

The Bulletin



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CHARTERED ACCOUNTANTS • BUSINESS ADVISORS

New Provisional Tax Calculation Method — Accounting Income Method (AIM)

From 1 April 2018, a business with less than \$5m annual turnover can use the Accounting Income Method (AIM) to calculate its provisional tax liability.

AIM will be provided through approved accounting software (e.g. Xero and MYOB). The software calculates the provisional tax payments based on the current years accounting information, not the previous years profit like the standard uplift provisional tax method. The main benefits of the AIM method are that there is no Inland Revenue use of money interest (UOMI) for underpayments of tax and the business pays tax based on more up-to-date information and allows for seasonal variances.

There has been a lot of marketing around the use of AIM from Inland Revenue and accounting software providers. They have been selling this method as the next best thing. Generally however, Naylor Lawrence & Associates will not be recommending the AIM method for clients, unless there are exceptional circumstances.

As stated above, one of the benefits of AIM is that there is no UOMI payable on underpayments of provisional tax. However, this benefit has been largely negated by the recent changes to UOMI and provisional tax, which take many taxpayers largely out of the UOMI regime anyway. (No UOMI for residual income tax less than \$60,000 and no UOMI on the first two provisional tax instalments if using standard uplift method).

In our opinion the AIM method is not as simple as it is made out to be. Whilst the software calculates the net profit for the year,

Inland Revenue still requires adjustments to be made to this figure, for example:

- private use expenditure
- depreciation
- trading stock/livestock on hand
- prior year losses
- provisions
- debtors and creditors
- shareholder salaries

In addition a calculation for estimated tax rate for individuals is required using a formula – this can vary during the year depending on your income.

Inland Revenue guidelines have been released and are available on the IRD website - www.ird.govt.nz/news-updates/accounting-income-method-prov-tax

In theory, the AIM Method makes sense, as you are paying provisional tax in line with expected profits for the year. However, due to the adjustments that are required to the figures in the taxpayers accounts, it is likely this method will take more time to calculate and result in additional compliance costs compared to using the standard uplift method.

To use AIM you need to opt in by the 1st provisional tax instalment and must remain in it for the entire tax year. A decision to continue with AIM as a provisional tax option can be reconsidered at the beginning of each year. Opting out during the year by failing to complete at least two SOA's (Statements of Activity) during the year, would mean you revert to being an Estimator for the year and would be liable for UOMI.

Please contact us if you have any questions or wish to discuss the AIM method further. 

In this issue:

- Provisional Tax – AIM
- What Shape Are Your End-Of-Year Accounts In?
- Parental Leave Puts An Onus On Employers
- Safe As Houses: Stop Press!
- Don't Get Caught By Phishers
- Paying Lump Sum Bonuses

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What Shape Are Your End-Of-Year Accounts In?

The end of the financial year can be either stressful or a seamless part of what you do. Ideally, your end-of-year accounts will confirm what you think your business has been doing for the past 12 months.

Be A Good Scout To Avoid End-Of-Year Migraine

Being prepared is the key to avoiding end-of-year financial drama and stress.

- First make sure you have all the documents we'll need, such as PAYE statements, bank statements showing interest earned, dividend statements for shares, and receipts for expenses. **Don't forget receipts for charitable donations.**
- Look at writing off old debts. Scrap redundant or worthless assets, so you get a deduction on your books.
- Print out profit and loss, balance sheet and general ledger listing reports and store them safely.
- Have a final look at your payroll reports. You don't have to give summaries to your staff, but if you give them Earning Certificates, they can be used to check IRD information.
- Note odometer readings on vehicles and ensure logbooks noting business and personal use, mileage and costs etc. are in order.
- Dispose of obsolete stock by the year end or write it down to its net realisable value.
- Complete stocktake (Tally Sheet for Farmers)
- **Finally, get us to work with you on reviewing your business plan and updating it for next year – and to review your accounting software** 

Parental Leave Puts An Onus On Employers

Prime Minister Jacinda Ardern probably won't take 18 weeks' paid parental leave when she has her baby this autumn, but New Zealand law says she's entitled to it.

Staff who've worked for you or any other employer for an average of at least 10 hours a week for any 26 weeks of the year preceding the birth or assumption of care of a child can take paid parental leave so long as they are the primary carer of the child and take leave to care for the child.

Whether that staff member can take extended leave without pay will depend on whether they have been employed with you for an average of 10 hours a week for the previous six months.

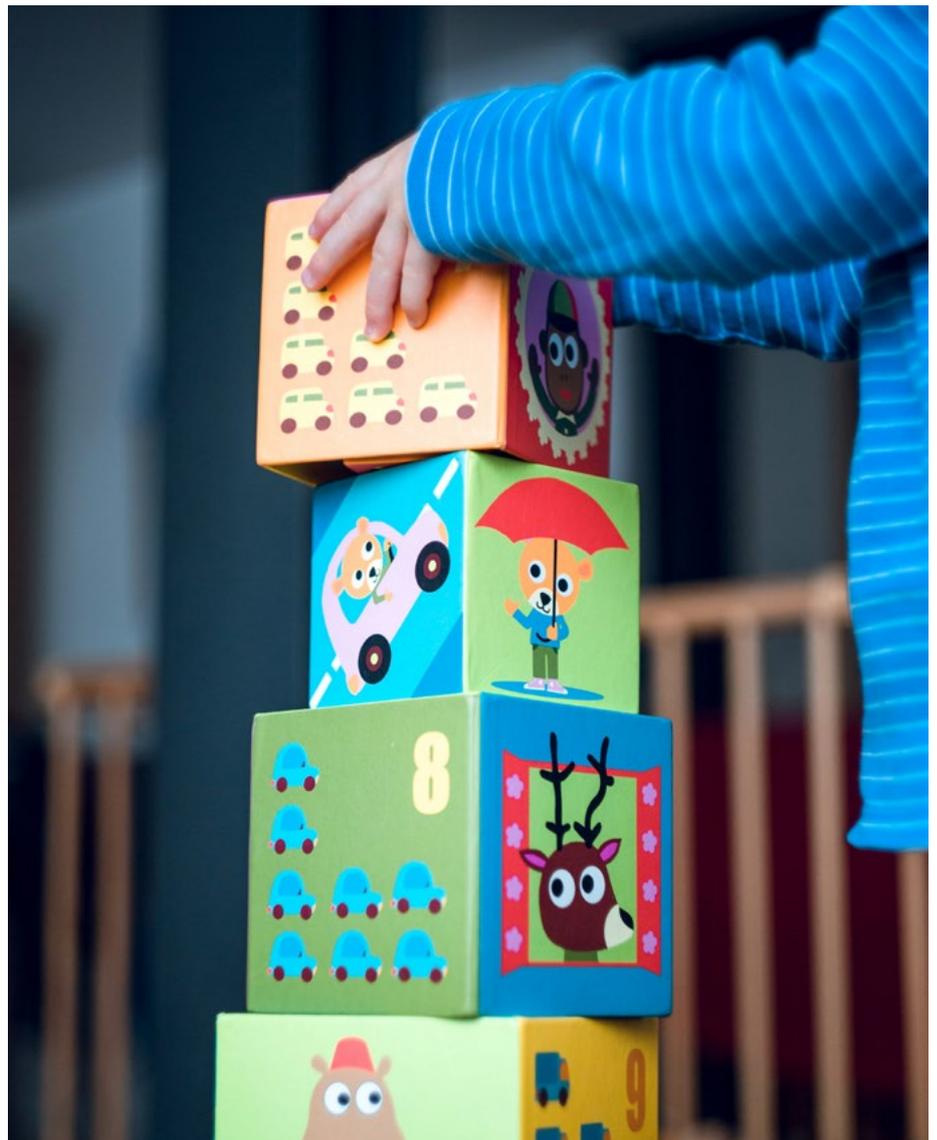
If so, they can take six months' leave (in total, i.e. including primary carer leave). If they've met these criteria for a full year, their total leave is one year.

If employees give the right notice for the right parental-leave reason, you have to keep their jobs open until they return to work. If they're taking more than four weeks' parental leave, you have to keep their jobs open, unless those jobs are defined as key positions or there's redundancy.

If any of those jobs are key positions, or there's redundancy, affected staff go into a 26 week "period of preference" at the end of parental leave. That means that if any time during those 26 weeks you have a job that's similar to what they were doing, you have to offer it to them first.

*A job may be a key position because it needs special skills and there aren't enough people with those skills. Or it would take too long to train or find a temp to do the job. **Affected staff can disagree that their jobs are key positions.***

There are rules around communication regarding employee applications for parental leave and employer responses, and whether or not the employee is going to return to work. We can help you avoid stepping on any landmines here. 





Safe As Houses: Stop Press!

Revenue Minister Stuart Nash has confirmed the bright-line test on residential property sales will be extended from two years to five years.

At present, income tax must be paid on any gains from residential property sold within two years of acquisition, with some exceptions (such as the family home). The extension means that profits from residential investment properties bought and sold within five years will generally be taxable.

To make this happen, changes to law are currently making their way through Parliament. It is expected these will receive Royal Assent in March.

And it is expected that this will affect properties acquired on or after the date of Royal Assent.

We will have more for you on this when the legislation passes. Meanwhile, if you are in the process of entering into sale and purchase agreements to acquire property, please give priority to discussing the tax implications with us. [N](#)



Don't Get Caught By Phishers

The dictionaries can hardly keep up with the words coming from new technology. One of them is phishing, which sounds like fun but is far from it.

Phishing is a scam that tries to trick you into providing personal online information such as passwords, bank details and payments to legitimate sources. Once the "phishers" have your details, they can steal your money, or even use your identity for their own gain – and your loss.

Knowing how to spot a phishing expedition online will help ensure you're not caught.

Phishing is usually activated through a phony email. It often looks like it's coming from your bank or other trusted sources. It often suggests you need to reactivate your account, your account will be closed, or you need to claim a prize. With logos and corporate-style wording, it looks legitimate.

So how can you tell if it is?

Firstly, don't trust emails from someone you don't know. If it's legitimate and important, they'll ring you.

Banks rarely ask you to verify anything online.

Many phishers don't have English as a first language, so look for poor spelling and grammar, and the quality of logos and other images.

Look at the email address it's coming from. It might have a bank name in it, but often along with something else, for example, anzguest, or bnzinfo.

If it's not addressed to you personally, ignore it.

If you're asked to click to a website, beware. Look for https in the url – the 's' means it's secure. Just http is not secure, so don't go there. However, even https doesn't guarantee authenticity, so remain wary.

If you do feel you've been caught because you've clicked through and provided details in good faith, notify the appropriate organisation, such as your bank, or shut down your browser, restart and change your relevant password immediately. [N](#)



Paying Lump Sum Bonuses

How to deduct the right tax

Paying team members a bonus can be a good way to reward outstanding performance and motivate your team. Here's a practical guide to help you get the tax right on any lump sum bonuses you make to staff.

Lump sum bonuses

Lump sum payments include:

- annual or special bonuses
- cashed-in annual leave
- back pay
- retirement or redundancy payments

Overtime or any regular payments are not considered lump sum payments.

Calculating PAYE on lump sums

Follow these steps to work out the PAYE rate to use for a lump sum payment:

1. Work out what your employee has earned (before PAYE) over the past four weeks.
2. Multiply this figure by 13.
3. Add the lump sum payment to the figure in step two.
4. Use the table below to work out what income bracket your employee is in.
5. Deduct PAYE from the lump sum payment at the rate shown in the right-hand column for that income bracket.

Choose the right PAYE rate

The table below shows which PAYE rate to use. You can use the PAYE rate of 34.39 cents in the dollar if the employee asks you to.

Other deductions to make

You also need to calculate student loan repayments, KiwiSaver deductions and employer contributions on lump sum payments, if applicable.

ACC earners' levy should only be applied to earnings below the threshold of \$124,053.

But you **don't** deduct the ACC levy from:

- redundancy payments
- retiring allowances
- employee share scheme benefits.

In these cases, you'll need to reduce the below rates by 1.39%. Redundancy payments and retiring allowances are exempt from KiwiSaver employee deductions and employer contributions. 

Income bracket	PAYE rate to use (including ACC earners' levy)
\$14,000 or less	11.89%
\$14,001 to \$48,000	18.89%
\$48,001 to \$70,000	31.39%
Greater than \$70,000, but less than the ACC earners' levy maximum threshold of \$124,053 (for the 2018 tax year)	34.39%
Greater than \$124,053	33% (excludes ACC)

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