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## Tax Simplification ???

Common Balance Date Provisional Tax Instalments are now due on the following dates: -

<p><b>31 March Balance Date:</b></p> <p><b>2 Monthly GST Returns</b></p> <p>Provisional Tax Payments Now Due - 28 August                  - 15 January                  - 7 May</p> <p><b>6 Monthly GST Returns</b></p> <p>Provisional Tax Payments Now Due - 28 October                  - 7 May</p>	<p><b>30 June Balance date:</b></p> <p><b>2 Monthly GST Returns</b></p> <p>Provisional Tax Payments Now Due - 28 November                  - 28 March                  - 28 July</p> <p><b>6 Monthly GST Returns</b></p> <p>Provisional Tax Payments Now Due - 28 January                  - 28 July</p>
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See table for all balance dates:

### Provisional Tax and Terminal Tax Dates for 2009 income year

Month of Balance Date	A	B	C	D	E	F	G	H
October	28 Jan	28 Mar	28 May	28 Jul	28 Sep	28 Nov	Sep	Nov
November	28 Feb	7 May	28 June	28 Aug	28 Oct	15 Jan	Oct	Dec
December	28 Mar	28 May	28 Jul	28 Sep	28 Nov	28 Jan	Nov	Jan
January	7 May	28 Jun	28 Aug	28 Oct	15 Jan	28 Feb	Dec	Feb
February	28 May	28 Jul	28 Sep	28 Nov	28 Jan	28 Mar	Jan	Mar
March	28 Jun	28 Aug	28 Oct	15 Jan	28 Feb	7 May	Feb	Apr
April	28 Jul	28 Sep	28 Nov	28 Jan	28 Mar	28 May	Feb	Apr
May	28 Aug	28 Oct	15 Jan	28 Feb	7 May	28 Jun	Feb	Apr
June	28 Sept	28 Nov	28 Jan	28 Mar	28 May	28 Jul	Feb	Apr
July	28 Oct	15 Jan	28 Feb	7 May	28 Jun	28 Aug	Feb	Apr
August	28 Nov	28 Jan	28 Mar	28 May	28 Jul	28 Sep	Feb	Apr
September	15 Jan	28 Feb	7 May	28 Jun	28 Aug	28 Oct	Feb	Apr

- A person who pays provisional tax in 3 instalments will follow columns B, D and F.
- A person who pays on a GST ratio 6 instalment basis will follow columns A-F.
- A person who files GST returns 6 monthly and who makes 2 instalments will follow columns C and F.
- Terminal tax is due based on column G (or H if listed on the McCulloch & Partners tax agency with a valid filing extension)
- A person who changes balance date will be subject to special rules and should call their McCulloch & Partners advisor.

## Corporate Tax Rate Reduction

As part of their efforts to increase the international competitiveness of New Zealand businesses (particularly with Australia) and increase investment in New Zealand, the Government has reduced the tax rate for companies to 30%. This takes effect from the commencement of the taxpayer's 2008/2009 income tax year, i.e. for March balance dates 1 April 2008. This is the first company tax rate reduction since 1988.

### Questions Arising

The following are some questions that you may have in connection with the drop in company tax rate.

***My company has a 31 March balance date. I am planning to pay a dividend later this year. Can I attach imputation credits to the dividend at 33% though the company tax rate is now 30%?***

Yes, a transitional period exists for companies to attach available imputation credits from income taxed at 33%.

***How long can my company pay dividends with imputation credits attached at 33% and what happens to any 33% imputation credits left over after this date?***

Subject to the availability of 33% imputation credits, dividends with imputation credits attached at 33% can be paid until 31 March 2010 (regardless of the company's balance date). Any 33% imputation credits left over after the date can only be attached to dividends at the 30% rate.

***My company has a fully owned subsidiary. If the subsidiary pays a dividend later this year and attaches imputation credits at 33%, can my company get a 33% tax credit even though it will only pay tax at 30%?***

When the shareholder is a company, the shareholder will only receive a 30% tax credit for dividends received from the start of its 2009 tax year, i.e. for a 31 March balance date, 1 April 2008 when calculating its own tax liability at 30%. This prevents the shareholder from using its 33% imputation credit to offset against tax on other income.

The shareholder company will, however, receive the full 33% credit to its imputation credit account for these "old" imputation credits. These can then be paid out to the ultimate individual or trust shareholders up until the 31 March 2010, at the previous maximum imputation credit rate of 33%.

***How does my company keep track of 33% imputation credits and 30% imputation credits and what happens if I pay out too many 33% imputation credits with dividends?***

Payment of your company's 2008 terminal tax should be the last tax payment that is credited to the company's imputation credit account at the 33% rate. Payments of 2009 provisional tax onwards will be credited at 30%. Also don't forget to adjust for any expected 2008 refunds.

Where companies are paying 33% imputation rate dividends post 31 March 2008, we recommend that companies maintain two imputation credit accounts; one for 33% imputation credits and the other for 30% credits (although the company will only submit one combined imputation credit account to Inland Revenue). This should prevent the over payment of 33% imputation credits which will attract a penalty if an overpayment exists as at 31 March 2010. This will be the case even though the imputation credit account as a whole is in credit.

When your company files its annual imputation return for the 2010 tax year, Inland Revenue have advised that they will use the information provided to assess your company's allocation of credits that relate to 33%. The applicable return forms will provide space to include the relevant information about this.

The only exception to the above is if the company is owned by non-residents. In this case, we do not believe it is necessary to maintain two accounts as it is more advantageous to pay a dividend under the foreign investor tax credit regime using the 30% imputation credit rate.

***Resident withholding tax applies where dividends have less than 33% imputation credits attached. When my company pays out dividends with the new maximum imputation credits at 30% attached, will it have to deduct any resident withholding tax as well?***

Although the current rate of 33% for RWT on dividends is under review, the Government has seen it fit to leave it at this rate.

## R & D Funding Recipients

The Government announced recently a significant increase in research and development funding. Indeed, the Government's "NZ Fast Forward Fund" (FFF) will provide at least \$700 million with the potential for fund to grow to \$1 billion in coming years." The FFF is in addition to other funding provided by other Government bodies. Taxpayers have also been granted their wish of an R & D tax credit with businesses with eligible expenditure able to claim a 15% R & D tax credit.

However, many potential applicants are now discovering that a significant proportion of their R & D expenditure will not qualify for the R & D tax credit. This is on the basis that the expenditure incurred has become "tainted" by government R & D co-funding.

Government grants often require a financial contribution to be made by the recipient towards the project.

"Potentially even a small contribution by the government would render all other project expenditure incurred by the taxpayer ineligible".

The dilemma is becoming a particular issue for businesses receiving small grants in aid of large scale projects, where the government grant could be less than the amount the businesses could

claim through the tax credit. Therefore, it may be beneficial for some businesses to now refuse such a grant.

While it appears sensible that restrictions are put in place to prevent "double funding" (i.e. claiming a tax credit on costs met by a government grant), arguments can certainly be raised that any contribution made by the taxpayer should remain eligible for relief.

Such claims were rejected by the Finance and Expenditure Committee who cited "no economic rationale" for modifying the R & D tax credit rules. "This seems to be contradictory to the aim of the tax credit in promoting R & D in New Zealand".

A silver lining does exist for grant recipients. If the use of co-funding is not specified within the format agreement, a grant recipient can apply co-funding to first cover all ineligible R & D activity before allocating the residual funds towards eligible expenditure. Subsequently, all remaining eligible expenditure could be claimed as funds contributed over and above the amount required in the co-funding agreement.

It is likely that potential recipients of government grants will attempt to structure future funding in order to take advantage of this perceived loop-hole.

## Payroll Tips for Employers

- The Inland Revenue Department checks employee's details on the IR348 Monthly Schedule to make sure that the right amount of tax and student loan repayments are being deducted from their wages. The Inland Revenue Department will now write to the Employer if they identify the wrong tax code being used by an employee as well as writing to the employee. The Inland Revenue Department will expect you to change the employee's tax code to the one identified by them as being correct from the next pay period. If the employee disagrees with the change, employers should advise them to contact Inland Revenue Department at the earliest possible date.
- If you find that you have over-contributed the employer portion of KiwiSaver to the Inland Revenue Department, then simply fill out an Employer Monthly Schedule Amendment form and the extra amount will be refunded to you.
- From 1 April 2008 there is an exclusion from the automatic enrolment rules for KiwiSaver which will be extended to cover all cash workers, i.e. workers who work on such an irregular basis that they are allowed under the Holidays Act to be paid their annual leave on an as-you-go basis.
- Employers are reminded to keep ongoing records of the ages of their younger employees to make sure that when they have been employed for over three months or 200 hours their rate increases to the minimum adult wage of \$12.00 per hour.
- A reminder to employers who pay wages by Automatic Payments through the Bank, did they remember to change these payments on 1 April to allow for the changes in ACC rates. These will again need to be changed on 1 October this year to take into account the changes in PAYE rates.
- From 1 July 2008 the Employment Relations (Flexible Working Arrangements) Amendment Act 2007 comes into force. This new legislation provides eligible employees with the statutory right to request changes to their working arrangements if they have the care of any person. These can range from flexible starting and finishing times, doing job sharing, part-time work, compressed working weeks right through to arrangements such as working from home. The employee must have been employed by their employer for no less than six months. As with most employment legislation there is a written process to go through and employers should take advice if faced with this prospect.

By Loretta Wood  
Payroll Manager

# Information Technology

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- **Premier Enterprise**
- **Payroll**



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