client newsletter

Winter 2016

Tax Talk

Making tax simpler

In April, the Government announced proposals to simplify business tax, with legislation to be passed in August this year. They asked for feedback by end May on the best way to implement these proposals. The earliest of the changes would take effect from April 2017, with more coming online in 2018. At the moment, this would change the tax landscape to look something like this:

From 1 April 2017

Use of money interest 	Hundreds of thousands of taxpayers will be better off following the government's proposed revamp of business tax, as they will be removed from Inland Revenue's use of money interest regime, says Tax Management NZ chief executive Chris Cunniffe. Taxpayers using the standard uplift method (paying 105% of last year's tax bill) will no longer be charged interest if they underpay at their first and second provisional tax dates, provided they pay the income tax they owe at their last provisional tax date. Businesses and individuals who have residual income tax below $60,000 will also not be subjected to interest. It is expected that 67,000 taxpayers will benefit from this.
Penalties	Incremental late payment penalties will be removed from new debt for goods and services tax, income tax and working for families tax credits.
Credit reporting of tax debt	Inland Revenue can disclose significant tax debts to credit reporting agencies, so that other businesses considering extending credit can make more informed commercial decisions.
Information sharing	Inland Revenue can share information with the Registrar of Companies to help enforce company law requirements. This will help weed out non-compliant companies continuing to trade with an unfair commercial advantage over compliant businesses.
Withholding tax and schedular payments	Contractors will be able to elect their own withholding tax rate. Contractors working for labour-hire firms can be covered by withholding tax. Contractors and their payers can forge voluntary withholding agreements so that contractors can have tax withheld on a payday basis, reducing the impact of provisional tax.

From 1 April 2018

A new way to calculate and pay provisional tax 	The accounting income method (AIM), which will be available to taxpayers with turnover of $5 million or less, will allow those who have IRD-approved accounting software to pay income tax on a two-monthly basis. Up to 110,000 taxpayers will be eligible. Companies can pay tax as agents for shareholder-employees in respect of their shareholder-employee salary. This will reduce the impact of provisional tax for shareholder-employees. Taxpayers who are forced to use the estimate method due to volatility or seasonality may find tax pooling a useful option to manage income tax payments, as they will be subjected to IRD interest. Tax pooling would also provide businesses with cashflow constraints greater flexibility around when and how they pay their provisional tax payments.

New GST online filing

The first steps towards tax simplification lie in the new option for taxpayers for online filing of GST returns. Inland Revenue has been working with two software providers to pilot a service so taxpayers can file their GST returns directly from their business software. At present this can be used for GST only returns or for combined GST and provisional tax returns, although this option is not open to taxpayers who use the ratio option to calculate provisional tax.

To use this service you need two things: you need to be using the software but you also need confidence that your systems are set up to capture your GST position correctly. You want to be sure you won't be exposed to tax penalties for underpayment further on.

If you would like to discuss this further please contact us.

R&D Tax credits

Does your business conduct research or development which is making a tax loss? Let us know, as you may be eligible to cash out your R&D tax losses for the 2015/16 tax year. We'll need to check your eligibility and register your business in the Investment Management System (IMS).

Mileage rate changes

Inland Revenue announced in May that the Commissioner had reduced the mileage rate from 74c to 72c/km for the 2016 tax year (1 April 2015 to 31 March 2016 for standard balance dates). If you rely on the standard mileage rate when reimbursing your team for travel, make sure your payroll system is updated to reflect the reduced rate.

Budget Perspective

No drama

The 2016 budget has come and gone and the only people really shouting about it are the Opposition and the tobacco companies.

Perhaps the Government felt they have already given businesses enough to be excited about with their pre-Budget announcements of the proposed tax simplification and business transformation. Beyond the reform of the provisional tax system and other changes announced to be staged over 2017 and 2018 (covered here on page 2), there were no dramatic shifts for business.

New spending: Health and education will see most of the new spending, $2.2b and $1.44b respectively over the next four years. However, total annual new spending will be around $1.6b shored up by whatever additional funds can be found in other cuts or underspends. $258m goes to provide more social housing in the epicentre of the nation's housing crisis, Auckland, with an additional $100m freeing up Crown land for housing. Science and innovation projects will receive an extra $410.5m over the next four years, with increases to support tertiary education and apprenticeships in science, engineering and agriculture as well as regional R&D initiatives.

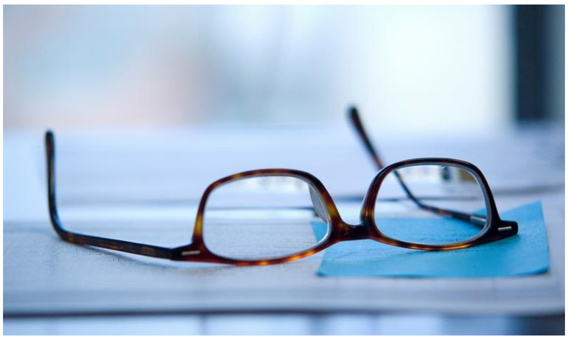
Debt reduction: while net debt is forecast to peak round 25.6% of GDP in 2017, the plan is for overall reduction, bringing it within the Treasurer's target of 20% for 2020. Surpluses are forecast for the next few years. Some of the figures, however, seem to rest on the hoped for dairy price recovery which remains to be seen.

ETS subsidy: From 1 January 2017, the Emissions Trading Scheme subsidy will be removed. This was only ever a temporary measure during the global financial crisis, allowing some businesses to pay one emissions unit for every two tonnes of pollution emitted.

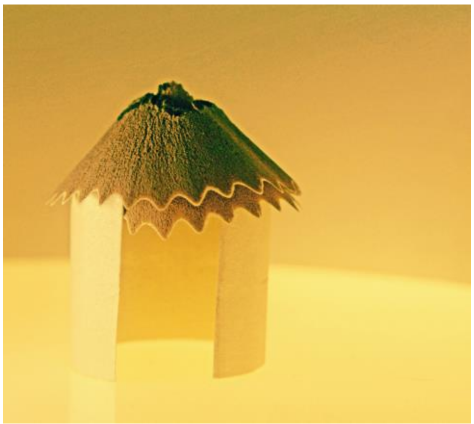
Tax: There is some promise of tax cuts and of lowering tax rates and thresholds, primarily to take some pressure off lower and middle income earners. However, that's on a wait and see basis for next year's Budget.

Inland Revenue's new tax administration system has been allocated $503m in new operating funding and $354m in new capital funding. This is closely aligned with giving effect to what the Government has planned for tax simplification and business transformation. A reshaping of Inland Revenue also seems inevitable. Balancing the additional allocations are cuts to Inland Revenue's existing budget – $284m over the next four years – those savings to be recycled back into business transformation. The overall aim, however, is to generate more tax revenue with a smoother system ensuring better tax compliance.

The Government announced that they will be making further changes targeted at multinational companies, to make it harder for them to avoid paying their fair share of tax. What those changes are, we don't yet know but it is probable they hinge on sharing tax compliance information internationally as the Government is now party to the OECD multilateral competent authority agreement. This enables automatic sharing of country-by-country reporting and is part of a larger OECD project to reform the international tax framework. Disclosure requirements for foreign trusts will also come under scrutiny.



Changes to land sales could affect you



Are you selling residential land? From 1 July 2016, a new withholding tax – residential land withholding tax (RLWT) – may need to be deducted from a property sale/disposal where the property being sold/disposed of is in New Zealand and meets the definition of 'residential land', and the vendor:

- acquired the property on or after 1 October 2015, and
- has owned it for less than two years before selling or disposing of the property, and
- is an offshore RLWT person

Dear optimist, pessimist, and realist -- while you guys were busy arguing about the glass of wine, I drank it! Sincerely, the opportunist!' Lori Greiner

Stress – beating it to the punch

Stress is a sneaky wee thing. It can creep up on you completely unaware, knocking you down when you least expect it. If you're busy it's easy to forget to look after yourself. It is all too easy to let things get on top of you. However, looking after number one doesn't have to be difficult. The idea is to prevent stress, before it presents itself.

Get Moving. We're not saying you have to take up boot camp or run a marathon, but simply get your body moving. Take a long walk in the weekend, try swimming a few laps in a pool or simply park further away from the office and take the stairs, rather than the lift, where possible. Exercise has been proven to clear the mind and boost energy levels.

Make a list and write down what you have to do and in what order. Work your way through the list one task at a time, from the most pressing to the least important. You'll be amazed at the way a list can clear your mind about the day or week ahead, not to mention how motivating it is to cross each task off!

Step outside for some fresh air and vitamin D, both of which are hugely underrated. It's likely that in this day and age, your office is fairly mobile. If you can, take your phone calls outside or reply to a few emails on your smartphone. If you don't get a chance to take your work outside, make sure you take a five minute break or a walk before or after lunch.

Book a ticket and flee. That's right, take a break. Reserve a seat and go. It may only be for a weekend or you may choose to take some of that well deserved leave. Either way, by stepping away and shutting off for a time, you're bound to return refreshed and revived with more energy. Ward off that burn out!

Be aware of what it is that usually makes you stressed in the first place. Think back to previous situations when you've felt like things are getting a bit much. What is the trigger? By shining a light on what instigates your stress, you may be able to see it coming and deal with it more promptly in future.

Stress can still break its way through, despite your efforts to stay on top of it. Remember to take a deep breath and if need be, take a step back. Things will only get worse if you're not around, so remember to take care of yourself first.

KPIs – keys to success

When you look at your numbers, do you see how you're doing? Do you see how close or how far away the business is from realising your goals? What are you measuring that will tell you whether you're racing or just revving the engine?

What are your key performance indicators? And how many of them are there?

Key performance indicators (KPIs) are the measures your business uses to track progress against your business goals. Your KPIs relate closely to your goals and, if you are going to track performance against goals, you need to be able to measure them.

KPIs need to mean something to you and your team so that the strategic planning session doesn't just fizzle out under a blanket of corporate-speak. You know the terms: efficient, effective, community engagement, sustainability, productivity, blah blah blah.

They all meant something when they started out in life but unless they mean something to you and your team right now, you may as well watch your team slip gently into a deep sleep. What about the conversion rate from quotations to sales? The average sale to new customers? The number of stock outages or complaint rate?

Not every business is the same and not every business owner wants the same things. So each business' KPIs may look different.

Work on KPIs with your team

When you develop your strategic plan with your team and you work out your goals for the next year, what are the factors that will indicate most clearly how well the business is progressing towards meeting those goals? Try and keep it to six or fewer for the business overall.

It may turn out when the team starts to talk about it that different parts of the business measure their success in different ways. If you find this, work out KPIs for each department (not too many) and make sure it's clear how they feed in to the KPIs for the business overall.

If you know what your goals are but it's not clear how you will measure whether you're achieving them, why not talk to us about working out KPIs to suit your business.

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