable them to use the safe harbour; 2.) prohibit a taxpayer who has a provisional tax interest avoidance arrangement from using the safe harbour and 3.) prohibit a taxpayer who has paid the first two instalments under the standard method from changing to the estimation method.

Even with the recent changes, all these can represent complex areas of tax law. Call us to discuss if you think you may be affected, or are unsure.

THE ACCOUNTING INCOME METHOD

Many business owners find calculating and paying provisional tax one of the most difficult areas of compliance. So, any opportunity to simplify this has to be welcome.

The accounting income method is a grand name for a simple change. It allows you to use your accounting software to calculate and pay your provisional tax, taking the guesswork out of the process. If that sounds a lot like how you calculate PAYE, that's because it is. These changes don't take effect until April 2018, and may be suitable for some clients.

Other business-friendly measures include reducing or removing UOMI for the vast majority of business taxpayers. In the past UOMI has been seen as unfair, because even if a business paid the correct amount of provisional tax during the year it could still incur the interest. As of April 1 this year, this charge is considerably reduced through the extension of the safe harbour rules.

In addition, there are new rates for UOMI. As from 8 May, they have changed to:

- Underpayments – 8.22% (down from 8.27%). That's what you pay on money you owe to IRD.
- Overpayments – 1.02% (down from 1.62%). That's what IRD pays you on money it owes to you.

The rates are reviewed regularly to reflect market interest rates.

The combination of the accounting income method and the other provisional tax changes will reduce the impact UOMI has on small businesses. The changes also remove the one per cent incremental late payment penalty for new GST, income tax, and overpaid Working for Families tax credits.

If you'd like more information about these changes, or how they could benefit you, get in touch with us and we will be happy to walk you through them.

YOU CAN NOW USE PAYE FOR EMPLOYEE SHARE SCHEMES

Since 1 April this year, new tax rules have applied to share purchase benefits provided by an employer to an employee.
In this case, a benefit occurs when the amount the employee pays for the shares is less than market value. IRD then sees this as employment income.

Before 1 April, a benefit received from a share purchase agreement was subject to neither PAYE nor FBT. The employee had to file a tax return including the benefit and pay the tax on it.

IRD had compliance concerns with the old method as there was no transparency around when employee share scheme benefits were received by employees and also considered the previous system restricted the use of employee share schemes. There was uncertainty, a degree of unfairness, and there could be either under-taxation or over-taxation.

Now an employer can choose to withhold tax on income a staff member receives under a share purchase agreement. The employer also has to report to IRD in the employer monthly schedule (EMS) the value of any benefits an employee receives under a share purchase agreement.

If you want to know more, contact us.

www.glendinnings.co.nz
Phone: 356 7103
Email:accounting@glendinnings.co.nz

GLENDINNINGS
CHARTERED ACCOUNTANTS

SLOW PAYERS COST YOU REAL MONEY

You know you have to get your debtors to pay, but do you understand the true impact of slow payers? Without a realistic picture of the direct and indirect costs of slow payment, your debt management practices may hurt your business. You may:

- Reduce your cashflow.
- Create a snowball effect – if debtors think you're relaxed about payment, you encourage them to be slow.
- Build up an increasing number of debtors, leading you to let smaller debts slide.
- Chew up valuable time and resources in managing slow payers and following them up.

What you can do

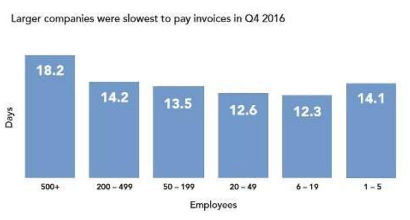
- If credit reporting information shows a customer is a slow payer, you can put tighter terms in place.
- Be straight up about discussing alternate invoicing patterns, payment options and terms.

DO LARGE BUSINESSES REALLY CALL THE SHOTS?

Large companies are "killing" New Zealand's small businesses by making them wait too long for payments.

The need for a policy or terms of trade is crucial when it comes to smaller business working with larger companies. For example, New Zealand's largest firm, Fonterra, changed its payment terms for contractors and suppliers last year, so now it can take a small business between 60 and 90 days to get paid.

According to a recent report from Dun & Bradstreet, larger companies were the slowest to pay, averaging 8.1 days later than normal. As highlighted in the graph above, late payment times for New Zealand businesses vary from year to year based on the size of the firm.



The late payment problem is shared with the Australian economy, with more than 62 percent of small businesses encountering late or unpaid invoices in the past year

Here are some tips to avoid late payment:

- Make sure you have a clear and signed terms of trade agreement.
- Train your top payers to pay on time (regular calling).
- Offer a variety of payment options.
- Hire an expert or a specialist accounts receivable service to chase slow payers.
- Pay your professional service fees over a fixed term through fee funding.
- Don't take no or later for an answer.
- Offer flexible payment options.
- Adjust your existing credit terms.

- Source: Dave Birch, SmartAR

PROVISIONAL TAX AND YOU: THIS YEAR

As we said above, further changes to provisional tax will be coming next year, starting 1 April 2018. But what does it mean for you this year?
For provisional taxpayers who pay using the standard method, there are two changes to the way IRD will charge UOMI from the 2018 tax year.
The first change applies to smaller taxpayers (including companies and trusts) using what's called the 'safe harbour'.
It's good news for you if:

- Your income tax liability is less than $60,000; and
- You pay the tax required according to the standard method at your three provisional tax dates for the year.

In this case the IRD will not charge interest if it turns out you did not pay enough provisional tax, as long as you pay any final balance by your terminal tax date.
The second change applies to other taxpayers.
If your tax liability is $60,000 or more, and you have paid provisional tax for the year based on the standard method, then:

- IRD won't charge interest if you paid tax due according to the standard method at your first and second provisional tax dates, even if your actual liability is higher.
- The final balance will be due at your third provisional tax date. IRD interest applies on any underpayment of tax from the third provisional tax date.

If you pay using the standard method

It's important you pay the uplift amount on the provisional tax dates required or you'll run the risk of incurring UOMI. IRD will charge UOMI on the uplift amount or a third of the actual liability, whichever is the lower amount. Late payment penalties will also apply if payment is not made on time.

Provisional tax amounts may be substantial and hard to manage. In addition, you may not know your taxable profit for the year until months after balance date. If your income is seasonal and difficult to forecast, or you have an unexpectedly profitable transaction or contract, you could end up owing IRD an amount you'll struggle to pay.

Choose the right payment method

Volatile or seasonal income means you may prefer to use the estimation or GST ratio methods to calculate your payments – in which case you will be subject to the same provisional tax rules as before.

The new pay-as-you-earn option, the accounting income method, which IRD hopes will address those issues, is not available until 1 April next year (to coincide with the start of the 2019 tax year).

Until then, it is important to talk to us if you are going to have trouble meeting your provisional tax obligations. We can work with you to devise a plan and discuss options like the use of Tax Management NZ to mitigate your risk if you cannot pay in time or in full.

Whatever your tax challenge, we can help.