

# CLIENT UPDATE MAY 2012

## Tax Pooling (Saves Money)

You can easily save more than 25% of IRD's interest cost on your provisional tax, and do it with the IRD's seal of approval.

If you don't pay the correct amount of tax on time the IRD charge you interest. The current rate is 8.40%.

Tax pooling is a service introduced by Inland Revenue in 2003 that allows provisional taxpayers to reduce their exposure to IRD interest costs.

*How it works:* When we have finished your income tax return, we will inform you whether you owe any further tax to IRD. In many cases, you will also owe use of money interest (UOMI) to the IRD.

This occurs where a company or trust has over \$2,500 of terminal tax to pay. This level of tax equates to income of \$8,928 for a company or \$7,575 for a trust. Not much room for underpayment. For an individual the terminal tax has to exceed \$50,000 (about \$180,000 income) before being subjected to UOMI.

Any short payments of provisional tax will not only be subjected to UOMI but also to penalties.

Tax pooling allows you to buy tax credits that other taxpayers do not need. These tax credits have already been paid to IRD, but through the tax pool can be transferred from the seller to you. The interest cost of buying these tax credits is substantially less than paying IRD interest. As with UOMI the interest cost is tax deductible.

The table below shows the savings you can make on 2011 underpaid provisional tax if this tax was purchased in March 2012.

Underpaid Provisional Tax	Estimated Interest Savings
\$10,000	\$268
\$20,000	\$536
\$30,000	\$803
\$50,000	\$1,338
\$100,000	\$2,675

Because tax pooling treats the tax as paid on time, significant savings are also made because late payment penalties are reversed.

We work closely with several tax pooling companies and can quickly arrange a tax purchase on your behalf.

Through them we have assisted many client companies, trusts and individuals in saving interest and penalties.

## PAYE Rates Change from 1 April 2012

Please note PAYE rates reduced on 1 April. Many people have not noted this because IRD have not sent out new tax tables. Also remember Employers Superannuation Contribution Tax (ESCT) from 1 April.

## Checklist For Planning your tax

It's important you talk to us if you believe your income is going to be significantly higher or lower this income year (2012/13). The first provisional tax payment date is 28 August, but there is plenty of tax planning opportunity left in the year. Consider the following circumstances when talking to us:

Revenue up or down?		
Margins increased or decreased?		
Expenses up or down?		
Affected by removal of depreciation on buildings?	Yes	No
Fixed interest loans maturing at lower rates?	Yes	No
Unable to utilise company losses due to recent LAQC reforms?	Yes	No
Any other anticipated events likely to affect income?	Yes	No

## Tax Refunds

Advertising on the radio suggests large tax refunds are available to people who use certain online services, or tax booths in shopping malls to file tax returns.

Although the advertising is compelling it is misleading. For wage and salary earners to receive large tax refunds, they have to have been seriously overtaxed by their employers or only worked a part year. Any tax agent can obtain the correct refund for a client.

Where clients are likely to receive distributions from family trusts, they should avoid trying to receive refunds via the online sites. A little patience and a trust distribution may well give rise to a larger refund.

## Working For Families

From April 1<sup>st</sup> 2012, many of the small changes to Working For Families signalled last year have come into effect:

- The family tax credit amount for children under 16 will rise for inflation:

Qualifying Child	Current amount	New amount
1 <sup>st</sup> child if under 16	4,578	\$4,822
2 <sup>nd</sup> child if under 13	\$3,182	\$3,351
2 <sup>nd</sup> child if 13 - 15	3,629	\$3,822

- The net income level guaranteed by the minimum family tax credit will rise from \$22,204 to \$22,568
- The abatement rate will increase from 20 cents to 21.25 cents in the dollar
- The abatement threshold will decrease from \$36,827 to \$36,350

## IRD Industry Benchmarks

The IRD has extracted various financial information over a range of industries to assist in identifying businesses with results outside their normal ranges.

The industries whose ratios have been published include:

Cafes and restaurants  
Electrical services  
Electrical and electrical goods wholesaling  
Electrical, electronic and gas appliance retailing  
Fruit and vegetable retailing  
Gardening services  
Hairdressing and beauty services  
Landscape construction services  
Nursery production (outdoors)  
Painting and decorating services  
Passenger car rental and hiring  
Preschool education  
Pubs, taverns and bars  
Real estate services  
Supermarket and grocery stores (dairy, superettes)  
Takeaway food services.

The ratios measured for each of these industries are:

- 1) Profit & Loss Ratios
  - Gross Profit ratio
  - Stock turnover
  - Salaries / turnover

- 2) Balance Sheet Ratios
  - Return on total Assets
  - Return on Equity
  - Current Ratio
  - Quick Ratio
  - Liability Structure.

You can access these results at <http://www.ird.govt.nz/industry-benchmarks/bm-find-your-benchmark/>. We will also compare your results to the benchmarks when reporting to you.

## Is Your Worker an Employee?

Interpretation Guide IG11/01 sets out the guidelines for determining whether a person is an employee or self employed. These include:

- Intention test – what did the parties intend?
- Independence test
  - Industry practice can be relevant to independence.
  - If the person is an accessory, this suggests independent contractor
- Fundamental test – is the person in business or not?
  - Does the nature of the job require using an independent contractor?
  - Behaviour of parties before and after the contract
  - Time limit for completing a project
  - Who is responsible for correcting sub standard work?
  - Who is legally liable if the job goes wrong?
- Integration test – is the person integrated into the business that hires him or her?

If the actual circumstances point to an employment arrangement, labelling it as independent contracting cuts no ice with Inland Revenue.

If you are unsure contact Kathryn Pinkerton at our office.

## Absence from Office

John and Maureen are going overseas from 19 May until 23 June to visit their son in London.

They have organised powers of attorney and delegation to Grant Hodder at our office. If you need their signature, please call Grant.

For all other general client matters during John and Maureen's absence, please telephone Grant or Joanne Morrissey.

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