

Newsletter

No. 11 March 2005

Introduction

Important: Provisional tax is due on Monday 7 March and terminal tax for 2004 on 7 April 2005.

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Provisional Tax Due

The third and final instalment of 2005 provisional tax is due on Monday 7 March 2005.

It is your responsibility to make your payment on time. Otherwise IRD may impose penalties and interest. See section on Use of Money Interest below.

How much provisional tax will you have to pay?

If your 2004 tax return has already been completed then I will have sent you a schedule setting out your provisional tax payments for 2004/5.

If you haven't sent in your 2004 tax return to IRD then you can calculate your provisional tax for 7 March at 110% of your 2003 tax less any tax paid.

For details of how to work these calculations out please refer to my June 04 newsletter (number 9). If you don't have a copy please look on my website www.dowsemurray.co.nz under the Resources section or email me at baubre@dowsemurray.co.nz for a copy if you still can't find it.

If you earn more than \$112,000 per year then you are probably under the estimation regime.

This means that you are estimating your provisional tax for the year and paying a third at each

With the estimation basis (and you have no choice if you earn more than \$112,000 in income without tax such as PAYE deducted at source) you will be charged interest at 11.93% on any underpayment of provisional tax and it will be charged back to the first provisional tax instalment date ie 7 July 2004.

In making an estimate the tax payer is required to take reasonable care. If you are considered not to have taken "reasonable care" and as a result have under-estimated your provisional tax for the year then you may also be charged a 20% penalty, and interest will be charged on top of the penalty.

This is to deter people from estimating their provisional tax at zero right up until 7 March, then re-estimating, and banking the money in the meantime. What reasonable care is in determining an estimate is not defined and IRD will take many factors into account including the amount you earned last year and the timing of receipts of money into your business.

So it is essential that you keep track of your earnings and the tax due on those earnings. By the 7 March instalment you would want to have paid your tax for the year even though you won't yet have earned all of your income for March.

You can re-estimate your provisional tax for the year any time until 7 March 2005 and you can now do this online (<https://www.ird.govt.nz/cgi-bin/form.cgi?form=provtaxest>).

Remember when estimating your income to include your earnings for March even if you won't be paid for March until April (and remember to deduct earnings received last April relating to March 2004 that have already been included in your 2004 tax return).

Terminal Tax Due

Terminal (often called Final) tax for the year ended 31 March 2004 is due by 7 April 2005. Again refer to the Payment Schedule I will have sent you if your tax return has been filed to find out how much you have to pay.

Your tax return will have to be filed with IRD by 31 March so if you don't know the amount of your

instalment date.

which leaves only a few days before it must be paid.

Non-payment or late payment will incur a 1% penalty which is imposed the day after payment was due. This increases to 5% when the payment is a week overdue. Penalties are usually then added at the rate of 1% per month until payment is made.

Use of money interest may also be charged (see below).

Use of Money Interest Rate to Rise

Where tax has been underpaid, IRD will generally charge "Use of Money Interest" (UOMI) unless you fall in to the Safe Harbour Threshold (ie an individual earning less than \$112,000 per annum).

The UOMI interest rate that IRD will charge you is currently 11.93% but is due to rise to 13.08% from 8 March 2005 ie the day after the next provisional tax instalment due date.

If IRD owes you for tax you have overpaid then they will pay you interest at the rate of 4.83% and this rate will rise to 5.7% from 8 March 2005.

Depreciation Update

You may remember in last year's Budget that a review of the depreciation of rental properties was to be conducted by IRD with a view to reducing the amount of deductions available through depreciation.

No details have yet been announced as a result of the review which is currently underway so it is unlikely that there will be any changes for the year ended 31 March 2005. In the meantime depreciation should be claimed for 2005 as in previous years.

It is possible that any proposed changes will affect the 2005/6 year and I'll keep you posted about any changes.

Difficulties paying tax?

If you are having financial difficulties paying your tax, whether it be income tax (including provisional tax), GST etc you can contact IRD and ask for a Payment Arrangement.

Under a Payment Arrangement you can agree with IRD a monthly amount you will pay to clear your tax debts.

terminal tax now you will know it by 31 March

IRD will continue to charge you interest and penalties until the debt is fully paid but if you keep to the Payment Arrangement then when the debt has been fully repaid IRD will cancel all the penalty charges. Although you will still have had to pay interest that interest is tax deductible and you may be better off than increasing, for example, your home loan to cover the outstanding tax.

To avoid getting into large tax debts you may wish to:

- Pay GST two-monthly rather than six-monthly
- Organise a monthly voluntary payment to IRD
- Go onto PAYE for most of your income
- Pay all provisional and terminal tax payments when they become due
- Set aside up to 50% of your earnings to pay GST and provisional tax if your income for the year is over \$60,000 or 40% of your income if your income is less than \$60,000 per year.

Corporatised practice

I have corporatised my practice from 1 January 2005. This just means that I am now operating under a company format (as opposed to sole trader). The new company name is Dowse Murray Chartered Accountants Limited and my partner Martin Dowse has now become involved with the corporatised practice. I will give more details in my next newsletter about some of the new services available as well as to introduce two new part-time staff, Helen Bewley and Michelle Lazou.

The website address is now www.dowsemurray.co.nz.

Little else has changed and you can still contact me directly. For contact details see below.

Contact details:

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

You can contact me as follows:

Phone: 971 1600 or 0274 389 972

Email: Baubre@dowsemurray.co.nz

Or Website: www.dowsemurray.co.nz

