posted business

June • 2017

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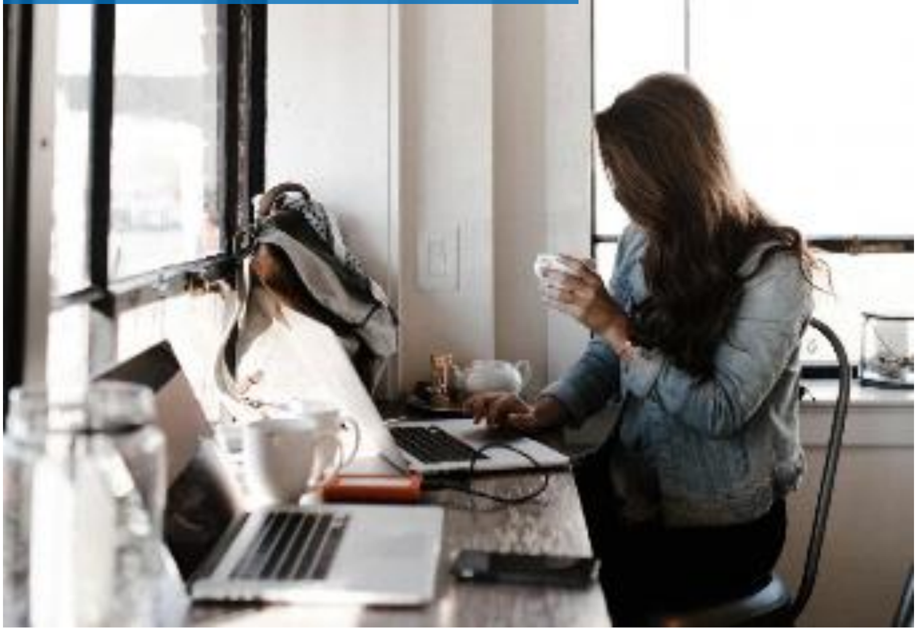
TAX SIMPLIFICATION –

IRD IS MAKING IT EASIER FOR YOU TO MANAGE YOUR TAX



Positive tax changes that we've been signalling for some time are finally taking effect, with key aspects of The Taxation (Business Tax, Exchange of Information, and Remedial Matters) Act and the Taxation (Annual Rates for 2016-17, Closely Held Companies, and Remedial Matters) Act having come into force on 1 April.

Revenue Minister Judith Collins was bullish about the changes, stating, 'This package gives businesses more certainty about their tax payments and more time to focus on growing their business'. While she would say that of course, she's essentially right.
Key aspects include provisional tax changes, changes to use of money interest (UOMI) and penalty fee interest, and simplified reporting for businesses. There are also changes to tighten New Zealand's disclosure requirements for foreign trusts.

Will yours be one of the small businesses to benefit from this tax simplification? Almost certainly, because the new accounting income method, due to take effect in April 2018 and explained below, will take the headaches and guesswork out of paying your provisional tax.

Of course, change – even positive change – can cause anxiety. What do you need to do to take advantage of these changes? Do you need to do anything differently to comply with them? As always, the best course of action if you have any questions is get in touch with your accountant. We're here to help.

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 but smart 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. Although these changes don't take effect until April 2018, now is a good time to start planning for them. We'll look deeper into this in future issues, so watch this space.

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'll be happy to walk you through them.

SAVE COSTS WITH SMART CLOUD-BASED ACCOUNTING SOFTWARE

Concurrent with the new Acts, IRD is also making more and more taxation reporting and payment options available online. For some small businesses, especially those that tried it when it was first available and gave up on it, that may be an intimidating prospect. However, IRD has made their online sites more user friendly over time.

We encourage the use of widely available accounting software packages, to take advantage of changes brought in by the new Act. Using the online option will make your business easier to run. But it won't just be in relation to IRD reporting.

Switching to online accounting software like Xero (there are many others) removes a lot of stress for you in terms of compliance and reporting. What's more, we often find that a time consuming part of doing end of year work for some clients is first tidying up the bookkeeping. That then becomes a cost to you – and an avoidable one at that.

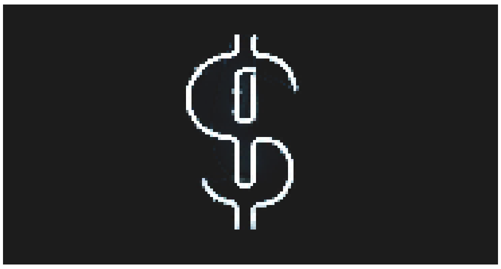
Cloud-based accounting software packages for small business can cover everything from revenue management to salesforce records, your billing system, bank reconciliation, inventory management, HR, customer records and a whole lot more.

Here are the biggest benefits of using cloud-based accounting software

- You'll save time.
- You won't lose data if your computer crashes.
- Well-established software companies have a history with IRD and keep up to the minute with tax changes and developments.
- The best companies offer technical support as part of their package.

By reducing time spent on bookkeeping, you'll free up time for gaining customers, extending your reach and expanding your profile in the market.

Switching to a new bookkeeping system can be daunting at the best of times, and it's certainly not a panacea for poor record keeping. If you're interested in making the move, contact us to discuss your options and to plan a methodical transitional process along with any training needed for you and your employees. Time spent doing this will likely repay you many times over!



THE 2017 BUDGET

Finance Minister Steven Joyce announced the budget on the 25th of May and we have a special newsletter covering what it means for you. A copy is available on our website and covers the tax relief the Government hinted to prior to the budget release.
Head to the newsletters section of the EPA Business Learning hub on our website www.epabusiness.co.nz to read more.

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.

USE APPS TO FIRE UP YOUR BUSINESS

Are you using all your devices to their best advantage? They should be operating for you as an 'office when you're out of the office.' For example, if you're on the road and you need to answer an inventory question or check how often a customer orders, you can use your notebook or phone to have the information at your fingertips.

The number of mobile apps designed to save you time and money is mind boggling. Here are a handful we like – but we really recommend you do your own research and find the ones that work best for you.

Hubspot and *Salesforce* are powerful tools for growing and managing your database. They are inbound marketing and sales platforms that help you attract visitors, convert visitors to customers, close sales and develop marketing relationships.

Trello is a multilevel app for managing projects. Trello's boards, lists, and cards enable you to organise and prioritise tasks in a co-operative, flexible and rewarding way across your workforce.

Viber and *What's App* reduce the cost of international calls. Calls between other users, no matter where in the world they are, are free. And calls to mobile numbers around the world are cheap as chips.

Both Viber and What's App sync your contacts, messages and call history with your mobile device and use your phone's internet connection, instead of your cell plan's voice minutes, so you don't have to worry about expensive calling charges for your business calls.

GotoMeeting for web teleconferencing reduces expenses for communication and can eliminate the need to travel to meetings. Work can happen anytime, anywhere. GoToMeeting with HD video conferencing is a simple yet powerful way to collaborate in real time so business can be undertaken anytime, anywhere.

BUSINESS HEALTH CHECK

Things to do this month:

TALK TO US ABOUT THE RECENT CHANGES IN TAX LAW AND HOW THEY MIGHT AFFECT YOU.

Chances are you'll benefit from them.

RESEARCH SOME GOOD ACCOUNTING SOFTWARE.

Many offer a free trial period download. Chat to us – it pays to check that what you plan to use is compatible with our systems too.

CHECK OUT SOME MOBILE APPS AVAILABLE TO DRIVE YOUR BUSINESS FORWARD.

Many are free, and even the paid ones may offer a free trial period.

IF YOU HAVEN'T DONE SO ALREADY, GET EVERYTHING SORTED THAT YOUR ACCOUNTANT NEEDS TO FINALISE YOUR END OF YEAR ACCOUNTS.

Call or email if you have any questions – it's always better to ask a 'dumb question' than to overlook something!

KEY TAX DATES:

July	Category	Description
5 July	PAYE	Large employers return and payment
20 July	PAYE	Small employers return and payment Large employers return and payment
20 July	RWT	Return and payment
20 July	NRWT / Approved Issuer Levy	Return and payment
20 July	FBT	FBT Return (if completed quarterly)
28 July	GST	Return and payment due for June

PROVISIONAL TAX 2018

These dates assume you have a March balance date and that we prepare your tax returns. Please contact us if you have a different balance date and would like more information.

Due Dates	Instalments due
28 August 2017	First instalment due
15 January 2018	Second instalment due
7 May 2018	Third instalment due
Due Dates	Instalments due if you file six-monthly GST returns
28 October 2017	First instalment due
7 May 2018	Second instalment due

CONTACT OUR TEAM

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