

# IRD TAX SIMPLIFICATION: FROM 1 APRIL 2017

## A QUICK GUIDE- FOR SMALL & MEDIUM BUSINESSES

### SUMMARY

From 1 April 2017, the IRD has introduced a number of new tax packages to make tax simpler for small businesses and contractors.

Key changes are summarized, however, you are advised to check all the details by clicking to various links on the IRD website, contacting IRD or speaking with your Tax Agent. Or, you can call 0800CHAMBER for guidance and a confidential discussion with our Specialist Accounting Providers.

<http://taxpolicy.ird.govt.nz/sites/default/files/2016-ip-mts-better-business-tax-summary-proposals.pdf>

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### PROVISIONAL TAX CHANGES

The Government wants the new tax system to fit in with how businesses operate, and not the other way around.

Provisional tax is being reformed, so that small businesses have a **choice** of the new pay-as-you-go option for provisional tax payments. This option applies to small businesses with a turnover of less than \$5 million p.a. and comes into effect for payments from 1 April 2018. This will coincide with the two monthly accounting software changes at IRD, so businesses will be prompted to make the right tax payment generally at the same time as GST is paid.

This will help small businesses tailor payments to their real circumstances, and not estimated figures. If a small business chooses this option and pays their tax on time, the Use of Money Interest won't apply (see below).

Many businesses choose the "standard" method for calculating provisional tax. They also won't be subject to the use of money interest if their annual tax liability for the year is under \$60,000 and their tax is paid on time.

For taxpayers with a tax liability over \$60,000, and using the standard method, the Use of Money Interest also won't apply, provided their tax is paid on time.

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### CONTRACTORS NEX TAX RULES: LABOUR HIRE FIRMS & RECRUITMENT FIRMS

From 1 April 2017, there are several changes to tax rates and forms for contractors. All the details are in this link including the new forms required. Guidelines for employers, labour hire firms and recruitment companies, as well as for contractors are addressed in the link.

<http://www.ird.govt.nz/news-updates/contractor-changes.html?gclid=CPKswti0-tICFYRhvQodcKAHUG>

From 1 April 2017, Contractors can choose their own withholding tax rate, subject to a minimum of 10%.

**We stress it will be in the contractor's interest to get the tax rate right.** Contractors who aren't currently subject to withholding tax rules will also be able to elect into this system, with the payer's agreement.

Labour Hire Firms or recruitment companies whose staff are charged out to clients need to note new requirements.

<http://www.ird.govt.nz/contractors/labour/>

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#### PENALTY TAX IMPROVEMENTS

For new debts from 1 April 2017, the 1% on going monthly penalty will be scrapped for income tax, GST and some other payments. **However, the immediate penalty that applies to late payments, and the 4% penalty after a further week, will remain. So will use of money interest on overdue tax. It's a good idea to always pay your taxes on time!** For more details, refer to the link above.

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#### USE OF MONEY CHANGES- WHAT DOES THIS MEAN?

The Use-of-Money interest is an additional interest cost for the taxpayer. It is levied when a business underpays or overpays its Provisional Tax obligations, and the UOMI is applied to the difference between the amount owed and the amount paid by the New Zealand company.

For example. If the New Zealand company overpays its tax obligations, the New Zealand IRD will pay a 2.18 percent interest on the excess held. If the new Zealand company underpays its tax obligations it will be liable for an 8.89 percent interest in the difference between the taxes owed and the tax payments made.

From 1 April 2017, the IRD is changing the Use of Money Interest burden for businesses (see above – Provisional Tax Changes), provided payments have been made on time.

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#### IMPORTANT DATES FOR YOUR TAX DIARY

Refer to this IRD link

<http://www.ird.govt.nz/calendars-dates/importantdates-index.html>

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