

Newsletter February 2008

## **Tax legislation passed, increasing incentive for donations**

### **Great news!!**

Further to the announcement in the 2007 Budget, the promised changes to the tax legislation, increasing tax incentives for donating to charitable organisations, have been passed into law.

### **What's changed?**

#### *Individuals*

The rebate threshold of \$1,890 on individuals' charitable donations has been removed. In future, all such donations by individuals to organisations with charitable donee status will qualify for the 33% rebate up to the level of their annual net income.

#### *Companies & Maori Authorities*

The 5% deduction limit on charitable donations made by companies and Maori authorities has also been removed. The charitable donation company deduction previously just applied to listed companies.

Great news is that it will now be extended to small closely held companies i.e. the majority of companies in NZ. The tax deduction for donations can be claimed up to the company's annual net income.

Note: The organisation being donated to does not need to have charitable status to be able to claim the rebate. This rebate applies for any organisation with approved donee status.

### **What does this mean for your organisation?**

This incentive gets a big thumbs up from us! Essentially, the true cost to individuals and companies of donations to charitable organisations has now reduced which should make it easier and more attractive for people to make such donations.

For too long we have operated in an unfair environment where the playing field for individuals and SMEs was not level with the listed companies.

The changes take effect from 1 April 2008, for the 2008-09 income year. For more information and examples, check out the IRD website.



## Provisional Tax Update

New provisional tax rules came into force on 1 October 2007. The rules apply to all provisional taxpayers from the 2008/2009 income year.

This means that taxpayers who have a balance date starting on or after 1 October 2007 will be the first affected by the changes. For taxpayers with a 31 March balance date, the changes will take effect from 1 April 2008.

### The new rules:

- align provisional tax payment dates with GST payment dates; and
- introduce the GST ratio option for calculating provisional tax payments.

The most important impact of the new rules is that the payment dates for provisional tax will change to the date GST payments are due.

GST payment dates were changed back in 2007 from the last working day of the month to the 28th of the month. The exceptions to this are for GST taxable periods that end on 30 November, payment remains due on 15th January, and GST taxable periods that end on 31 March, payment is now due on 7th May.

### *Alignment of provisional tax and GST payment dates*

Generally for most taxpayers provisional tax will continue to be paid in three instalments, however the months the payments will be due will change from the 4th, 8th and 12th months to the 5th, 9th and 13th month from balance date.

In addition, the date for payment will change from the 7th to the 28th of the month, with exceptions for payments due in January and April.

The list below sets out the new due dates for common balance dates:

### **2009 Balance date**

31 Dec 2008  
31 Mar 2009  
30 June 2009  
30 Sep 2009

### **First instalment 2009 provisional tax**

28 May 2008  
28 Aug 2008  
28 Nov 2008  
28 Feb 2009

### **Second instalment 2009 provisional tax**

28 Sep 2008  
15 Jan 2009  
28 Mar 2009  
28 Jun 2009

### **Third instalment 2009 provisional tax**

28 Jan 2009  
7 May 2009  
28 Jul 2009  
28 Oct 2009

Note: if the due date falls on a weekend or public holiday, it is extended to the next working day

GST and provisional tax payments are now made on one form (GST 103). If you have a GST refund for the period, the refund can be used to offset the provisional tax payment.

The new rules require taxpayers to have their GST taxable period aligned with their balance date; hence you may have received a letter from the Inland Revenue advising that your GST taxable periods have been brought in line with your balance date, if they were not already in line.

The number of provisional tax instalments in a year will depend on which option you use to calculate your provisional tax payments and your GST filing frequency. Generally, everyone will make three instalments unless:

- You pay GST 6-monthly, in which case you will make two provisional tax instalments on the GST payment dates
- You use the GST-ratio option, you will make 6 provisional tax instalments on the 28th of the 3rd, 5th, 7th, 9th, 11th and 13th months after balance date.

### **GST ratio method**

The new GST ratio method calculates provisional tax as a percentage of GST supplies. The ratio is calculated by dividing residual income tax ("RIT") for the preceding tax year by GST taxable supplies for the corresponding year and is only available to taxpayers (excluding partnerships) who meet the following criteria:

- GST returns are filed monthly or bi-monthly
- Taxpayers are GST registered and filed GST returns for the whole of the preceding tax year
- RIT in the prior year was between \$2,500 and \$150,000
- The ratio of RIT to total taxable supplies is between 0% and 100%

To use the ratio method, a taxpayer must forward an election to the Inland Revenue before the beginning of the income year. The Inland Revenue will then calculate the ratio and notify the taxpayer of their rate before the first provisional tax due date.

The taxpayer then multiplies the taxable supplies in the GST period that matches the relevant provisional tax instalment period, by the GST ratio, to calculate the amount of provisional tax payable on the instalment date. The taxpayer also records the GST ratio percentage on the GST form.

Taxpayers using the GST ratio-method to calculate provisional tax will pay provisional tax in 6 instalments together with their GST. Taxpayers that pay GST monthly will pay provisional tax on every second GST return.

The advantages of using the GST ratio method include not being subject to use-of-money interest on under or overpaid tax until the taxpayer's terminal tax date and having provisional tax payments aligned with cash flow. The GST ratio method is designed to benefit taxpayers with seasonal, fluctuating or declining income.

The disadvantages of the GST ratio method include having to pay provisional tax earlier and more frequently, there is no use-of-money interest earned on overpayments and an additional GST ratio calculation will be required.

### **Standard uplift and estimation options**

Taxpayers who are GST registered on a monthly or bi-monthly basis and who wish to use the standard uplift or estimation options to calculate provisional tax will pay provisional tax in three instalments each year along with their GST.

Payments will be 28th Aug, 15th Jan and 7th May for standard 31 March balance dates. These same dates apply for taxpayers who are not GST registered.

Taxpayers registered for GST on a 6-monthly basis will pay provisional tax in two instalments on 28th October and 7th May for a standard 31 March balance date.

#### **Impact of corporate tax rate change on standard uplift method**

Those taxpayers (companies, unit trusts, widely held superannuation funds) whose tax rate will drop to 30% in the 2009 income year, and who apply the standard uplift method to calculate their provisional tax, will have a different formula to use when calculating provisional tax for the 2009 and 2010 income years.

For the 2009 income year, 105% in the provisional tax formula changes to 95%, and 110% changes to 100%.

To discuss your provisional tax options, contact your advisor today.