

## Newsletter

## No. 20, February 2008

### Introduction

**Important: Provisional tax is due on 7 March 2008 and terminal tax for 2007 is due by 7 April 2008.**

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### Provisional tax 2008

The third and final instalment of 2008 provisional tax is due by **7 March 2008**.

Make sure you make payment on time as IRD will charge penalties at 1% for the first day late and this is increased to 5% of the unpaid or underpaid amount by the end of the first week overdue. Remember too that interest may also be charged at 14.24% on any underpayment (compared with 6.66% on any overpayment).

### Terminal tax 2007

If you have terminal or residual tax for the year ended 31 March 2007 this needs to be paid to IRD before 7 April 2008.

Again interest and penalties will be charged on any late or non-payment.

If you have terminal tax to pay for 2007 this will be outlined on the payment schedule sent to you last year when your tax return was completed.

### Reminder – new prov tax dates

This is a reminder about the new provisional tax dates.

At present you will be paying provisional tax on 7 July, 7 November and the following 7 March.

From 1 April 2008 these dates will change to line up with your GST dates. This means that if you or your company pays GST two monthly then provisional tax will be payable with every second GST payment ie 28 August, 15 January and 7 May.

If you or your company pays GST 6 monthly, then provisional tax will be due twice a year, at 28 October and 7 May.

If you pay provisional tax and you are not GST registered personally then you will pay provisional tax three times a year, at 28 August, 15 January and 7 May.

A schedule containing the details including an explanation of the new ratio method for calculating provisional tax was provided in our last newsletter. This is available on our website [www.dowsemurray.co.nz](http://www.dowsemurray.co.nz).

Terminal or final tax will still be due 7 April of the following year.

For most taxpayers there will be more time to determine their provisional tax liability with the first payment now due either 28 August or 28 October, instead of 7 July. However with GST due at the same time this could require careful cashflow planning to ensure you have enough cash to see you through the typically quiet Christmas/ New Year period.

### New company tax rate

The tax rate for companies will drop from a flat rate of 33% to 30% from 1 April 2008.

This will encourage investment in companies and will make NZ companies more competitive with our Australian counterparts.

For most smaller to medium sized businesses who pay most of their profits out to shareholder employees or directors the change in the company tax rate will have no impact as the individuals will still have to pay tax at their own marginal tax rates and be no better off.

Of more benefit to most business owners would be a reduction in the personal tax rates whether by adjusting the thresholds or by reducing the rates.

This election year promises some changes in this area.

### **Changes to Donation Limits**

Remember too that from 1 April 2008 companies may now claim a tax deduction for donations up to the amount of their taxable income. This limit also now applies to individuals.

### **New website**

We have updated our website!

Have a look at [www.dowsemurray.co.nz](http://www.dowsemurray.co.nz) and let us know what you think.

### **Advisory boards**

Businesses that are growing rapidly or businesses that are ready for a push would thrive with the help of an advisory board.

Many small businesses can't afford to pay a board of experienced independent directors yet they desperately need their services. Such businesses also don't want other directors as owners of their business for fear of losing control.

An alternative is the use of the advisory board. An advisory board consists of a group of selected advisors to help develop your business. Because they are not caught up in the day to day operations of your business they can provide independent and objective advice about your business.

Set up formal monthly meetings (or two monthly if you prefer), set a specific agenda, report back on actions taken since the last meeting and set specific tasks to be undertaken by the next meeting. Pay your advisors for their time – it will mean you can attract top advisors to your board and you are more likely to value and act on the advice you receive.

### **Overseas Investments- Update**

We are still waiting for further information from IRD regarding which Australian shares are exempt from this regime.

Meanwhile you should obtain the market value of all overseas shares at 1 April 2007 and at 1 April 2008. Most recognised fund advisors and sharebrokers will provide this information.

### **Lapsing companies**

We have again noticed companies being struck off the Companies Office register because annual returns have not been filed.

Annual returns are now filed on line at the Companies Office and there is no cost. The Companies Office will send you an email reminder (or text) that the return is due but if you have

changed your email address you may not be aware that the return is due. You should therefore diarise the due date or better still organise to have the return due at a date or time of the year you will remember.

If you don't file the return the Companies Office will usually strike the company off its register after about 3 months. You run the risk then of losing your company name but at the very least it is a time consuming and costly process to reinstate the company.

Being struck off the Companies Office register can have significant implications as your bank may freeze the company's funds, effectively cutting off your cashflow. If a company owns rental property the loans may also be frozen.

### **KiwiSaver Update**

From 1 April employers will have to contribute 1% of an employee's gross salary or wage as employer subsidy to an employees' KiwiSaver account.

The Government will give employers a subsidy of up to \$1,040 for each KiwiSaver employee to help offset these compulsory contributions.

Unfortunately for some employers these compulsory contributions will replace the wage or salary increases they might have otherwise made. As a result some employees may miss out on an immediate pay increase for the sake of a longer term benefit.

From what we have seen to date, KiwiSaver benefits employees most. Those who run their own businesses whether through a company or as self-employed, are really just diverting their own earnings to a managed fund with a Government subsidy of \$1,040 a year if they join KiwiSaver.

Often these funds might be better allocated towards paying off your mortgage (especially if you are paying around 9% pa in interest) or investing yourself through a wider range of investments than might be available through KiwiSaver.

### **Year End Checklists**

Attached are year end checklists for businesses and rental properties.

### **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.

**Phone:** 971 1600 or 0274 389 972

**Email:** [info@dowsemurray.co.nz](mailto:info@dowsemurray.co.nz)

**Or Website:** [www.dowsemurray.co.nz](http://www.dowsemurray.co.nz)