

<u>Newsletter</u>	<u>No. 16 October 2006</u>
<p><u>Introduction</u></p> <p><u>Important:</u> The second provisional tax payment for 2007 is due on Tuesday 7 November.</p> <p><u>Topics in this Newsletter</u></p> <ul style="list-style-type: none"> • Provisional Tax Due 7 November • Alignment of GST and provisional tax dates • New GST payment dates • New method for calculating provisional tax • Interest rate uncertainty • FBT change • Tax rate changes? • Contact details <p><u>Provisional Tax Due</u></p> <p>The second instalment of 2007 provisional tax is due on Tuesday 7 November 2006.</p> <p>It is your responsibility to make your payment on time. Otherwise IRD may impose penalties and interest.</p> <p>How much provisional tax will you have to pay?</p> <p>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.</p> <p>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.</p> <p>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 November would be \$5,133.33 (1/3 of \$15,400).</p>	<p><u>Alignment of GST and provisional tax dates</u></p> <p>As part of the government's plans to simplify the business compliance and tax payment system GST and provisional tax dates are to be aligned.</p> <p>GST</p> <p>The process begins with all GST dates lining up with your balance date, usually 31 March, from 1 April 2007. This means that if you are filing two monthly GST returns for periods that end in February, April etc these will be aligned from 31 March 2007 so that you will pay one month's GST for March and then start new two monthly GST periods from 1 April 2007.</p> <p>Similarly if you file 6 monthly GST returns then these will need to be lined up with 1 April so you may need to complete a 5 month return (or 4 month) for the period ended 31 March 2007.</p> <p>IRD will send you the appropriate forms.</p> <p>There are no changes to GST periods for those on 1 month filing.</p> <p>Provisional tax</p> <p>Once the GST periods have been aligned the provisional tax payment dates will match some of the GST dates.</p> <p>This is expected to make it easier for business owners to manage and track their various tax payments.</p> <p>In reality it will concentrate cash flow issues which will be apparent to anyone paying 6 monthly GST today and provisional tax payments in a week's time!</p> <p>This is how it will work:</p> <ul style="list-style-type: none"> ◆ Six monthly payers: you will only pay two provisional tax instalments a year, on 28 October and 28 April. ◆ Two monthly payers: you will pay 3 provisional tax payments lined up with every second GST payment. ◆ Monthly payers: you will pay 3 provisional tax payments with your 4th, 8th and 12th GST payments.

If you are not GST registered, provisional tax is due on the 28th of the 5th, 9th and 13th months after balance date.

The new provisional tax payment dates will only apply for the 2009 and later years. This is the year commencing 1 April 2008, so more than a full year away. IRD will be providing more information closer to the time.

New GST payment dates

GST payments currently need to be made by the last working day of the month. For all periods ending on or after 31 March 2007 payment will be due by the 28th of the following month.

New Method for calculating provisional tax

At present provisional tax payments are either calculated based on prior year's tax if the tax is less than \$35,000, or estimated if more.

From the 2008/9 year, one or two monthly GST payers can elect to calculate their provisional tax payments on the ratio method.

The ratio is based on the residual income tax for the preceding year divided by the total GST taxable supplies for the preceding year. This ratio is then applied to the taxable supplies in any one period to determine the provisional tax payable at the same time.

Interest rate uncertainty

In these days of interest rate uncertainty how can you best position your debt?

First, remember that the major banks are heading into 2 year interest rate war (battle really). This is to capture market share for those loans maturing from the interest rate war 2 years ago. So over the next month or so expect some quite competitive rates.

Second, bear in mind that the Reserve Bank didn't raise interest rates last week. This indicates that general interest rates are unlikely to rise, but similarly they're not dropping either. Longer term they are expected to decrease.

Third, note that several economists and banks have produced figures showing that over long periods fixing at 1 year rates has provided the lowest overall interest cost for loans.

So what does this all mean? Basically that you can mitigate your interest rate risk by breaking your loan into several chunks (probably around 3 depending on the size of your loan(s)) and spreading the loan across several periods.

For example, if you have a \$300,000 loan then you may choose to break it into 3 loans of \$100,000, fix one for 6 months, one for 1 year and the last \$100,000 for 2-5 years. This supposes that interest rates are likely to drop over the next year.

Or you may prefer to fix \$100,000 at 1 year, \$100,000 at 2 years and \$100,000 at 5 years. This may be preferable if you want certainty in your costs over the next few years.

Certainly breaking your loan up and spreading it over several different periods will minimise your exposure to the prevailing interest rate when the whole of a fixed term loan matures.

FBT Change

And in amongst all the FBT changes that didn't amount to much was a little gem.

The amount of benefit that employers can provide to employees without having to pay fringe benefit tax has been raised from \$75 to \$200 per quarter.

For shareholder employees in particular this is really useful as it means that "perks " such as gym memberships, if paid quarterly and are less than \$200 per quarter, will be fully tax deductible.

It also means that instead of giving staff a \$75 gift basket at Christmas or as a special treat, you can happily give them more.

Tax Rate Changes

Given the government's recently announced surplus it is likely that tax rate cuts will occur within the next two years with the most likely change being a reduction in the company rate from 33% to 30%. Personal rates, particularly at the higher levels, are likely to be next.

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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