

# USING TAX POOLING TO YOUR ADVANTAGE

## PAY TAX WHEN YOU WANT TO



Tax pooling is a great tool that provides taxpayers with greater flexibility around provisional and terminal tax payments, and the dates they are paid. Significant IRD late payment penalties and use of money interest can be mitigated via tax pooling, while interest rates earned on deposits into the pool are currently greater than rates at the IRD, and, in some cases, the banks.

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**N**OT ONLY ARE TAX POOL funds available for income tax, but amounts due from reassessments of other tax types such as GST, PAYE, FBT and DWT can be paid using this facility. Note that for these other tax types tax pooling can only be used for reassessments (for example, reassessments that arise from a voluntary disclosure).

Even with the recent changes to the provisional tax rules and the introduction of the AIM method, tax pooling remains an important tax planning tool.

### THE BASIC MECHANICS

- Taxpayers pay their income taxes together into a pool of funds held by a registered tax pooling agent at the IRD (there are currently six tax pooling agents that are approved by the IRD).
- Those that have underpaid (or not paid at all) their taxes can purchase credits to pay their tax at required dates, using overpayments that others have paid into the pool that are available at the dates required.

- The tax pooling agent charges or pays interest to taxpayers, depending on if they are an under-payer or over-payer.
- Currently, the credit interest rate is higher than the IRD's for overpayments, and the debit interest rate lower for underpayments.

### DEFERRING TAX BEYOND THE DUE DATE

As the due date approaches, if you can answer yes to any of these questions, then tax pooling could be an effective way to finance your income taxes:

- Are you short on cash to cover your tax bill?
- Do you receive most of your income at one point in the year rather than consistently throughout the year?
- Is there uncertainty around your tax bill or could your taxable income be significantly different to the prior year?
- Do you need your funds to help grow your business and pay for working capital such as stock, creditors or wages in the short term?
- Do you need your funds to purchase assets or repay more expensive debt in the short term?
- Has an investment opportunity come up that would make better use of your funds?
- Have you simply missed a tax payment by mistake?

There are time limitations in place as to when you can buy tax. You can buy overdue income tax up to around 70 days after your terminal tax date. For example, a taxpayer with a 31 March balance date can buy overdue tax as late as mid-June (assuming they have an extension of time and therefore a 7th April terminal tax date). For reassessments, this timeframe is shorter.

### SO HOW DOES BUYING TAX WORK?

Let's assume a taxpayer has a 7th April terminal tax date and hasn't paid any of their 2017 taxes including provisional taxes that were due in August 2016, January 2017 and May 2017 and terminal tax that was due on 7th April 2018. If they were to pay IRD direct, they would incur late payment penalties and use of money interest with IRD.

Using a tax pooling agent, the taxpayer can buy taxes at the appropriate dates as late as mid-June 2018. The purchased tax will be applied at the IRD at the dates it was due, therefore resulting in no late payment penalties and no use of money interest charged by IRD. There will be interest charged by the tax pooling agent (interest rates start from around 4.70% compared to the IRD's current rate of 8.22%). The taxpayer is only liable for interest between the tax due date/tax purchase date and the date the funds are paid to the tax pooling agent.

In this case, the payment of provisional tax that was due in August 2016 has been delayed by nearly 22 months. The taxpayer has held onto their funds for a lot longer than if they paid direct to the IRD on the due dates, without incurring significant penalties, and with less interest.

### WHAT ABOUT DEPOSITING TAX INTO THE POOL?

- Have you ever paid tax to the IRD and wanted to get it out again shortly after?
- Do you find it too tempting to spend the money you have saved towards your taxes on something else?
- Would you prefer to earn interest at higher rates than the IRD rates when you pay tax early?

### FLEXIBILITY TO DRAWDOWN ON TAX ALREADY PAID

Deposits into the tax pool can be drawn upon at any time (usually taking 2-4 days and subject to providing AML documentation). Conversely, tax paid directly to the IRD usually can't be refunded until the tax return for that year has been filed.

For example, if a taxpayer has paid provisional tax to the IRD, and then later in the year profits turn out far lower than expected, the tax already paid can be difficult to get refunded. If these funds were deposited into the tax pool, the taxpayer could withdraw any overpaid tax and potentially use those funds more efficiently in their business.

### SAVING FOR YOUR TAXES IS EASIER WITH TAX POOLING

Making deposits into the tax pool can be an effective way of saving towards your tax liability.

Some find it difficult to save for taxes, leaving tax as more of an afterthought. Others find it too easy to use the money they had saved for tax towards other business activities (or sometimes private activities).

Putting funds on deposit in the tax pool takes those funds out of your bank account, making it slightly more difficult to spend the money elsewhere. As they say, out of sight, out of mind and yet they can still be withdrawn if needed.

### EARN INTEREST ON DEPOSITS

If your tax payments are in excess of your ultimate tax liability, a higher rate of interest can be earned on the overpaid tax sitting in the tax pool (currently around 3.40% compared with the IRD rate of 1.02% or nothing until your third provisional payment if following the Uplift Method). The tax and interest can be paid back out to a nominated bank account or credited against the following tax year.

### WHERE TO FROM HERE?

Tax pooling is a useful tool for many reasons and can ease uncertainty and stress, and add flexibility to cash flows around the tax due dates.

*There are a number of tax pooling agents, and Staples Rodway has a good relationship with all of them and can identify the best one to suit your needs at the time. If you'd like more information, or if you'd like to use tax pooling, contact your usual Staples Rodway accountant. Please note that this is intended as a general guide only and should not be a substitute for taking advice for your specific circumstances.*