BUSINESS TAX UPDATE

Inland Revenue's tax news for businesses

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Planning for provisional tax

Provisional tax is a way of paying your income tax as you receive income through the year. You pay instalments of income tax during the year, based on what you expect your tax bill to be. The amount of provisional tax you've paid is then deducted from your tax bill at the end of the year.

If you had income tax of more than $2,500 to pay in relation to any tax year, you may have to pay provisional tax for the following year.

The number of instalments you make depends on how you calculate your provisional tax. If you're GST-registered, how often you file GST returns also affects how many instalments you make.

At the end of the year you pay or are refunded the difference between the amount of provisional tax you paid and the amount you should have paid, based on your actual tax bill for the year.

There are three ways to work out your provisional tax: standard; estimation; and ratio. The option used may depend on other factors:

- If you don't choose an option, we automatically calculate provisional tax using the standard option.
- If you choose to estimate your provisional tax, you can't change to another option for that year.
- You can only use the ratio option if you're registered for GST.

The standard option uses your residual income tax (the amount of tax you have to pay) from the previous year, plus 5%. It's paid in equal instalments during the year.

You can estimate your provisional tax for the year, based on what you expect your residual income tax to be. But if your estimate is lower than your actual residual income tax for that year, you'll be liable for interest on the underpaid amount. You can estimate your provisional tax as many times as necessary up to and including your last instalment date.

The ratio option lets you base your provisional tax payments on a percentage of your GST taxable supplies. Because you'll work out and pay your provisional tax and GST on the same return, you'll need to file GST returns monthly or two-monthly and meet other criteria. If you want to use the ratio option you must apply to us in writing or call us on 0800 377 774 before the start of the tax year when you want to use it.

Use the *Provisional tax estimation (IR309)* form to estimate or re-estimate your provisional tax. You can complete this form at any time up to the due date for payment of your last instalment of provisional tax. Send the completed form to us by that date.

You can also do your estimation online at **www.ird.govt.nz** (search keywords: provisional tax estimation).

If you have cashflow difficulties you can consider:

- making voluntary payments towards your provisional tax (this is not an instalment arrangement and penalties may still apply), and/or
- re-estimating your provisional tax liability, and/or

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Inland Revenue
Te Tari Taake

Welcome to Business Tax Update

In this issue: Planning for Provisional tax, Withholding tax on benefits under share purchase agreements, Raft of new products released.

If you have any suggestions for topics you'd like covered in this newsletter, email **BusinessTax.Update@ird.govt.nz**

REMINDERS

28 August: Provisional tax 1st instalment due date (for 31 March balance dates).

Note: If a due date falls on a weekend, public holiday or provincial anniversary day, we can receive your return and payment on the next working day without a penalty being applied.

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- using the ratio option (if you're GST-registered) to calculate your provisional tax, and/or
- requesting an instalment arrangement for payment of provisional tax.

Find out more about provisional tax at **www.ird.govt.nz** (search keywords: provisional tax).

You can also get our *Provisional tax (IR289)* guide from **www.ird.govt.nz** (search keyword: IR289).

Withholding tax on benefits under share purchase agreements

If you provide benefits to your employees under a share purchase agreement then the amendments proposed in the *Taxation (Transformation: First Phase Simplification and Other Measures) Bill* will impact your payroll system if enacted. For more information about the proposed amendments see **www.taxpolicy.ird.govt.nz** under Bills.

At present, the benefits provided to employees under share purchase agreements are employment income but are not subject to tax at source under the PAYE rules or FBT rules. The employee receiving the benefit must file an income tax return to account for its value themself.

After public consultation on the issue, the proposed law changes in the Bill treat the amount of the benefit as an extra pay and allow employers to choose to withhold PAYE on the value. Employers who choose not to withhold also have an obligation to disclose the value received by the employee via the employer monthly schedule (EMS).

These changes aim to improve the collection of income tax on the benefits that employees receive under share purchase agreements and reduce tax compliance costs faced by employees.

For advice about how this would affect your payroll system, talk to your tax advisor, payroll software provider or your payroll intermediary if you use these services.

Raft of new products released

We're constantly working to improve the way we communicate with our customers. The best way to do this is to ensure that not only is the information correct but it's in plain language so it's easy to understand. We've also taken a fresh look at the layout of our new guides.

The following new publications can all be downloaded from **www.ird.govt.nz** "Forms and guides".

New factsheets out now

A new factsheet *Land sales and GST (IR730)* sums up on one page the GST rules that apply when you buy or sell land, using a helpful flowchart to arrive at the right answer.

Two other factsheets are aimed at entertainers and those who hire them. *Tax information for bands and entertainers (IR1035)* explains what income is taxable and who is responsible for paying the tax. *Payments made to entertainers - your tax responsibilities (IR1036)* is for anyone who pays an entertainer and explains how to manage tax on these payments. Both factsheets have useful flowcharts to quickly work out the tax requirements.

Boarders, flatmates and tenants - tax responsibilities (IR1037) contains information previously in our *Rental income guide (IR264)*. It covers what income from these services is taxable and how to treat it.

In the building industry, there are three types of construction workers:

1. employees
2. labour-only contractors
3. independent contractors.

The tax rules are different for each. Our *Working in the building industry (IR1026)* factsheet will help customers understand these differences. It also explains the tax rules that apply in each case.

New look for Debt options guide

Our *Debt options (IR582)* guide is one of our most popular publications and why we selected it for a plain language makeover. Starting from scratch, we asked members of the public to review existing content. Then we came up with a fresh, easy-to-read guide on how to deal with Inland Revenue debt and how to avoid getting into debt again.

If you have unpaid tax or would like copies of the new guide, you can order them through StationeryXpress or download them from **www.ird.govt.nz** "Forms and guides".

Updated *Rental income (IR 264)* guide

The section on the tax treatment of income from boarders, flatmates and tenants has been removed and is now in a new factsheet (see the IR 1037 opposite). We've added a new section on travel expenses when inspecting, repairing or maintaining a rental property. And the depreciation section has been updated to bring it into line with current legislation and policy.

If you hold copies of the old guide (prior to July 2015) please replace them with the new version.

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