

BC'S BUSINESS BRIEFS

Each of the Business Briefs prepared to date has included an opening section which included the writers thoughts and predictions on a range of topical issues. To date the predictions have been spectacularly unsuccessful with some of the more obvious ones to follow:

- 1 The NZ \$ may finish the year at around \$0.65 to the US\$. *While we've been close to that for a short period of time it, it doesn't look like getting back there anytime soon;*
- 2 NZ Interest rates will drop to a level more in keeping with the developed world (only Brazil currently has higher interest rates than us). *It would appear that the only thing likely to see our interest rates drop significantly in the next six months would be a major meltdown in the world economy, perhaps lead by US housing price falls;*
- 3 The All Blacks will win the World Cup. *Yeah right!*
- 4 John Bracewell will be looking for a new job – any takers for the new "Mitch"? *Who would have thought the NZ cricketers would outperform the All Blacks at a world cup?*

In reviewing past editions, there were some predictions made that may have come to fruition. Try these for size.

- 5 We will see the government move into election mode with further spending promises;
- 6 We will continue to lose manufacturers as they relocate to cheaper economies in Asia;
- 7 The government will continue to accumulate surpluses and Dr Cullen will move closer to the opposition as regards tax cuts 2 years out. *Nearly there!*
- 8 Company Tax rates will drop to 30% with a consequent reduction in the top personal rate. *Ditto!*
- 9 The NZ currency is currently overvalued and when a correction downward occurs, it could happen quickly. *Could happen again, but will be driven by overseas events;*
- 10 We will see a continuing push to make changes in the way the world lives to slow down climate change which will have potentially far reaching economic impact; *The economic impact of our greenhouse emissions targets recently released will eventually be felt by all of us;*

Kiwisaver

Kiwisaver came into existence on the 1st of July. Much to the surprise of the experts, (including the Reserve Bank, as we understand it!) approx 40% of employees have either already joined up or are intending to before Christmas. This is a much higher rate than predicted and perhaps shows that if Kiwis believe in the integrity and potential of a savings program, they are prepared to sacrifice money in their pockets today. Only time will tell what effect this has on inflation (and therefore interest rates) as 4% of all enrolled employees gross income is removed from circulation within the economy. As compulsory employer contributions start to take effect from next year, one can only think the impact is likely to become more pronounced.

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Provisional Tax Changes

People may have seen material sent out in recent times by IRD advising of a new option for the calculation and payment of Provisional Tax. We have had the current system of calculating Provisional Tax in place for some time. At present there are 2 ways that may be used for calculating Provisional Tax.

- 1 Uplift method – using this method the residual income tax from the last filed tax return is uplifted by either 5% or 10% (depending on whether the last filed return is the last tax years or the year before that) and the tax is payable in 3 equal instalments in the 4th, 8th and 12th months of the tax year. For most people with a March balance date this means July, November & March.
- 2 Estimation – if the estimation method is used, each instalment is estimated and payment made accordingly. This method is most often used where a taxpayers current year income is less than the previous years and tax is likely to be less or alternatively income is greater and voluntary larger payments are being made with the ultimate aim of reducing Use of Money Interest.

A third method is to become available from the beginning of the 2009 tax year (that is 1 November 2007 for those taxpayers with an October balance date). The new method will be known as the Ratio method and will mean that taxpayers may elect to pay their Provisional tax with their 2 monthly GST payment, starting with their first GST return for the 2009 tax year. IRD will set a ratio of Provisional tax payable to sales and this amount must be paid on each GST return filed on a 2 monthly basis. The calculation of actual Provisional tax paid obviously becomes simplified and the greatest attraction of using this method is that even if Provisional tax finishes up being underpaid, so long as all instalments have been made on time, no Use of Money Interest will be charged. Obviously the ratio calculation will be set at a level that will ensure payment of sufficient Provisional Tax over the course of a year, subject to trading margins remaining relatively constant. For those businesses with constant cash flows, this method may prove attractive.

Prior to the start of this system, we will be contacting clients to discuss whether they wish to enter the alternative scheme.

Please feel free to contact the writer should you wish to discuss any of the contents above further.

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