

BUSINESS TAX UPDATE

Inland Revenue's tax news for businesses

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What to do if you hire a labour-only contractor in the building industry

If you're in the building industry and hire an independent contractor for **labour only** on a contract-for-service-basis you may need to deduct tax from schedular payments.



Employers must deduct tax from schedular payments made to contractors involved in some specified types of work. A list of activities and associated tax rate deductions is on the back of the *Tax code declaration (IR 330)* form or go to www.ird.govt.nz (keywords: schedular activities). The activity "Contracts wholly or substantially for labour only in the building industry" includes building contractors such as painters, plasterers, brick layers, roofers and carpet layers.

If you're in the building industry you won't need to deduct tax from the schedular payments if the contractor:

- has a current certificate of exemption (IR 331), or
- is a company.

If you're not sure if the contractor has given you a current certificate of exemption call us on 0800 377 772 and we'll check this for you.

If the contractor has a special tax code certificate that authorises tax to be deducted at a reduced rate you'll need to deduct tax at the rate specified on the certificate.

If the contractor is registered for GST they'll charge GST on the goods and services supplied to you. This means the gross earnings will increase by the amount of GST charged. If you receive a tax invoice, deduct tax on the GST-exclusive amount.

Example

Paul from ABC Ltd hires David (a New Zealand resident) trading as XYZ Painting as a labour-only painting contractor to help him complete a house he is building. David's invoice calculations are:

Labour (40 hours @ \$40 an hour)	\$1,600
Plus GST	200
Total	\$1,800

When ABC Ltd pays the invoice tax is deducted at 20% from the GST-exclusive amount as follows:

GST-exclusive amount	\$1,600
Less 20%	320
Net payment	1,280
Plus GST charged on David's invoice	200
Payment to XYZ Painting	\$1,480

ABC Ltd will show the \$1,600 as a gross payment on their *Employer monthly schedule (IR 348)*. The \$1,600 is also shown in the "Earnings and/or schedular payments not liable for ACC earners' levy" column on the IR 348. The \$320 is shown in the "PAYE and/or schedular tax deductions" column on the IR 348. The tax code for XYZ Painting is "WT".



Inland Revenue
Te Tari Taake

Welcome to Business Tax Update

In this issue: Hiring labour-only building contractors, trading online, redundancy tax credit, PAYE tables correction, GST legislation changes for inbound tour operations, self-employed and student loans, online "Tool for business", business industry description codes, GST monthly returns for April, hoax emails, and making tax simpler.

If you have any suggestions for topics you'd like covered in this newsletter, email BusinessTax.Update@ird.govt.nz



REMINDERS

IR 3 tax return packs issued May 2010: We'll automatically send you an IR 3 tax return if you filed one last year. If you need to file an IR 3 and you, or your tax agent, haven't received one by the end of May you can file your return online or request a paper copy. Go to www.ird.govt.nz "Get it done online".

If you're not sure if you need to file an IR 3 or receive a personal tax summary, complete our online questionnaire *Do you need to file an IR3 return or receive a personal tax summary for 2010?* at www.ird.govt.nz "Work it out".

New PAYE rates from 1 April 2010: If you're not already using it, an easy way to calculate your PAYE is with our PAYE calculator. Go to www.ird.govt.nz "Work it out", "PAYE/KiwiSaver calculator".

View the latest PAYE tables online. Go to www.ird.govt.nz (keywords: ir340, ir341).

Tax obligations if you're trading online

We're contacting online traders to explain their tax obligations if they sell goods online.

As a guide, you're regarded as being in business and should be declaring sales from online trading if:

- you bought the goods with the purpose of selling them on
- the purpose was to make a profit
- your business deals in these goods.

If you're an online trader your tax obligations are the same as if you sold goods in a shop. If you're in business and you use the internet as a primary or secondary sales outlet you need to make sure all sales are returned for income tax. Also businesses with sales of over \$60,000 a year are required to register for GST.

If you're simply clearing out personal possessions there are generally no tax obligations.

For more information go to www.ird.govt.nz (keywords: online trading) or call us on 0800 TAX TALK (0800 829 825).

Redundancy tax credit

Redundancy can be a difficult time and any employees who have recently lost their job should know about the redundancy tax credit.

Employees may be eligible to receive the redundancy tax credit if their employment ceased because their position was no longer available and they received a redundancy payment.

The tax credit is 6% of the redundancy payment up to a maximum tax credit of \$3,600 on each redundancy payment. Claims can be backdated on redundancies paid on or after 1 December 2006. You can apply for a tax credit up to four years after a redundancy payment. Eligible employees don't need to wait until the end of the year—the redundancy tax credit can be claimed in that year.

For more information on redundancy tax credits go to www.ird.govt.nz (keywords: redundancy tax credit).

PAYE tables correction to page 112

We've updated page 112 of the *2011 Weekly and fortnightly PAYE deduction tables (IR 340)*. The online version is up to date and if you've ordered a paper copy it will include an insert of the replacement page.

You may prefer to use our online PAYE calculator. If you're not already using it go to www.ird.govt.nz "Work it out", "PAYE/KiwiSaver calculator".

GST legislation changes for inbound tour operations

In the January/February 2010 issue of *Business Tax Update* we informed you about legislation clarifying that GST on facilitation fees is charged at 12.5%.

However, there is a transitional period. If you supplied services that included the facilitation of inbound tour operations during the period from 1 July 2007 to 30 June 2008, GST on the facilitation fees is zero rated. You may be entitled to a refund of the amount of GST paid on the facilitation fees **only** in this period. The final date for your application is **8 June 2010**. You must request a refund in writing before this date that includes a calculation and working papers.

For more information go to www.ird.govt.nz (keyword: inbound).

If you're self-employed and have a student loan

In your first year of self-employment you can either make student loan repayments directly to us at the end of the tax year (31 March), or regularly throughout the year.

Interim instalments

After your first year you'll need to make interim repayments in three equal instalments if you:

- earn over the repayment threshold (currently \$19,084 for this tax year), and
- have a student loan bill of \$1,000 or more at the end of the preceding tax year.

If your tax year ends on 31 March your payment dates are 28 August that year and 15 January and 7 May the following year. If your tax year ends at any other time, call us on 0800 377 778.

You can work out your interim repayments using either the standard or estimation option.

Example

If your 2010 student loan assessment is \$1,544, the 2011 interim repayments (using the standard option of adding 5%) will be:

\$1,544	Previous year's assessment
<u> \$77</u>	Add 5% of previous year's assessment
\$1,621	Total interim repayments for 2011
The \$1,621 is due in three instalments:	
\$540	28 August 2010
\$540	15 January 2011
\$541	7 May 2011

For more information on repayments go to www.ird.govt.nz/studentloans/payments

You can also receive up-to-date student loan information by subscribing to our student loan email service *Notify Me* at www.ird.govt.nz/sl/notify-me

Our interactive online “Tool for business”

Our “Tool for business” gives information businesses need when starting up. It will help you understand business tax quickly and simply. You’ll find most of what a small business needs to get started at www.ird.govt.nz (keyword: tfb).

It’s free, interactive, easy to use, and provides answers to these key questions:

- How do I start a business?
- What records do I need to keep?
- How does tax work?
- Do I need to register for GST?
- What do I do if I employ someone?

There are FAQs, templates, worksheets, top downloads and links to other government websites you might need.

Looking up business industry description codes

Business industry descriptions and codes are needed when you’re in business, to make sure you pay the correct amount of ACC levies.

Accident Compensation Corporation (ACC) added 160 new business industry codes to their website on 1 April 2010. To find your correct code go to www.businessdescription.co.nz and use the search function.

ACC will no longer be printing their booklet *Determining your business industry description and code (ACC4717)*. You can still view or download a copy by going to www.businessdescription.co.nz

Preparing GST monthly returns for April

In the January/February 2010 issue of *Business Tax Update* we let you know about a possible issue when due dates differ for a previous GST return.

You’ll only be affected if you:

- prepare monthly GST returns for your organisation
- use the general ledger
- put through a journal entry to manually clear out the previous GST return balances.

Your GST returns are usually due on the 28th of the following month. However, the GST return for the month ended 31 March 2010 is due 7 May 2010.

When you prepare your GST return for the month ended 30 April 2010 (due 28 May 2010), please check you’ve put through a journal entry clearing the March figures so only the current month’s balance is there.

Warning over hoax email

Hoax emails have been circulating that claim to be from Inland Revenue asking you to send your personal details and IRD number.

We would never send an email asking you to forward personal information by email. You should always be very careful about giving out your personal details or IRD number.

Don’t click on any links within a suspicious email or reply to it. You should delete it immediately from your inbox. Suspicious emails targeting Inland Revenue customers should be reported to phishing@ird.govt.nz

If you think you’ve given out your personal details or IRD number to a possible hoax email contact us on 0800 227 774.

Making tax simpler – consultation coming

Inland Revenue is looking at ways to simplify PAYE and tax return processes, provide faster, more efficient online services, cut paperwork and reduce business compliance costs.

Changes to our processes and systems would make it easier for businesses to manage their tax obligations online. You’ll spend a lot less time filling out forms, filing paper or following up queries with Inland Revenue, and have more time to devote to your business.

The Minister of Revenue has said he expects to consult with New Zealanders about the way people might interact with the tax system in the future. It’s likely he will invite comment through a public online forum and a discussion document, and these may be released in the second half of this year.

We’ll let you know on our website and in our newsletters when the consultation and online forum are open, so you can join in the discussion.

We’ve improved our website for non-profits

We’ve updated the non-profit section of our website so it’s easier for non-profit organisations to find information that’s relevant to them.

Check out the new non-profit section of our website at www.ird.govt.nz/non-profit

