APEX ACCOUNTANCY LTD.

Newsletter

FEB-MAR
VOL 02

End of Year Tax Season is Coming!

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The tax filing season's peak is quickly approaching. Have you completed and filed all your tax obligations and compliances? Are you prepared to begin another prosperous financial year? We would love to hear from you.

Shareholder Drawings and the tax implications

If you are a shareholder and you are taking money out of the company without paying PAYE, you are essentially taking drawings out of the company. Even if you are the only shareholder, a company is a legal entity, so any funds it generates is not your money.

The same holds true if you transfer funds from your personal bank to the business; in that case, the funds are introduced into the company.

Drawings are non-deductible expenses which are recorded in the Shareholder Current Account.

Shareholders can withdraw funds from a business, but they cannot withdraw funds in excess of what they have put into the business.

If a shareholder withdraws more than they put in, the situation is known as shareholder current account overdraft. This means the company must either pay FBT to the IRD or charge the overdrawn shareholder interest at the IRD prescribed rate.

The interest becomes taxable revenue for the company, causing the shareholder current account balance to aggravate.

From 1 January 2023, the current prescribed interest rate for shareholder current account overdrafts set by the Inland Revenue Department (IRD) is 6.71%. This rate is set by the IRD and is used to calculate the amount of deemed interest that a shareholder is deemed to have received from their company if they have an overdraft in their shareholder current account.

It is important to note that the IRD reviews this rate on a regular basis, so it may change over time. Shareholders who have an overdraft in their shareholder current account should be aware of the current prescribed interest rate and factor it into their tax calculations.

Three common ways to fix overdrawn Shareholder Current Account:

- Repay the loan from the company.
- Declare a shareholder salary. The company must make a profit in order to pay a shareholder salary. The shareholder will be responsible for paying taxes on the shareholder salary.
- Declare a dividend.

In addition, if the shareholder is also an employee of the company, the amount of money they take out may be considered salary or wages, and subject to PAYE (Pay as You Earn) tax.

It is important for shareholders to keep accurate records of their drawings, as they may need to provide this information to the Inland Revenue Department (IRD) when filing their tax returns.

New Rental Law – Information for Landlords and Tenants

There have been several recent changes to rental laws in New Zealand. Here are some of the key changes:

- **Rent increase limitations**: Landlords are now limited to increasing rent once every 12 months. Previously, there was no limit on the frequency of rent increases. This change came into effect on 12 August 2020.
- **Tenant security of tenure**: Tenants who have been in a rental property for more

than 90 days now have increased security of tenure. Landlords are required to provide a valid reason for ending a tenancy, such as the property being sold or the landlord needing to move in themselves. This change came into effect on 11 February 2021.

- **Bond changes**: The maximum bond that a landlord can require from a tenant has been increased from 4 weeks' rent to 6 weeks' rent. Additionally, landlords are now required to lodge the bond with the Tenancy Services within 10 working days of receiving it. This change came into effect on 11 February 2021.
- **Healthy Homes Standards**: New Zealand has introduced Healthy Homes Standards which set minimum requirements for rental properties to ensure they are warm, dry, and ventilated. Landlords must ensure their properties meet these standards by a certain date, depending on when the tenancy started. This change came into effect on 1 July 2019.
- **Methamphetamine testing**: Landlords are no longer required to test for methamphetamine in their rental properties unless they suspect that the property has been used for methamphetamine production or consumption. This change came into effect on 27 July 2020.

It is essential for landlords and tenants to be aware of these changes in New Zealand rental laws and to ensure compliance with all applicable regulations. It is recommended that you consult with a legal or rental property professional if you have any specific questions or concerns. ([Tenancy law changes » Tenancy Services])

Current percentage claim of interest

The interest limitation rule is a tax law that limits the amount of interest that can be claimed as a tax deduction on certain types of loans. This rule is in effect as of 1 October 2021.

Specifically, rental property mortgages are subject to the interest limitation rules if:

- The mortgage is secured against residential property in New Zealand, and
- The mortgage was first drawn down on or after 27 March 2021, or the mortgage was refinanced on or after 27 March 2021 and the refinanced amount exceeds the outstanding balance of the mortgage immediately before the refinancing.

If a rental property mortgage meets these criteria, the amount of interest that can be claimed as a tax deduction is subject to the interest limitation rule. The interest limitation rule limits the amount of interest that can be claimed as a tax deduction. **For interest incurred from 1 April 2022 to 31 March 2023, the percentage of interest that can be claimed is 75%.**

Phasing interest deductions for properties acquired before 27 March 2021

Date interest incurred	Percentage of interest that can be claimed
1 April 2020 to 31 March 2021	100%
1 April 2021 to 30 September 2021	100%
1 October 2021 to 31 March 2022	75%
1 April 2022 to 31 March 2023	75%
1 April 2023 to 31 March 2024	50%
1 April 2024 to 31 March 2025	25%
On or after 1 April 2025	0%

(Source: Property interest limitation rules (ird.govt.nz))

Understanding ACC levies if you work or own a business

In New Zealand, the Accident Compensation Corporation (ACC) is a government-run scheme that provides no-fault personal injury cover for all residents and visitors to New Zealand.

If you are an employee in New Zealand, your employer is required to pay ACC levies on your behalf as part of your employment costs. The amount of ACC levies your employer pays is based on your earnings and the industry your employer operates in.

If you are a self-employed person or a business owner in New Zealand, you are also required to pay ACC levies based on your earnings and the industry you operate in. The amount of ACC levies you pay is calculated based on your liable earnings, which includes any salaries or wages you pay yourself and any drawings you take from the business.

The ACC levies for each industry are set annually and are based on the level of risk associated with that industry. The levies are used to fund the cost of injuries and accidents within each industry, as well as the costs of the wider ACC scheme.

ACC levies are divided into three different types:

- **Earners' levy** - This levy is paid by everyone who earns a salary or wage in New Zealand, including employees, self-employed people, and contractors. The earners' levy is calculated as a percentage of liable earnings and is used to fund the cost of injuries and accidents that occur in the workplace and outside of work. This is a flat rate, currently \$1.27 per \$100 (excluding GST) of your liable income.

- **Work levy** - This levy is paid by employers and is based on the industry they operate in, and the level of risk associated with that industry. The work levy is used to fund the cost of workplace injuries and accidents.

- **Working safer levy** – This levy is collected on behalf of WorkSafe New Zealand. It goes towards supporting WorkSafe's activities and injury prevention across the country. This is a flat rate, currently \$0.08 per \$100 of your liable payroll or income.

To calculate self-employed levies, the Inland Revenue will provide the summary of earnings from the income tax return (IR3). This information combined with Classification Unit (CU) is used to calculate levy. Classification Unit (CU) is a description of business activity. This is based on **Business Industry (BIC) code**.

If you know your business and income details, you can calculate your levies. If you're new to business or just want an idea of how much your levies will be, try the ACC levy estimator. Estimate your levy (acc.co.nz) | Calculating your levies (acc.co.nz)

Making sure you are paying the appropriate ACC levies based on your income and industry is important. You can check your ACC levies and learn more about them by visiting the ACC website. (Understanding levies if you work or own a business (acc.co.nz))

ACC levies are based on your earning and the industry you operate in. It is crucial to specify the best applicable BIC code.

Interpretation Statement 23/01: Tax Avoidance Scenarios

Section BG 1 of the Income Tax Act 2007 sets out the general anti-avoidance rule (GAAR) that allows the Commissioner of Inland Revenue to challenge any arrangement or transaction that has been entered into primarily for the purpose of tax avoidance. The following are some examples of tax avoidance scenarios that may be caught by the GAAR:

- **Sham transactions** - This occurs when parties enter into a transaction that is intended to give the appearance of being genuine, but in reality, it has no economic substance. For example, a taxpayer may enter into a sale and leaseback transaction with a related party, where the sale price is artificially inflated to generate a tax deduction.

- **Dividend stripping** - This occurs when a taxpayer seeks to reduce their taxable income by converting what would otherwise be taxable income into tax-free capital gains or tax-free dividends. For example, a taxpayer may sell shares in a company to a related party for an inflated price, and then the company pays out tax-free dividends to the shareholder.

- **Income splitting** - This occurs when a taxpayer seeks to reduce their tax liability by diverting income to a lower-taxed individual, such as a family member. For example, a high-earning taxpayer may enter into a family trust arrangement to shift income to a lower-earning family member.

- **Hybrid entity arrangements** - This occurs when a taxpayer seeks to take advantage of differences in tax treatment between different jurisdictions by using a hybrid entity. For example, a taxpayer may set up a company in a low-tax jurisdiction that is treated as a partnership for tax purposes in New Zealand, resulting in a lower tax liability.

- **Artificial losses** - This occurs when a taxpayer seeks to generate tax losses through artificial means, such as through the use of contrived deductions or depreciation claims. For example, a taxpayer may claim deductions for expenses that are not actually incurred or artificially inflate the value of depreciable assets.

Section BG 1 of the New Zealand Income Tax Act 2007 sets out the General Anti-Avoidance Rule (GAAR) that allows the Commissioner of Inland Revenue to challenge any arrangement or transaction that has been entered into primarily for the purpose of tax avoidance.

The purpose of the GAAR is to prevent taxpayers from artificially reducing their tax liabilities through contrived or artificial arrangements. The GAAR applies to income tax, fringe benefit tax, and goods and services tax (GST).

Under section BG 1, an arrangement or transaction may be subject to the GAAR if it is entered into primarily for the purpose of tax avoidance. In determining whether an arrangement or transaction is entered into primarily for the purpose of tax avoidance, the Commissioner must consider all relevant factors, including:

- The form and substance of the arrangement or transaction
- The timing of the arrangement or transaction
- The economic and commercial effect of the arrangement or transaction
- The relevant circumstances of the taxpayer

If the Commissioner determines that an arrangement or transaction is subject to the GAAR, he or she may disregard or adjust the arrangement or transaction for tax purposes and may also impose penalties and interest on the taxpayer.

GAAR is intended to apply only in exceptional cases where the taxpayer has entered into an arrangement that is primarily for the purpose of tax avoidance. The GAAR should not be used to challenge arrangements that have a genuine commercial or economic purpose, nor should it be used to undermine the policy objectives of the Income Tax Act 2007.

Income Tax: Payments made by parents to private schools and donations tax credit

A donations tax credit is a tax credit that may be claimed by individuals or entities that make certain charitable donations.

Under current tax law, individuals who donate money to approved donee organizations may be eligible for a tax credit equal to 33.33% of the amount donated, up to a maximum of their taxable income for the year. For example, if an individual with a taxable income of $50,000 makes a charitable donation of $1,000, they may claim a tax credit of $333.33.

In order to be eligible for the donations tax credit, the donation must be made to an approved donee organization. These organizations are listed by the Inland Revenue Department (IRD) and include a wide range of charities, religious organizations, educational institutions, and other non-profit entities.

Donations tax credit is a non-refundable tax credit, which means that if the credit exceeds the taxpayer's tax liability for the year, the excess cannot be refunded. However, the credit can be carried forward to future tax years if it is not fully used in the current year. Overall, the donations tax credit is intended to encourage charitable giving by providing a financial incentive for individuals and entities to support worthy causes in their communities.

Payments to a private school for tuition fees or other education-related expenses do not generally qualify as a donation for tax purposes in New Zealand.

Under New Zealand tax law, **donations must be voluntary payments made without expectation of receiving any goods or services in return.** Payments made to a private school in exchange for education-related services or benefits are not considered to be donations, but rather payments for goods or services rendered.

However, there are some situations where a payment to a private school may qualify as a donation for tax purposes. For example, **if a payment is made to a private school as a**

charitable contribution to a specific project or fund that benefits the wider community (rather than just the school), it may be eligible for the donations tax credit.

Deductibility of Overseas Travel Expenses

Income tax deductions can be claimed for overseas travel costs (other than meal costs) but only to the extent that they have a connection with deriving assessable income or carrying on a business. Income tax deductions cannot be claimed for any part of the costs that are of a private or domestic nature, of a capital nature, or incurred in deriving exempt income or income from employment. If the costs need to be apportioned between deductible and non-deductible amounts, then this must be done on a basis that is reasonable in the circumstances.

A taxpayer's overseas travel costs will be deductible if they satisfy the requirements of the general permission. The general permission is satisfied where costs5 are incurred by the taxpayer and a sufficient nexus or connection exists between the advantage gained or sought to be gained by the costs and:

- deriving assessable income; or
- carrying on of a business for the purpose of deriving assessable income

Even if the costs satisfy the requirements of the general permission, a deduction will not be allowed if one of the general limitations applies. The relevant general limitations are the:

- private limitation;
- capital limitation;
- exempt income limitation; and
- employment limitation.

Private limitation – costs that are private or domestic nature. Private nature is the cost of living as an individual member of society, such as costs for food, clothing, or protective shelter. Costs are of a domestic nature if they relate to the individual household or family unit.

Capital limitation - costs to the extent to which they are of a capital nature. The costs may have produced depreciable property and a depreciation deduction may be available instead.

Exempt income limitation - costs to the extent to which they are incurred in deriving exempt income. Exempt income includes income derived by a person who is a transitional resident if the income is foreign-sourced and is neither employment income nor income from the supply of services.

Employment limitation - costs to the extent to which they are incurred in deriving income from employment. This means that if a taxpayer is an employee and incurs overseas travel costs to derive employment income, then no deduction is available to the taxpayer.

End-of-year Tax Tips:

We have put together this Q&A extracted from our webinar with Wolters Kluwer curtesy of Baker Tilly Staples Rodway, to assist you with your year-end tax planning. Please keep in mind that this Q&A is only of a general nature. Seek specific advice on client situations because minor changes in facts can have a significant impact on outcomes. This does not claim to cover all aspects of law and accounting relevant to the topics discussed.

IS INCOME DERIVED IN THE CURRENT INCOME YEAR?

Income derived on a cash basis:

Q: Can a sole medical practitioner, with no employees (other than, for example, a P.A.) recognise income on a cash basis?

A: Yes. Can also apply to medical practitioners who practise with others in shared premises and account for their income on an individual basis. (Ref: Interpretation Statement (IS) 16/06 When Is Income from Prof Services Derived?)

Q: Can a director who provides their services personally and holds one or a small number of directorships account on a cash basis.

A: Yes. Refer to IRD's Interpretation Statement (IS) 16/06

Income derived on an accrual basis:

Q: An accruals basis professional records their time as unbilled work in progress ("WIP"). When do they recognise income?

A: Unbilled WIP is not usually income. Income is recognised when the taxpayer:

- Has performed the services required, and
- Is entitled under the contract to demand payment for the services provided. (Refer to IS 16/06 When Is Income from Prof Services Derived)

Income derived – payments in advance:

Q: An engineering company receives substantial $ in advance of services being provided. Income?

A: Income is not derived until the professional discharges the obligations for which they have received payment, (Arthur Murray (NSW) Pty Ltd v Federal Commissioner of Taxation (1965) 114 CLR.)

Income derived – trading stock:

Q: A retailer sells trading stock on credit (a receivable). When does income arise?

A: When the stock leaves the retailers account in exchange for a legally enforceable debt. (See BR Pub 14/08 Income Tax – Timing of Disposal and Derivation of Income from Trading Stock. CIR v Farmers Trading Co Ltd (1982) 5 NZTC (CA)).

Income derived - land sales:

Q: At balance date a land developer has unconditional agreements for the sale of various lots. When is income recognised?

A: No debt arises under a contract for the sale of land until settlement occurs. Income is derived when there is an enforceable debt. (Gasparin v FC of T 94 ATC 4280 & TIB Vol 16, No 5, June 2004.)

Income derived - house builders:

Q: A builder has a fixed price contract with a customer with some progress payments received at balance date. What income is derived at balance date?

A: For a modest building business the "outcome" of the contract cannot be reliably established before completion, and the percentage of completion method could not be applied. (Horizon Homes Ltd v C of IR (1994) 16 NZTC.)

Income derived - long-term construction contracts:

Q: A four-year cladding contract provides for monthly progress payments based on an engineer's certificate. When is income derived?

A: When the progress payments are signed off and then due. Contrast, a lump sum construction contract, with payment due on completion, is derived on completion, even where the work may have been done but no payment is due. (HW Coyle Ltd v C of IR (1980) 4 NZTC)

Income derived – retention money:

Q: Under a construction contract a customer withholds 10%, the customer is not liable to pay the retention until an engineer's certificate is provided. When is that income derived?

A: The contractor derives the retention money in the income year in which the income earning process is completed and an enforceable debt is created. (QB 13/04 Income derived.)

IS EXPENDITURE INCURRED IN THE CURRENT INCOME YEAR?

Incurred/definitively committed:

Q: A Company offers a prompt payment discount and at year end claims a deduction for the amount of discount likely to be incurred. Is the expense incurred?

A: Yes, discount reserve may be deductible if reasonably estimable (C of IR v Mitsubishi Motors New Zealand Ltd (1995) 17 NZTC)

Incurred but not quantified:

Q: Under a management services agreement, Parent company will incur certain expenses and charge them to Subsidiary. Will Subsidiary obtain a deduction for amounts not yet invoiced by Parent at balance date?

A: Yes, a taxpayer can completely subject themselves a liability, even if the quantum cannot be precisely ascertained at balance date. With a formula for quantification, there is at year end a commitment by Subsidiary. (C of IR v Glen Eden Metal Spinners Ltd (1990) 12 NZTC.)

Incurred but not deductible:

- Employee accruals such as bonuses, holiday pay, long-service leave, etc. are only deductible if paid within 63 days of balance date. (Note the option to add back the entire provision without adjusting for 63-day amounts).
- Prepaid expenditure on goods and services not consumed/performed at year end are non-deductible; except for certain exceptions e.g., subscriptions, rates, insurance premiums not exceeding 12m etc. They must be claimed for both tax and financial accounting purposes. (Prepayments – exemptions in determination E 12 – e.g., consumables not exceeding $58,000).

Expenditure incurred - capital v revenue:

Q: A owns a rental property; the existing insulation needs to be renewed. Deductible?

A: Yes. Apply the two-step test:

- Identify the relevant asset (house or the insulation),
- Identify the nature and extent of the work done in relation to that asset. (Ref: IS 12/03 Deductibility of repairs and maintenance expenditure.)

Sustainability

Westpac NZ has announced a slew of new sustainability initiatives, including the expansion of interest-free loans for heating homes, the pilot of a sustainable farming finance loan, a commitment to a nett zero emissions future, and the release of a new Responsible Banking and Investment Position.

Customers can now borrow up to $40,000 interest-free from Westpac to make their home warmer, drier, more sustainable, and energy efficient. In addition to the increased loan limit, electric vehicle chargers and solar batteries have been added to the list of items that can now be funded by the loan.

New Zealand is known for its commitment to sustainability and environmental conservation.

There are number of policies and initiatives in place to promote sustainability, including:

- **Renewable Energy**: Over 80% of electricity is generated from renewable sources, such as hydro, wind, and geothermal power.

- **Conservation**: protected areas, including national parks, marine reserves, and wilderness areas.
- **Waste Management**: strong focus on reducing waste and increasing recycling. The country has implemented a number of programs and initiatives to encourage people to reduce their waste, recycle more, and compost their organic waste.
- **Sustainable Agriculture**: Agriculture is a major industry in New Zealand, and the country has been working to make it more sustainable. This includes reducing the use of pesticides and fertilizers, promoting organic farming, and encouraging sustainable land management practices.
- **Green Building**: adopted green building practices to reduce the environmental impact of buildings. This includes using sustainable materials, reducing energy consumption, and promoting water conservation.

Overall, New Zealand's commitment to sustainability is reflected in its policies, programs, and culture. The country has a strong environmental ethic and is working to protect its natural resources for future generations.

2023 Financial Year Tax Changes

As we approach the start of the new financial year, several changes are set to take effect on 1 April 2023, and we have summarized few key changes below:

- **ACC Earner's Levy Rate** – The Earners Levy rate for the 2023 /2024 tax year **will increase to $1.53 for every $100 of liable earnings.** The maximum liable earnings threshold will increase to $139,384.
- **Student Loans** - The annual student **loan repayment threshold has increased to $ 22,828 for the 2023/2024 tax year.** This is the income level above which student loan deductions will be taken.
- **New Minimum Wage Rate** - The minimum wage is set to **increase on 1 April 2023 from $21.20 per hour to $22.70**. Starting out training minimum wage will also **increase from $ 16.96 to $18.16 per hour.** Ensure to update your payroll system to reflect these changes.

Exciting News! We have partnered with PWC Tax Pooling Solutions to assist our clients with their cash flows. Refer to the tax pooling information at the end of this newsletter for more details.

For the financial year 2023, we have attached our updated client questionnaire for both current and prospective clients. You won't have to worry about the preparation of your 2023 annual tax return when you download, fill out, and email the necessary documents to our team.

Have any enquiries?

If you have any questions concerning the topics in the newsletter, do not hesitate to contact us; we are happy to help.

- Apex Accountancy Limited

Provisional Tax to Pay?

TPS can help you.

- Defer Tax Payments
- Reduce Your Borrowing Costs
- Save on IRD Use of Money Interest
- Increase Returns on Overpayments

Get in touch

For more information, please visit
taxpooling.co.nz

Please contact us if you have any questions about TPS, Public Trust or any aspect of TPS' business.

We can be contacted on **+64 (0)9 948 8833** or **taxpooling@nz.pwc.com**

pwc.co.nz

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Do you pay provisional tax?

Find out how TPS can save you money.

What is TPS?

TPS is an IRD registered tax pooling intermediary offering a full range of tax pooling and financing services.

TPS has quickly become the tax pool of choice for many accountants, corporates and SMEs.

TPS' Services

Tax deposit

Deposit your provisional tax payments into the TPS tax pool and increase your return on overpayments.

Tax purchase

Save up to 30% in use of money interest costs and avoid late payment penalties by buying the tax you need from the TPS tax pool.

Tax swap

Increase your return/reduce interest costs by swapping excess tax payments made into any tax pool for tax on the date you require.

Tax finance

Finance provisional tax payments at very competitive rates for up to 21 months. No application fees, no credit checks, no security required.

Historic deposit finance

Holding a deposit in the TPS tax pool? Treat it as a pre-approved overdraft facility – the funds can be withdrawn and financed at competitive rates at any time.

Why TPS?

TPS has a number of points of difference over its competitors, including:

Pricing

We aim to offer the best prices for tax pooling and financing services in the market.

No Minimums

Unlike some of our competitors, we have no minimum deposit, purchase or finance amount.

Service

Our team prides itself on providing a friendly, client solution focussed, responsive service.

Trustee

TPS' trustee, Public Trust, is owned by the Government so clients can be sure that tax payments are held by a secure and trustworthy entity.

Security

TPS' structure, operations and business systems have been reviewed by the IRD, Public Trust and our financier to ensure depositors' interests are protected.

pwc.co.nz/taxpooling

How tax pooling can benefit you under the new rules

Paying provisional tax through Tax Pooling Solutions allows you the choice of applying the standard method to cap your exposure to IRD interest and penalties, but retains the ability to earn interest if the actual amount due is less.

- Flexible payments – choose what to pay and when.
- Earn interest on excess income tax paid.
- Refund tax at any time.
- Save on interest and late payment penalties on underpaid income tax.
- Low-cost financing for provisional tax payments.

The following options will be available from the beginning of the 2018 income year:

Standard method

Can use tax pooling

Any size taxpayer

Standard Method

- Pay uplift amount* at P1 and P2 and the final balance at P3.
- IRD interest charged on underpayments from P3.
- No IRD interest paid on overpayments at P1 or P2.
- Can switch to estimate method prior to P3.
- Same method must be used for all related taxpayers

Can use tax pooling

Income tax liability of less than $60k

Safe harbour from IRD interest

- Pay uplift amount* as per the standard method at P1, P2 and P3.
- Any final balance is due at the terminal tax date.
- Applies to companies, trusts and individuals.

Estimate method

Can use tax pooling

Any size taxpayer

- Pay estimate amount at each provisional tax date.
- IRD interest received on overpayments and charged on underpayments compared to actual amount due.
- Cannot switch to standard uplift method.
- Same method must be used for all related taxpayers.

Ratio method

Can use tax pooling

Income tax liability of less than

$150k

- Pay based on a percentage of GST.
- Due when you make GST payments.
- Any final balance is due at the terminal tax date.

Accounting income method

Cannot use tax pooling

Turnover of less than

$5m

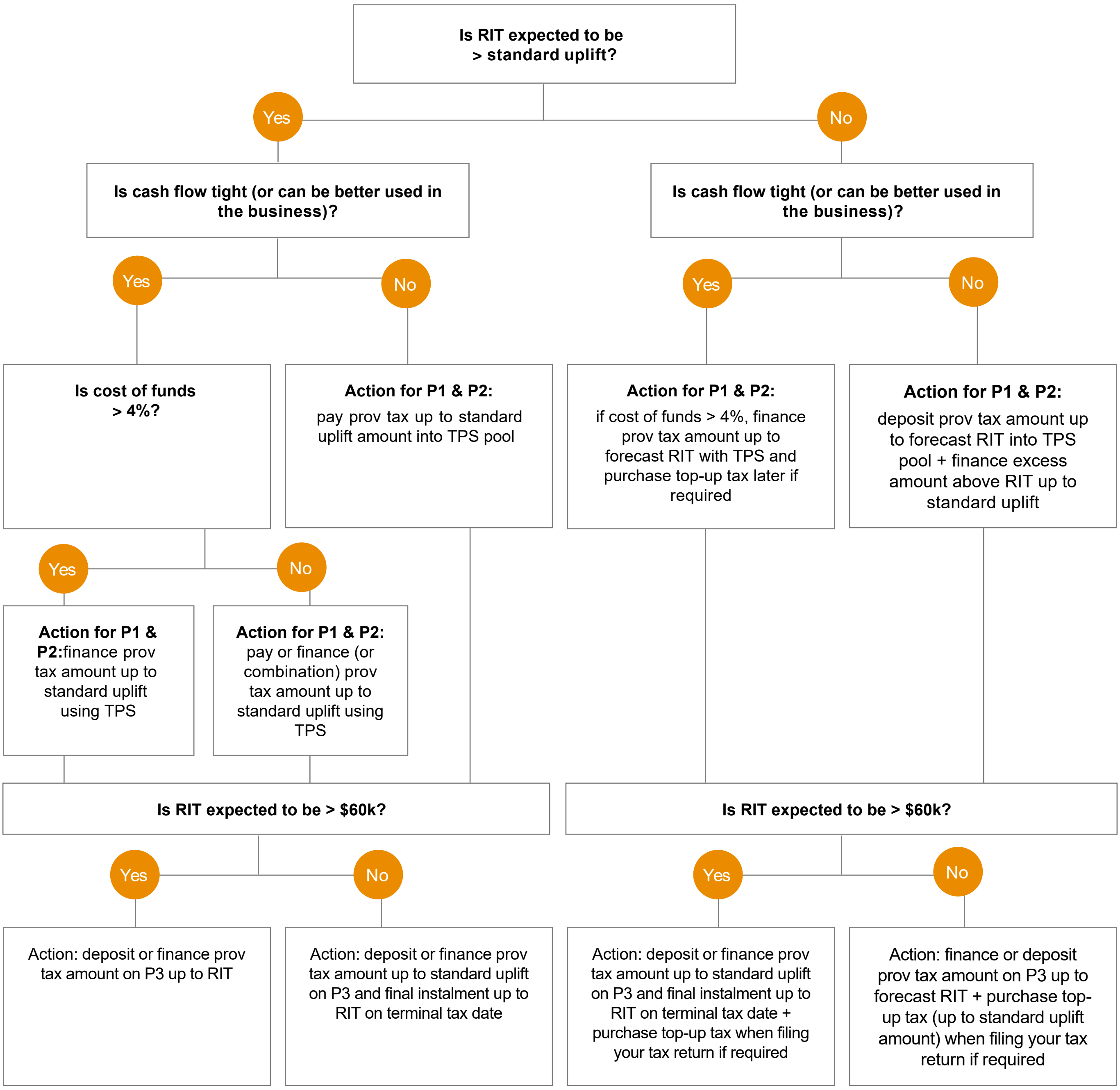
- Income tax calculated and paid every two months based on profit during that period.
- IRD-approved accounting software must be used.
- Available from 1 April 2018.

*Uplift amount is 105% of last year's income tax liability or 110% of prior year if last year's return is still to be filed.

pwc

Paying provisional tax under the new rules:

Provisional tax strategies



Benefits from using TPS:

- can sell excess funds deposited in the TPS pool
- can sell excess tax financed with TPS (without having to pay an additional upfront fee for this option)
- sales will earn enhanced interest return of over 3%pa compared to UOMI of 0% or 1.02%pa
- protect against UOMI being charged at 8.22%pa and late payment penalties on underpayments of tax.

Benefits from using TPS:

- can purchase back dated tax with relevant prov tax date at approx. 30% cheaper than UOMI with TPS
- can back finance tax if forecast RIT changes during the year, but cash is still tight.

Provisional tax strategies

A

Pay no provisional tax during the year (and remove the need to spend time budgeting and forecasting income tax) and purchase the exact amount of tax required after completing your income tax return.*

B

If your forecast RIT is > standard uplift:

i. Finance or deposit your first and second instalments of provisional tax with TPS based on standard uplift.

ii. Finance or deposit your third instalment of provisional tax (wash-up) with TPS up to total RIT.

C

If your forecast RIT is < standard uplift:

i. Finance or deposit your first and second instalments of provisional tax with TPS based on the forecast amount.

ii. I f you want to guarantee protection against IRD interest and late payment penalties being charged, deposit or finance the difference between forecast tax payable and standard uplift[1].

iii. Finance or deposit your third instalment of provisional tax (wash-up) with TPS up to total RIT.

iv. Purchase any top-up tax required if the guarantee option above is not used to eliminate IRD interest being charged.

[1] If you deposit or finance tax which is more than what you need, you can sell the excess tax/finance amount and earn interest, greater than IRD interest. This would effectively result in you receiving a proportion of your finance fee back.

D

If your RIT will be below $60k:

i. Finance or deposit all three provisional tax instalments with TPS up to the standard uplift amount.

ii. Finance or deposit your wash-up amount to total RIT on your terminal tax date with TPS.

*Note that all tax purchases must be completed and transferred to your IRD account before the date arising on your terminal tax date +75 days.

- Consideration should be given to whether a provisional tax estimate form should be filed, and in what circumstances. Generally, if you plan to use TPS to arrange all of your provisional tax payments and obligations, you should not need to file a provisional tax estimate form.
- Please refer to the flow-chart on the previous page for suggested approaches to paying your provisional tax. The above provisional tax strategies are suggestions only.
- Taxpayers should make their own judgements and decisions as to what is appropriate for them. If you would like to discuss your options, please contact the TPS team on (09) 948 8833 / taxpooling@nz.pwc.com.

Tax Pooling Solutions

Opportunities Checklist

Tax Returns – review of the clients tax summaries for the last 3-4 years.

Symptom	Cause	Opportunity
Current Year Problem UOMI due Penalties due	**Symptom** Provisional tax underpaid or not paid at all	Purchase historical tax
Habitual Overpayer Tax refunds year on year UOMI received	Overestimated/overpaying Money locked away at the IRD at low rate	Deposit payments into tax pool Sell overpayments for more than UOMI rates
Volatile Revenue/Cashflow Tax refunds and payments UOMI paid and received	Revenue/tax hard to estimate	Deposit payments into tax pool Sell overpayments for more than UOMI rates Quick refund with UOMI Possible finance & pool strategies to smooth impact

Financial Statements – review of the clients financial statements, in particular P&L, cashflow and notes on debt facilities.

Symptom	Cause	Opportunity
Working capital/term debt costs High interest expense or finance charges in P&L	All business payments drawn from expensive facilities	If paying interest rates > TPS rates, more prov tax payments out of expensive facilities Finance tax from TPS to save interest
Cashflow seasonal or lumpy High bank charges for either flexible facilities or extensions/reductions Feedback from client that they have to go to the bank to increase facilities only to reduce them later in the year	Paying tax on set payments dates that don't suit the business cashflows	Finance tax and settle on dates that fit cashflow
Expansion/growth/recovery plans Business pla ns that have the desired outcome but either cost too much in interest or don't have contingency in the facilities required	Business plan highlights need for access to another facility to achieve goal/objectives	Finance tax to access additional funds at competitive rates

Amounts in the tax pool have two statuses: 1) Own tax deposited; 2) Purchased tax deposits.

- Own tax deposited into the tax pool has no deadline to be transferred to IRD or to other tax types
- Purchased tax deposits (including financed tax) that is to be used to meet a tax assessment must be transferred to the client's IRD tax account before the date 75 days after terminal tax date
- Purchased tax deposits (including financed tax) that is to be used to meet a tax reassessment must be transferred to the client's IRD tax account before the date 60 days after the reassessment notice

For more information please contact

09 948 8833 or email **taxpooling@nz.pwc.com** | **taxpooling.co.nz**

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Tax Pooling Solutions

Save on IRD use of money interest.

Increase returns on overpayments.

Problem

Estimating your provisional tax can be difficult. Pay too little and you will be hit with use of money interest (UOMI) and other penalties; pay too much and valuable working capital is locked up at the IRD earning a meagre return.

Depositing into the TPS tax pool is free and you will never pay more than if you had paid directly to the IRD.

Why would you pass up this opportunity to improve your bottom line?

Solution

Deposit your provisional tax payments into the Tax Pooling Solutions (TPS) tax pool to reduce your exposure to UOMI and increase your return on overpayments.

Have you:

- **Underpaid?** Save up to 30% on your UOMI bill by buying the tax you need from the TPS tax pool instead of paying IRD UOMI.
- **Overpaid?** Increase your return on overpayments by selling excess tax for up to double what the IRD will pay you in UOMI.
- **Cashflow tight?** Treat your tax payments as a pre-approved overdraft facility – the funds can be withdrawn and financed at competitive rates at any time.
- **Tax on the right dates?** Swap excess tax payments for tax on a later date you require and maximise your return.
- **Estimated correctly?** TPS will transfer your tax payments from the pool to your taxpayer account at the IRD at no charge.

Benefits

- Save on UOMI by buying tax from the TPS tax pool.
- Sell tax to increase your return on overpayments.
- Ease cash flow.
- Payments into the TPS tax pool can be refunded at anytime – no need to wait until your tax return is filed.

Why TPS?

- Free registration; No membership fees.
- No minimum deposit size.
- IRD approved tax pooling intermediary.
- Your tax payments are held at the IRD on your behalf by Public Trust.

How

- Go to taxpooling.co.nz.
- Register online.
- Use our calculators to estimate your savings.
- Follow the instructions to deposit your tax payments or buy and sell tax.
- Call us if you need assistance.

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