DowseMurray
Chartered Accountants

Newsletter

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Introduction

Important: There is no provisional tax due on 7 July this year.

Topics in this Newsletter

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- Redundancy tax credits
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Provisional tax 2009

The provisional tax due dates have changed from 1 April 2008. There are no longer any payments due on 7 July, 7 November or 7 March.

The new payment dates are designed to coincide with GST due dates to make it easier for people to remember.

Our experience to date is that it is confusing for many tax payers but this is a significant change for those who are used to paying provisional tax on the old dates.

The earliest anyone will have to pay provisional tax is 28 August 2008. This is the first provisional tax payment date for the 2008/9 year and replaces the 7 July payment.

So how will you know which dates to pay your provisional tax now as the standard dates no longer apply? The due dates now relate to GST periods.

But remember just because you have a company registered for GST that doesn't mean that you are.

We have simplified the due dates below based on you having a 31 March balance date. Almost all businesses and individuals do. We list the most common payment dates.

One of the best aspects of this new regime is that you will not have to pay your final provisional tax payment until after the end of the financial year when you will better know your financial results.

Sole traders, companies or trusts

2 monthly GST registered:

GST and provisional tax due:

28 August 2008,
15 January 2009, and
7 May 2009.

6 monthly GST registered:

GST and provisional tax due:

28 October 2008, and
7 May 2009.

Not GST registered:

This applies to most individuals and shareholder employees as well as those sole traders who have businesses with turnover of less than $40,000 per year.

Provisional tax due:

28 August 2008,
15 January 2009, and
7 May 2009.

New GST return forms

There has been considerable confusion around completing the new GST return forms as these forms now include a section requesting provisional tax payments.

This section was designed for the uptake of the ratio method which allows you to calculate and pay your provisional tax based on your income according to your GST returns. There are rigid criteria for joining this regime, for example you need to have been in business for at least one full financial year and you need to make provisional tax payments six times a year, with your GST payments.

The method is particularly suited to those seasonal workers who earn their income later in the year and therefore do not have sufficient income early in the year to make those early provisional tax payments. These would be the only taxpayers that we would recommend consider the ratio method and more details on the mechanics of the method are provided in our last newsletter.

Given its complexity it is probably not surprising then that at last count only 200 taxpayers throughout NZ had taken up the initiative.

If you are completing a GST return either using a paper return or online then only complete the provisional tax portion if you are due to pay provisional tax with that GST payment.

Unless of course you want to pay your provisional tax early – in which case IRD would love to receive your money!

Redundancy tax credits

In December 2007 retrospective legislation was passed (backdated to 1 December 2006) allowing a tax credit (or refund) of 0.06% of the redundancy payment.

The maximum claim is $3,600 and this is on a redundancy payout of $60,000.

This legislation recognises that large redundancy payments usually move taxpayers into a higher tax bracket or are taxed at the highest marginal tax rate of 39 cents.

There are several criteria to be met, including the requirement that the payment be a genuine redundancy payment so it can't be associated with a payment upon retirement or to paid someone who goes back to work for the same organisation for example on a part time or consulting basis. Nor can it be paid to shareholder employees or seasonal workers.

One great aspect is that you don't have to wait until the end of the tax year to claim the credit. You can apply for it as soon as you receive the redundancy payment. To apply you will need to complete an IR 524 and attach evidence that the payment was a redundancy payment.

The Budget

The major announcement in the May 2008 Budget was the widely expected reduction in tax rates. Apparently these would have been larger except the downturn in the economy meant that the reductions were pared back at the last minute. The changes at the lower income levels mean that the low income rebate has been removed.

The changes take effect from 1 October 2008 and are progressively implemented over the next 2 years.

Tax cuts

The new tax rates for the 2008/9 (the current tax year) are as follows:

Income:	Rate:
0 - $9,500	13.75%
$9,501 - $14,000	16.75%
$14,001 - $38,000	21%
$38,001 - $40,000	27%
$40,001 - $60,000	33%
$60,001 - $70,000	36%
Over $70,000	39%

This means that if you earn $70,000 or more then you can look forward to an additional $365 in your pocket for the year ended 31 March 2009. That's an extra $1 each day.

Interestingly if you earn half that, $35,000, then your tax saving for this first year is $177.50 ie less than half of the saving of the person earning $70,000.

Remember though that these calculations only include half a year's tax cuts and by 1 April 2011 the rates will be:

Income:	Rate:
0 - $20,500	12.5%
$20,001 - $42,500	21%
$42,501 - $80,000	33%
Over $80,000	39%

GST Threshholds

Also announced in the budget were plans to increase the threshold for GST registration from $40,000 to $50,000 of sales in any 12 month period.

The threshold for 6 monthly registration is also set to rise from $250,000 to $500,000.

Implementation dates for these changes have not been announced.

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
Or Website: www.dowsemurray.co.nz