

Newsletter

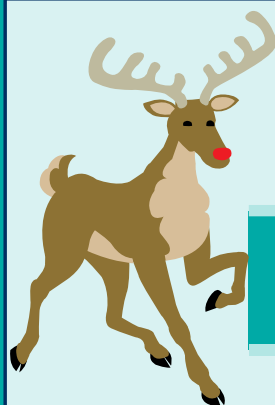
December 07 - February 08

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Merry Christmas and
Happy New Year from
everyone at Fisher Heaslip

Office Closure over the Christmas/New Year period

We will be closed from 1pm on 21 December 2007 to 8am 7 January 2008

The GST ratio - Optional

FROM the beginning of the 2008 financial year, business entities paying GST and provisional income tax will be permitted to pay provisional tax based on their sales*. The idea is simple.

Calculate the ratio of tax payable to sales made for the last year. If sales were \$200,000 and tax payable was \$7000, the ratio would be $\$7000/\$200,000 = 3.5\%$. Apply this ratio to the sales declared in your GST return.

Thus, if your sales for a two-month period were \$30,000, then your provisional tax payment would be 3.5% of \$30,000 = \$1050. You would pay this with your GST.

Why would you want to use the GST ratio?

The advantages of the GST ratio are:

- If your business is seasonal, you will pay your provisional tax based on when you get your money. Currently, provisional tax has to be paid in three equal instalments, regardless of whether you have the money to pay.
- It will help with cash-flow management. As your provisional tax is better spread out during the year.
- Here's the big one. If you use the GST ratio, you are no longer liable to pay Use of Money Interest (UOMI) if your provisional tax payments turn out to be insufficient. If your business gets a surge in income, the GST ratio would save you from becoming liable for UOMI, which is currently charged at 14.24% and back-dated to when the first instalment of provisional tax was due. Look ahead. It might pay to use the GST ratio.

Downsides of the GST ratio are:

It is available only to those entities which pay GST and also pay provisional tax. It rules out:

- Partnerships, because it is the partners who pay the income tax. Partnerships do not pay tax.
- Companies which distribute all their income to shareholders, because it is the company which pays GST and the shareholders who pay the tax.
- People caught by the attribution rule. They have to attribute their company income to the shareholders. They are the ones who derive their income from personal services to just one customer or related customers. The company pays GST but does not pay provisional tax.

Other issues

- If you want to use the GST ratio, you have to apply to IRD **before** the start of your financial year. You must pay GST at least six times a year.
- If your business has an annual tax bill (called Residual Income Tax) of more than \$150,000, you are not allowed to use the GST ratio. You may, of course, deduct shareholder wages before arriving at the taxable profit for a company.

A thought

If you pay all company profits to shareholders but expect UOMI could become a problem, you could make your company a provisional tax payer and register for the GST ratio. You would need to leave a profit of at least \$7576 in your company.

Note

*You pay your provisional tax on the basis of all sales, including asset sales. You may adjust for the asset sales if the amount is large.

Filing GST returns

A CLIENT filed an electronic GST return on 2 April 2007. IRD said it had never received it. Keep receipts for electronic filing. A penalty system is coming in for late GST returns. The first time you offend you will get a warning. Those people posting in GST returns must send the whole form. Some people have been sending only the payment slip because the form no longer has a copy. Make a copy for your own records.

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Foreign company shareholdings of less than 10%

If you hold any company shares other than those in New Zealand companies and certain Australian companies, you will be liable, when you complete your 2008 tax return, for a new tax called the Fair Dividend Rate (FDR).

There is only one concession. If you own the shares, excluding the exceptions mentioned above, **in your own name** and they cost less than \$50,000 you do not need to read any further.

If you have owned the shares since before 1 January 2000, you do not need to know what they cost you. Use the value (discuss the meaning of this term with us) at 31 March 2007 as their cost. The concession for these old shares is doubled.

Note: There is no \$50,000 relief for a family trust.

If this law change affects you, you need to do two things now:-

- 1 Find out what your shares were worth on the first day of your financial year. For most people this is the 1 April 2007.
- 2 If you are going to be liable for FDR, ring us to discuss, because you might find you should be paying provisional tax.

What is Fair Dividend Rate?

Many overseas companies pay only small dividends or none at all. The Government was not getting a fair share of tax on its income by taxing only dividends. It has therefore decided to treat 5% of the value of the shares as though it were a dividend.

FDR is more complicated than it appears, so we are not proposing to discuss it in detail in this newsletter.

For example, Australian companies, which do not pay tax on all their income because of a tie up with a foreign company, are also subject to the Fair Dividend Rate as are shares in unlisted Australian companies.



Tax rates for PIE's

A PORTFOLIO Investment Entity (PIE) is a managed fund which has tax privileges but which must abide by certain recently created laws.

If you invest in a PIE, at the beginning of each financial year you will get a form asking you for your tax rate. How do you know what to write on the form? We list the rules below:

Individuals

You may choose a tax rate of 19.5% if your income is less than \$38,000 and your share of income from the PIE, when added to your own income, is less than \$60,000. Since PIEs came into existence only on 1 October 2007, PIE income will not be included for the year starting on 1 April 2008 because no one will have a full year of PIE income.

Provided you have satisfied these conditions in either of the last two years, you are entitled to use the 19.5% tax rate. For the year starting 1 April 2008, the last two years are 31 March 2006 and 31 March 2007.

If you understate your rate, you have to complete a tax return and take the PIE income into it. You get credit for tax deducted by the PIE but the income could affect student loan payments, child support etc.

If your income is above these thresholds your rate is 33%.

Joint investments

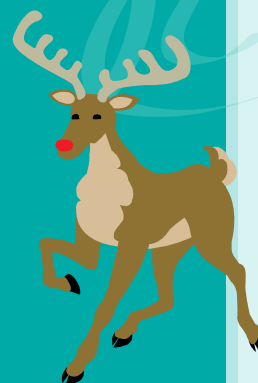
If you invest jointly, split the investments between you, so you can use your own tax rates. If you invest jointly and have different rates, you have to select the higher one and the overpaid tax is not refundable.

Companies

Companies always use the 33% tax rate.

Trusts

You may choose either zero or 33%. If your trust distributes income to beneficiaries, choose the zero rate if the beneficiaries will be paying tax at 19.5% on the money they get.



Tax Dates

January 15 2008

GST November 2007

2007 Terminal Tax
(December balance date)

2nd instalment of provisional Tax
(May balance date)

February 7 2008

2nd instalment of Provisional Tax
(June balance date)

March 7 2008

3rd instalment of Provisional Tax
(March balance date)



Pay out dividends

THE tax rates for companies will be reduced to 30% from the start of the 2009 tax year (for 31 March balances this is 1 April 2008).

When dividends are declared out of these profits, they will carry an imputation credit of only 30%.

The Government realises there are accumulated imputation credits from past years and these represent tax paid at 33%. If you want to use up these 33% credits, you have until 31 March 2010 to do so. After that, all tax credits attaching to dividends will be at 30%.

If a family trust owns most of your company shares, consider paying the dividends as soon as possible, unless you think the tax rate for trusts will be reduced.

If individuals own the company shares it could be wise to wait for the next Budget to see if you can declare a dividend in a lower tax year.



Unclaimed tax refunds

If you go to the IRD website and click on individuals and families, you will find a drop-down menu. Go to unclaimed money and you will find a list of people who have not claimed their tax refunds. If you know anyone on this list, tell them they can claim their refund by writing to:

**Business Direct, IRD,
PO Box 895, Wellington.**

They will need to provide the following information:-

- Personal identification
- Evidence they have authority to claim the refund
- Time slips or other evidence to show they worked for the firm concerned if the refund is arising out of wages.

People who do not work for all of any financial year are likely to be over taxed.

If you have any questions or comments, please don't hesitate to get in touch with us at any time, call 827 6006 or email us at: admin@fisherheaslip.co.nz or visit our website: www.fisherheaslip.co.nz. We'd love to hear from you!

If you have received the hard copy of this newsletter and wish to receive as electronic format please let us know.

PS. If there are other people you know who would like to subscribe to this newsletter, they can sign up by emailing us at: admin@fisherheaslip.co.nz

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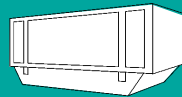
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