PKF Poutsma Lemon Limited
Chartered Accountants & Business Advisers

9 Hobson Avenue Kerikeri 0230 | P O Box 81 Kerikeri 0245
Ph: 09 4077142 | Fax: 09 4075434 | Email: kerikeri@pkfpl.co.nz

Williams Road Paihia 0200 | P O Box 16 Paihia 0247
Ph: 09 4027926 | Fax: 09 4027626 | Email: paihia@pkfpl.co.nz

Risk and Reward

Winter 2016

Underpaid Income Tax?

Underpaid provisional tax can cause a few headaches. Maybe you did not keep up with your provisional tax payments throughout the year? (oops) Perhaps you did not end up paying enough because you had a better-than-expected financial year (yay! but damn, an increased tax liability). It could be that seasonality or volatility make it difficult to forecast your provisional tax payments. Whatever the case, owing the taxman additional income tax can put pressure on your business' cashflow. With Inland Revenue's interest clock continuously ticking at 8.27 per cent (and at 9.21% for tax debt incurred up until 8 May 2016) while that tax remains unpaid, the cost can quickly add up.

Tax Pooling

An option we have discussed before is tax pooling. It is a service designed to reduce interest costs and provide payment options for provisional taxpayers.

How does it work?

For underpaid income tax, you can settle what you owe IRD by paying through a tax pooling intermediary such as Tax Management NZ (TMNZ) at an interest cost lower than the interest IRD charges on underpaid tax.

The payment you make is essentially a purchase of tax that TMNZ paid to IRD on the original date the provisional tax was due.

As this payment is date-stamped, IRD treats the tax as paid on time once it has processed the transfer from the tax pool to your IRD account. Any late payment penalties and interest showing on your account will be reversed once this happens.

When might this be useful?

Tax pooling can be used if you have underpaid income tax for the current tax year (2016) or the one just completed (2015).

Is tax pooling secure?

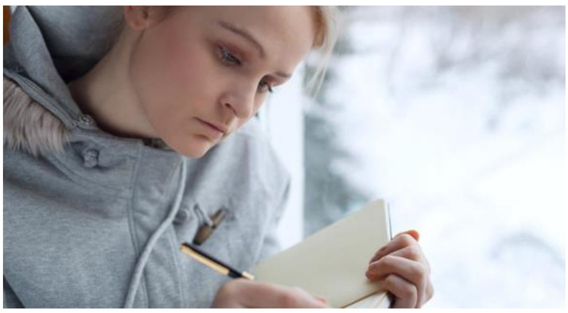
Tax pooling intermediaries are registered with IRD and operate under legislation set out in Income Tax Act 2007 and Tax Administration Act 1994.

The system was proposed by IRD so private markets could provide ways for provisional taxpayers to manage their income tax obligations and reduce their compliance costs.

The tax pool accounts operated by tax pooling intermediaries are held at IRD and managed by an independent trustee. The independent trustee also oversees the bank accounts in which your payments are made.

Timeframes for using tax pooling

Tax pooling gives you an extra 75 days past your terminal tax date to pay what you owe IRD. So, if you have a 7 April terminal tax date, you have until 15 June to settle underpaid provisional or terminal tax liabilities for the 2015 tax year. For underpaid income tax relating to the 2016 tax year, you have until mid-June 2017.



What to do next

Contact us if you would like to discuss tax pooling as an option to clear up your underpaid provisional tax debt.

Upcoming Seminars

JULY
12

Xero Q & A
(Kerikeri and Paihia)

SEPTEMBER
26 & 27

ACC
with **Leigh Austin**
(Kerikeri)

Contact our Kerikeri or Paihia Office to register for one of our free seminars

Keep up to date with our latest news

pkfpl.co.nz/news

and blog posts

pkfpl.co.nz/blog

Making Tax Simpler

Tax Talk

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 scheduler 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.

But what will it mean for me?

The outcome of the consultation phase on tax simplification may still change how or whether some aspects are implemented but it seems certain that the broad outline of the changes will go through.

Best case scenario for small businesses: this should reduce complexity and make it easier to pay tax. You'll pay tax more frequently based on your business' actual income. You may end up paying less in tax, penalties, and interest. However paying tax more frequently may require you to keep a closer eye on cashflow to keep money coming in to pay the bills.

Worst case scenario for small businesses: you may end up paying more tax if you don't stay aware of your tax obligations and ensure the accuracy of the data input into your business software. We can assist you with regular monitoring and checking your systems are accurate and fit for purpose.

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

Obviously, this affects non-residents. Less obviously, an 'offshore RLWT person' includes New Zealand resident companies who have shareholdings of 25% or greater held by foreign persons, and trusts where more than 25% of the trustees are foreign persons. Just because your business is New Zealand company, it doesn't mean that you will not be caught by these new rules. It is possible for certificates of exemption to be applied for affected taxpayers. Contact us if you think this may affect you.

What Working for IRD Taught Bruce Sheppard

PKF Article

Alison Lemon, Director

Recently I read a blog on stuff.co.nz written by Bruce Sheppard, who by his own admission worked as a tax accountant including 3 years with the IRD. This surprised me.

Although this blog was posted in 2010, I believe what he had to say then is just as relevant today.

“Many New Zealanders, either deliberately or innocently, fail to comply with what is quite complex and comprehensive law. Due to a lack of IRD resources and the inexperience of the IRD tax officers charged with enforcing the law, taxpayers have got away with it and told their friends who have done the same thing.”

Bruce then goes on to say the “the quantum of property gains derived by NZ taxpayers that potentially have a tax consequence and are never reported would reach quite exceptional proportions. If tracked down, they would have the potential to transfer to the rest of us via the IRD, much of the wealth of some middle class baby boomers and others”.

That’s fairly strong and scary stuff but I don’t think this is completely unrecognised by the NZ Government. Successive budgets have seen more money and resources allocated to IRD to assist with tax payer collections. The 2016 budget is going to invest $857 million to deliver a modern tax system. $503 million is for new operating funding over the next 4 years and $354 million is for new capital funding for the administration system. IRD just like any business talks about a return on investment and is expecting additional tax revenue of $280 million from greater compliance each year.

Bruce also has few things that every taxpayer should be aware of:

The IRD has wide access to data, “They have always had the power to examine public records and request 3rd party records regarding you from anyone they like and without your knowledge or your consent.” That means that everything you tell your Bank Manager that he or she writes in a diary note can be accessed by IRD on request.

The Land Transfer Office converted all paper based Certificate of Titles to computer registers between 1999 and 2002. So it’s not hard for IRD to trace sales and purchases or the frequency of vendor transactions.

The IRD is “partnering” with business associations to better understand the income and expense of each of those types of businesses and the “norms”. And remember when you file an Income Tax Return you must also complete an IR10 which is a summarised profit and loss, making it very easy for IRD to electronically compare your IR10 to all the others around the country and to the industry “norms”.

Just this year, IRD sentenced Mr Wang to 3 years imprisonment for the shortfall of tax, use of money interest and shortfall penalties. Penalties for tax evasion are 150% of the tax shortfall. Mr Wang was a Mid-North Island retailer and IRD discovered Mr Wang’s evasion just by comparing his operating results with other similar retailers.

Another IRD audit focus has been transfers of funds into NZ from overseas, investments overseas and NZ tax residents working offshore. And this is where information supplied to IRD from the Banks and from the offshore Banks that are subject to Double Tax Agreements with NZ make the investigation and collection of tax fairly efficient.

The best defence is to always get good advice, make voluntary disclosure if required rather than suffer the consequences later down the track and if you are facing an IRD review or audit don’t go at it alone, it can be stressful, uncertain and tax law is fairly comprehensive and complex.

8 Crazy Attempted Write-Offs

PKF Blog

Jancy Stott
Chartered Accountant

Tax regulation is dizzyingly complex. Accountants spend their entire careers navigating the rules, helping keep their clients out of trouble and maximise their list of deductions. Nobody want to pay more than their fair share of taxes. And with the thousands of claimable items, many tax pros have seen more than their fair share of strange deduction attempts.

Surveying more than 700 small business owners and accountants, nearly 40 percent of the tax pros said mixing personal and business expenses is the most common mistake they see small business owners make that results in an IRD audit. While some claims are totally legit, several are absurd. Many of the accountants surveyed reported that some clients tried to write-off things like manicures, lingerie, and even child support.

Here are some of the craziest attempted deductions accountants saw this past financial year included:

1. Personal care was the most common write-off attempt. Of those surveyed, 64 percent saw line items for things like massages, manicures, plastic surgery and clothing.
2. Vacations were a biggie. Nearly half of the accountants surveyed said clients had tried to write-off holidays including cruises and Vegas jaunts.
3. Extravagant outings made the list with helicopters, boat rides and spa trips all listed as attempted deductions.
4. Home improvements, with a third of accountants surveyed listing additions like movie rooms, hot tubs, game rooms and even a kegerator making the strange deduction list.
5. Children's gifts, tuition, clothes, babysitters and even child support was attempted by some individuals, a quarter of accountants surveyed said.
6. Too tired to cook claims. Meals on business trips are a pretty common deduction, however, daily Starbucks or attempts to claim restaurant visits "because they were too tired from working", were also listed as crazy deductions that crossed accountants' desks this past financial year.
7. The cost of getting married was listed as another strange tax write-off attempt.
8. Doggy day care. Pets, pet food, pet daycare, pet insurance and pet grooming were all listed by nearly 30 percent of accountants surveyed as attempted write-offs their clients made.

When it comes to managing finances just 14 percent of small business owners were focused on separating business and personal finance expenses. Muddling up potential deductions can pose a substantial problem during tax season: Many small business owners are either missing out on potential deductions or attempting to claim write-offs that aren't allowed.

Working with an accountant and keeping clean, detailed records can take the pain out of tax time, help you avoid an IRD audit and maybe even improve your take home income. If you would like to make an appointment to discuss your personal circumstances, please contact our office today.

Blog originally from www.xero.com/blog

Small Business Scam

Last year, there was a scam targeting small business owners. Although we were not a part of this last year, it seems they are at it again.

The scam comes in the form of a reasonably well-presented letter from "New Zealand Companies – The Corporate Portal". The letter threatens removal of your company due to incomplete company details and advises you to update your records online free of charge.

However, if you wish to add further information, you are required to fill in the attached form (which has been conveniently prepopulated with your business details). Little do many know, that by completing and returning the form, you are signing up to a $1,411 annual subscription with a basic online directory, for at least three years. According to the Commerce Commission, once you sign up, the terms and conditions make it difficult to cancel and The Corporate Portal reserves the right to increase the annual fee without consultation with you.

The Ministry of Business Innovation and Employment (MBIE) recommends reporting letters from The Corporate Portal to www.theorb.org.nz.

If you are unsure about the authenticity of any correspondence you have received, contact our office for advice.

March 2016 Quarter

Statistics.govt.nz shows economic activity grew 0.7% in the March 2016 quarter. Main movements were:

- Construction up 4.9%, due to growth in construction trade services, and heavy and civil
- Construction – all construction sub-industries increased
- Health care and residential care up 2.7% – both private and public health care were up
- Manufacturing down 0.4%, due to decreased food, beverage, and tobacco manufacturing

First Year Tax Discount and Other Tax Tips

You're in your first year of business and it's time to look at your tax. You don't have to pay your income tax until well after the financial year-end on 31 March. But if you do pay before then - and you're self-employed or in a partnership - you could be eligible for a 6.7 per cent discount. (If you use a company or a trust in the conduct of your business you are not eligible for this discount.)

If your business made a profit in its first year, you will need to pay tax on it. But there are ways to reduce the impact on your business.

Early Payment Discount

You don't have to pay the tax on your first year's profits when you file your tax return at the end of your financial year. Your payment date may be months after you file your tax return.

But you can make voluntary tax payments in that first year to spread the cost. You might also qualify for this early payment discount of 6.7 per cent.

The discount may not sound like much, but it adds up quickly.

- Danny owes $5,000 income tax. The discount saves him $335.
- Miriama owes $20,000 income tax. The discount saves her $1,340.

If you have not been making tax payments in your first year, you must pay the tax by 7 February the following year if you have the standard 31 March year-end date. If you have a tax agent, you must pay by 7 April of the following year.

Here are some **Other tax-reducing tips**:

- Claim for valid business expenses.
- Depreciation - claim a deduction on your business assets, e.g. computers and vehicles, for value lost through wear and tear.
- Pay on time to avoid penalties - online banking is quickest and easiest.
- Hire a tax agent - their knowledge can save you time and money.
- Don't over-pay - Inland Revenue will refund you but the interest they pay is at a lower rate than you'll get in a high-interest savings account.

To find out if you qualify for the early payment discount, or would like to know if you are claiming as many expenses against your income as possible, contact our office today for an appointment to discuss your personal circumstances.

IRD Debt Scam

If you get a phonecall, email or text from an IRD officer claiming to be Kenneth Mathew telling you that the IRD is going to take legal action against you for unpaid tax, then it is highly likely to be a scam. IRD won’t contact you in this manner and the phone number they give you to call back on is unlikely to be the IRDs. This scam has been operating in Australia for the last two years and has managed to jump the ditch. The Ministry of Business, Innovation and Employment (MBIE) in NZ is aware of it going around at the moment. From what we are hearing, the scammers seem to know a bit more than they should about their target, so the caller sounds very plausible.

The smart thing to do is not to give credit card or bank details and not to respond to any emails or texts. If you are on the phone, say that you will follow this up with your Accountant and don’t call them back on the number they give you. Call us, we can soon tell you what is and isn’t right.

Northland Tuis

Northland Tuis marched in style in Invercargill on 5 March 2016. PKF team member Frances Cookson and ex-PKF team member Vivienne Sexton attended. A great weekend way down south and a very successful display.

PKF Poutsma Lemon Limited
Chartered Accountants and Business Advisers

www.pkfpl.co.nz
www.facebook.com/pkfp
@PKFKerikeri