

Terra Nova *e-news*

Key reveals new tax package for SME

Lumpy provisional tax payments and penalties caused by income miscalculation will become a thing of the past for small and medium-sized businesses under a business tax reform package announced by Prime Minister John Key in the first major speech ahead of the May 28 Budget.

The planned changes will allow businesses turning over less than \$5 million a year to choose a pay-as-you-go option rather than the current provisional and terminal tax system, which requires three annual payments.

To be able to use the new regime, businesses will need to be using a cloud-based accounting system linked to the Inland Revenue Department, such as Xero or MYOB, to allow two-monthly calculations, which would align with GST payments.

“Under this new ‘accounting income method’, provisional tax payments will more accurately match income as it is earned, be made more regularly and be integrated into normal business practices,” Key told a business audience in Wellington.

“Use-of-money interest won’t apply to taxpayers who choose this method and who pay their tax on time,” he said. “Up to 110,000 small businesses could be eligible to use the accounting income method, starting from 1 April 2018 when Inland Revenue’s new computer system is up and running.”

The system would operate on both a pay-as-you-go and “refund-as-you-go” basis, in cases where businesses were reporting losses or were owed refunds on the two monthly payments schedule, Key said.

He told media the budget would contain other measures that business would welcome, but there would no tax cuts announced this year.

Between 30 percent and 40 percent of businesses currently use cloud-based accounting software but this is expected to grow to 85 to 90 percent in the next 10 years, Key said in a set of announcements likely to encourage faster uptake of online accounting.

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Terra Nova Consultancy Ltd is a commercial business and immigration consultancy company providing assistance and immigration advice to people who wish to immigrate to and or settle in New Zealand.



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Xero [NZX: [XRO](#)] shares rose 2.3 percent to \$17.09, their highest level in more than two months. MYOB hailed the changes as a “game changer for small businesses”.

Other changes

Also in the package is the elimination of the use of interest charged for underpaid tax “for the vast majority of taxpayers,” said Key.

Article published in the Herald on 13 April 2016 by;

Patrick Smellie & Jason Walls

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Contractors will be able to choose a withholding tax rate that meets their circumstances rather than having it preset, with the lowest rate of withholding tax set at 10 percent.

The package comes at a cost of \$187 million over four years and will come out of a new spending allowance for the 2016 Budget, with most changes beginning next April.

The ongoing 1 percent monthly penalty will be scrapped from April 1, 2017, for new debt, although immediate penalties and interest charges for late payments will continue to apply.

Taxpayers who continue to use the current most common method for calculating provisional tax – the standard or “uplift” method – won’t be subject to use-of-money interest if their tax liability for the year is under \$60,000 and their tax is paid on time.

Larger taxpayers will also get a “square up” option at their last two monthly payment, to reflect their emerging knowledge of their actual tax position for the year.

On withholding tax rates, Key said many would have “scratched their heads” about the range of rates applied to different industries.

From April 1, 2017, contractors will be able to choose their own withholding rate, subject to a minimum of 10 percent.

“If an accurate rate is chosen, contractors may no longer be forced into an ‘over-withholding’ situation or an ‘under-withholding’ situation that could see them liable for provisional tax,” said Key. “It’s in their interest to get it right.”

The withholding tax rules will be extended to contractors engaged through labour hire firms.

While the 1 percent monthly late payment penalty will disappear, the immediate penalty that applies to late payments, and the 4 percent penalty after a further week, will remain, as will use-of money interest on overdue tax.

Tax changes a 'game changer'

MYOB Cloud-based business management solutions provider MYOB was quick to commend this morning’s announcement.

“This will be a game changer for Kiwi businesses,” MYOB general manager SME solutions James Scollay says.

“For many years MYOB has conducted research into what policies small business owners would most like to see addressed to help them succeed.

In our most recent survey, simplification of provisional tax rules again came out as the policy most important to business owners.”



Min John Key reveals new tax package for SMEs

The KEY measures in the proposal are:

> provisional tax is being reformed, with a new pay-as-you-go option giving up to 110,000 small businesses a way to pay tax as they earn income from 1 April 2018;

> use-of-money interest will be eliminated or reduced for the vast majority of taxpayers;

> contractors will be able to choose a withholding tax rate that suits their needs, rather than one being set for them;

> the 1% monthly penalty will be scrapped from April 1, 2017, for new debt – although immediate penalties and interest charges for late payments will continue to apply.

The latest [MYOB Business Monitor](#) research of more than 1000 local SMEs saw 83% of businesses identify “simplification of provisional tax rules and processes to make it easier for businesses to accurately determine and meet their tax obligations” as the government policy most important to their operation.

Mr Scollay says MYOB is looking forward to working with Revenue Minister Michael Woodhouse and his officials to implement the proposals in due course.