

# Newsletter

June 2019

DB CHARTERED  
ACCOUNTANTS LTD

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We cover off the new employment law, dollar cost averaging when making an investment, what provisional tax really is, what New Zealand’s tax rates are, some handy calculations to know, tax payments and refunds details, a book review and the important upcoming tax dates.

## NEW EMPLOYMENT LAWS

1 April 2019 the new Domestic Violence Protection Act 2018 was enacted.

The new Act allows employees that are affected by domestic violence the right to:

- Take up to 10 days of paid domestic violence leave in a 12 month period (unused leave days are not to be carried forward much like bereavement leave).
- Apply for short-term flexible working arrangements (for up to 2 months)

Who can apply?

Employees that have worked for their employer for at least 6 months (and in those 6 months have worked an average of 10 hours per week - 40 hours per month)

Employers are able to ask for proof of domestic violence and if the employee does not provide proof then the employer is able to refuse the request.

## DOLLAR COST AVERAGING – AN INVESTMENT STRATEGY

Dollar cost averaging is a way of investing a regular amount on a regular basis without trying to “time the market”. Over time the investment portfolio will build from the regular contributions.

For example if someone had \$10,000 they wanted to invest in shares valued at \$10 each on 1 April 2018. At that time they could purchase 1,000 shares.

If they instead used dollar cost averaging, their contributions could look like this:

1/04/18	250	shares @	\$10	\$2,500
1/07/18	357	shares @	\$7	\$2,500
1/10/18	278	shares @	\$9	\$2,500
1/01/19	<u>227</u>	shares @	\$11	<u>\$2,500</u>
Total	1,112	shares	<u>Cost</u>	<u>\$10,000</u>



At the end of 12 months they own 1,112 shares valued at \$12,232 (1,112 x \$11). In the months when the share price reduced they purchased more shares in the company.

This method of drip feeding investment funds is effectively how Kiwisaver operates.

It is also useful when investing outside of Kiwisaver or where a lump sum is to be invested. As an example, \$100,000 invested on day one in the above portfolio would have reduced to \$70,000 by 1 July. An alternative would be to invest into the market over a period of time using dollar cost averaging.

**Quality means doing it right even when no one is looking -H. Ford**

## **WHAT IS PROVISIONAL TAX?**

When a person or entity has tax to pay of more than \$2,500 at the end of the income year from their untaxed income they become a provisional tax payer.

This means there is an obligation to pay tax as you go for the coming financial year. It is paid in instalments throughout the year.



For a March balance date the 2020 income tax dates are:

Instalment 1	28 August 2019
Instalment 2	15 January 2020
Instalment 3	7 May 2020

Any final (terminal tax) is due on 7 April 2021 (terminal tax for the 2019 income year is due 7 April 2020).

There are 4 options available for working out your provisional tax.

### **Standard option**

The standard option is based on Income returned in the previous year's tax return. This is the default required by the IRD and the IRD tax calculation is based on the 2019 residual income tax plus an extra 5%. If the 2019 tax return is yet to be filed it is based 2018 income tax plus 10% extra.

If GST is filed on a 6 monthly basis payment is required over 2 instalments (28<sup>th</sup> October 2019 and 7<sup>th</sup> May 2020).

### **Estimation option**

The estimation option can be used if you know your income has decreased during the year. This option allows you to advise IRD of a revised "estimate of tax" based on the calculated income level. Tax can be estimated up until the last tax instalment date (7<sup>th</sup> May).

If choosing this option careful calculations are required. If tax is under-estimated the taxpayer is liable for use of money interest, calculated from the first instalment date. If the estimation is unreasonably low, compared with actual figures, IRD may deem that due care was not taken and apply a shortfall penalty.

### **Ratio option**

The ratio option is useful if your income tends to vary or you have seasonal income. You need to advise IRD that you want to use this option before the beginning of the income tax year. Under this option you pay tax each time you file a GST return and the tax is based on the sales returned in the GST return. In this way you pay the tax in the periods the money is generated, based on a percentage of sales. The IRD calculates the percentage ratio based on net profit divided by gross earnings.

Only provisional tax payers registered for GST who file one-monthly or two-monthly returns can use the ratio option.

### **Accounting income method**

The accounting income method is available when turnover is less than \$5 million a year. Income tax instalments are made 6 times per year (in line with GST payments), with tax payments based on expected profit. This option is available to those using MYOB, Xero or Reckon (see our March 2018 newsletter for more information).

**TAX RATES**

Below are the current tax rates. (These rates have remained unchanged since October 2010)

<b>INDIVIDUAL</b>	<b>Excl ACC levy</b>	<b>COMPANY</b>	28.0%
Up to \$14,000	10.5%	<b>TRUST</b>	33.0%
\$14,001 to \$48,000	17.5%	<b>GST</b>	15.0%
\$48,001 to \$70,000	30.0%		
\$70,001 +	33.0%		

**TIPS & TRICKS****Find the GST Exclusive Figure**

*Example:*

A product costs \$1,150. To calculate the GST exclusive price of this product, take the GST inclusive amount and divide it by 1.15 as seen below:

$$\$1,150 / 1.15 = \$1,000$$

(\$1,000 is the price of the product less GST)

**How to Gross Up a GST Exclusive Figure**

*Example:*

A product costs \$1,000 excluding GST. To gross this amount up and find the GST inclusive figure:

$$\$1,000 \times 1.15 = \$1,150$$

(\$1,150 is the GST inclusive amount)

**Find the GST Component**

*Example:*

A product costs \$1,150 and you want to find the GST component of the price. There are two options for this:

1. Take the price of the product and divide it by 7.6666, this will give you the amount of GST.

$$\$1,150 / 7.6666 = \$150$$

(\$150 is the GST component)

2. Take the price of the product and multiply it by three and then divide by twenty three.

$$\$1,150 \times 3 / 23 = \$150$$

**Find a Percentage**

*Example:*

If you want to find 15% of \$1,000. Take the \$1,000 and multiply it by 0.15.

$$\$1,000 \times 0.15 = \$150$$

(\$150 is 15% of \$1,000)

**JOKE #1**

A group of engineering students and their teacher were given free airplane tickets to go on a holiday. Once on the plane the Captain announced that they were on the plane that the students had built. Everyone freaked out and rushed out of the plane, except for the teacher who stayed there calm. When the flight attendant asked why he hadn't left he responded "I know the abilities of my students quite well, this plane won't even start"



**BOOK REVIEW**

Starting Out Starting Over – A Single Woman’s Guide to Money in New Zealand. – Susan Edmunds 2019

This guide is specifically targeted to provide ideas on how to get your financial life sorted even if you do not have a “money brain” (it even has advice if you always make excuses why you can’t get things sorted). It covers money goals, options on how to focus on spending habits, saving and a good section on the traps of debt and how to reduce this.



It covers how to get into home ownership, investing and why insurance is important. The importance of protecting your interests in a relationship split is covered, as is protecting your assets and wealth as you head into a new relationship (no matter whether you are 25 or 55) and being aware that your partner could have spending habits and debt that impact on you once you get into 3 years of a relationship. Whether retirement is close or a few years away it also has good information on how to plan ahead for this.

**TAX PAYMENTS AND REFUNDS – IMPORTANT NOTICE**

**Unexpected Tax Refunds**

The IRD new computer system is now in place. If you receive any tax refund from IRD that you were not expecting please contact us so we can confirm this is correct.

We have had instances where clients have paid additional tax to reduce IRD use of money interest costs and because the amount paid was more than expected by IRD it has been incorrectly refunded.

**Ensure that tax is paid into the correct Tax type and period**

When we generate tax payment reminder notices the calculation is based on tax payable less tax already paid to the IRD for the period. If a tax payment is made to the incorrect tax period, IRD records may show an incorrect credit meaning we may miss sending you a tax notice (or an incorrect refund issued as noted above).

If you do not receive a tax notice from us within 2 weeks of due date, and you were expecting to pay, please contact Maree so we can double check.

**IMPORTANT TAX DATES**

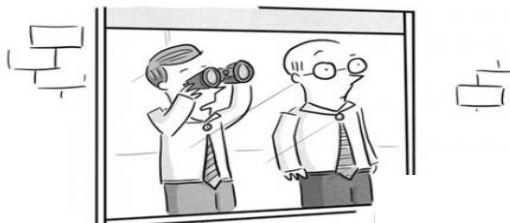
28 June Third Instalment 2019 Provisional Tax due (May Balance Date) and 2 monthly GST Returns due.

28 August First Instalment 2020 Provisional Tax due (March Balance Date) - we will forward reminder notices from the beginning of August, and 2 monthly GST Returns due.

20<sup>th</sup> of each month PAYE Payment (Remember to file online within 3 working days after wage payments).



**JOKE #2**



“I know this accounting in the cloud is supposed to make things easier, but how do we know which one is ours?”

If you would like to discuss anything mentioned in our newsletter please contact us at:  
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