

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

Businesses and employers

Changes that will come into effect on 1 October 2010 that may affect you are:

PAYE changes for employers

Effect of GST increase for businesses

Company tax rate change

Some taxpayers will pay less provisional tax

Deferred tax issues (for those who book deferred tax)

Changes to tax rules for foreign multinationals

Property tax changes - depreciation rate for buildings and depreciation loading for assets

PAYE changes for employers

The changes to personal income tax rates will affect all employers. To help you prepare for these changes the IRD will:

update the PAYE online calculator (found under "**Work it out**") and the PAYE tables (IR340 and IR341) in early September

work with payroll developers so they can update payroll software

update the *Tax code declaration (IR330)* form

What you need to do

The new PAYE rates come into effect from 1 October 2010. This means you need to start using the new rates to calculate the correct amount of PAYE to deduct from employees' salary and wages for pay periods ending on or after 1 October 2010.

Ensure that your PAYE software is up to date and ready for the changes.

Impact of the new rates have on fringe benefit tax

Currently you have the option of applying the alternate rate or using a flat rate of 61%.

From 1 October 2010 the flat rate changes from 61% to 49.25%

The alternate fringe benefit rates for the year ending 31 March 2011 have changed in line with the composite tax rates. The following rates will apply:

Income range	Tax rate
\$0 - \$12,390	12.99%
\$12,391 - \$39,845	23.84%
\$39,846 - \$54,915	45.99%
\$54,916 upwards	55.04%

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

The alternate FBT rates will change again for the year ending 31 March 2012.

Income range	Tax rate
\$0 - \$12,530	11.73%
\$12,531 - \$40,580	21.21%
\$40,581 - \$55,980	42.86%
\$55,981 upwards	49.25%

If you have an employee who has a secondary tax code

The new PAYE tables effective from your employee's first pay period ending on or after 1 October 2010 will include the new secondary tax rates.

If you have an employee who has a special tax code / repayment rate

Your employee will give you a new special tax code prior to 1 October 2010. The new certificate will include the new tax rates and thresholds.

Handling extra pays

Lump sum payments made to employees are known as extra pays. Tax on extra pays is currently withheld at 12.5%, 21%, 33% and 38% depending on your employee's annualised income. These rates and thresholds are changing. This applies from the first pay period that ends on or after 1 October 2010.

Rates and thresholds from 1 October 2010 to 31 March 2011

Income thresholds	Rates
Total income to \$14,000	10.5%
\$14,001 - \$48,000	17.5%
\$48,001 - \$70,000	30%
\$70,001 and over	33%

How the new rates affect the employer superannuation contribution tax (ESCT) that you calculate

From 1 October 2010 the rates and thresholds for employer superannuation contribution tax (ESCT) will change. You will need to use the new rates and threshold amounts to determine how much tax to withhold on employer superannuation contributions. These will apply from the first pay period that ends on or after 1 October 2010.

Rates and thresholds for employer superannuation contribution tax from 1 October 2010 to 31 March 2011

Income range	Tax rate
\$0 - \$16,800	10.5%
\$16,801 - \$57,600	17.5%
\$57,601 - \$84,000	30%
\$84,001 and over	33%

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

Businesses registered for GST

The rate of tax to pay on goods and services (GST) is increasing from 12.5% to 15% from 1 October 2010.

Make sure your accounting software is ready. It may be that you add more GST “flag” codes, or even need a new version of your software.

Calculating GST

For the 12.5% rate, the GST component of a GST-inclusive amount can be calculated by dividing by 9.

For the 15% rate, the GST component will need to be calculated by either multiplying the GST-inclusive amount by the fraction 3/23 or dividing by 7.66 recurring.

The fraction method is calculated using the following formula:

Rate of tax	=	15%	=	15%	=	3
100 + rate of tax	=	100 + 15	=	115	=	23

To find out the GST component of a GST-**exclusive** amount, multiply the GST-exclusive amount by 15%.

Example	
Value of goods	\$1,500.00
GST at 15%	\$225.00
Total price	\$1,725.00

To calculate the GST component of a GST-**inclusive** amount, multiply the GST-inclusive figure by 3, then divide by 23.

Using the example above:

Step 1: \$1,725.00 multiplied by 3 is \$5,175

Step 2: \$5,175 divided by 23 is \$225.00 (the amount of GST).

If you use the recurring figure instead of the fraction method it can sometimes give you an incorrect answer depending on how many decimal points you use, for example:

\$1,725.00 / 7.66 is \$225.20 - **this is incorrect**

\$1,725.00 / 7.666 is \$225.02 - **this is incorrect**

\$1,725.00 / 7.66 recurring = \$225.00 - **this is correct**

Note

Using the fraction method (multiply by 3 and then dividing by 23) will always provide you with an accurate answer.

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

GST periods starting from 1 October 2010

If you file your GST returns monthly or if you are a two or six-monthly filer that has a return period ending 30 September 2010 you'll need to use the new 15% rate from your next return onwards.

GST periods that span 1 October 2010

If you file your GST returns every two or six months and your return period will span the date of the GST rate change you'll need to use the 12.5% rate for the period up to and including 30 September 2010 and the 15% rate for the period on and after 1 October 2010.

The IRD are developing a special one-off transitional GST return to cover the rate change. After this time you'll go back to using your normal GST return. We'll provide you with more information about this return and how it will work in the next few months.

Updating GST returns

The IRD will update online and paper GST returns to reflect the new rate. These will be available for use prior to 1 October. If you use software to account for GST you'll need to ensure you can change the rate or calculation, or access an update from your software provider.

GST invoices and receipts

From 1 October you'll need to make sure you include GST at 15%. If you claim input tax deductions you'll need to ensure the correct amount of GST is shown on the invoice used as the basis for your claim.

To simplify the accounting for those who return GST on either a payments or hybrid basis, the new 15% rate will apply to all payments made or received from 1 October. An adjustment based on the registered person's creditors and debtors as at 30 September 2010 will ensure that supplies provided before 1 October but which have not been paid for by that date will in effect be subject to the old lower rate.

If a taxpayer's GST taxable period spans the GST rate change and the taxpayer is required to make a combined GST and provisional tax payment, the transitional return will provide guidance on how to make the combined payment. Advice will also be provided on how to account for the GST on FBT, entertainment tax and other deemed supplies during the transition.

Time of supply rules

Generally the normal time of supply rules apply. The standard time of supply rule is the earlier of:

the date an invoice is issued by a supplier, or

the date any payment (in part or whole) is received by the supplier.

See the examples below for hire purchases, lay-bys, progress payments, subscriptions and rental or hire agreements for more information.

Hire purchases

GST is accounted for in the taxable period that includes the **date on which the hire purchase agreement was entered into**.

If the hire purchase agreement is signed ...	then the GST is...
on or before 30 September 2010	12.5%
on or after 1 October 2010	15%

Lay-bys

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

GST is accounted for in the taxable period that includes the **date that ownership of the goods pass - that will generally be when the final payment is made.**

If the final payment is made ...	then the GST is...
on or before 30 September 2010	12.5%
on or after 1 October 2010	15%

Progress payments

GST is accounted for in the taxable period that includes the date which is the earlier of when the

- payment is due
- payment is received, or
- invoice is issued.

This will mean that if, in relation to a taxable supply, any of the above situations occurred on or before 30 September 2010 GST will be charged at 12.5%. Otherwise GST will be charged at 15%.

Subscriptions

GST is accounted for in the taxable period that includes the date which is the earlier of when the:

- invoice is issued, or
- payment is received.

This means for an annual subscription for the year ending 31 March 2011:

If you issue an invoice ...	and you return GST on ...	then the GST is...
or receive payment for this subscription on or before 30 September 2010		12.5%
prior to 1 October 2010	a payments basis, and you receive payment for this subscription on or after 1 October 2010	15%
prior to 1 October 2010	an invoice basis, and you receive payment for this subscription on or after 1 October 2010	12.5%
and receive payment on or after 1 October 2010		15%

Rental or hire agreements

The total GST amount needs to be accounted for in the taxable period that includes the date which is the earlier of the date payment is due or payment is received for each instalment.

For a rental instalment on commercial premises this will mean if the payment is:

- due or received on or before 30 September 2010, GST is 12.5%
- due or received on or after 1 October 2010, GST is 15%

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

GST on imports

GST on imports is affected by the increase in GST.

GST changes for importers

Below are answers to some common questions around this increase in GST in relation to importing goods into New Zealand:

The ship carrying the goods that I have purchased is due to arrive in New Zealand on 1 October, if I lodge the import entry on 30 September will GST be payable at 12.5 percent?

No, as the goods will be imported on 1 October 2010 GST at 15 percent is payable.

I ordered some toys from the USA before GST increased to 15 percent but the toys will not arrive in NZ until after 1 October 2010, will GST at 15 percent still apply?

Yes, as the goods will be imported on or after 1 October 2010.

My overseas supplier has advised there will be delays in shipping the goods I've ordered. They will now not be shipped until after 1 October 2010, when I've budgeted for GST at 12.5 percent. What will be the GST rate payable?

GST will be payable at 15 percent because the goods will be imported after 1 October 2010.

My goods will be imported into New Zealand on 29 September, but the import entry will not be lodged with Customs until 2 October 2010, does this mean GST will be payable at 12.5 percent?

Yes, as the goods were imported before 1 October 2010 GST is payable at 12.5 percent.

Does the day the import entry is lodged affect whether GST at 12.5 percent or 15 percent is payable on the goods?

No, the date of importation determines the rate of GST payable. If the goods are imported on or before 30 September 2010 the rate of GST that is payable is 12.5 percent. If the goods are imported on or after 1 October 2010 the rate of GST that is payable is 15 percent.

Customs is not to collect revenue when it amounts to less than \$50 (referred to as the de minimis), which usually equates to the value of the goods being \$399 or less. What is the value when only GST is payable with GST at 15 percent?

For goods that are subject to the payment of GST only, the \$399 threshold value will reduce to NZ\$333, meaning that on 1 October 2010 the goods value must be NZ\$333 or less for the GST to not be collected.

What if import duty is payable?

The threshold value is lower than NZ\$333. The threshold value depends on the amount of import duty that is payable. Contact your local Customs office, or phone 0800 428 786 if you know what the goods are that you will be importing.

How will Customs computer system (CusMod) handle the change in GST?

CusMod will be programmed to process GST to the date of importation.

Corporate tax rate change: issues and opportunities

From the beginning of the 2011-2012 income year, companies and certain other entities will be taxed at 28%.

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

Early balance date companies will have an advantage over standard and late balance date companies. For example, a 31 October balance date company will be subject to the new 28% rate from 1 November 2010 whereas a 30 September balance date company will not be taxed at the new 28% rate until 1 October 2011 .

The new rate is likely to encourage some business owners who currently operate their business as sole traders, partnerships or trading trusts to consider changing to a corporate model.

There may be some legitimate opportunities for businesses to defer income until after the 28% rate is introduced or incur expenditure earlier than they might otherwise have done in order to deduct it at the 30% rate.

Provisional tax

Special rules apply to corporate provisional taxpayers who use the uplift method. The standard uplifts of 105% (of the previous year's residual income tax (RIT)) and 110% (of the year before the previous year's RIT) are reduced to 100% and 105% respectively.

Imputation

The imputation ratio will change to 28/72 from 1 April 2011. However, the current ratio of 30/70 will be available until 31 March 2013 for the distribution of profits taxed at 30%. This will ensure that shareholders are not adversely affected when dividends are paid out in arrears. At the end of the transition period companies will be able to distribute any 30% tax credits but only at the new imputation ratio of 28/72.

Other consequential changes to be aware of include:

- from the beginning of the 2011-2012 income year, corporate shareholders will receive only a 28% tax credit for imputation credits attached to dividends received when the dividends are imputed at 30/70. However, they will still receive a full 30/70 credit to their imputation credit account.
- the resident withholding tax (RWT) rate will remain at 33%. For dividends imputed at 28/72, an additional 5% will have to be deducted as RWT.
- a new foreign investor tax credit (FITC) formula will apply when dividends are imputed at 28/72. This will still result in a FITC equal to the supplementary dividend. The 30/70 FITC formula continues for dividends imputed at 30/70.

Deferred tax balances

Companies will need to recalculate their deferred tax balances (if they account for Deferred Tax) to take into account the new tax rate. I

In summary:

- for balance dates ending on or before 20 May 2010 (the date the new tax rate was announced) i.e. effectively for periods ending 30 April 2010 or earlier, companies cannot recalculate their deferred tax balances using the 28% tax rate (i.e. they must calculate the balances using 30%). Where the effect is material, it should be disclosed in the current year's accounts as a post balance date event that has not been adjusted for;

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

- for balance dates ending between 21 May 2010 and 30 September 2010 (i.e. effectively for May – September balance dates) companies will need to analyse the deferred tax balances to distinguish those temporary differences that will reverse in their 2010-2011 income year (to be calculated at 30%) e.g. provisions for holiday pay and those that will reverse in subsequent years (to be calculated at 28%); and
- for balance dates ending from 1 October 2010 onwards, the deferred tax balance will need to be calculated using the 28% rate.

Where possible, companies with deferred tax assets should consider reducing temporary differences prior to the 2011-2012 income year by, for example, writing off as many bad debts as possible and disposing of obsolete stock and/or fixed assets as this will reduce the impact of the change in the corporate tax rate on the level of tax expense.

The impact of nil depreciation rates on deferred tax

Many taxpayers that own buildings will have to recognise a deferred tax liability now that the Government has reduced the depreciation rate on buildings with a life of 50 years or more to 0%. The liability arises because from the 2011-2012 income year future tax deductions for depreciation will no longer be available. This is a transitional issue that applies to buildings held for use (rather than sale) on 20 May 2010 .

Companies need to consider the impact of this change on, for example, their net equity position, banking covenants, thin capitalisation position and NZX continuous disclosure requirements. Taxpayers will also need to determine which 'buildings' will be subject to the new depreciation rate of 0%.

Tax rules for foreign multinationals

Changes to the thin capitalisation (thin cap) tax rules will limit the scope of foreign multinationals to reduce the amount of New Zealand tax they pay by over-allocating debt to their New Zealand operations. The changes apply to non-residents and resident companies controlled by non-residents reducing the safe harbour for the New Zealand Group from 75% to 60%. The changes will apply from the 2011-12 income year. No change has been made for the world-wide group ratio of 110% or the outbound interest ratio of 75%.

Property tax changes

Depreciation rate for buildings

The rate of depreciation for buildings with an estimated useful life of 50 years or more (as set out in Commissioner's depreciation determinations) - such as rental housing and office buildings - will reduce to 0%. This change comes into effect from the 2011-12 income year.

Buildings that were previously considered to be structures, and were purchased on or before 30 July 2009 will continue to be treated as structures for tax depreciation purposes. Any improvements to these buildings made after 30 July 2009 will not receive the grand-parented treatment.

Depreciation loading for assets

RECENT TAX CHANGES – THAT MAY BE OF INTEREST

The 20% depreciation loading (a tax concession in the form of accelerated depreciation) will be removed for assets purchased after 20 May 2010. The economic rate of depreciation will apply.

Qualifying assets purchased or with binding contracts for purchase entered into on or before 20 May 2010 can continue to use the economic rate with loading.

Building owners will still be able to claim deductions for repairs and maintenance, to maintain the condition and value of their properties. They will also still be able to claim depreciation deductions for "fit outs" not considered part of the building. The Government intends to review the treatment of commercial "fit out" and, if necessary, amend the rules prior to 1 April 2011 to address any uncertainty in this area.