



## Tax agent strategic project

The project was initiated in October 2003 to better align tax agent interaction to Inland Revenue's strategic direction and to understand what type of relationship should evolve between the parties in the future. The brief was to develop a tax agents' strategy that will streamline and simplify tax processes for the majority of tax agents and create an environment which promotes voluntary compliance.

In the past few months you may have been visited by an Inland Revenue staff member from the Tax Agent Strategic Project or attended a focus group run by the project. These meetings formed part of the information-gathering phase of the project.

The project team concluded that there was general consensus from all on the type of relationship that would benefit Inland Revenue, yourselves and your clients.

Both Inland Revenue and tax agents recognise and understand the business goals we have in common and the need to work together to achieve these. As part of this there is an important contribution made by tax agents' professional bodies, in working with Inland Revenue and

tax agents to ensure efficient consultation and communication between all parties. Inland Revenue also recognises the value provided by compliant and high-performing tax agents, and wants to retain this by providing opportunities to reduce compliance costs and simplify the tax administration processes. You expressed the view that you would like to assist in improving the compliance of those taxpayers that try to comply but don't always succeed.

Over the next few months the project team will be finalising the strategy and identifying the key areas that will help us achieve a better relationship through possible changes in legislation, technology, processes and services. As part of the process we will ask for your comments through traditional channels like discussion documents and consultation with representative groups like the Institute of Chartered Accountants New Zealand and the Tax Institute of New Zealand.

We look forward to working with you during the process to achieve a better working relationship and we welcome any comments or feedback you want to provide through your industry representatives or agent account managers.

## Call recording project update

In the April 2004 issue of *AGENTSanswers* we advised you of the introduction of a new automated call recording and analysis package into our call centres. This system went live on 19 April, following a public notice in all daily newspapers on 17 April.

This public notice resulted in some media attention, which focused on a potential aspect of call recording being the ability to "catch tax cheats". In our statement on this, we emphasised that the introduction of call recording did not change the way that information provided to us could be used. That is, information from phone calls could be used in the same way as that in a letter or face-to-face meeting, regardless of whether it was recorded.

The media enquiries highlighted some confusion around the statement "business intelligence". The aim of the project is not to collect information about taxpayers, but only to provide a system that enables staff training and quality assurance through recorded calls. It will be used to gather intelligence on how we can better operate our business, through process improvements, to meet customer needs (for example, understanding what commonly prompts people to call us).

Recorded calls offer a record of exactly what was said during phone calls which is a real benefit to both you and our call centre staff, and aids our commitment to provide the best possible service to our customers.

Going forward, call recording may allow us to action transactions over the phone, which are currently required to be in writing, such as changing bank accounts. Additionally this will simplify our government reporting on the number of enquiries we take.

Our website has now been updated with information about call recording. [www.ird.govt.nz/contacts/callrecording-ps.html](http://www.ird.govt.nz/contacts/callrecording-ps.html)

## Family assistance adjustments for people in business

The Taxation (Relief, Refunds and Miscellaneous Provisions) Act 2002 removed the requirement for some adjustments to be made when calculating family assistance income. This amendment applies from the start of the 2004 income year (1 April 2003).

### Key features

- Deposits to income equalisation and adverse event income equalisation accounts are to be treated as allowable deductions. Refunds from these accounts are treated as income for family assistance purposes.
- If a taxpayer spreads income to future or preceding income years, this income is to be realised in those years for family assistance purposes (not solely in the year in which payment is received).
- Depreciation claimed on buildings is to be treated as an allowable deduction and amounts derived from the sale of buildings is to be treated as income for family assistance purposes.
- Development expenditure relating to agriculture, farming, forestry and aquaculture that is deductible on a taxable income basis is to be treated as an allowable deduction for family assistance purposes.

Refer to *Tax Information Bulletin* Vol 14, No 11 (November 2002, page 51) for a full explanation of the changes and the transitional rules that apply. These are also explained in a table in the **Family assistance guide - 2005 (IR 200) Apr 2004** page 29.

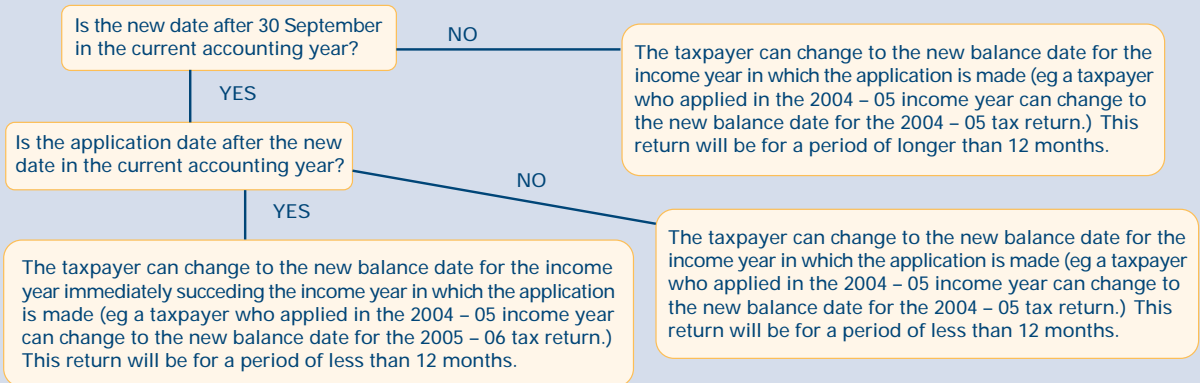


## Application for change of balance date

We continue to receive applications to change balance dates for the 2004 tax year after 31 March 2004. Change of balance date will only be approved in the current accounting year (now 2004 – 05) or subsequent accounting years.

For example, an application received in May 2004 to change a 31 March 2004 balance date to 30 June 2004 is too late as the 2004 accounting year ended on 31 March 2004. The application can be made for the 2005 accounting year.

The flowchart below shows the year in which a change will take effect.



## Standard-cost household service for childcare providers

Changes to the treatment of taxpayers who provide home-based services have been made to the Tax Administration Act 1994. The changes, which came into effect on 25 November 2003, are explained in *Tax Information Bulletin* Vol 16, No1 (February 2004 page 68). The main change enables the Commissioner of Inland Revenue to determine “standard costs” incurred by self-employed taxpayers providing certain home-based services.

Determination DET 001: Standard-cost household service for childcare providers has recently been issued under section 91AA of the Tax Administration Act 1994. The determination and commentary are published in *Tax Information Bulletin* Vol 16, No 4 (May 2004 page 18). The determination was initially designed to be retrospective (dating back to 1 April 2003). However, it was brought to our attention that this would impact negatively on a small group of home-based childcare providers. The Commissioner has stated that no one will be disadvantaged by the retrospective application of the determination. To the extent childcare providers would have been disadvantaged, they will not need to apply the determination retrospectively (1 April 2003 to 31 March 2004).

For the years commencing on or after 1 April 2004, caregivers to whom the determination applies may use the determination or their actual costs and income for calculating their tax liability. For some caregivers, this liability may be part-year only, for example, those caregivers who have commenced taxable childcare activities part way through the year.

The determination sets out the components of expenditure that are generally incurred (standard cost) by individuals who provide childcare services in their own domestic accommodation and where that care is in accordance with the Education (Home-Based Care) Order 1992. Caregivers who provide childcare in their own home but not in accordance with the Order are liable to tax on their total income and are not able to use the determination. These providers must keep full records of actual income and expenses.


Prior to the issue of the determination, some childcare providers applied the practice as it related to persons providing boarding services in their own homes (boarders). Details of this practice are contained in *Rental income (IR 264)* (May 2003) booklet. From 1 April 2004, this practice no longer applies to caregivers who provide childcare services in their own home.

For details of the determination, please refer to *Tax Information Bulletin* Vol 16, No 4 (May 2004), which is available on our website.

## Specified livestock determinations for 2004

The national average market values of specified livestock determination 2004 is now available on our website at: [www.ird.govt.nz/library/publications/taxagents/namv2004.pdf](http://www.ird.govt.nz/library/publications/taxagents/namv2004.pdf)

This determination sets out the national average market values of specified livestock for the 2004 income year for the purposes of section EL 8(1) of the Income Tax Act 1994.



## GST and employer registration forms

As you will be aware, last year we removed the question “would you like an advisory officer to contact you to arrange an appointment?” from our registration forms and replaced it with three questions:

- Will you be using an accountant or tax professional to prepare or help you with your GST returns/employer monthly schedules?
- Have you worked with GST/PAYE-related tasks in New Zealand before?
- Initially, how difficult or easy do you think you’ll find it to carry out all of the above tasks?

The way these questions are answered helps us gauge the level of assistance the registrant may need.

When some agents complete the registration forms on their client’s behalf they are not answering those three questions. This puts the registrant into the high priority category for assistance, so agents are receiving unnecessary calls from our advisory staff.

We decided to make registrants who failed to complete these questions “high priority”, as we considered that if a taxpayer had difficulty completing these three questions it was likely they would need our assistance.

You can avoid unnecessary contact with us. This can be achieved by ticking the “yes” box to the first two questions and the “very easy” box to the third question. If your client is going to prepare their own returns, answer the questions from your client’s perspective.

## Requesting remission of penalties or interest

The compliance and penalties provisions contained in Part IX of the Tax Administration Act 1994 is designed to encourage taxpayers to comply voluntarily with their tax obligations, but also to ensure that penalties for breaches are imposed impartially and consistently.

Remission provisions are included in the Tax Administration Act 1994 to allow Inland Revenue to accommodate circumstances in which charging a penalty or interest is not appropriate.

Penalties may be remitted if we are satisfied that the non-compliance has been caused by an event or circumstance that provides a reasonable justification or excuse for the omission, and if the omission was rectified as soon as possible.

Alternatively penalties and interest may be remitted if we are satisfied that the remission would be consistent with the duty to collect over time the highest net revenue that is practicable within the law.

Our standard practice statement *Remission of penalties and interest RDC 600* sets out our practice on granting remissions. This is available on our website in *Tax Information Bulletin* Vol 14, No 12 (December 2002), page 52.

Applications for a remission of a penalty or interest must be made in writing and should be accompanied by information which supports your request. The *Tax agent’s request form (IR 796)* can be used to make remission requests. The questions we will ask when considering a remission are listed in the standard practice statement. It is worth looking at these so that you know what sort of information you should provide in your application.

Where you are requesting a remission of interest, keep in mind that interest will only be remitted in limited circumstances, such as where an Inland Revenue officer has given incorrect advice to the taxpayer, and that advice has directly resulted in the non-compliance.

Providing all relevant information with your application can avoid delays in having your request considered.

Also keep in mind that we do not calculate late payment penalties and/or interest until the relevant tax return has been filed. Therefore if a provisional tax instalment has not been paid or was paid late, we are unable to remit any penalties or interest until we receive the income tax return.

## Charities Bill update

In the May issue of *AGENTSanswers* we told you about the new bill containing provisions to create a Charities Commission. We’ve had some queries from tax agents about when charities will be required to register with the new Commission.

The Commission’s registration period is expected to open in the second half of 2005. Charities will have up to 12 months to register after the registration period opens, before their tax status is affected. Until the registration period opens, Inland Revenue will continue to consider the donee status of these organisations. Once the registration period opens it is envisaged that organisations seeking approved donee status will be directed to the Charities Commission.

The Ministry of Economic Development have produced a brochure, *A guide to the Charities Bill*. To order copies phone 0508 CHARITIES (0508 242 748) or email [info@charities.govt.nz](mailto:info@charities.govt.nz)

A list of frequently asked questions relating to the new bill have been updated to the website [www.charities.govt.nz](http://www.charities.govt.nz)



## Faxed tax type registrations and linking

We offer tax agents a 24-hour turnaround service for faxed IRD number applications and tax type registration forms (48-hour turnaround in March/April because of high demand). This time runs from when the fully completed application, along with all required documentation, arrives at the processing centre.

When incomplete applications are received, we need to contact the agent to obtain information, which delays the 24-hour turnaround.

Please send only relevant documentation with the application.

### Goods and services, employer and interest payer registrations

- all forms must be fully completed, including address details and start dates
- all forms must be signed.

**Note:** IRD number applications, registration forms and tax returns ask specifically for the client's physical and postal addresses. We ask for the client's address details because sometimes we need to send mail directly to them. For example, for privacy reasons we issue a letter to clients confirming any tax agent linking.

Including your tax agent address anywhere on the registration forms, will mean that you receive mail that should go to your client. This includes mail issued after your client has been delinked.

### Linking

If you would like your client's mail sent to you, please leave the postal address blank and attach a completed *Client linking and delinking (IR 795)* form with the registration. If you tick the **A** option (agent to receive mail) on the IR 795, we will use your agency postal address. Then if you change your address, the same change will automatically be made for your client and if you delink, your address will be removed from the client's records.

### Advising clients details

You must be linked to your client before we can provide any client details, including the IRD number. You can do this by sending in a fully completed *Client linking and delinking (IR 795)* form, or by linking through INFExpress if you have the IRD number.

## E-filing over the internet

In the March 2004 issue of *AGENTSanswers* we advised that we were looking at turning off the facility to E-file returns through PACNET from July 2004. This facility will now not be turned off in July but we do expect to cease it in the near future.

A facility to securely E-file returns over the internet is available and all E-file software providers are committed to providing packages to allow you to make use of this facility, and to take advantage of the improved level of service it offers.

If you are not E-filing your clients' returns through the internet already, you may want to approach your software provider about when you can start using the internet option, so that when the PACNET facility is turned off you can continue to E-file.

## Company imputation accounts

Some feedback we have received suggests there is a misunderstanding about the application of the imputation credit account (ICA) system.

Since 1988, most New Zealand resident companies, unit trusts, producer boards and cooperatives are required to maintain an imputation credit account (subpart ME of the Income Tax Act 1994) and file an *Annual imputation return (IR 4J)*. The aim of these provisions was to eliminate double taxation that occurred when profits of a company that had already been taxed, were taxed again on distribution to shareholders.

The ICA account records income tax paid, or refunded, during the year as well as details of imputation credits attached to dividends paid or received by the company.

Before any overpaid income tax can be refunded or transferred to another revenue or taxpayer, there must be sufficient credit balance in the ICA account at 31 March immediately preceding the year in which the refund request is received.

For example, if a company applies for an income tax refund during the year ending 31 March 2005, the company must have an IR 4J filed for the year ended 31 March 2004, showing a credit balance of at least the amount of the refund. The filing requirement for the IR 4J will no longer be affected by the date the refund request is processed.

If there have been additional credits in the ICA account since the previous 31 March, the company may file an interim IR 4J to update the closing ICA balance held by us. For example, if a company receives imputed dividends after 31 March 2004 and files an interim IR 4J for the year ended 31 March 2005, we will use the ICA balance shown in the interim IR 4J.

Our booklet *Imputation (IR 274)* contains more information. You can view the October 2001 version on our website.

### Note from the editor

If your mailing details are incorrect, we have missed someone off the distribution list or you have suggestions for future topics, please contact:

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