

Changes to Provisional Tax and GST

Inside this issue:

Changes to Provisional
Tax and GST

Associated Persons
Discussion Document

Service Engagement
Letter - Service
Engagement Standard
No 2 (SES-2)

Financial Reporting
Amendment Act 2006
and Companies
Required to Register
Financial Statements

There are important changes happening to the way GST and provisional tax is paid from 1 April 2007.

While the majority of the changes occur from the 2008 income tax year, the current year is a good time to notify clients and determine which provisional tax payment method best suits your clients' needs.

From 1 April 2007

- You'll notice the dates change on the GST forms and will need to align clients GST dates with their balance date.

2008 Income Tax Year

- Provisional tax and GST will be calculated on the same form and paid together for GST registered tax payers. GST refunds can be applied to provisional tax payments due.
- 6 monthly GST payers will pay provisional tax 2 times on the GST payment dates.
- GST Ratio Method is introduced.

For a standard March balance date provisional tax will be due on 31 August, 15 January and 7 May. This may substantially increase the workload in December, where clients (and accountants) who may be considering taking holidays in January need to plan ahead.

Systems need to be put in place to keep track of all the different payment dates and also to notify provisional tax payers who complete their own GST the amount of provisional tax to include in the return.

The GST Ratio Method applies to taxpayers who are registered for GST and have RIT under \$150,000. Taxpayers who elect under this method will pay provisional tax six times a year based on a ratio of prior years RIT over total taxable supplies and multiplied by the current period's total taxable supplies. The IRD will calculate and notify the taxpayer of the initial ratio and any subsequent changes to the ratio.

The benefit of the ratio method is that provisional tax is paid in line with seasonal sales thereby assisting cashflow. The ratio method is also a safe harbour in that UOMI won't be charged or credited for taxpayers who qualify throughout the year.

A taxpayer will need to elect to use the ratio method in phone or by writing to the IRD.

NSA can provide in-house staff training on the new rules – please contact us for further information.

Megan Shaw

Associated Persons Discussion Document

Last month, the Government released a Discussion Document titled "Reforming the Definitions of Associated Persons". The Discussion Document proposes a major overhaul of the associated persons definitions. The proposals include rationalising the various associated persons definitions and widening the scope of the current definition.

If introduced, the proposal will have a major impact on structures used for land transactions and property developers.

We have major concerns in relation to the proposals contained in the Discussion Documents and will be making submissions. The deadline for submissions closes on 11 May 2007.

Amanda Martin



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Service Engagement Letter Service Engagement Standard No 2 (SES-2)

SES 2 became effective on 1 April 2007. The standard is directed towards compilation engagements and compliance with the standard is mandatory under the Code of Ethics.

Adherence to the standard will involve the introduction of a Compilation Engagement report to accompany financial information and in many cases changes to engagement letters.

The standard requires members to compile a Compilation Engagement Report to accompany the financial information where the financial information is for external use or there is a possibility that a recipient might not understand the nature or scope of the member's involvement with the compiled information. It is not required for the preparation of IRD prescribed forms.

Each page of the financial statements should contain a reference that the information has been compiled without an audit or review engagement and to refer to the Compilation Engagement report.

The disclaimer of liability which was previously included as a separate page will now be included in the Compilation Engagement Report. However, the standard specifically prohibits an individual member who has compiled financial information and is also responsible for the truth and fairness of the financial information (eg Trustee, Director) from disclaiming responsibility for the financial information.

Bruce Watt, Megan Shaw

Financial Reporting Amendment Act 2006 and Companies Required to Register Financial Statements

The FRAA 2006 introduced changes which came into force on 27 January and apply from that date. The amendments to Section 19 and 19a of the Financial Reporting Act 1993 will exempt many New Zealand companies with 25% or more overseas shareholding from having to file audited financial statements with the Companies Office because they are not large.

A large company satisfies two of the three:

Total Assets > \$10,000,000
Total Turnover > \$20,000,000
FTE Employees > \$50

While the company does not have to file audited financial statements with the Companies Office, there has been no change to the audit requirement under the Act. Under Section 196 (3) a company with 25% or more non resident shareholding is still required to have its financial statements audited.

In our correspondence with the Companies Office, they have noted that the audit requirements are currently under review. We hope that this is resolved in the near future.

Upcoming Changes to Overseas Company Filing Requirements

The following changes to overseas companies are expected to come into force by an Order in Council in mid 2007:

Note that an "overseas company" is different from a New Zealand Company with 25% or more non resident shareholding. The definition of an overseas company is included in Part 18 of the Companies Act 1993.

A non-active overseas company will be able to file a Declaration of Non-Activity if they have not traded for the relevant period. This will exempt them from having to prepare and register financial statements.

Overseas Companies may apply to the Registrar for an exemption from filing financial statements. The exemptions granted are for life and will be due to exceptional circumstances making compliance with the provision unduly onerous and burdensome.

Megan Shaw