



Provisional Tax

Paying Under the GST Ratio Method

Who is Eligible to use The Ratio Method?

- ❖ any taxpayer whose terminal tax for the previous year was under \$150,000 and who is registered for GST on either a Monthly or Two-monthly basis;
- ❖ includes companies, trusts and individuals;
- ❖ does not include:
 - partnerships (as they are not a taxpayer)
 - partners in a partnership
 - shareholders of a company
 - beneficiaries of a trust
 - businesses not registered for GST
 - businesses whose prior year tax exceeded \$150,000
 - businesses registered on a six-monthly basis.

- ❖ Most taxpayers will therefore continue to pay tax under the existing 3 times a year system. For the 2009 year on, Provisional tax payment dates for these taxpayers are being put back by at least 52 days.

e.g. For taxpayers with a 31 March balance date
Provisional tax dates for the 2009 year will be:

28 August 2008 (was 7 July 2008)

15 January 2009 (was 7 November 2008)

7 May 2009 (was 7 March 2008)

- ❖ The business must have been operated for 2 years before the Ratio method can be adopted.

Who Will Benefit from the Ratio Method?

- ❖ taxpayers with a seasonal turnover - using the Ratio method will match cash flows with the tax liability;

e.g. A grape grower with a June balance date will obtain a significant cash flow benefit.

However if the majority of your income comes at the start of the year (e.g. grape growers with a 31 March balance date) you would end up paying tax considerably earlier than under the current system;
- ❖ taxpayers who are subject to use of money interest (UOMI) and expect to have a Terminal tax liability for the following year. Taxpayers adopting the Ratio Method are not subject to UOMI (this applies even if the total tax liability for the year exceeds \$150,000);
- ❖ taxpayers moving from a loss to a profit situation, e.g. vineyards, may obtain significant cash flow advantages.

Who Should Not Use The Ratio Method?

- ❖ anyone who generally receives the majority of their income in the first 6 months of their income year;
- ❖ anyone who expects their profit to fall. If you are in the Ratio regime you do not get UOMI on any tax refund.

What are the Other Disadvantages of the Ratio Method?

- ❖ you generally pay Provisional tax earlier than had you remained on the current system;
- ❖ you may be liable for penalties if you accidentally fall out of the Ratio scheme.

How Do You Join?

- ❖ Must apply **before** the end of the previous tax year. i.e if your next balance date is 31 March 2008 you have to apply before 31 March 2008 to pay Provisional tax under the Ratio method for the 2008/09 tax year;
- ❖ to join either email the IRD or ring 0800 377 774;
- ❖ if your 2007 tax assessment has been issued the ratio will be based on the 2007 year. Otherwise the 2006 year will be used.

If You Join the Ratio Method What Else Do You Need to Do?

Advise us (in writing) so that we stop sending you the 4 monthly Provisional tax notice. You are then totally responsible for paying your Provisional Tax. We will forward no further notices until you advise otherwise (in writing).

Can You Withdraw From the Ratio Method Once You Have Elected In?

Yes, you can withdraw without penalty as long as you do so before the first Provisional tax date (based on existing system).

If you withdraw from the Ratio method you automatically go into the Estimation Regime and are therefore liable for UOMI.

You have to file a Ratio Option Withdrawal and file a tax estimation by next due date.

You are automatically kicked out of the Ratio Method if your GST return is more than 60 days overdue, you cancel your GST registration or you change to 6 month filing.

You will also no longer be able to stay in the Ratio Option if your Base year terminal tax (RIT) exceeds \$150,000. Where this happens you can remain on Ratio Option until the end of the year.

What Happens if you Sell Capital Assets

If you sell Capital Assets for more than \$1,000 after 1 April 2008 you can made an adjustment in Box 21 of the new GST return or alternatively notify the IRD. If you do not you will pay more tax than needed.

If you have sold assets in the 2006 or 2007 years this will reduce your tax payment ratio. There is no obligation to advise the IRD of such sales and we therefore suggest you don't. You will however have a terminal tax liability for the 2009 year.

Changes to the Ratio

This will occur when:

- ❖ A new income tax return is assessed (new base year):
Applies 30 days from date of notification.
If RIT assessed is over \$150,000 or the ratio is over 100% the Ratio option can be used until the end of the current tax year, based on the new Ratio percentage.
- ❖ The base year tax assessment is amended:
Applies 30 days from date of notification.
If RIT reassessed is over \$150,000 or ratio recalculated over 100% then Ratio option is withdrawn.

Is this a Simple System?

We Don't Think So!

The main advantage is avoiding liability for UOMI and deferring tax where profits are increasing.

For most taxpayers it will not reduce the number of payments they make to the IRD as shareholders are not eligible to join and will therefore have to continue to pay Provisional tax every 4 months.

IF YOU ARE UNSURE PLEASE CALL US BEFORE YOU JOIN

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