

<u>Newsletter</u>	<u>No. 17, February 2007</u>
<p><u>Introduction</u></p> <p><u>Important:</u> The third and final provisional tax payment for 2007 is due on Wednesday 7 March.</p> <p><u>Topics in this Newsletter</u></p> <ul style="list-style-type: none"> • Provisional Tax Due 7 March • Carbon Credits • End of year • Reminder re earned income • Overseas travel • Extended GST payment date • Kiwisaver • Contact details <p><u>Provisional Tax Due</u></p> <p>The third and final instalment of 2007 provisional tax is due on Wednesday 7 March 2007.</p> <p>How much provisional tax will you have to pay?</p> <p>If your 2006 tax return has already been completed then we will have sent you a schedule setting out your provisional tax payments for 2006/7.</p> <p>If your 2006 tax return hasn't yet been filed with IRD then this part's for you. If your income for the year, that hasn't already had PAYE or withholding tax deducted, is likely to be less than \$112,000 then you can calculate your provisional tax for 7 March at 110% of your 2005 residual income tax, deduct what you have already paid for the first two instalments and pay the remainder. Your residual income tax is basically the tax you had to pay last year on your self-employed or shareholder employee income.</p> <p>So, for example if your residual income tax for 2005 was \$14,000 then provisional tax for 2006/7 would be \$15,400 (ie 110% of \$14,000) and the payment on 7 March would be \$5,133.33 if you had paid \$5,133.33 at each of the first two instalments.</p> <p>Remember to pay on time or you may be charged penalties and interest.</p>	<p><u>Carbon credits</u></p> <p>For those with interests in forestry you may have been following the latest climate change/ carbon credit proposals.</p> <p>Under these proposals those who have planted forests before 1990 will not be able to gain carbon credits for their forests and will be charged for any forest which is logged and the land converted to another use. It looks like no charge will be made if the land reverts to forest.</p> <p>Those whose forests have been planted from 1990 onwards will have carbon credits allocated to the government but will not be charged for not replanting their forests when logged.</p> <p>These proposals will have wide reaching effects on forestry owners particularly those who are planning on living off their carbon credits as the return is higher than many other farming propositions particularly given the high exchange rates for exports.</p> <p>A discussion paper on these proposals is available at http://www.maf.govt.nz/climatechange/ and submissions need to be made by 31 March.</p> <p>Meetings are being held around the country with one scheduled for Wellington on March 15.</p> <p><u>End of Year</u></p> <p>March 31 heralds the end of the tax year.</p> <p>This means that you need to start thinking about the information that will be needed to complete your tax return.</p> <p>Remember the sooner your details are provided to your accountant the sooner you will know the amount of provisional to pay on 7 July and, if you are getting a tax refund, then the sooner it will be in your bank account.</p> <p>Remember too that it will seem a bigger chore the longer you put it off!</p> <p>You will need:</p> <ul style="list-style-type: none"> § Your cashbook showing all the income and expenses of your business activity for the year from 1 April 2006 to 31 March 2007.

These should be separated into those that have gone through your business bank account and those you have paid from your own pocket or credit card. Clearly note any assets which cost more than \$500 excluding GST. A Fixed Asset schedule showing "Noel Leeming" \$620 doesn't tell us much about what sort of asset was bought and the type of asset affects the depreciation claimed.

- § The bank statements for your business account.
- § A list of the invoices you have sent out at 31 March for work done by that date but not paid by 31 March. Show the GST exclusive amount.
- § A list of any major bills for work incurred at 31 March but not payable until the following month.
- § Details of any stock on hand at balance date.
- § Details of any home office expenses incurred.

A checklist is attached.

Reminder re earned Income

Remember that IRD taxes you on the amount you have earned for the year if you are in business, not on the amount of cash you have received. This can be very confusing if you are on a payments basis for GST purposes.

If on a payments basis for GST then you will only pay over the GST you have received less any GST you have paid.

However for income tax purposes you will need to exclude the amounts you earned last March and received in April, and include the amounts invoiced at 31 March 2007 which you won't be paid for until April. If you have significant amounts of work in progress or contract payments due (usually affecting architects and some other professionals) then you may need to add these in too. Show the GST exclusive amount.

Overseas Travel

We are often asked if travel overseas can be fully deducted if you go to a conference at your travel destination. This is a very grey area but commonsense prevails. If you go purely for the conference and it is relevant to your work or subject area then the cost should be deductible.

If you decide to tack a week's holiday onto a 3 day conference then if the primary reason for the

Trip was the conference then the whole cost of the airfare and 3 days accommodation may be deductible. Presenting at a conference makes deductibility much easier.

If you decide to go to a conference while on a bigger trip then you may decide to claim the cost of the conference and the accommodation for the 3 or so days but not the major travel cost.

If you go to a conference or a course for a week and then have a week's holiday then you may decide to claim half the cost. Just remember you need to take a reasonable approach.

Extended GST payment date

GST will also be due for all taxpayers for the period ended 31 March 2007.

As part of the alignment of GST and provisional tax IRD is aligning the GST dates to 31 March 2007. This means that if your GST period crossed 31 March you would have to prepare a return at 31 March 2007 and then continue to prepare monthly, two-monthly or six-monthly returns from that date.

This is expected to add significant work for some businesses and accountants so IRD has agreed to make the due date for payment of 31 March 2007 GST 7 May 2007 instead of 30 April.

This will only apply for the 31 March 2007 return. All subsequent returns will be due on the 28th of the month following the GST period except for the 30 November payment which may be made by 15 January because of the Christmas period.

Kiwisaver

Kiwisaver is likely to only affect those of you who employ staff on wages and deduct PAYE. It takes effect from 1 July.

However the whole Kiwisaver package may provide incentives to move from being a provisional tax payer to a salary and wage earner with PAYE deducted especially if you are saving for your first home. Go to www.ird.govt.nz/kiwisaver/employer/.

Contact details:

Please remember that the information in this newsletter is of a general nature only. For advice relevant to your situation please contact us.

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