

Newsletter

No. 13 October 2005

Introduction

Important: GST is due on Monday 31 October and Provisional tax is due on Monday 7 November.

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GST Due

If you are GST registered you will have a GST return due on Monday 31 October.

Remember you can complete the return online on the Monday (or anytime beforehand) but you will need to include the unique DNS number on the top of the GST form posted to you. If you don't have the original form you can print off a GST return form (a GST 101) and post it to IRD.

If you wish to make payment electronically then you will need to make the payment on Friday ie October 28. If you make the payment electronically on Monday then it won't be processed until that night, it will arrive in IRD's bank account on Tuesday morning and you'll instantly be charged a 1% late filing penalty!

As GST often takes longer to sort out than expected it pays to attack it early in October.

Provisional Tax Due

The second instalment of 2006 provisional tax is due a week later, on Monday 7 July 2005.

If you've filed your 2005 income tax return I will have sent you a payment schedule outlining the amount to pay at each instalment date.

If you haven't filed your 2005 tax return then you

should pay the same amount that you paid on 7 July.

You can check previous newsletters on our website (www.dowsemurray.co.nz/resources) to check the calculation of the amount due or call us if you're still having problems.

GST on FBT

If you provide non-cash benefits to employees including shareholder employees and you have not paid PAYE on the transaction then you are considered to have provided a fringe benefit and you need to pay fringe benefit tax on the value of the benefit provided.

The most common benefit provided is the use of a company vehicle. You can claim all the costs of the vehicle eg registration, petrol, servicing, insurance and then you can use it as much as you like privately as long as fringe benefit tax is paid. There are various ways to reduce the amount of time available for private use such as restricting the vehicle from private use at various days and times by for example using 9-5 leases and 1x1x1 leases. However IRD often sees these leases as a means of avoiding tax and will not accept them.

IRD has a formula to calculate the value of the fringe benefit and from there the amount of fringe benefit tax (FBT). In the case of a vehicle the value of the fringe benefit is calculated at 24% of the GST-exclusive cost of the vehicle. The FBT is then calculated at the employee's marginal tax rate or, in the case of shareholder employees, at 64%.

When completing the FBT form you are then required to add the GST on the fringe benefit to your FBT payable and the total needs to be paid to IRD.

However there are 2 important things to note:

1. the GST can not be claimed back through your GST return as it is considered to be of a private nature, and
2. the total cost of the FBT including the GST on the fringe benefits is fully tax deductible for income tax purposes.

Thanks Nigel for bringing this up!

It is clear from these calculations that the way to

make paying FBT work for you is to have a low value vehicle owned by your company.

For example the annual FBT on a \$40,000 car is \$6,409 (\$40,000 less GST x 24% x 64% plus the GST on the fringe benefits (\$948.15) whereas the FBT on a \$2,000 car is \$320.

Companies being struck off

We have come across several recent cases of action being taken by the Companies Office to have companies who have not filed annual company returns struck off the Companies Office Register.

If such action commences and is advertised in the Gazette then you have to pay the Companies Office substantial fees to have your company status re-instated. It can also take around 6 weeks. Meanwhile your bank accounts may be frozen and you may have problems legally trading. While it may be an option to have your company struck off and start up a new company, you may have to renegotiate bank loans and a number of significant contracts (which may prove disadvantageous to you if the contractor wishes to vary the terms of the contract). You may find too that having your name associated with a company struck off the Register is not the professional image you may wish to project!

However it is easy for the renewal process to be missed. If for example you are relying on the Companies Office sending you your annual return reminder by email and you change your email address you will not receive the return.

Just this month we saw proceedings underway to strike off a company because the July annual return hadn't been filed. That's less than 3 months ago.

You may like to have a reminder yourself when your annual return is due and if you own more than one company then you may wish to have all the annual returns due in the same month. Now that filing annual returns is free online and it only generally requires advising the date of the last meeting of shareholders then completing the annual return shouldn't take long to do.

Remember too if you change the address of your registered office you need to give the Registrar of Companies 5 working days notice of this change. You can do this online and again it won't cost you anything, but your time.

The Power of Leverage

The benefits of running your own business as opposed to working for someone else for salary or wages is that you have control over your time and you have the opportunity to earn more money. This opportunity makes the additional work associated with running your own business worthwhile!

But if you are just working by yourself there are limited opportunities for earning more money. Sure you may be earning more on an hourly basis than before but you will physically reach a limit as to the amount you can earn from your own endeavours.

To really earn some money from your business you will need to either sell more or if you provide services, employ other people to provide your services (or at least get help with the administration).

To earn more from sales you'll need more product(s), more outlets and/ or more staff.

If you provide services then you will need to employ people that either already have similar skills to yours or train them, or you can bring on people with complementary skills to expand the range of services you offer.

This will free up your time to work "on your business" rather than "in your business". This means freeing up time to explore other opportunities and concentrate on the parts of the business you really enjoy rather than spending time you don't enjoy on tedious administrative tasks.

After all there are very few people who are creative, enjoy sales and marketing and accounting and human resource management even if you love your business.

By employing staff you move from being self-employed to running a business. Moving to employing staff is a big step and the staff issues are said to cause the biggest headache for businesses. With most things though good preparation is the key. Make sure you research candidates/ applicants and put relevant staff contracts in place.

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.

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