

C O R P O R A T E S C O N T A C T

N U M B E R T W E N T Y T H R E E ~ S E P T E M B E R 2 0 0 4

Comment From Group Manager

I recently had the pleasure of launching Corporates' Business Plan for 2004-05. The Plan outlines how we aim to implement the Department's business plan, *The Way Forward* as well as the department's three key areas of focus: strengthening our customer focus, enhancing our services, and ensuring we have the right capability.

As a result, Corporates is in a period of transition, as we move to tailor our services and processes to meet taxpayer needs, taking into account their tax risk profile. We will achieve this by being more **current**, **certain**, **consistent** and by having **integrity**.

To become current we will change our audit approach to focus on risk. Through our new intelligence unit we hope to become sharper and more streamlined in identifying and assessing risk.

We will:

- Collect and assess information from all sources
- Meet with executive management of large enterprises to understand accounts, recent events, and how they manage risk
- Undertake more focused audit reviews of shorter duration than at present
- Review the way we seek information, document, manage and review audits
- Seek timely taxpayer response to filing of returns and to our requests for information
- Seek alternatives to the way we are able to satisfy ourselves as to the correctness of taxpayer positions
- Make greater use of workforce planning processes to ensure appropriately skilled staff are available to undertake work at hand
- Develop staff through the use of rotation, secondment, and promotion opportunities
- Create an environment where staff take responsibility for their own development, career progression and training

- Publicise and maintain an up-to-date schedule of the most common adjustments to prompt advisors and company management to monitor these areas themselves
- Establish High Wealth Individuals as a separate sector to give greater impetus to the direction of this unit.

We are bedding down Binding Rulings processes within Corporates. This will enable taxpayers to seek certainty for their high tax risk transactions. In return we will gain earlier intelligence. This will enable us to become even more focused in our risk reviews.

We will seek to identify and advise Policy Advice Division on areas of the law which require simplification and greater clarity to give more certainty to taxpayers and their advisors.

We will work with all parts of Inland Revenue to ensure that when a piece of work is released to you as a taxpayer it has the support of all sections of Inland Revenue.

We will build bridges with all relevant parts of Inland Revenue in particular Policy, Rulings, Litigation Management and Technical Standards. We will work to support and where possible integrate our processes with those of Field Delivery to achieve a stronger Service Delivery Group.

It is a given that we will operate with integrity in everything we do.

I am confident that we can achieve our goals as we strive to tailor our services and processes to meet taxpayer needs, taking into account their tax risk profile.



Spyros Papageorgiou
Group Manager
Corporates

The Corporates Segment Risk and Intelligence Unit

In April 2004 the Risk and Intelligence Unit was created to ensure that the Corporates Segment appropriately targets risk. Risk and Intelligence is a small unit of approximately six staff—a team of intelligence analysts and senior risk advisors led by Manager Stewart Donaldson.

Risk identification and prioritisation are two important roles of the new unit. In recent months the unit's focus has been to begin streamlining the Corporates Segment's current approach to tax risk analysis. This has involved piloting a tax risk review process for 15–20 large corporates across a number of industries.

Each tax risk review involves a meeting, generally between an Inland Revenue account manager and the corporate tax staff. Questions address a number of areas, including tax adjustments made for 2003 tax returns, tax governance issues, impacts of changes to legislation, issues arising from mergers, acquisitions and restructures, international matters and financing details.

Audits will not necessarily occur as a result of this work. The findings will be considered as part of our normal audit selection process.

The meetings are still under way at the time of drafting this issue of *Corporates Contact*. At the end of the pilot we plan to make the participants aware of significant risks we have identified as part of their specific review. We also plan to evaluate the success of the pilot, both internally and with the pilot participants, during the December quarter.

In the longer term, the goal of Risk and Intelligence is not just to facilitate more timely reviews of tax returns and more risk-focused audits, but to make our approach to risk assessment more public. This will help large enterprises understand the Corporates Segment position and the response they can expect from us.

Do you ever engage a non-resident?

Do you engage non-residents to undertake contract work for, or on behalf of, you or your company in New Zealand? Or perhaps you lease equipment from a non-resident? If so, you are required to deduct withholding tax from payments for the activity undertaken here.

Subject to specific de-minimus rules, the Income Tax (Withholding Payments) Regulations 1979 (WP Regs) requires withholding tax to be deducted from all contract payments made to non-resident contractors (NRCs) for activities, including equipment rentals, undertaken in New Zealand unless the NRC presents a valid exemption or special tax rate certificate to the payer.

Generally, exemption certificates are issued when the NRC will be exempt from income tax in New Zealand, on application of a relevant double taxation agreement and special tax rate certificates where the NRC has a liability here, but it will be less than the prescribed withholding tax rate. All applications for exemption and special tax rate certificates and enquiries about NRC issues should be referred directly to the NRC Team, based in Wellington.

As well as considering applications under the WP Regs, the Non-Resident Contractors' Team operates to determine all the taxation liabilities for non-residents performing "contract activity" in New Zealand. This includes advising the parties whether there is a requirement for the non-resident contractor to register and account for GST in New Zealand.

For more information, refer to:

<http://www.ird.govt.nz/othertaxes/nonresidentcontractorswithholdingtax.html>

Or,

Non-Resident Contractors Team			
Corporates Unit			
Inland Revenue	Extension	56056	
Private Bag 39984	Phone	64 4 802 6056	
Wellington	Facsimile	64 4 384 5883	
New Zealand	Email	nr.contractors@ird.govt.nz	

Account managers: working for you

To create an environment which reduces compliance costs and the time it takes to resolve your queries and concerns, Corporates has assigned account managers to a majority of its taxpayers. As a Corporates taxpayer you are able to receive early assistance with taxation and audit queries, or assistance with account maintenance issues.

Corporates has allocated two account managers for each Corporates taxpayer:

- Account manager, taxation and audit issues, and
- Account manager, business services.

1. Account Manager, Business Services

The Account Manager, Business services will assist you with queries about account maintenance, transfers, debt issues, penalties and interest, return filing issues, and general technical correspondence, for example changes in balance dates, buyer-created tax invoices, consolidations, amalgamations and voluntary disclosures.

They will also conduct proactive advisories to increase your understanding of compliance issues.

2. Account Manager, taxation and audit issues

The taxation and audit Account Manager is responsible for complex taxation requests or other information that you may require. Examples would be assistance on a particular taxation treatment, technical interpretation or a non-binding view on a variety of issues.

This Account Manager takes a proactive role in early identification of tax risks and may review your company's latest income tax returns and financial statements. They are also responsible for any taxation audit activity being undertaken by the Department for your company and possible technical issues that flow from that audit.

You may liaise with the Account Managers by phone or by letter.

If you do not know the contact details of your Account Managers, please contact Corporate Call Centre on 0800 443 773.

Do you need certainty on a transaction?

Corporates Segment is assisting with taxpayer requests for binding rulings.

We were pleased to note the recent comments by the Law Society about the speed with which we handled a recent binding rulings request.

Corporates will focus on applications dealing with the more straightforward (operational) arrangements. Binding rulings provide taxpayers with certainty about the tax implications and business decisions and assist taxpayers to comply with the law. If you are keen to talk about requesting a binding ruling, please contact your account manager.

Banking and insurance becomes Financial

Corporates' Banking and Insurance sector has recently changed its name to Financial Sector to better describe the taxpayer base it serves.

The Financial Sector not only serves banks and insurers, but also unit trusts, finance companies, building societies, credit unions, group investment funds, superannuation funds and funds management companies.

When Corporates was first formed in 1994, it included a Banking and Finance Portfolio and an Insurance and Superannuation Portfolio. Each was managed separately.

Subsequent reorganisation within Corporates resulted in the establishment of a Banking Sector and Insurance Sector. With the close interaction of the two sectors, they eventually came under the permanent leadership of one manager under the name Banking and Insurance Sector.

The name change should make it clearer to taxpayers who the sector is responsible for.

The sector is made up of dedicated groups responsible for a particular segment (known as desks) including banking, life insurance, general insurance and investment industry, and business services located in Wellington, Auckland and Christchurch.

Increasing efficiency

The following is a brief summary of the correspondence we have received and are continuing to process at present.

The total amount of correspondence completed for this last financial year was 34,744. As at June 30, 2004, we had 362 items of correspondence currently needing processing. This is the lowest it has been all year.

In recent months we have particularly targeted on-hand

correspondence over six weeks old and have reduced this from 133 items in May to only 35 current items six weeks old or more, as of June 30, 2004. As a comparison, there were 152 pieces of correspondence over six weeks old still on hand at the same point last year.

During this time, we have answered 24,246 phone calls, with 95% actioned within one day. For the same period last year, telephone correspondence amounted to 9,553 calls. We also provided 385 advisories promoting voluntary compliance and education during this season.

Audit adjustments

We are often asked what adjustments are made as a result of our audits. Here is a list of some of the more significant frequent adjustments. Companies and tax agents may consider this information useful to conduct their own reviews.

Capital expenditure treated as revenue

- Termination payment
- Upgrading expenditure
- Damages payments
- Loss on disposal of goodwill
- Capital contribution to a joint venture
- Tax payment claimed as deductible

Depreciation

- Items expensed included in cost
- Reimbursements included in cost
- Claim on assets no longer used
- Claim on assets not yet in use
- Claim on land improvements
- Use of incorrect rates
- Duplication of assets

Financial arrangements

- Bad debt, base price incorrectly calculated
- Error FX not calculated on an instrument- by-instrument basis
- Double claim of losses

International tax attributing CFC returns

- Errors in calculation of CFC and FIF income
- Errors on BETA account calculation

Loss offsets incorrectly taken

- Incorrect carry forward after breach of continuity
- Loss claimed twice

Loss on sale of capital assets

- Disposal of shares held on capital account
- Building incorrectly claimed as plant
- Loss on disposal of intangible property

Share trading

- Journal entry error
- Sale of assets held on capital account

Structured finance

- Masthead transaction

Other

- Double counting ICAs
- Non-reversal of previous period entries – GST
- Mathematical error in tax reconciliation schedule
- Errors in inventory schedules
- GST on domestic rental properties
- Mathematical error in GST calculation
- Mathematical error in opening balances
- Bringing forward expenses
- Thin capitalization threshold breached
- Debtors understated
- Error in the exchange rate used
- Error in GST, complete income stream missed