Autumn 2017 Newsletter

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Tax Talk

Upcoming 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.

Use of money interest

Another part of the package of changes applying from the 2018 income year (i.e. 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.

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 myGST tab on your myIR 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

Risk and Reward

Selling across the ditch - GST on low value goods

Do you sell goods to Australia? If so, you may be affected by new Australian tax rules. At present, goods valued under AUD$1,000 do not generally have Australian GST applied to them where they are sold into Australia directly to the end customer. However new rules will now apply from 1 July 2017 to impose Australian GST on goods valued at $1,000 or less ('low value goods'), where the supplier's GST turnover (on low value goods sold into Australia) in a given year exceeds the threshold ($75,000 for most entities and $150,000 for non-profit bodies).

If this sounds like a slice of your business, you will be required to register for Australian GST, charging Australian GST (currently 10%) and remitting it to the Australian tax system. This applies whether your customers purchase goods from you online, over the phone or in person in a retail outlet here where your business ships the goods over to Australia. It applies whether the goods are physically here in New Zealand or sourced elsewhere overseas.

For New Zealand businesses exporting low value goods to Australia, the Australian Taxation Office (ATO) is talking about a GST registration process whereby you elect to be a 'limited registration entity' and return GST that way.

Along with registering for GST, you will need to look at how your software and record systems are set up and rethink your pricing and marketing.

The Bill hasn't been passed yet but it looks as if it will. So if you sell low value goods to Australia and your GST turnover of low value goods sold into Australia is over or close to $75,000, please contact us to talk about how this might affect your business.

'If a small shop in Levin or Gore is expected to account for and pay GST, there's no good reason for the Government to give global mega-retail businesses an easy ride.'

Greg Harford, General Manager for Public Affairs, Retail NZ

GST: in the crystal ball

You'll remember that from October last year, we now have to pay GST on 'remote services' supplies from overseas vendors that were previously not subject to New Zealand GST – the so-called Netflix tax. Businesses in the 28 member states of the European Union already have to charge VAT at the rate applying in the customer's country.

The latest move in Australia to collect GST on low value goods bought from overseas suppliers is part of a global drift towards capturing tax cross border and ensuring the internet is no longer above tax.

However, in New Zealand, goods worth less than $400 purchased from overseas suppliers don't have GST imposed on them (though duty may apply). Retail NZ states that this exposes Kiwi businesses to unfair competition, as they are subject to GST while foreign businesses undercut them on low-value goods.

Some two-thirds of all goods sold to New Zealanders come from the 20 biggest global retailers. (Like Amazon, rumoured to be establishing a base in Sydney, potentially making shipping cheaper for Australian and New Zealand customers). Retail NZ estimates that the Government is missing out on at least $200 million in GST this way.

Retail NZ is calling for all overseas companies selling to Kiwis to be required to register for GST. It seems the next logical step. We're watching with interest and will keep you posted.

Miles to go – 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 option for close companies

The recently introduced legislation changes this for the 2018 tax year (i.e. 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':

- 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)
- 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.

PAYE

PAYE is the next big ticket item in the business transformation proposals – if they go ahead, employers will be able to file PAYE directly from their payroll system. Though not proposed to start until 1 April 2019, there are some lead up steps that will start from 1 April 2018:

- payroll subsidy, subsidising employers to outsource their PAYE obligations to listed payroll intermediaries, would cease
- some minor changes to the PAYE rules for holiday pay paid in advance and aligning when rate changes come into effect

We'll keep you posted.

Get ready, get set - End of year tax checklist

Work through the points below to straighten things up for the end of the tax year. Ask us if you would like more information.

Think about	... Deductions
Bad debts	Write bad debts off in your debtor ledger before balance date so you can claim a deduction. Make sure your records show you have taken reasonable steps to recover the debt prior to write-off. Note the details so we can check the GST adjustments
Employee expenses	You can claim deductions for holiday pay, bonuses, redundancy payments, long service leave etc., if you commit to them before year end and pay them within 63 days of balance date. Check holiday pay has been calculated correctly.
Expenses	Can you pre-pay expenses such as stationery, postage and courier charges before 31 March? You may be able to claim for them. Check with us. There are limits to how far some prepaid expenses are claimable, such as on rent, insurance, plant and equipment maintenance contracts, travel and accommodation.
Fixed assets	Are you still using all of them? Can some be written off?
Discounts	If you offer prompt payment discounts to debtors and maintain a discount reserve, this may be deductible. Make sure your records are clear. In the first year a deduction of the actual discount percentage is allowed. In subsequent years, the deduction is calculated as an approved percentage. Different rules apply if the credit period offered to customers is more than 93 days.
Repairs/maintenance	Complete planned maintenance or repairs before year end for a tax deduction. Ask us if you aren't sure whether the expenditure is classified as repairs and maintenance (which would be deductible) or as a capital expense (which wouldn't).
Stocktake	Dispose of obsolete stock by year end or write it down to its net realisable value (the lesser of cost or market value). If your stock is worth less than $10,000 and turnover for the year less than $1.3m, you won't need to include your stock movement for tax purposes.
Vehicles	Don't forget to note your odometer reading at year end. If you keep logbooks noting business and personal use, mileage and costs, ensure these are all in order.
	... Income
Credit notes	Look for credit notes issued to customers after balance date but related to sales made prior to balance date. Note these so you can reduce your taxable income for the current year.
Increased income	Is this year's income a lot higher than last year's? If so let us know. It might be a good idea to consider making a voluntary provisional tax payment.
Losses	Did your group of companies have losses in 2016? Groups of companies may offset profits and losses against each other if you make loss offset elections and subvention payments by 31 March. We can help you with this.
Retentions	Check contracts for the terms on retentions owing. Have you invoiced retentions but they are not payable till work is complete in a subsequent tax year? They won't count as assessable income for this year. However, If they are payable this year they are assessable income. Note retentions you have invoiced which are not receivable till the next tax year.
	... Penalties
Dividends	Review planned dividend payments. Your imputation credit account must be in credit at 31 March or penalties arise. Contact us before 31 March so we can help you.

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