



Second return filing target of 18 November 2005

The second extension of time (EOT) filing target date for filing 2005 income tax returns in the period 1 April 2004 to 31 March 2005 is approaching.

The percentages due to be filed by 18 November 2005 are:

Standard target	60%
E-File target	57.5%
Late balance date target	50%

If you think you may have difficulty achieving your targets, contact your agent account manager or Corporates account manager to discuss your situation. Remember, you can send an L letter, using INFOexpress, to clients who haven't provided you with the information needed to prepare their return.

Proposed changes to FBT

New legislation proposes a number of changes relating to FBT, designed to reduce compliance costs and remove the anomalies while maintaining the objectives of FBT. In this issue we look at the changes relating to motor vehicles.

Owners will have the choice of calculating FBT based on either the vehicle's tax book value or, as at present, its cost price. The tax book value option will be most beneficial to employers who retain vehicles for more than five years. A minimum value of \$8,333.00 applies if this option is selected. For employers who continue with the cost option, the value of the benefit will reduce from 24% to 20%. For those employers who choose the tax book option the equivalent rate will be 36%.

Leased vehicles will be aligned with owned vehicles and therefore the fringe benefit will be based on the cost price or tax book value rather than the market value. Vehicles leased from shareholder-employees will be treated the same as all other leased vehicles.

Employers will be able to elect the commencement of an FBT day to be any time in a 24-hour period. By electing a commencement time, for example 6.00 pm, any private travel between 6.00 pm on the chosen day and 6.00 pm the following day will be treated as being the same day. This will remove the current anomaly of it being counted as two days. If no election is made the current calendar day would apply.

Once an employer has made an election this will apply for two years.

When will the changes apply from?

It is proposed that amendments will apply from 1 April 2006, or, for employers who pay FBT on an income year basis, from the income year beginning on or after the date of enactment.

Family trust – must it have an IRD number?

We published an article under this heading in our February 2005 edition. The article has been revised to cover a situation where a family trust receives or may be deemed to receive rental income.

We regularly receive applications for IRD numbers for trusts that are not deemed taxpayers, resulting in the requirement to unnecessarily file nil income tax returns each year.

If a family trust is a taxpayer it must have an IRD number and have a return of income filed each year. Whether the trust is deemed to be a taxpayer depends on whether it earns income or has any income-earning assets.

These would include:

- bank accounts
- shares or other investments
- business assets that produce income.

If the trust has no income and no income-earning assets it is not a taxpayer, and no IRD number is required. For example, a family trust that owns a family home but no other assets.

However, in a situation where the family home is occupied by a beneficiary who pays some or all of the outgoings, instead of paying rent to the trust, the income situation may not be neutral. There may be tax consequences depending on what arrangements have been made.

Where the beneficiary pays the rates and insurances, the parties may choose to treat the trust as deriving income equal to the payments made for these items, that is, these payments would be part of the rent. If Inland Revenue accepts the arrangement then the trust would have incurred the same amounts as deductible expenditure and, ignoring any depreciation, the resulting situation would be that the income received and the allowable deductions would cancel each other out. The situation may not always be neutral. For example, if the beneficiary occupying the property also makes mortgage repayments as they fall due, then the situation might be different and there could be net income to the trust. The parties might decide (rather than treating these as gifts) that the rent should also include the mortgage repayments. In this case the capital component (principal) of such payments would result in income to the trust. This income would not be balanced by a corresponding deduction (although depreciation could be claimed) and the family trust may have net income. The family trust would need to get an IRD number.

If you currently have any clients with family trusts with an IRD number that has been allocated in error, please contact us in writing and the IRD number will be ceased.



New in-work payment

As part of Working for Families, a new tax credit called in-work payment will be introduced from 1 April 2006. This will replace the child tax credit, which is currently a part of family assistance.

For eligible customers, in-work payment will pay up to a total of \$60 per week if a family has one, two or three children and an extra \$15 for each subsequent child – this means that eligible families will receive between \$15 and \$45 more per week than they would normally receive from the child tax credit.

Eligibility for in-work payment will be determined based on a family's income, the number of children they have, and the hours they work. In-work payment will be available to those family assistance customers who are in employment including those who are self-employed, but will not be available to those who receive an income-tested benefit or student allowance.

To help us to determine if your clients who receive family assistance are eligible to receive in-work payment, we need to know if they are:

- a two-parent family who normally work 30 hours a week (this can be one parent working these hours or both parents working these hours between them)
- a single parent who normally works 20 hours a week.

Customers who receive their payments either weekly or fortnightly are encouraged to confirm their eligibility for in-work payment by 27 March 2006 in time to receive the first payment in April.

In November, we will be sending a letter and brochure to our family assistance customers, containing information about in-work payment and how they can confirm if they meet the criteria. If you normally receive family assistance information for your clients, the in-work payment letters and brochures for your clients will be sent directly to you as normal.

Customers who receive their family assistance as a lump sum payment at the end of the year will be contacted next year. We will provide more details about this in a future edition.

Charities Act 2005

The Charities Act 2005 became law on 20 April 2005, establishing a Charities Commission which is an autonomous Crown entity.

The Commission came into being on 1 July 2005 and it has two main functions:

- to provide education and support to the charitable sector
- to register and monitor charitable entities that wish to obtain income tax exempt status.

The Commission will maintain a register of charitable entities. Registration is voluntary, but if an entity wishes to retain or obtain an exemption from income tax and gift duty it will need to register.

The register is expected to open in the first half of 2006. The timing will be well publicised through the media and the Commission's website.

Inland Revenue will continue to ensure that charitable organisations are eligible for various tax exemptions. To minimise the cost of compliance Inland Revenue is working with the Commission using a "one-stop shop" framework. Processes are being developed so that registered organisations will be treated as being eligible for the tax exemption. Inland Revenue will still be able to undertake tax audits to ensure an organisation is charitable and complies with tax legislation. A similar process will also apply in relation to requests for donee organisation status.

It is expected that organisations will have until April 2007 to register before their tax status is affected.

Refer to *Tax Information Bulletin (TIB)* Vol:17, No 07 (September 2005) for further explanation

For more information, read the Charities Commission booklet *A Guide to the Charities Act* on www.charities.govt.nz or call 0508 CHARITIES (0508 242 748).

Note from the editor

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The Editor
AGENTSanswers
Inland Revenue
PO Box 2198
Wellington
Email: agents.answers@ird.govt.nz

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