



Newsletter: March 2017

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Terminal tax due

The next tax date for most tax payers is now 7 April 2017. This is the date that you need to pay any terminal, or final, tax for the year ended 31 March 2016. If we have already completed your income tax return for that year then we will have let you know the amount to pay and, based on Inland Revenue records to date, we'll be sending out email reminders shortly. If you have any queries please contact us.

If you don't have the cash available please contact us to discuss or call Inland Revenue before 7 April to organise a payment arrangement. If you keep to the agreed arrangement to make instalments over the next few months you will be charged interest but not late payment penalties, but the arrangement needs to be in place before the 7 April payment becomes overdue.

If you don't know if you have tax to pay or the amount of terminal tax to pay, please contact us before **28 March**.

This month we welcomed Elanie van Greuning as an Associate to the firm. Elanie is a Chartered Accountant with more than 19 years experience, including four years in South Africa. Her areas of expertise include financial reporting, tax, business advisory, and franchises.

In her spare time Elanie heads to the hills to enjoy the great outdoors.



Lucy on parental leave

Lucy Davis (nee Spencer) has taken parental leave for the birth of her son – due somewhat ironically on 31 March! We wish Lucy all the best for the next few months and look forward to seeing her again in July.

Merger with MTM Accounting Ltd

We were excited to announce earlier this month our merger with [MTM Accounting Ltd](#) from 1 April 2017. MTM Accounting Ltd is a similar sized chartered accounting firm in Wellington (with, importantly, similar values) and the merger enables the combined firm to improve efficiencies and provide a higher level of service to our clients. Practically this means our whole team (except Martin) will be moving to the MTM premises in Tory Street (opposite Moore Wilsons) as our premises are not large enough to accommodate the combined teams. Martin will focus on IT consulting work.

The new firm will be called MTM Accounting Ltd.

But other than a few minor changes we expect everything to be business as usual.

Changes to tax deducted from payments to contractors

When announced in the Budget last year this change appeared to be about allowing contractors to choose their own withholding tax rate – within limits.

But as they say the devil is in the detail.

contract services then the IT services or recruitment company will be required to deduct withholding tax from all payments to you from 1 April 2017 (even for March 2017 work paid in April). And the default rate is 45%. The new change is that it now affects those contracting through companies.

Sole traders:

If you're a sole trader the 45% will cover more than your usual tax obligations as the top tax rate is 33% so after you claim your business expenses then you should receive a sizeable tax refund. But you'll have to wait till year end to receive it.

Details are at <http://www.ird.govt.nz/news-updates/contractor-changes.html>.

To reduce the amount being deducted you can complete an IR330C form:

<http://www.ird.govt.nz/resources/9/c/9c019ad0-9071-4f3d-babb-7aa37e954bb4/IR330C.pdf> but the minimum rate you can choose is 10%. The 10% is probably the best option but you may then have tax to pay at year end if that rate ends up being too low . You can calculate a more accurate rate using the IRD calculator at <http://www.ird.govt.nz/calculators/tool-name/tools-t/tax-rate-estimation-tool-contractors.html>. For example:

- If your income after expenses and excluding GST is around \$80,000 then the rate should be 22%.
- If your income is around \$100,000 then the rate should be 24%.
- If your income is \$200,000 then the rate should be 28%.
- etc;

Remember by using a 10% rate you are deferring the tax you pay, but you end up paying the correct amount of tax based on your earnings in the end.

The other option is to complete an IR23BS. This is a complicated form but will potentially allow you to set the rate that the IT services or recruitment company charges to an even lower rate, depending on your costs and tax losses from other business activities for example, if you have a rental property with large losses.

<http://www.ird.govt.nz/forms-guides/number/forms-001-99/ir023bs-form-special-taxcode.html>

If you are a sole trader and already have a certificate of exemption from withholding tax that exemption will expire at 31 March 2018.

Companies:

company. By the intermediary recruitment or IT services firm deducting withholding tax, this reduces the amount paid to your company. Effectively then because of the personal services attribution rules the income will be allocated to you at year end but the tax will already have been mostly paid by your company. Meanwhile you still need to pay PAYE during the year on your salary (or provisional tax) and the company will receive a large refund at year end.

Because this doesn't make sense you can choose a lower withholding tax rate for the company by completing an IR23BS in the company name and setting the withholding tax rate to zero. Otherwise the IT services or recruitment company can deduct tax at 45%.

Special tax code application (IR23BS): <http://www.ird.govt.nz/forms-guides/number/forms-001-99/ir023bs-form-special-taxcode.html>

The only other way to reduce the compliance costs of all this extra work and to minimise the real cashflow issues is for you to contract in your own name for those jobs that go through a recruitment or IT services company and just use the company for contracts you obtain directly. And you should expect to pay higher monthly fees to your IT services or recruitment company to cover their additional compliance costs. If the recruitment agency isn't quite ready to implement these changes, they do have up until 1 July to get their systems set up which may delay things a little for you.

Example: *IT Recruitment Co Ltd has agreed to provide web designers for Client Co. IT Recruitment Co arranges for Services Provider Ltd to provide people for Client Co. IT Recruitment Co Ltd is arranging people to provide work directly to clients. As a result, they are in a labour-hire arrangement and this labour-hire arrangement is part of their labour-hire business. As a result IT Recruitment Co Ltd is required to withhold tax at 45% from any payment made to Services Provider Ltd. Services Provider Ltd may apply for a special tax code to reduce its rate of withholding (including applying for a rate of 0%).*

Use of money interest

On a more positive note, other changes coming into force are:

- changes to Use of Money Interest (UOMI) with the threshold for determining the interest start date on Residual Income Tax (RIT) increasing from \$50,000 to \$60,000 (often referred to as "safe harbour") and
- the 1% monthly incremental late payment penalty will no longer be charged on GST, Income tax, and Working for Family over-payments from 1 April 2017

Overall these will reduce the situations we see of original tax debt doubling in a few years but the interest and penalty costs of late payment will continue to add significant costs to tax debt so it is still important to avoid getting behind in the first place.

Client profile



Sonder is a Wellington based video production company that was created by Kiwi Francesca Mackenzie and Dutch-national Tom van den Brink. The two met while studying film here in Wellington and they soon discovered that they had shared interests and goals. Tom had worked as an editor and director at a large advertising agency in Holland, while Francesca had a background in design and illustration. Their different skill sets and experiences were complimentary, and before long their conversations of starting a company became a reality, so in 2016 they created Sonder.



Their goal with Sonder was to give New Zealand businesses a new, expressive way

videos alone get viewed 3 billion times a day, so they felt that the online video market was one that all companies should be tapping into!

After making multiple videos for a range of Wellington based businesses they noticed that the average client struggled to know what to do with their

new video once it was made. This inspired them to create an additional marketing side to their company. This way they could help their clients get their video campaign set up, as well as offering them a Google AdWords management service to make sure their brand was near the top of every Google search!



Visit them at www.sonder.nz to have a look at some of their videos, or send them an email at films@sonder.nz.

Disclaimer

This information is of a general nature and should not be relied upon for specific situations. If you need advice we are happy to talk to you about your particular situation.

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