



Tax Pooling and Tax Financing

Tools to Lower your Overall Tax Cost and/or Assist with Financing of Tax Payments

Provisional tax can be tricky. Payments can be difficult to estimate because they are based on forecast profits and payment dates often fall at times when cashflow is tight. Tax pooling and tax financing are tools you can use to solve these problems and better manage your provisional tax obligations.

What is Tax Pooling?

A tax pool is an account held at the IRD by the Public Trust on behalf of an approved tax pooling intermediary. Taxpayers who deposit their provisional tax payments into a tax pool can offset under and overpayments amongst themselves to reduce exposure to IRD Use of Money Interest (UOMI) and penalties. The IRD currently charges UOMI of 8.89% when you underpay your tax but only pays 2.18% on overpayments.

By using tax pooling you can significantly reduce any potential interest cost resulting from underpayments and increase credits arising from overpayments.

You will pay no more than you would have by paying your provisional tax directly to the IRD but may receive significant benefits. There is no downside.

What is Tax Financing?

Tax financing is a way of using your provisional tax payments to access competitively priced funding. Tax pooling intermediaries can finance tax payments from as low as 6% p.a. This means that instead of paying provisional tax, you can:

- Reduce borrowing costs by repaying more expensive working capital facilities and using the cheaper tax financing to pay provisional tax instead;
 - Free up working capital by accessing funds that would otherwise be locked up at the IRD; and
 - Ease cashflow constraints by deferring provisional tax payments to a time that better suits your business.
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Tax financing benefits anyone who makes provisional tax payments and borrows at a rate that is higher than the intermediary's competitive finance rates (currently between 6.0% - 6.4%). By using tax financing rather than drawing under an overdraft or other revolving facility, you save the difference between the interest you would have paid under your bank facility and the finance fee paid to the intermediary.

It particularly benefits clients with seasonal cashflows (such as farmers and retailers) who can defer their provisional tax payments until a time when they have stronger cashflow.

Winstanley Kerridge and Tax Pooling Solutions

Through our New Zealand Chartered Accountants (NZCA) affiliation, Winstanley Kerridge is able to access preferential rates for clients through Tax Pooling Solutions. This is a unique opportunity locally and in many cases, will provide significant benefits for our clients.

If provisional tax presents challenges for your business with regard to Use of Money Interest and/or cashflow, please call your Account Manager to discuss. Further information and a Frequently Asked Questions guide are available upon request, or via the Tax Pooling Solutions website (www.taxpooling.co.nz).

Many clients will have a provisional tax date approaching on 28 August so now could be the time to consider the benefits of tax pooling or financing.

Winstanley Kerridge Ltd has no association with TPS nor does it receive any direct fee or commission from TPS.

We are simply alerting you to an opportunity to reduce your effective tax cost.

Although TPS has no minimum deposit we recommend that you only use Tax Pooling or Tax Financing if your annual tax liability exceeds \$20,000.

You can register with TPS directly on line at www.taxpooling.co.nz and make your own payments and buy and sell tax directly, however in this case you will not get the lower interest rate available to Winstanley Kerridge clients.

If instructed by you to utilise the above options Winstanley Kerridge will assume authority to act directly with Tax Pooling Solutions on your behalf.

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