

On the 13 April 2016, the Prime Minister announced a tax package intended to assist the small to medium business sector.



The package will operate in three areas:

- Provisional Tax
- Withholding Tax, and
- Late Payment Penalties

These proposals are currently in a Tax Bill before the select committee in Parliament.

Provisional Tax

Currently, provisional tax is paid by the taxpayer by one method or another by estimating their likely tax bill for the coming year and generally the taxpayer pays that amount in three instalments. Use of Money Interest is charged on any shortfalls, for companies, trusts and individuals with tax payable of more than \$50,000.

The first change is that taxpayers who use the standard uplift method, with a tax liability of less than \$60,000, and their tax is paid on time will not be subject to the Use of Money Interest. This includes companies and trusts as well as individuals.

For taxpayers who use the standard uplift method, with a tax liability of more than \$60,000 and their tax is paid on time will only be subject to the Use of Money Interest from the third and last instalment of provisional tax.

A new method of calculating the provisional tax payments has been developed called the Accounting Income Method. This option drops the estimation part and instead works out your tax payments on an ongoing basis throughout the years. Every two months your accounting software will calculate your taxable income for that period. Taxpayers will be prompted to pay the tax directly through your accounting system at the same time you pay GST.

It is proposed that this method will be available from 1 April 2018.

Contractors Withholding Tax

From 1 April 2017, contractors will be able to choose their own withholding rate, subject to a minimum rate of 10%. This means that contractors will be able to take into account their individual circumstances. If an accurate rate is chosen then this should mean that there is no over withholding, or under withholding, resulting in provisional tax to be payable.

Late Payment Penalties

For new debts after 1 April 2017, the 1% per month ongoing penalty will be removed for income tax, GST and some other tax types. The immediate penalties of 1% and the 4% penalty for a further week will still remain. Use of Money Interest on overdue tax will remain.