

TAX TIPS

Who Needs to file a Tax Return

All trading companies and trusts must file a tax return or apply for a non active status with the Inland Revenue Department.

Individuals either file an income tax return (IR 3) for those who have:

- Business income, rental, overseas income or any income not taxed at source which may include business income, cash jobs, income from illegal efforts, withholding tax, shareholders salaries or if you have losses brought forward from the previous year, left or arrived in New Zealand during the year or declared bankrupt.

If you don't need to file an IR 3 you can have a personal tax summary (PTS). This is for wage and salary earners and tells you if you have overpaid or underpaid your tax. The Inland Revenue Department automatically send out a PTS by mid July for those who received Working for Families, have a student loan, had used the wrong tax code or a special tax code, casual agricultural employees, election day workers or received income as an IR 66 taxpayer.

Once the PTS has been received any refunds less than \$200 will be issued automatically. Refunds of more than \$200 need to be confirmed. A PTS is confirmed by ringing the Inland Revenue 0800 line.

If the PTS shows that you have income tax to pay you will receive a payment slip for 7 February. If you are unsure you need to speak with your tax advisor.

Child Support

Child support is money paid by parents not living with their children to help financially support their children. The Inland Revenue Department is often the “go between” where they collect child support from the paying parent and pay to the custodial parent.

Child support is paid for children who are under 19 years of age, a New Zealand citizen or ordinarily resident in New Zealand who are not living with another person in a marriage, civil union or defacto relationship or are financially independent, i.e. not working full time or receiving a benefit or student allowance.

The amount payable is worked out on one of the following basis:

1. Voluntary agreement where both parties agree on the amount to be paid. Formula – the paying parents taxable income, less a living allowance multiplied by a percentage based on the number of children the paying parent is liable for. This is then paid 12 monthly. The paying parent's taxable income is taken from all taxable income. If the paying parent's income is from wages then the child support is based on last year's gross income.

Where you have children in shared care both parents incomes are taken into account. It can be that both parents have to pay each other.

For self employed paying parents their income is taken from income two years ago with an inflation adjustment or where an application for departure from a formula is made under The Child Support Act.

Payment for child support is made either as a deduction from wages (this option is for those behind in payments) or an automatic payment from the paying parent's bank account or payable on line. Parents living overseas can make payment by credit card. There is a minimal amount of child support that is payable unless the paying parent is in hospital or in jail for at least 13 weeks.

If the custodial parent is on a benefit and the child support paid by the paying parent is more than the benefit the excess is passed on to the custodial parent.

Getting behind in child support commitments often means that the children are disadvantaged and the Inland Revenue Department will charge penalties for late payment and the Inland Revenue Department cannot pass the

payment to the custodial parent. For the custodial parent any child support received or paid is taken into account when considering entitlement to Working for Families.

Child support can be re-calculated where there is a change in children's living arrangement or if the paying parent's income drops by at least 15% from the previous year. This would normally cover for change of job, redundancy, loss of overtime etc. Because income includes any redundancy payment there could be a spike in the child support payments required to be made.

Entertainment

In recognition of the personal benefits that often arise as a consequence of business entertainment, generally 50% of entertainment expenditure is non-deductible for tax purposes.

The entertainment tax regime applies to specified types of entertainment, namely:

- Corporate boxes
- Holiday accommodation
- Yachts and pleasure craft; and
- Food or beverages:
 - provided as part of the above; or
 - provided or consumed on the taxpayer's business premises, at a party or social function, or in an exclusive area of the premises reserved for employees of a certain level of seniority.

Exclusions from the entertainment regime include:

- Food or beverages consumed while travelling on business, except where entertaining business contacts;
- Food or beverages consumed at a conference which lasts over four hours;
- Certain overtime meal allowances;
- Light meals provided to employees while working;
- Entertainment at trade displays and other promotional activities; and
- Entertainment enjoyed or consumed outside of New Zealand.

There are a number of exemptions from these rules. Please contact us for further information.

Gift Duty

Gift duty is payable at progressive rates according to the value of gifts made within a 12 month period. This 12 month period is not the same as your balance date. Rates of gift duty range between 5% and 25%. There are harsh penalties charged by the IRD on late gift duty payments.

In general gift statements have to be filed with the IRD for gifts of more than \$12,000 or where the value of all gifts within the previous 12 months is more than \$12,000. Any person can make gifts totalling up to \$27,000 in a 12 month period without incurring gift duty.

Types of gifts comprise cash, transfer of assets, forgiveness of debt, transfer of property, transfer of shares in companies. The following are not considered gifts:

- Small gifts – where the gifts made to the same person in a calendar year do not exceed \$2,000 (these need to be made in good faith as part of normal expenditure of the donor).
- Gifts for maintenance or education of relatives.
- Gifts to charities and certain bodies.
- Gifts between members of consolidated group or amalgamating companies.
- Certain payments by employers.
- Matrimonial property.

GST

Goods and services tax is a tax charged on consumption and is imposed on the supply of the goods and services in New Zealand at 12.5%. There are some exceptions to GST for zero rated supplies, e.g. exported goods, sale of a going concern and exempt supplies, e.g. supply of financial services, residential accommodation, fine metal etc.

You need to be registered for GST if you make total taxable supplies in excess of \$60,000 in a twelve month period.

GST is prepared on a one, two or six monthly basis.

GST is normally accounted for on an "invoice" basis but can be on a "payment" basis provided turnover is less than \$2,000,000.

Registration of your GST and your accounting software and process of information is important to ensure that you file GST returns accurately.

For more information on GST, how to register or assistance with completing GST returns please call us.

KiwiSaver

KiwiSaver is the voluntary work based savings initiative towards retirement that is available to all New Zealand residents and people entitled to live here permanently. All new eligible employees are automatically enrolled in KiwiSaver unless they “opt out” or they are exempt. Those that are exempt include:

- Under 18 year olds
- Casual agricultural workers or election day workers
- Private domestic workers
- Casual and temporary employees employed under a contract of service that is 28 days or less

Savers can access their KiwiSaver savings once they reach the age of eligibility to superannuation (currently age 65) or they have been saving for 5 years (at the later of the eligibility for national superannuation) or 5 years.

The employee can choose whether they are saving 2%, 4% or 8% as a deduction from their gross wages. The default rate is 2%.

Employers must compulsorily contribute to their employees KiwiSaver scheme of 2%. Any contributions made by the employer above the compulsory 2% are a tax deductible expense and is liable for employer superannuation contribution tax (ESCT) based on either 33 cents or the optional rate based on the employees gross pay. Employers must give new employees an employee information pack and pass the information on to the Inland Revenue Department. Where an employee wishes to take a “contributions holiday” they need to apply to the Inland Revenue Department and Inland Revenue will advise the employer of the “opt out” or approval for a contribution holiday.

Payroll software’s have been upgraded to enable the ESCT payments to be included in monthly reports and payments made to the Inland Revenue Department.

The Government contributes the \$1,000 “kick start” which is tax free when a member first joins. There is an annual member tax credit for those 18 and over of up to \$1,042.86 per annum (\$20 per week). Funds for first home deposit subsidy for Housing NZ if criteria is met.

KiwiSaver is based on the law of compound interest. Funds are set aside and cannot be accessed until you are eligible.

Bank income earned on your KiwiSaver fund is taxed on the prescribed investor rate (PER) provided you use the correct PER rate KiwiSaver interest

is not included in your income tax return which means that it does not form part of your taxable income that may affect family assistance, student loans, child support and other WINZ income tested income.

A saver may elect their fund provider who have several KiwiSaver accounts designed to meet your risk profile. You can change providers if you wish. If you do not elect a provider the Inland Revenue Department will automatically assign a default provider on a random basis using a conservative fund.

We have prepared a model based on “what ifs” that we would happily go over with you that shows the various options to you.

For those who are self employed, i.e. they are not working on wages including those who do not work for wages through their company means that they deal directly with their fund provider rather than through PAYE deductions. This means they do not get the employer contribution. We may be able to structure your earnings from your business to improve your savings.

PAYE

Employers deduct PAYE (pay as you earn) which is then passed to the Inland Revenue Department.

Employers also file an employer monthly schedule with the Inland Revenue Department which details each workers gross earnings and deductions. Along with PAYE deductions are student loan repayments, KiwiSaver, sometimes child support. Occasionally employers must deduct tax arrears from an employee pay.

It is important that employers keep accurate payroll records which include the staff IRD number, correct tax code, contact addresses etc. There are responsibilities under many Acts for Accident Compensation, holidays, health and safety etc. It is important that all leave is correctly accounted for. We would normally recommend a computerised payroll system is operated which will enable information to be calculated correctly and accurately so that employee, employer and Government needs are fulfilled.

From time to time an employee may have a special tax code or an exemption from PAYE and employers must use the tax code ??

We can assist with employer responsibilities by helping with your setup, your staffing responsibilities and payroll software. Alternatively, we have a PAYE service through our PAYE Intermediary Scheme which means we fill out returns and liaise with you to ensure payment is made on time.

It is important that PAYE deductions are returned to the Inland Revenue Department. It is a serious matter if an employer does not properly deduct or pay employees PAYE or other deductions. They can be prosecuted for failure to account.

Provisional Tax

Provisional tax is how business owners pay income tax as their income is received throughout the year. It is paid in three instalments with an end of year “square up” when the income tax return is filed.

You are liable to pay provisional tax if your last year’s residual income tax is \$2,500 or more. Normally last year’s residual income tax is uplifted by 5% but currently the Government has reduced the tax uplift rates for 2009 and 2010 income years.

There are three options to calculate provisional tax:

Standard Option

This is based on your previous year’s residual income tax plus an uplift as applicable. Any changes in tax rates are included in the calculation of provisional tax.

Estimation Option

This is where an estimate of what your residual income tax will be. This is based on estimated income, what your tax will be less any tax credits, e.g. PAYE, RWT. If you use the estimation option you will be liable or will receive “use of money” interest on the overpaid or underpaid amount. The estimation option can be used as many times as necessary up until your last instalment date. Each estimate must be fair and reasonable and must be based on fact at the time of estimate.

Ratio Option

This is where provisional tax can be paid based on percentage of your GST taxable supplies. This option is not used by many people but is considered suitable for people who earn income erratically throughout the income year.

Provisional tax is due for payment for those on a 31 March balance date on:

- 28th August
- 15th January
- 7th May

For those registered for GST on a six monthly basis provisional tax is paid in two instalments on:

- 28th October
- 7th May

You need to keep in touch with your advisor on your provisional tax obligations.

Students

Student Allowances

A student allowance is a weekly payment to help with living costs while studying full time. This is available to students who are aged 18 or over studying full time on a course approved by the Ministry of Education to permanent residents, New Zealand citizens or refugees.

This is an income tested benefit based on parental income and student income. There is no parental income test for students over 25. 16 to 17 year old students can get an allowance if they have a partner otherwise they do not get a student allowance because their parents may be entitled to receive family assistance.

If a student stops attending the student allowance may have to be repaid.

Student Loan

A student loan is a loan to help with course fees, course related costs and living costs. It is available to all full time students who are New Zealand citizens, permanent residents or a refugee and who sign a contract with the Government.

Student loans are interest free and repayments are made once the student commences work and earns more than \$19,084 per year. Repayments are made through the PAYE or provisional tax system.

There is no income test for parents or the student.

For those students who do not qualify for a student allowance they may borrow up to \$150 a week for a living allowance. This forms part of what needs to be repaid.

People with a student loan who go overseas need to make arrangements with the Inland Revenue Department to repay. For those going overseas for up to six months can continue to be eligible for the interest free loan but need to make arrangements to repay. This is normally done by bank transfer and is payable six monthly and may be paid by credit card. If the student is overseas as a full time student they do not need to make student loan repayments to New Zealand and interest will continue to be written off their loan.

To all students there is an opportunity for early repayment.

Student loan voluntary repayments now include a 10% repayment bonus for borrowers who make voluntary payments of \$500 or more. This is to encourage borrowers to repay their student loans earlier.

There are other Government allowances, e.g. accommodation, Community Services card etc that students should also apply for.