

Tax update

Important GST and provisional tax changes

Inland Revenue recently undertook a taxpayer survey focusing on the compliance area. The biggest message to come out of this review was that there were too many forms to complete and file, as well as too many payments to be made.

Stemming from this the IRD has introduced some changes with the aim of reducing the amount of time taxpayers spend on compliance.

These changes are likely to affect you.

The key points are:

- Changes apply to the 2008/2009 tax year (this will be 1 April 2008 for most clients with a standard balance date of 31 March - but may be earlier depending on your balance date)
- Change of due dates – for GST and provisional tax
- The alignment of GST periods (prior to the start of the 2008/2009 year) to balance date for provisional taxpayers
- New ratio method option introduced for calculating provisional tax
- Lowering of the company tax rate from 33c to 30c from the 2008/2009 income year.

Due dates

As you are probably aware GST returns are now due on the 28th of the month except if due in April or December where the dates will be 7 May and 15 January respectively.

Provisional tax due dates have also changed. Gone are the 7th of July, November and March that you are likely familiar with (for a 31 March balance date).

The new dates are: the 28th of the 5th, 9th and 13th month after balance date.

For one or two monthly filers with a 31 March balance date the provisional tax due dates will be 28 August, 15 January and 7 May.

For six monthly filers there will be two provisional tax instalments due on the same day as your GST returns and payments.

Please see the attached tables showing all due dates for all provisional tax methods and GST return periods.

Alignment

If your GST taxable periods overlap your balance date the periods will be aligned so that a period ends in the month of your balance date.

For example if your balance date is 31 March and you usually file GST returns two monthly ending in even months, i.e. Jan/Feb and March/April, your GST taxable periods will change.

You would file Jan/Feb 08 as normal, but would also need to file a single month return for March 2008 after which you would file two monthly returns commencing in April 2008, i.e. April/May 2008.

Beware that if you wish to change your taxable period you must request this change **before** the period commences.

For example if you are currently filing six monthly but wish to change to two monthly, you need to apply before the start of the six monthly period. This may be especially relevant if you have made a substantial purchase (particularly if it is near the beginning of the six month period) and know you will get a refund you may wish to change periods to access the refund earlier.

Please advise us prior to requesting any change to your filing frequency.

Combined GST and provisional tax forms

There are changes to the GST forms to encompass provisional tax. Both can be paid together on the one form – the provisional tax details will be on the back. You can also offset a GST credit against provisional tax.

Any correspondence regarding this will be sent to the address recorded for Income Tax. If you file your own GST returns but CST Nexia prepares your Income tax returns, we will receive this correspondence.

CST will continue to issue the provisional tax reminders and payment slips. You can choose whether you use this form or make your provisional tax payment with your GST return.

New option for calculating provisional tax

A new ratio method option for calculating provisional tax has been introduced. This option is designed to better address provisional tax payments for those with seasonal fluctuations in their business income to better match their cashflows.

Standard and estimate options are still available.

The ratio method is optional and will only be applicable to taxpayers who meet certain criteria.

Basically it will only be applicable to those who:

- Apply in advance (before the year starts)
- Have been GST registered for the last 2 years
- Have been operating a business for the last 2 years

- Have residual income tax (tax to pay after tax credits but before provisional tax paid) of more than \$2,500 and less than \$150,000
- File returns 1 or 2 monthly
- Have had 12 month periods for the last two years.

Other points to note:

- Must elect in by phoning or writing
- Safe harbour provisions apply to use of money interest (debit and credit)
- IRD calculates the ratio % based on last years RIT/GST taxable supplies
- If you no longer wish to use ratio you default to estimate
- You can only elect the ratio method if you have no outstanding returns
- Ratio % will change each year when you file further returns
- If you no longer qualify you fall out of regime from end of current year
- You will have 6 instalments – 28th of 3rd, 5th, 7th, 9th & 13th months

Change of tax rate

As you probably know the company tax rate decreases to 30 cents from the 2008/2009 year. For most this will be from 1 April 2008, but for those with an early balance date it may apply at a different time. For example, it would apply from 1 January 2008 for a 31 December 2007 balance date.

The lower tax rate will need be taken into account in provisional tax calculations under all methods: standard, ratio and estimate.

The provisional tax uplift calculation will change from the current 105% of last year's residual income tax (tax to pay before deduction of provisional tax paid) or 110% of the prior year to 95% of the last year's or 100% of the prior year.

For example, in 2008/2009 your provisional tax calculation will be 95% of 2007/2008 if filed or 100% of 2006/2007.

There will also be a flow on effect to imputation credits. You can continue to attach imputation credits to dividends paid at the 33/67 ratio until they have all been utilised or up until 2010. Once utilised or, after this date, you must use the 30/70 ratio.

Please feel free to contact us to discuss. You can contact one of the team on 09 262 2595 team@cstnexus.co.nz or alternatively our tax manager Tania Styles on 09 261 1393 tstyles@cstnexus.co.nz.