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TAX PLANNING CHECKLIST FOR YEAR ENDING 31 MARCH 2021

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INTRODUCTION

The end of the financial year is now approaching. This is an appropriate time to consider your tax position for the year ending 31 March 2021 and consequently your 2022 provisional tax.

This checklist will enable you to consider what options are available, as well as inform you of current and future taxation rates.

This check list contains many important issues and if you have any queries please do not hesitate to contact your Lynch& Associates consultant.

Year-end tax planning checklist

Below is a checklist of matters relevant to all business entities which you should consider before 31 March, some of which may help you reduce the amount of tax you have to pay for 2021.

1. Fixed Assets

You should review your fixed asset register to ensure assets are classified correctly and correct tax depreciation rates are applied.

Review the fixed asset register to ensure the assets exist and to identify assets that are no longer used to claim a deduction for the remaining adjusted tax value of the asset.

Assets can be written off if:

- The asset is no longer used by you in your business or to produce income; and
- Neither you nor an associated person intends to use the asset in a business or in the future to derive gross income; and
- The cost of disposing of the asset would be more than any proceeds from disposing of the asset; and
- The asset is neither a building nor an asset being depreciated using the pooling method.

As a result of COVID-19, there have been revisions to the low-value asset threshold. Assets costing $1,000 or less (if the item was acquired on or after 17 March 2021), or $5,000 (if the item was acquired between 17 March 2020 and 16 March 2021) qualify for an immediate deduction provided:

- They do not form part of some other asset; and
- They are not purchased from the same supplier at the same time as another asset and the total is more than their relevant threshold.

- **Depreciation of buildings**

  From 01 April 2020, depreciation has been restored on commercial and industrial buildings, with the applicable rates being 1.5% straight line or 2% diminishing value.

  Where an applicable building has been purchased since 2011 (when depreciation deductions for buildings were removed), depreciation is calculated based on the purchase price. Where an applicable building was purchased prior to 2011, care must be taken when calculating depreciation as several factors need to be considered, including the tax written down book value as at 2011, the cost of capital improvements in the intervening period and whether the 15% fit-out concession was utilised.

  Care also needs to be taken with respect of buildings that are used for both residential and commercial usage.

- **Demolition costs**

  Building demolition costs are generally not deductible. The deductibility of the demolition costs should be considered if a building has been demolished during the year.

- **Feasibility expenditure / R&D**
  - Feasibility costs may be deductible in the current year if they were incurred before a management decision was made to proceed with the capital project.
  - Costs of unsuccessful software development are deductible in the year the project is abandoned.
  - New R&D and black hole expenditure rules have been introduced from 2015/16 income year and allow:
    - Startup R&D intensive businesses to cash out tax losses in certain situations;
    - A one-off tax deduction for capitalised development expenditure, where the tangible asset is written off for accounting purposes; and
    - The cost base of certain intangible assets (with a useful life that can be reasonably estimated) to be expanded.

A research and development tax credit of 15% is available to those who engage in eligible research and development activities and incur eligible research and development expenditure. The credit is refundable in some circumstances. It would also pay to have systems in place to track expenditure in order to maximise the level of credit available.

2. Prepaid expenditure

Certain expenditure incurred can be claimed as a tax deduction provided it is expensed for financial reporting purposes.

Certain expenditure even if incurred will be still non-deductible to the extent it relates to:

- Goods which have not been used by year end; or
- Services which have not been performed by year end; or
- Choses in action which remain enforceable

Some expenses can be prepaid regardless of the amount or period being prepaid, for example:

- Stationery,
- Subscriptions for papers or journals,
- Vehicle registration and road user charges,
- Postage and courier charges,
- Rates,

Other expenses can be paid in advance only up to a certain limit, for example:

	Max Amount $	Max No of Months
Rent (if prepayment more than one month)	26,000	6
Rent (if prepayment less than one month)	Any amount	1
Rent or bailment of livestock	26,000	6
Consumables	58,000	N/A
Insurance (where each premium is no more than $12,000)	N/A	12
Professional or Trade Association subscriptions (where each subscription is no more than $6,000)	N/A	12
Accommodation or travel	14,000	6
Advertising	14,000	6
Other periodic charges	14,000	12
Other services	14,000	6

- The legislation regarding allowable prepayments is complex and we recommend clients discuss with us any plans for prepaying expenses prior to committing to any expense.

Other prepaid expenditure

Prepaid expenditure on items other than those covered above is only tax deductible to the extent the services have been performed or goods provided.

3. Discount reserve

A deduction for a discount reserve, such as prompt payment discount, will be allowed if debtors are customarily entitled to this discount. In the first year a deduction of the discount percentage is allowed and in subsequent years adjustments are made which maintain the discount level at the approved percentage of the debtors. However, if the credit period offered to customers is more than 93 days different rules apply.

4. Bad debts

To claim a tax deduction for bad debts, the debt must be:

- Bad; and
- Physically written off on or before balance date.

The above rules mean you must be able to support that the debt is bad (i.e. you have made reasonable efforts to collect the debt before writing it off).

GST on bad debts written off can be claimed back as an input tax. Include the GST component on bad debts written off in the credit adjustment box of your GST return (box 13).

Bad debts when recovered need to be treated as income with the corresponding GST adjustment.

5. Retentions

Retentions on building contracts are generally taxable in the year the contractor becomes legally entitled to receive them. This can result in a significant deferral of income.

6. Repairs and maintenance

You should review repairs and maintenance expense account to consider whether it contains any capital expenditure.

No deduction is allowed for repairs and maintenance reserve. It may be worthwhile undertaking repairs and maintenance before year end to obtain full deduction. Deciding whether expenditure on an asset is deductible as repairs and maintenance or should be capitalised is often difficult.

7. Guarantee / warranty provisions

Provisions for warranties and other expenses are generally non-deductible. However, in accordance with the Privy Council decision in Mitsubishi Motors, it is possible to obtain deductions for provisions in limited circumstances, if appropriate records are held.

8. Valuation of trading stock (not including livestock)

Various valuation options are available depending on annual turnover and the valuation method used for financial reporting purposes.

Generally trading stock, including work in progress, is valued at either cost using a cost valuation method or market selling value when this is lower than cost.

The cost valuation method includes cost or where permitted, replacement price, or discounted selling price.

To claim a deduction for obsolete or slow-moving stock, it should be physically disposed during the year or valued at market selling value if lower than cost.

9. Look through companies (LTC)

Closely held companies can elect to become LTC's.

The profit and/or loss of the LTC is shared by the shareholders, according to their shareholding, and taxed personally. There is no separate tax assessment at company level.

10. Imputation credit account (ICA)

Companies will be liable for penalty of 10% if the ICA has a debit balance at 31 March.

Before year end consider:

- Will the ICA be a debit balance at 31 March? if so, consider a prepayment of tax before 31 March.

- Is there a 66% shareholder continuity test, to carry forward any ICA at year end?

- Will any ICA be attached to dividends paid before 31 March 2021?

11. Holiday pay and bonuses for employees

Amounts payable to employees, for holidays or bonuses at balance date are deductible in the year to 31 March 2021 if paid to the employee within 63 days of balance date. In all other cases the deduction can be claimed in the income year the payments are made.

12. Residential property – Bright-Line Test

Where residential property is held for five years or less (two years or less if the property was acquired before 29 March 2018), it may be subject to the "bright-line test" with any profits on sale subject to income tax. This rule does not apply to the family home.

13. Residential property – Loss Ring Fencing

From the 2019/20 year, losses on residential rental properties will only be able to be offset against income derived from residential rental properties, either from rental income or the application of the "bright-line test".

14. Trust & trust distributions

For trusts on a tax agent's list, with an extension of time for filing, the distribution date may be the earlier of the date on which the trust income tax return is filed or the date by which the trust tax return is due to be filed. Distributions of current year income by this date allow the income to be taxed in the hands of the beneficiary, rather than in the hands of the trustees.

If the Trust Deed contains a clause requiring the distributions to be made within 6 months of balance date, this can override the above.

If the trust does not pay or vest beneficiary income within the required time frame, all the trust's income for the year will be trustee income and taxed at the trust's tax rate.

The Trusts Act 2019 has come into force on 30 January 2021 and strengthened the rules around the administration of trusts.

15. Lease inducement/surrender payments (commercial leases)

These payments are now on revenue account for both the payer and payee:

- Lease inducement payments are now deductible to the landlord and taxable to the tenant, spread over the term of the lease.

- Amounts paid in consideration for the surrender or termination of a lease are taxable to the payee and deductible to the payer in the year they are derived or incurred.

- The changes in relation to lease inducement payments apply to amounts incurred or derived from 01 April 2013 in relation to agreements entered into after the same date. The changes relating to lease surrender payments apply to amounts incurred or derived from 01 April 2013.

16. Personal attribution rules

The personal attribution rule is an anti-avoidance rule to prevent individuals from diverting income to entities which have a lower tax rate than their personal marginal tax rate.
The attribution rule may apply where:

- There is an interposed entity between the customer and the person doing the work; and

- 80% of the entity's service income is from one source; and

- 80% of the entity's income is derived from services performed by a person associated with the entity or a relative of that person.

If an attribution adjustment is required, it deems the net income to belong to the individual. The adjustment takes into account any income received by the individual(s) for the services, such as a salary, partnership profits, beneficiary income or a dividend.

17. Mixed use assets

The tax treatment of real estate (mainly holiday homes), water craft (with a purchase price of more than $50,000) and aircraft (with a purchase price of more than $50,000) where the asset is used for both private use and income earning use and is unused for 62 days or more per year is subject to the mixed-use asset rules. Under the rules, certain losses will be quarantined, and a deduction may only be claimed when the asset derives positive net income.

If the gross income from the mixed-use asset is less than $4,000 per annum, or if you would otherwise have quarantined deductions, the ability exists to opt out from the mixed-use asset regime for that year. This means that income is not subject to tax, but also means that no deductions can be claimed. This concession does not apply to close companies.

Complex interest deductibility rules exist in instances where mixed use assets are held in companies, as well as additional quarantining rules.

If you own mixed use assets, we recommend contacting us to discuss your options.

18. Shareholder current account

An overdrawn shareholder account means that the shareholder owes money to the company, typically through regular drawings throughout the year or by way of a loan.

The following options should be considered to avoid a deemed dividend or FBT liability on the loan.

- Repay the loan in cash before the year end or
- Pay a shareholder salary or
- Declare a dividend before 20 April 2021. Declaration of dividend at a later date would be possible provided the company has paid sufficient provisional tax to cover the RWT.

19. Tax losses

The ability to carry forward tax losses is subject to shareholding continuity of 49%. The ability to offset losses against the net income of other group companies requires common shareholding of 66%. The ability to carry forward imputation credits is subject to shareholding continuity of 66%.

Note these tests must always be met and not just at year-end.

If you are anticipating shareholding changes and believe you will breach continuity, forfeited losses can be minimised by accelerating income recognition and minimising deductions where possible. Also, consider the payment of a dividend or making a taxable bonus issue to use imputation credits before they are forfeited.

The legislation in this area is set to change, with a same or similar business test enabling businesses to carry forward tax losses where they lack shareholding continuity of 49%, but the underlying business continues in operation. This is expected to be effective from the 2020-21 year.

20. General accruals

For accruals or provisions of expenditure to be deductible in the current year, the expenditure must be definitively committed to and capable of reasonable estimation before year end.

Expenditure, which is merely contingent, pending or threatened will generally not meet the incurred test. Accruals which are akin to general provisions will generally not be deductible.

21. Transfer pricing & inter-entity lending

- **Transfer pricing**

  With the increase in transfer pricing audit activity, we suggest any dealings with offshore related parties be formally documented to support the arm's length nature of the prices applied.

  The onus of proof for transfer pricing matters has also shifted to the taxpayer and Inland Revenue has the power to investigate the last seven years in relation to transfer pricing instead of the usual four years, provided notice of a tax audit or investigation is given within the usual four years.

- **Inter-entity lending**

  Cross border loans with related parties should incur interest at market rates. If no interest has been charged, this can give rise to a deemed dividend. The exception to this is if the loan is in the nature of a short-term working capital loan.

22. Legal fees

- $10,000 de minimis concession.
- Fees need to be related with business activity.
- Overrides capital limitation i.e. legal fees deductible irrespective of whether legal fees are capital in nature.

Note: all legal fees (including those not connected with the business) are included when calculating threshold.

23. Thin Capitalisation

The regime will apply if a New Zealand company is owned or controlled by non-residents or where a New Zealand owned company owns foreign controlled companies. We recommend you confirm whether your company is subject to the regime and if so, whether its debt level exceeds the applicable safe harbour level. For foreign controlled companies, the safe harbour applies if interest bearing debt does not exceed 60% of the value of assets. The thin capitalisation calculation excludes "non-debt liabilities" from assets. It may be possible to undertake financial restructuring prior to balance date to maximise interest deductions.

Due to the complexity of the new rules and the increased likelihood of interest deductions being denied, we recommend having your company's thin capitalisation position reviewed.

24. Tax Loss Carry-Back Scheme

In response to the economic uncertainties around COVID-19, a temporary loss carry-back scheme was introduced to support businesses. This scheme is applicable to the 2021 income year. If you are expecting to make a loss in the 2021 year, you can use that loss to offset profits made in the 2020 income year and receive a refund of the excess tax paid. Please note that the loss carry-back rules are subject to the same 49% shareholder continuity requirements as the loss carry-forward rules.

25. Gift duty

The abolition of Gift duty may enhance your ability to reorganise your affairs however there are also a range of tax and non-tax considerations involved (e.g. current and future solvency considerations, rest home subsidies and the need to access funds in the future).

26. Fringe Benefit Tax (FBT)

The end of the year is a good time to review any fringe benefits that might be provided to employees that might not have been identified.

With the introduction of the 39% top personal tax rate from 1 April 2021, it has affected FBT rates. The top single FBT rate increases to 63.93%, and alternate rate increases to 49.25%. With the increases in rates, you may wish to reconsider the benefits provided to employees – especially around motor vehicles.

The fourth quarter FBT return is different to the other FBT returns during the year. An alternate rate calculation is either compulsory (for those who used the alternate rate during the year) or is optional (for those who used the single rate). If all employees to whom fringe benefits are provided are on the highest income tax bracket, and this option is available, it may be beneficial to continue using the single rate.

A close company calculation option is available for vehicles acquired from 1 April 2017. This applies to close companies providing motor vehicles to a shareholder-employee that is available for private use. A close company can make this election for up to two shareholder-employees in the income year in which they purchase the motor vehicle or first start using the motor vehicle for business use. The effect is no FBT is payable, but income tax deductions and GST inputs related to private use are denied.

We can assist in the preparation of FBT returns, the filing of a close company calculation option election, or general FBT matters if required.

27. RWT on Dividends

The RWT rate on dividends generally remains at 33%, with no upward change to account for the new top personal tax rate. This means any dividends with imputation credits attached at 28% will generally require a deduction of 5% RWT. This RWT is payable by the 20th of the month following the date of the dividend. In addition, dividend recipients at the new top personal tax rate of 39% will need to pay top up tax. However, no RWT is deductible when the recipient is a company at the election of the payer.

When a dividend is paid, detailed information must be disclosed to Inland Revenue. The information required is available on the Inland Revenue website here.

28. Foreign Investment Funds (FIFs)

There are several available methods to calculate the tax position of interests held in FIFs (for instance, shares held in overseas companies, with the exception of some Australian shares). Where a FIF has been held, a change in calculation method may be desirable to improve your tax position. In some cases, it may be necessary to make an election before year-end to be able to use the best method.

29. Payroll

All employers with PAYE and ESCT of $50,000 or more per annum need to file employer information returns electronically within two days of payday. Payments continue to need to be made every month or twice a month depending on the size of the employer.

30. Foreign Superannuation Schemes

Generally, lump sum distributions from Foreign Superannuation Schemes are included as taxable income using either the schedule or the formula methods. Typically, the longer a taxpayer has been in New Zealand, the higher the amount of the lump sum distribution will be taxable income.
Payments of regular amounts from non-state foreign superannuation are usually subject to tax.

31. Employee Allowances

Broadly, employees are exempt from tax when they are reimbursed or provided with an allowance for work-related expenses.

For travel or relocations, employer provided accommodation or accommodation payments will generally be exempt where the employee is temporarily working away from home for a period of up to two years (or three years in the case of capital projects). Employee meal costs or meal allowances will generally be exempt where the employee is working away from home for a period of up to three months.

The subtleties in these rules present both opportunities and pitfalls to employers. Therefore, we recommend you contact us if you are considering providing accommodation or paying a meal allowance to your employees.

General tips on minimising tax

1. Splitting your income

Depending on your business structure it may be possible to split income between yourself and your spouse or children to obtain the benefit of lower tax rates. For example, in a partnership, the net income of the partnership is split between the partners based on their agreed share of the partnership. Inland Revenue is entitled to revise the split in certain circumstances.

Savings may be achieved by splitting income with your spouse, depending on the spouse's income.

2. Wages

Wages can be paid to your spouse, your children and relatives who work in your business, but IRD can make adjustments if payments are considered excessive.

If self-employed, before making payments to your spouse you must obtain approval from IRD and you must be able to show that your spouse will be working and that the wage is commensurate with the work done.

Where your children are working for you or your business, we recommend that you draw cheques in relation to work done on your business account and pay them into your child's account at appropriate times during the year. Remember that PAYE needs to be deducted and ACC levies are payable in respect of any wages paid.

3. Working for Families

Working for Family assistant payments for low income families may be available in certain circumstances for:

- Family tax credit
- Minimum family tax credit
- In-work tax credit or child tax credit
- Parental tax credit

Extensions to the definition of family scheme income for Working for Families came into effect from 1 April 2011 and may have the effect of reducing "Working for Families" entitlements.

4. Tax deductions available to wage earners

Deductions available include:

- Fees paid for the preparation of a tax return

- Premiums for income continuance insurance, where income is a relevant factor in determining the amount insured. The proceeds of such policies are taxable income.

5. Scrapping unused assets

A taxpayer may write-off a depreciable asset where the cost of disposing of an asset is expected to be greater than the proceeds from its sale.

6. Farmer's dwelling expenses

Inland Revenue allows farmers to claim 25% of all of their dwelling expenses, where that dwelling is situated on their farm, because of their need to run their farming business at home. These expenses will include:

- Domestic power
- Dwelling repairs and maintenance
- Dwelling depreciation
- Household insurance

7. Claim your vehicle expenses

If you have a vehicle (not a company vehicle) which is used for business and private purposes, there are several options available for claiming the business portion of expenses:

- If your business running in the vehicle is less than 5,000 km per year, you can use pre-determined IRD rates or the published rates of a reputable independent source (e.g. Automobile Association) as the basis of your claim. Current IRD rates are 72c/km. You must keep a record of all business journeys to substantiate your claim.

  This option can be particularly useful if a private vehicle is only used occasionally for business use. There are also GST implications to be considered.

- Keep a logbook for 90 consecutive days recording of all journeys. Based on the business use percentage from the logbook, you can claim this proportion of all vehicle expenses. You can continue to use this percentage for three years, provided that the actual business use in any month does not vary by 20% or more, than the percentages established by the logbook.

- Actual records of all business use, distances, and costs.

Note: Similar rules govern the rates at which an employer may make tax free reimbursement to employees (including shareholder-employees) who use their private vehicles for work purposes. These include use of mileage rates published by a reputable independent source (e.g. Automobile Association)

8. Donations tax credit

Individual's may claim a donations tax credit equal to $33^{1/3}$% of all charitable donations made, up to their net taxable income. Business owners will be entitled to claim a deduction for charitable donations up to their net income.

Individuals who make charitable donations by way of Payroll Giving (i.e. deduction direct from salary or wages) will get the benefit of the donation rebate immediately as a net reduction in PAYE deductions.

Claims for donations other than Payroll Giving must be made on a separate claim form (IR 526). IRD will forward claim forms to every taxpayer (or their agent) who has claimed a donations tax credits in the last two years.

IRD recently issued a publication clarifying that payments made to a charitable trust to attend a private education centre are substitute for fees not a gift therefore no donations tax credits can be claimed for these payments.

Business owners are entitled to claim a deduction for qualifying charitable donations up to their net income.

To be deductible the donation must be made to:

- A charity on IRD's done organisation list or
- A charity which carries out its charitable, philanthropic, or cultural purpose within NZ.

9. Home office expenses

If you use an area in your home principally as an office or storage area for your business, then you may be able to claim part of the overall costs of running your house as a business expense.

Floor area is the most common base used for calculating the portion claimable. For example, if the area you use amounts to 10% of the house's total floor area, then you can claim 10% of expenses such as annual rates, house insurance premium, power, mortgage interest, and house depreciation. It may also be possible to claim a portion of your home telephone rental.

Current Income Tax Rates

Income Tax rates for the 2021 income year are

	Individuals and unincorporated bodies	
$0 - $14,000		10.5%
$14,001 - $48,000		17.5%
$48,001 - $70,000		30.0%
$70,001 or more		33.0%
	Companies	
Resident and non-resident		28.0%
Trusts		
Complying Trusts		
Trustee income		33.0%
Beneficiary income	At the beneficiary's marginal rate except for a distribution to a minor (under the age of 16 at the balance date of the trust) over $1,000 per trust, which are taxed at the trustee rate of 33%	
Non-Complying Trusts		45.0%

Resident Withholding Tax

- The RWT rate on dividends is 33%.
- The company RWT rate on interest is 28%.
- Individuals can elect to have RWT on interest deducted at 10.5%, 17.5%, 30% or 33%.
- The non-declaration rate is 33%.

Help us to process your records efficiently and quickly

By completing the Business Checklist, we send to you before your balance date, you can ensure that all the information needed to complete your accounts is provided to us before we begin.

Some further items which may help us are:

- GST returns and worksheets – including these with your annual information ensures that we can follow up any GST issues during the process of completing your accounts.
- Highlighting any repairs and maintenance costs over $500 and noting on your records what the payment was for e.g. 'repairs to cash register'. Asset purchases and sales must be separately recorded on your Fixed Asset Schedule.
- Identify in your records any entertainment costs. Generally, expenses are 50% deductible if they are enjoyed by staff at a staff function but are subject to Fringe Benefit Tax if available for enjoyment at staff discretion.
- Where a vehicle is not a company vehicle liable for FBT, expenses relating to vehicles used partly for private use should be separately highlighted in your records to enable us to calculate the total expenses for that vehicle, and the respective non-deductible portion.

Another area often overlooked by clients is overseas investments. Investments in foreign superannuation schemes and life insurance policies can be taxable in New Zealand, even if you are no longer contributing to them, or receiving income from them.

Any investment of share capital in a foreign company (or unit trust) can also result in New Zealand tax, even if no dividends are received, although there are significant exemptions.

Please ensure you advise us of any overseas investments, to enable us to confirm their tax status. The penalties for non-declaration of overseas income are severe.

Help yourself – keep your records

To prove your deductions are legitimate you must keep all relevant records for at least seven years, and they must be in English. The following records, which are not an exhaustive list, must be kept:

- All income received (copies of invoices issued etc.)
- All tax invoices and receipts for purchases, insurance, power, phone, and all other costs incurred
- Bank statements
- Cash books or computerised accounting records
- Wage records for any employees
- Interest and dividend payments
- A list of business assets and liabilities
- Statements of year end trading stock, and stock take records
- Credit and debit notes
- Motor-vehicle logbooks

Keeping records in order makes good sense. If you are investigated by IRD you should be able to justify all your claims with a minimum of time and effort.

Provisional Tax

A taxpayer needs to pay provisional tax if Residual Income Tax (RIT) payable for income year 2020 is more than $5,000 otherwise interest would be payable if there is a shortfall in provisional tax payments during 2021/22.

RIT is the net amount of tax payable for the year, after deducting source deducted tax (e.g. PAYE or RWT), but not provisional tax.

Methods for provisional tax payments

Standard method

This method assumes your income will increase (based on your income forecast) compared to previous year and is calculated as follows

- If the 2021 tax return has not yet been filed, based on 2020 RIT plus 10%;
- If the 2021 tax return has been filed, based on 2021 RIT plus 5%.

Estimate method

This method assumes your income will decrease (based on your income forecast) compared to previous year.

Under the above two methods

- Provisional tax can be estimated as many times as necessary up to the due date of the final installment.
- Estimates can be lodged by filing an IR309 or in IRD's website at ird.govt.nz/online-services/service-name/services-p/online-provtax-est.html
- The estimate must be fair and reasonable and supporting calculations should be prepared and retained to substantiate the estimate. If the estimate is unreasonably low compared to the actual RIT shortfall penalties may be imposed for lack of reasonable care.
- Provisional tax is payable in three equal installments on your provisional tax installment dates which differ depending on your balance date.

GST ratio method

This method is suitable for taxpayers, whose income tends to go up and down during the year, but the taxpayer must meet the qualifying criteria i.e. GST returns must be filed either monthly or bi-monthly.

Under this method

- Provisional tax is calculated as a ratio percentage to the taxable supplies in the GST returns. The ratio percentage is calculated by dividing the RIT for the last year by the total GST taxable supplies for the same year.
- Provisional tax is payable in six installments which coincide with the GST payments, the dates depending on the balance date.

Use of Money Interest (UOMI)

If the standard uplift method has been used for the first and second instalments, and no estimate is lodged at any instalment, use of money interest (UOMI) is charged on deemed underpayments of provisional tax with reference to actual residual income tax (RIT) only where actual RIT is greater than $60,000.

If actual RIT is less than $60,000 and the standard uplift method has been used and paid in all instalments, then no UOMI applies until the terminal tax due date (7 April 2022 in most cases).

UOMI will apply from the first instalment if you have either used the estimate method for provisional tax or not paid provisional tax on time using the standard uplift method. UOMI can also apply from the first instalment in the first year of business. If this situation applies, you may wish to consider making use of a tax-pooling intermediary, such as Tax Management New Zealand.

Your advisor can help you prepare a draft tax calculation to help determine whether you should make a voluntary payment above the amount due under the standard uplift method. Additionally, they can discuss the advantages and disadvantages of using a tax-pooling intermediary.

Depending on your situation, interest will be calculated on any terminal tax due (i.e. after provisional tax payments are taken into account) from the due date of the provisional tax payments to the date the terminal tax is paid.

If you use the GST ratio method and apply the ratio percentage correctly, UOMI will not be payable for underpayments or receivable for overpayments.

UOMI received is taxable income and in some instances is tax deductible when paid by taxpayers, including businesses.

Current interest rates are:

Underpayments	8.40% DR
Overpayments	1.75% CR

Penalties Regime

Under the current penalties' regime, penalties may be imposed for late filing of tax returns, late payment and tax shortfalls.

Late payment penalties payable if not by due date and in case of shortfall are:

- 1% on the day following the due date
- 4% on the seventh day following the due date
- 1% compounding every month following the initial penalty

Tax shortfall may result in:

- Use of money interest charged from the original due date to date of payment
- Possible penalties depending on the taxpayer's conduct

Penalties are levied if IRD considers the taxpayer's circumstances amount to:

Seriousness of Issue	**Penalties**
Lack of reasonable care	20%
Unacceptable tax position	20%
Gross carelessness	40%
Abusive tax position	100%
Tax evasion	150%

Reduction of these penalties is possible in some circumstances (e.g. voluntary disclosure to Inland Revenue). These penalties also apply to all other tax types including GST, PAYE and FBT.

We can review your systems and procedures to give you comfort that correct tax rules are being applied and reduce the risk of penalties.

We offer products such as FBT Reviews and GST reviews which will check your business' tax procedures and calculations and highlight areas where tax has been underpaid as well as areas of tax savings.

New Zealand Tax Residency

The IRD has widened on who is a New Zealand tax resident. Whilst the actual tax legislation has not changed, the IRD has changed its interpretation of the legislation and you will now be considered as New Zealand tax resident if

- You are in New Zealand for more than 183 days or
- You have a permanent place of abode in New Zealand
- A permanent place of abode could mean
- Presence in New Zealand
- Accommodation
- Family and Social ties
- Economic ties
- Employment or business
- Personal property
- Intentions
- Benefits, pensions, and other payments

If you're a New Zealand tax resident you're taxed on your worldwide income. You must state your income from all sources including that from overseas sources in an individual tax return. You're normally allowed a tax credit for any tax paid overseas so you will need to be able to produce records which show the overseas tax you have paid.

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