

May 2015



Tax Pooling – Could this help you??

It can be difficult to calculate income tax obligations, especially provisional tax which is paid in three equal instalments. The amount of tax to be paid is based on your estimated profit for the current financial year, and you can easily underpay or overpay the Inland Revenue (IRD).

If you pay your tax late to the IRD they will charge an initial 1% late payment penalty on the day after the tax due date and a further 4% on the seventh day if tax remains unpaid. In addition if you have underpaid your tax they will charge you interest at 9.21%. If you have overpaid your tax you will only receive 2.63% interest from the IRD, which could be expensive if you are funding payment out of your overdraft.

One option to reduce the cost resulting in underpaying or overpaying your tax is to take advantage of Tax Pooling.

Tax Pooling allows taxpayers to trade their tax payments with other taxpayers to ensure everybody wins. Instead of making tax payments directly to the IRD you can deposit funds into a tax pooling trust account at the IRD, held by an IRD approved intermediary. Once the year-end profit is known, if you have underpaid your tax, you can 'buy' tax to make up the shortfall. Conversely you can 'sell' your overpaid tax. If you are purchasing tax through Tax Pooling, the tax payment date at the IRD will be backdated to reduce or eliminate any interest or late payment penalties the IRD would normally charge.

The main advantage of using Tax Pooling is the competitive interest rates and the absence of late payment penalties. Tax pooling will charge you an upfront lower interest cost (currently from 5.7%) if you choose to purchase tax, and you will receive a higher return (currently 4.5%) on any tax overpayments in Tax Pooling.

Tax Pooling can also aid your cashflow by allowing you to finance your tax payments at a lower interest rate than what the IRD charge. Also any refunds due to you from overpaying will be processed quicker rather than waiting for the IRD.

Carissa Tolley, Associate of CooperAitken Ltd Accountants in Matamata, Morrinsville and Thames 07 902 2874 or email carissa@cooperaitken.co.nz www.cooperaitken.co.nz