

# Newsletter

December 2007

DB CHARTERED  
ACCOUNTANTS LTD

incorporating  
**Terry Ward**  
& Associates

## Contents:

- The Year So Far
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## CHRISTMAS CLOSURE

Our office will close **12 midday** on **Friday 21<sup>st</sup> December** and re-open on **Monday 14<sup>th</sup> January** at 8.30 am.

*"If you think you are too small to be effective, you have never been in the dark with a mosquito."*

*This is our final newsletter for the year. To start off with, we recap what our newsletter has covered this year, then it's looking at Working For Families tax credits, which many tax payers do not realise they are entitled to. We cover a new option for paying provisional tax, a warning about property transactions and another book review.*

## THE YEAR SO FAR ...

Below we present a summary of what we have covered in our previous three newsletters. This will provide a good reference if you want to go back and check anything up. If you are missing a copy, feel free to contact us to get another copy sent out.

### March 2007

- Provisional Tax and Terminal Tax
- IRD Use of Money Interest rules for Companies & Trusts
- Changes to GST payment dates
- Fringe Benefit Tax and work related vehicles
- Planning – Sales, expenses, profit and cashflow
- Year End Check List

### June 2007

- Budget 2007 – Company Tax Rate, Donations, Kiwisaver
- Tax Rates
- Profit analysis
- Sale of investment property
- Employment of Children
- CashManager
- Book Reviews *Live the Dream – Joan Baker*  
*Family Trusts – A NZ Guide – Martin Hawes*

### September 2007

- ACC Invoicing
- Tax & GST payment dates
- Gross Profit analysis
- Government information websites
- Client Survey
- Forward Planning
- Book Review *Get Rich Slow – Mary Holm*

# PROVISIONAL TAX

## GST Ratio Option

From the 2008/2009 year, income tax payers (excluding partnerships) are being offered a new method to pay their provisional tax known as the "GST Ratio method". This is available to taxpayers who are GST registered with an annual income tax bill of between \$2,500 - \$150,000.

Provisional Tax will be payable on a percentage (set by the IRD) of the GST taxable supplies for the period and will be payable in six instalments throughout the year instead of the current three.

As an example a taxpayer may have \$600,000 of taxable supplies in a year with an annual income tax bill of \$30,000.



In the 2008/09 income year the options for making provisional tax payments would be:

<i>Based on Taxable Supplies of:</i>		<b>PROVISIONAL TAX PAYABLE</b>	
		<b>GST RATIO METHOD</b>	<b>CURRENT METHOD</b>
Apr/May 08	\$100,000	28/06/08	5,000
June/July 08	\$150,000	28/08/08	7,500
Aug/Sept 08	\$100,000	28/10/08	5,000
Oct/Nov 08	\$50,000	15/01/09	2,500
Dec/Jan 09	\$50,000	28/02/09	2,500
Feb/Mar 09	\$150,000	28/04/09	7,500
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		\$30,000	\$30,000

In this instance, the taxpayer would be paying more tax in the earlier part of the year using the GST Ratio method. However, by paying provisional tax two monthly they are paying more tax to the IRD when income is higher.

This may be of assistance when taxpayers have seasonal or fluctuating income or trouble budgeting for their tax payments and would prefer to pay more tax in the periods of higher earnings and less in the quieter times.

### JOKE #1

An artist asked the gallery owner if there had been any interest in his paintings currently on display. "I've got good news and bad news," the owner replied. "The good news is that a gentleman inquired about your work and wondered if it would appreciate in value after your death. When I told him it would, he bought all fifteen of your paintings."



"That's wonderful!" the artist exclaimed, "What's the bad news?"  
With concern, the gallery owner replied, "The guy was your doctor."

## “WORKING FOR FAMILIES” TAX CREDITS

Previously known as Family Assistance, Working for Families is made up of four types of payments:

- Family Tax Credit (FTC)
- Minimum Family Tax Credit (MFTC)
- In Work Tax Credit (IWTC)
- Parental Tax Credit

The family tax credits and IWTC are available to families with dependent children who are 18 years or younger subject to certain income thresholds.

Note that from 1 April 2006 the thresholds to entitlements have increased, meaning families on higher incomes *may* now qualify, so read on...

**Family Tax Credit** is payable to all families up to the annual income levels mentioned below (this is based on the eldest child being under 16 and all other children under 13 – the thresholds are higher if there are older children).

		Entitled to FTC	Entitled to IWTC
1 Child	Family earning up to	\$53,720	\$69,320
2 Children	Family earning up to	\$65,940	\$81,540
3 Children	Family earning up to	\$78,160	\$93,760
4 Children	Family earning up to	\$90,380	\$109,880

### **In Work Payment**

The In Work tax credit is available to families who work a minimum of 30 hours per week as a couple (or 20 hours per week as a solo parent).

### **Minimum Family Tax Credit**

Where a family receives less than \$22,120 per year they are entitled to a credit to ensure the family earns \$347 per week after tax.

### **Parental Tax Credit or Paid Parental Leave**

Available for a parent/family with a new-born baby in some circumstances.

### **What does all this mean?**

As an example, a couple earning \$55,000 p.a. with two children (10 & 15) would be entitled to family assistance for the year of \$5,308.

This is 9.65% on \$55,000 and effectively a refund on tax previously paid.

### **What should you do?**

For a number of our clients we automatically calculate your family assistance entitlements when we do your tax return. If we do not currently do this for you, let us know your children's details including birth dates and we can calculate what family assistance may be available for you (if eligible, we would then need to complete a registration form to file with IRD).

Of course there is always the fine print and exceptions to the rule. Adjustments may need to be made for business losses, close company earnings and any income spreading allowances and there is a separate form to be completed for this.

### **A Word of Warning**

If you are entitled to family assistance, be very careful about deciding to accept the payment as a regular fortnightly payment. We have had instances where clients have been entitled to family assistance but then have been required to repay what they received when their income increased and they were still receiving the entitlement based on a lower income level.

This can often happen for those in business where income is up and down year to year. Unfortunately the money is often spent before discovering that payments need to be made back to the IRD.

The safer option is to receive a lump sum payment once the tax return for the year has been filed.

**If you want further information on Working For Families eligibility, please contact us or try the IRD web site [www.ird.govt.nz/familyassistance/](http://www.ird.govt.nz/familyassistance/)**

## BOOK REVIEWS

### “AVOID RETIREMENT AND STAY ALIVE” – David Bogan and Keith Davies (2007)

This book tries to argue that people should not look at retirement as an option. It claims retirement is an outdated social engineering idea that was originally used to get older workers out of employment so younger employees could take their place. According to the book, the definition of “Retirement” is “to remove from view, withdraw from society”. It says don’t do it, keep involved and don’t feel forced into accepting retirement as an option (and with the ageing workforce the skill set, maturity and experience of the older set will soon be needed to keep our economy going).

A thought provoking book to get you thinking over the Christmas break!



### “101 WAYS TO HAVE A BUSINESS AND A LIFE” – Andrew Griffiths (2007)

This book is mainly about giving readers some practical ideas on how to create some balance in life when the demands of running a business can drain a lot of time and energy.

Topics covered include assessing where you are at, your business, relationships, common issues and problems. Not all 101 tips will be relevant to everyone but there may be some good pointers as you plan ahead for the New Year.

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 These books should be available from your public library or bookshop.

**If you’re a local, Dinsdale Stationery & Lotto (aka “Take Note” - across from Woolworths in Whatawhata Road) have these books available. Tell them that you’re a client of DB Chartered Accountants, and they will give you a 15% discount!**

## PROPERTY & LAND TRANSACTIONS

IRD have put taxpayers on notice that they are looking to ensure that any tax is correctly collected from property transactions, and their audit/investigation unit was allocated \$14 million in the last budget to do so.

The main areas of investigation are likely to be situations where properties are purchased and sold within a short space of time (or even before settlement has taken place) for a profit.

Generally, where a property is purchased with the intent to on-sell (either immediately or after doing up), gains on the sale will be taxable. If this applies to you (or you know of people in this situation) you should ensure this income is returned in your tax return.

If you are a builder or developer by trade, you are limited in what property transactions will **not** be taxable. Also, for anyone undertaking subdivision work you may be subject to GST as well as income tax, depending on the extent of the work undertaken. Make sure you discuss your situation with us so we can determine your correct position.

### JOKE #2

*The new employee stood before the paper shredder looking confused. “Need some help?” a secretary, walking by, asked. “Yes,” he replied, “how does this thing work?” “Simple,” she said, taking the fat report from his hand and feeding it into the shredder. “Thanks, but where do the copies come out?”*

***Instead of sending Christmas cards this year, we are giving our clients a desktop calendar. Thank you for your support over the past year.***

### OUR NEWSLETTER

We hope you have found useful information in our newsletters over the past year to assist you with your business, tax or personal affairs. Let us know if there are topics you would like covered in the future.

If you need to discuss anything mentioned in the newsletter, give us a call.

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