

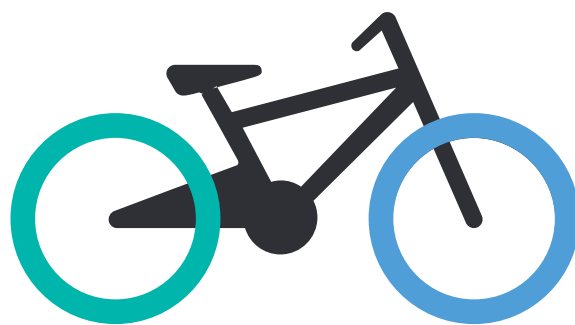
Tax Pooling 101

Contents

Part 1: Purchasing Tax

Part 2: Depositing Tax

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TMNZ Account Types

There are two types of clients that TMNZ can help. One helpful way of thinking about it is:

- Standard Taxpayers = Flexi Account send funds to IRD
- Large Taxpayers or Taxpayer Groups (generally more complex) = Advantage Account hold funds in the pool



Flexi Account

- We automatically transfer funds to your IRD account in the same month that we receive payment.
- Used where the client wants a lighter touch, simpler approach and wants to see their funds at Inland Revenue as soon as possible.
- Clients receive most of the benefits of pooling through this account, and can access Flexitax or Tax Finance.

Advantage Account

- For the more sophisticated, complex or larger taxpayers.
- They have the option to hold funds in the pool or transfer to Inland Revenue when paid.
- This Account type provides access to Flexitax, Tax Finance, Deposit, Sale, Swap and Transfer transactions.

Contact TMNZ to change the account type if the taxpayers' requirements change over time. You cannot do this through the dashboard.

The following pages will cover off the TMNZ solutions shown in the account graphics above.

Flexitax: for cashflow flexibility

This is our most commonly used product. In the past, this was always used to purchase tax for a taxpayer who had missed the payment. Now we're seeing many more Firms working with their clients to manage their cashflow positions and using pooling as a tool to do that. They setup the tax payments in advance with TMNZ giving clients the flexibility to manage payments according to their cashflow availability.



Flexitax can be used for past, present or future tax amounts.

- Past – purchase an amount of tax that is underpaid.
- Future – enter in your upcoming provisional tax payments based on standard uplift and the client pays the tax as and when they have the cash.



Payment options:

- Instalments,
- One off payment.



Statements each month with progress.



One requirement. Due 75 days after TT.



This works like a revolving credit account.

- As the client makes payments, their interest costs reduce.
- Any payments made before the payment due date don't incur interest.
- Once the payment due date is past, interest is incurred.
- If there are multiple provisional tax dates setup within the Flexitax arrangement, payments are allocated back to the oldest provisional tax date to reduce the overall interest cost. Once that provisional tax date has been paid, any further payments are allocated to the next provisional tax date.
For clients with tax due at Terminal Tax dates, we may allocate it to the Terminal Tax date as it gets closer even if there is outstanding tax at earlier dated provisional tax dates for the following Tax Year.
- If a client pays late, because you've got a Flexitax in place, they won't incur late payment penalties.
- As soon as the client makes a part payment of their tax, the arrangement becomes an instalment arrangement which they can manage themselves.
- Monthly statements as well as payment reminders and receipts for payments can be sent directly to the clients so you don't have to do anything if the client is setup to receive these.
- They can pay this off early if they want to thereby reducing the original interest cost quoted.
- Taxpayers can extend/rollover the arrangement up until 75 days after terminal tax date (but can't go past this date). If they don't make a payment in a due month, the arrangement will automatically rollover to the next month up until the 75th day.
- They can edit or delete the Flexitax at any time.

Flexitax is a great alternative to Inland Revenue fixed instalment plans as Interest rates are lower and there is more flexibility.

Reasons to use Flexitax

By paying into the pool, you have full visibility over the client's transactions, and they can pay when they have the cash, or they can setup an automatic payment.

Locking in upcoming provisional tax payments means we can ensure we have the funds set aside for your clients and they can start chipping away at the amounts due.

You do not have to adjust the arrangement if they miss a payment or change how they are paying the tax.

However, you can change the provisional tax amounts and dates during the year, so it is fully flexible.

No pre-approval required and usually no impact on banking covenants.



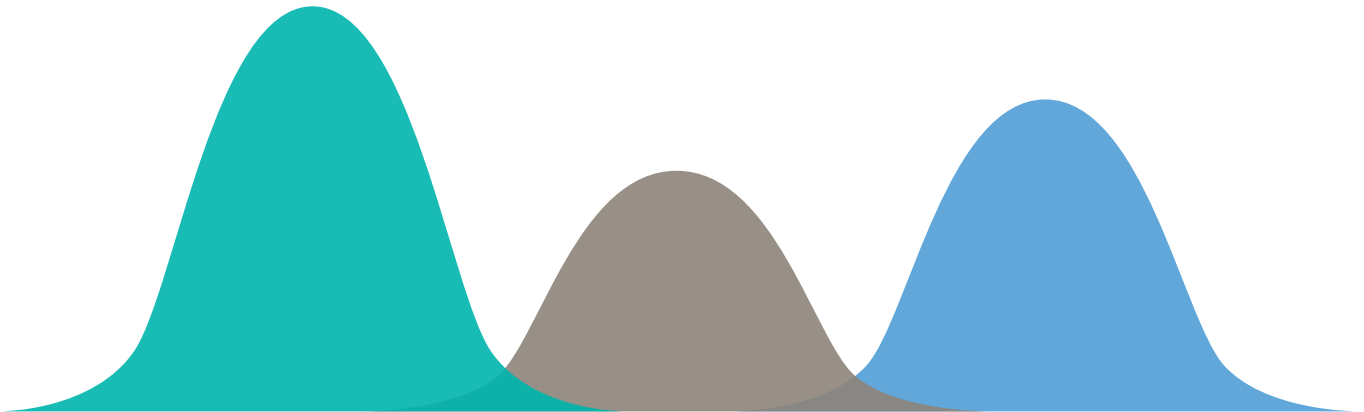
Pay based on your clients cashflow instead of paying fixed instalments to IRD



No amount is too big or too small



Lock in upcoming provisional tax instalments



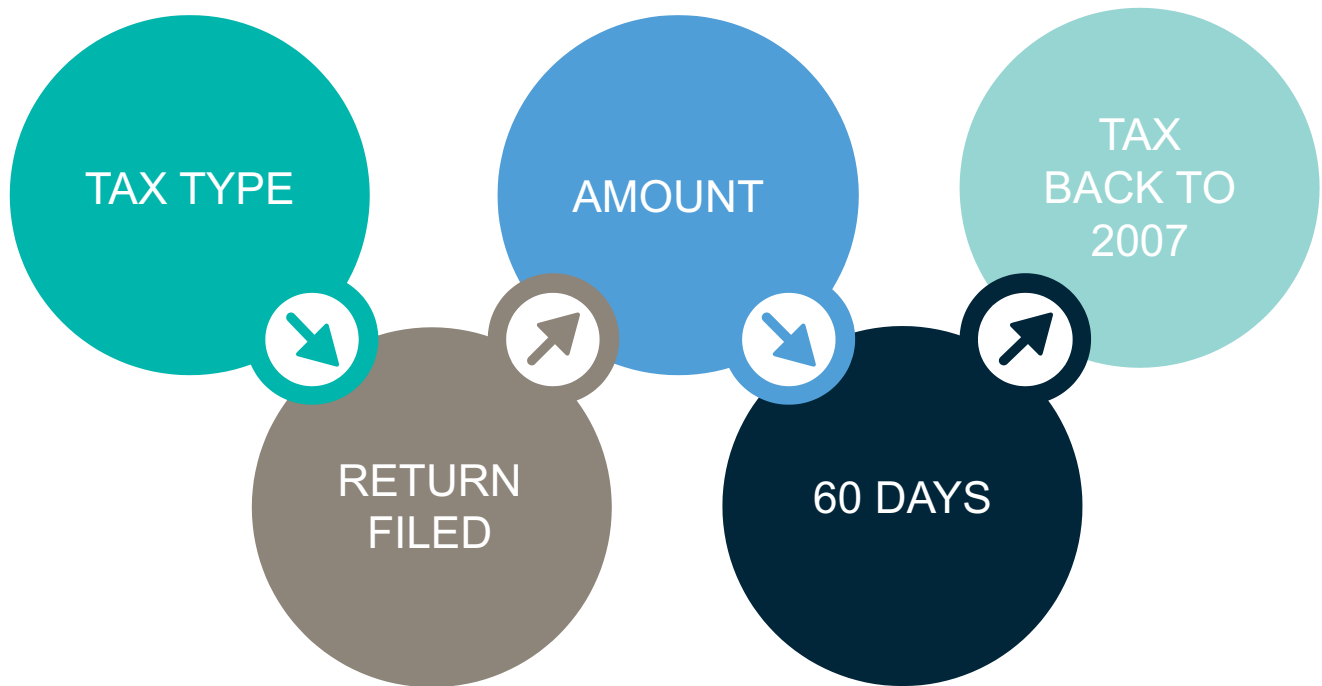
Clients suited to using Flexitax:

- Seasonal businesses
- Uncertain or fluctuating profits
- Use other funding facilities such as their bank overdraft, which have higher interest rates
- Need cash to pay normal business operating expenses or meet capital requirements
- Want more control in managing the cashflow for their business

Reassessments

Where you have had a notice of reassessment, either from an audit or voluntary disclosure, Flexitax can be used for:

- income tax in prior years: TMNZ holds stock of tax back to 2007; and
- for other tax types, including GST, PAYE, RWT, NRWT and FBT.



In these cases, tax pooling can be used for any increase in tax due over a prior filed amount, where the original position taken in the tax return is adjusted by Inland Revenue. Tax pooling can be used subject to the following:

1. Available for almost any tax type except social taxes such as Kiwisaver and Working for Families;
2. Original return must have been filed, and filed on time;
3. Pooling can only be used for the difference between the original assessment and the reassessed amount;
4. The purchase and transfer of tax to Inland Revenue must be completed within 60 days of reassessment.

The key point is that if you have a reassessment, get in touch with us straight away to get a quote, as the timeline to pay and transfer the funds to Inland Revenue is 60 days from the date of the reassessment. If you are unsure of the date of the reassessment, we can ask Inland Revenue on your behalf.

We cover reassessments in more detail in our Advanced training module.

Tax Finance: for cashflow certainty

Tax Finance is used to defer a provisional tax payment to a date that suits at a fixed interest rate:

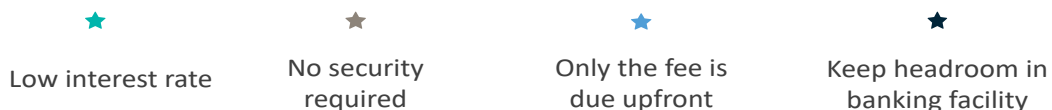
1. The taxpayer pays TMNZ an upfront fee for an option to purchase the tax at an agreed future date.
2. TMNZ arranges for tax to be held in the pool on the taxpayer's behalf on the provisional tax date.
3. The taxpayer pays the core tax on the maturity date, and receives entitlement to the early dated tax.
4. Fee rates are generally lower than Flexitax rates, and the rate depends on the period over which you are financing.
5. Finance may be a better option for amounts of \$100,000 or more, where the client has strong cash flow planning.
6. Typically, clients with less than this amount will choose to pay off the tax early or value more flexibility.
7. Used for clients that have certainty around their cashflow and the tax liability due.
8. Tax finance works well for businesses who have a cashflow requirement to defer tax to a different date or a use for the funds as a working capital solution



An example of when a taxpayer might use this would be if they have tax to pay in January and while they don't have the cash now, they have a contract which is expected to be completed and paid to them in November the following year. They finance the tax by paying the fee in December to secure the funds with us and then pay the tax in a lump sum payment in the following November. We will then transfer this to IRD with an effective date of 15 January.

Reasons to use Tax Finance

- Cash flow management;
- Keep headroom in banking facility;
- Make a dividend payment;
- Balance sheet management – defer payment or drawdown on your money to put cash in the bank over a reporting period;
- Preapproved line of credit;
- No security required;
- Can have no impact on banking covenants.



Questions commonly asked: What happens if

Your client can't pay on their chosen maturity date?

Provided they are still within 75 days of their terminal tax date, they can extend the maturity date by paying another fee for the roll period at current interest rates.

Your client finances more tax than they need?

- This is an option so if they don't need the full amount, they can simply pay for just the amount of tax they need.
- They won't be entitled to a rebate for the full fee that they paid as we have to pay the funder for the amount financed.
- However, talk to us as we may be able to rebate some of the fee.
- We generally recommend that they only finance an amount that they have certainty over.





Your client misses their maturity date and the tax finance is lapsed?

If the finance is lapsed, please contact us as we can reinstate the finance. The client may have to pay a fee to cover reinstating the finance and interest from the original maturity date until the new due date.

Depositing into the TMNZ tax pool

Generally, those who deposit make **on time** payments at each provisional tax date into their TMNZ account and it is held there until they determine their final tax liability i.e. Residual Income Tax when they prepare the tax return. They then transfer to Inland Revenue the correct amount of tax from each provisional tax date they paid it at.

TMNZ clients who typically Deposit

-  Annual tax liability over \$300k
-  High net worth individuals, trusts or corporates actively monitoring their tax position
-  Often part of a complex group structure – 1 payment each provisional tax date
-  Clients requiring the ability to easily sell, buy, refund or swap tax

Generally, those who deposit make on time payments at each provisional tax date into their TMNZ account and it is held there until they determine their final tax liability i.e. Residual Income Tax when they prepare the tax return. They then transfer to Inland Revenue the correct amount of tax from each provisional tax date they paid it at.

Taxpayers who want to deposit with us select an Advantage account rather than a Flexi account when setting up the taxpayer account. Advantage accounts allow for all the same actions as a Flexi account but with a few extra features to manage more complex tax positions by holding their balances in the pool.

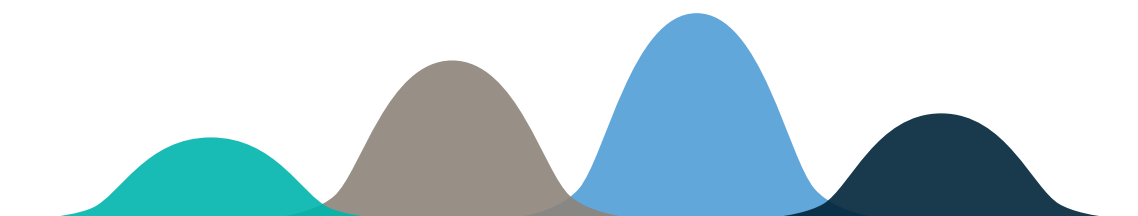
Depositors can monitor tax dates, manage past tax, manage upcoming tax, deposit tax, sell tax, swap tax. For Groups, they can make 1 payment on behalf of a group and then once the tax returns are finalised, arrange transfers to group members. This assists with administration and means you can manage the transfers yourself online in the TMNZ portal.

Depositors who make late payments or irregular payments should set up a Flexitax so the payments go towards the correct dates upon payment. This is generally more efficient than looking for swaps or sales and purchases at a later date.

Reasons to deposit

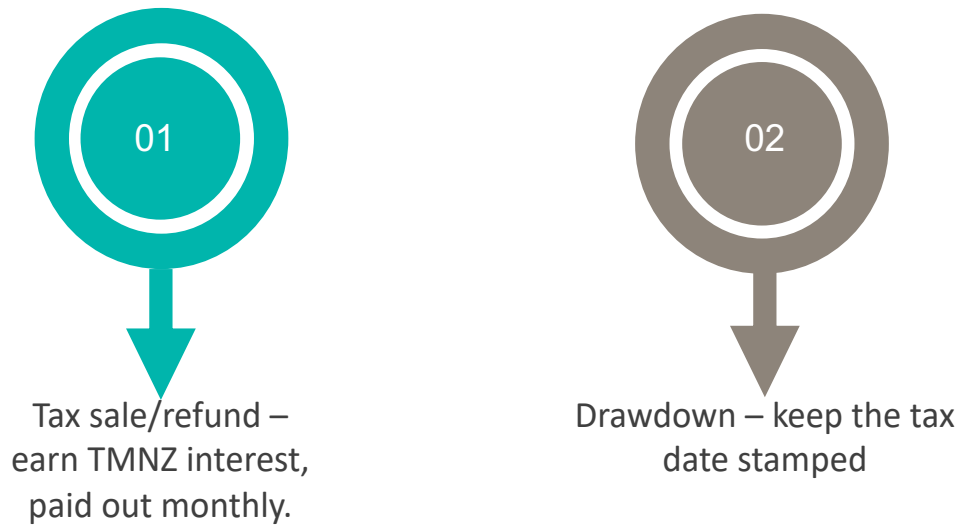
- Options to get the cash out if they have overpaid – refer to the next section for further details:
- Ability to transfer deposits to other tax types i.e. GST, PAYE, RWT etc.
- Option to swap tax between deposit dates to optimise or minimise interest
- Proactive account management at no cost as we don't charge management fees.

★
Options to get
cash out
★
Transfers to other
tax types
★
Options to
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Getting cash back

Another benefit of an Advantage account is that the taxpayer can get cash back quickly and maximise the economic return they will receive on these amounts.

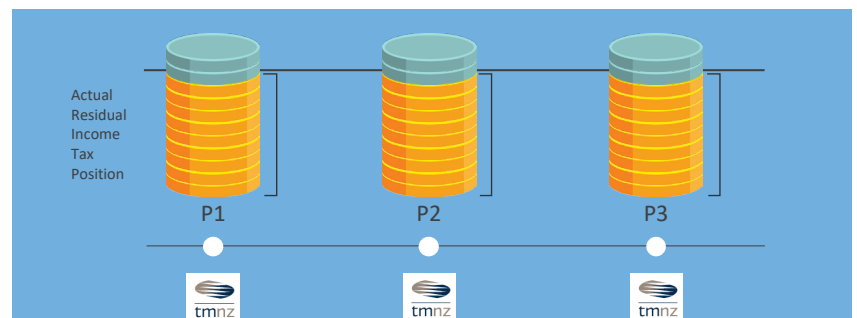


Tax Sale: Excess tax can be sold at premium rates, above IRD UOMI rate. This contrasts with a payment to IRD which in some cases will not even generate UOMI under the new regime.

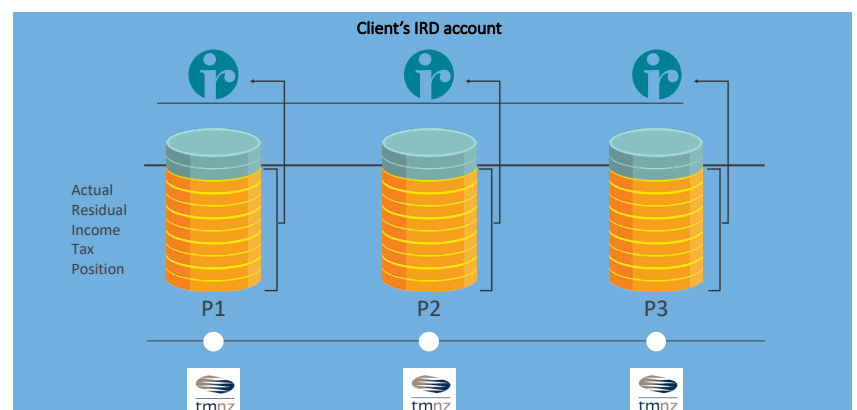
Fast Refund: usually within 3-5 working days (subject to AML). Option to temporarily drawdown on deposits at low interest rates. No requirement to file a tax return. Proof of the taxpayer bank account is required.

Tax Deposit scenario: Tax Sale

The diagram shows the Taxpayer has deposited into the pool at each provisional tax date.

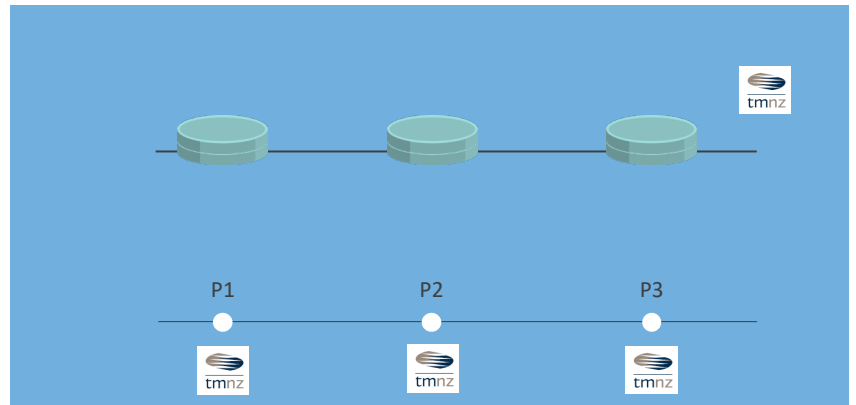


They complete their return and transfer from the pool to Inland Revenue the amounts required per the tax return.

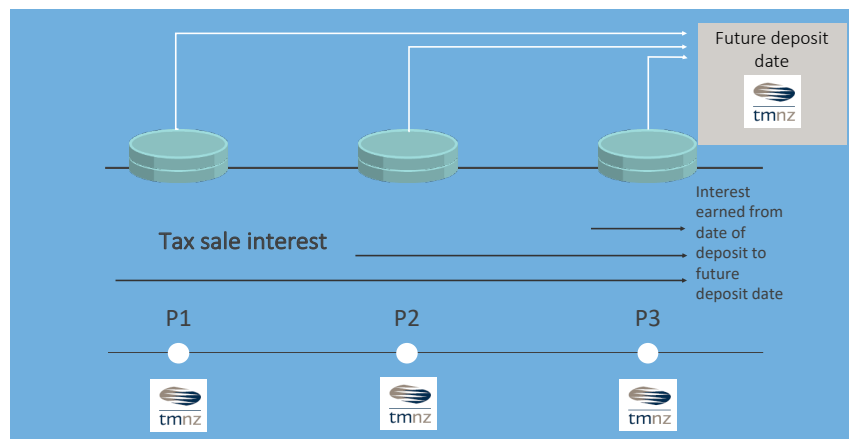


Tax Deposit scenario: Tax Sale within the pool

They have excess tax paid at each provisional tax date. The excess remains in the pool until the taxpayer determines how it is to be dealt with.



The taxpayer decides that they want to use the funds against their subsequent year's provisional tax liability. They ask TMNZ to sell the tax for them and redeposit the tax against their next provisional tax date. TMNZ pays interest on the sale up until the date of the redeposit.



Drawdown

A Drawdown is the temporary withdrawal of funds from the tax deposited into a taxpayers TMNZ account. The taxpayer will usually have an alternative need for those funds within their business and anticipates cashflow at a later date to be able to repay those funds back into the pool.

How it works:

- The Taxpayer effectively sells the underlying original Tax Deposit to TMNZ, and we hold it at the original provisional tax date. We transfer the funds out to the taxpayer.
- The Taxpayer pays an upfront Finance fee for the duration they wish to drawdown their funds, calculated from the date of drawdown to the anticipated date of repayment. In some cases, the fee is deducted when the tax is withdrawn. This gives the Taxpayer the right to get back the original Tax Deposit date upon payment of the core tax.
- The taxpayer pays the core tax back at an agreed future maturity date. The tax is transferred back into the taxpayer's name at the original provisional tax date i.e. they retain the date at which it was originally deposited.
- However, the funds are now purchased funds rather than own funds and must be transferred to Inland Revenue within 75 days of terminal tax date.

Sale, Refund & Drawdown - Anti Money Laundering

Any sale, refund or drawdown from the pool is subject to AML as it involves money being transferred out of the pool.

Required for:

- Clients whose transactions within the last year value \$10,000 or more
- We have not received AML Documentation within the last two years



Required from:

- The person(s) with ultimate control over the Client's TMNZ balance (e.g., shareholders)
- The agent requesting the transaction

Both accountants and tax pools have to AML clients. It is recommended that when you have to do AML for a client, you ask the client if you are able to share that information with TMNZ, even if they do not intend to withdraw funds from the pool. AML documentation is valid for three months from the date it is obtained, and once it has been received by TMNZ it does not have to be reviewed again for two years. However, if AML is required more than three months from the date it is obtained, we will have to go through the process with the Client again if they then request a sale, refund or drawdown from their TMNZ account.

First year or new provisional taxpayers

If this is the first year that your client is paying provisional tax, the UOMI rules apply differently.

While they may not have an obligation to pay provisional tax under section RC 3(3) (ITA 2007), if the taxpayers current year RIT is greater than \$60,000, they will be liable for UOMI from their first provisional tax date based on actual RIT per sections RC 9(9) (ITA 2007) and 120 KC (TAA 1994).

The first provisional tax date and number of instalments is determined by the date they start a taxable activity under section RC 13 or RC14 (ITA 2007).

You need to be aware that the definition of a new provisional taxpayer is limited in its application and is different for individuals versus other entities per section YA1 – initial provisional tax liability (ITA 2007).

Just because the taxpayer was in a loss position previously, this doesn't necessarily make them a new provisional taxpayer.

The position for 1st year provisional taxpayers is therefore quite onerous as they have to get their provisional tax payments correct or be liable for UOMI from P1.

Contact us

Please contact your Client Relationship Manager
or the Client Services Team.



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