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Newsletter

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Introduction

Important: The first provisional tax payment for 2007 is due on Friday 7 July.

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Provisional Tax Due

The first instalment of 2007 provisional tax is due on Friday 7 July 2006.

It is your responsibility to make your payment on time. Otherwise IRD may impose penalties and interest.

How much provisional tax will you have to pay?

If your 2006 tax return has already been completed then I will have sent you a schedule setting out your provisional tax payments for 2006/7.

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 July at 110% of your 2005 residual income tax and then take a third of that number. Your residual income tax is basically the tax you had to pay last year on your self-employed or shareholder employee income.

So, for example if your residual income tax for 2005 was $14,000 then provisional tax for 2005/6 would be $15,400 (ie 110% of $14,000) and the payment on 7 July would be $5,133.33 (1/3 of $15,400).

Company surpluses

Remember too that if you are receiving a regular salary from your company and paying PAYE then if the company earns more than expected the company will have to pay tax on the surplus at 33%.

If the extra surplus is more than $7,500 and the company hasn't paid provisional tax during the year then it will have to pay penalties and interest on non-payment of provisional tax.

Similarly if you decide that you'd like to pay a dividend from your company then the company will need to be paying provisional tax during the year so you need to think about these matters now, before the first provisional tax payment on 7 July.

Preparing an annual budget, updating it regularly for actual income and expenditure and preparing regular cashflow forecasts enable you to keep tabs on your cashflow as well as your tax position.

Depreciation Update - assets

Legislation has now been passed providing for the increased depreciation rates referred to in last year's Budget.

For those of you that have seen them, they are very hard to follow as they largely consist of adding percentages onto prior year percentages!

So for example if you had bought a new computer during the year you could look up the useful life (using IRD's website and the Depreciation Booklet IR 265) which is 4 years. The diminishing value rate for 4 years was 40%. The new rate is now 50% and you can then add a 20% loading because it is a new asset (as opposed to second hand). This brings the rate up to 60%. Sometimes it may be easier to use IRD's depreciation calculator, available at:

www.ird.govt.nz/business-income-tax/depreciation/bit-calculating-depreciation-assets.html.

These rates apply to all assets except buildings purchased after 1 April 2005.

The maximum amount that buildings can be depreciated at is 3% straight-line or 4% diminishing value if bought before 19 May 2005, or 2% straight line and 3% diminishing value if purchased after 19 May 2005.

Write off of small assets

Legislation has also been passed enabling the write-off of small assets purchased from 19 May 2005 and costing $500 or less (excluding GST).

If you bought the asset before 19 May 2005 then you can only expense it if it cost less than $200 excluding GST.

Depreciation – Rental Properties

On May 29 2006 IRD announced that it would not accept residential rental property owners breaking up their properties into smaller components in order to get higher depreciation rates for tax purposes.

While it accepts that owners can separately depreciate some chattels eg ovens, carpet, curtains etc IRD will not allow the further breakdown of what it sees as part of the building. For example, IRD does not believe that internal walls, doors, electrical wiring and plumbing and so on are separate assets, as well as furniture and fittings that are permanently attached and are regarded as being part of the building. These include items such as kitchen cupboards, bathroom vanities and built-in wardrobes. These assets have been depreciated at rates around 7.5% and 9.5% in the past but should now be depreciated at the building rate of 4% Diminishing Value (DV) if purchased before 19 May 2005 and at 3% DV if purchased after that date.

The full transcript is at:
http://www.ird.govt.nz/aboutir/media-centre/media-releases/2006/media-release-2006-05-29a.html.

In a separate advice to the NZ Institute of Chartered Accountants IRD indicated that they would not expect anyone to change any prior year returns unless IRD has already disputed them but that all returns filed from now on should ensure that the electrical and plumbing reticulation etc are depreciated at 4% or 3% and not at higher rates.

FBT on vehicles

In the last newsletter we noted that from 1 April the vehicle. Those with vehicles that have depreciated markedly over the last few years have been disadvantaged by having to pay FBT on the purchase price when selling the vehicle and buying one of the same age, make and model but for a lower price would have resulted in a lower FBT charge.

The expected benefits have been disappointing.

The legislation, passed in March, indeed allows you to continue using the cost price at a reduced rate of 20% and 36% if using the book value. However there is a minimum of $8,333 which is the lowest that the book value can drop to for calculating FBT. This means that if the book value of your car drops below $8,333 then you can't use the actual book value any more.

And if your car doesn't even cost $8,333, then you will need to use the cost price anyhow.

If you continue to use the cost price option then the rate to calculate the fringe benefit will reduce from 24% to 20% of the GST inclusive cost of the asset and the rate to use for the book value option is 36%.

Moving to book value will remove the anomaly whereby the FBT payable did not change over the years yet the value of the vehicle reduced significantly.

It will also reduce the use of some leases such as 9-5 leases and 1 by 1 by 1 leases which were always difficult to structure to IRD's satisfaction.

However, doing the figures shows that you need to buy an expensive car and hold it for at least 5 years before you are better off using the book value basis.

IRD have published some very good examples in their FBT News April 2006 edition available on IRD's website.

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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