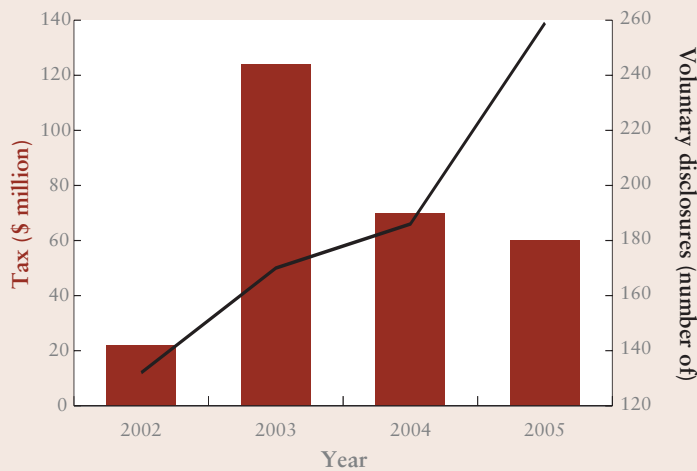


# C O R P O R A T E S   C O N T A C T

## N U M B E R   T W E N T Y   N I N E   ~   M A R C H   2 0 0 6

### Voluntary disclosures

Every year we receive a large number of voluntary disclosures from corporate taxpayers as outlined in the graph below. The most common explanations given for mistakes that result in a voluntary disclosure is that a change of staff member responsible for the particular task has occurred. It is important that particular attention is paid to your tax reporting requirements when a change in personnel occurs.



Voluntary disclosures have been received in all areas of tax administered by the Corporates Segment. Inland Revenue welcomes taxpayers making such disclosures.

Where common themes are identified we will pass the details on to taxpayers to assist with future compliance in those areas, as we have done below.

#### 1. Loss and imputation adjustments

##### What are the issues?

Some of the largest voluntary disclosures relate to losses and imputation. For losses, companies are carrying forward losses where the shareholding continuity requirements are not being met and in some cases loss offsets for groups do not balance. For imputation, common adjustment requests relate to multiple entries being made for the same payment and incorrect imputation account entries for intra group dividends.

##### What to do

With the end of year approaching it is a good time to ensure that all losses included in income tax returns filed are correctly treated, and that the groups' offsets are correctly made with the loss offsets balancing. For practical guidance on loss offset elections, please refer to **Standard Practice Statement 05/12**. All entries to the imputation credit account should be carefully reviewed to ensure they are correct.

#### 2. GST

##### What are the issues?

GST voluntary disclosures commonly relate to transactions that are outside the normal business cycle for taxpayers, which may include bad debts recovered, GST on the sale of assets, GST paid to Customs, and input credits being claimed incorrectly in respect of exempt income.

##### What to do

For transactions outside your normal business cycle, give consideration to the GST implications of the transaction. In particular, ensure review processes are in place for irregular transactions.

### 3. Non-resident withholding taxes

#### What are the issues?

We have seen a number of instances where the appropriate non-resident withholding tax deduction is not being paid to the Commissioner for royalty payments made. A number of disclosures also relate to non-resident contractor withholding tax not being correctly deducted where contract payments are made to non-residents.

#### What to do

Where payments are made to non-residents please ensure that consideration is given to withholding tax obligations.

### 4. Payroll adjustments

#### What are the issues?

The most common fringe benefit tax (FBT) adjustment continues to be GST on fringe benefits, despite this adjustment now being included on the FBT return. In the PAYE area we are seeing an increase in the failure to deduct PAYE where one-off payments are made to employees.

#### What to do

When you complete your FBT return, please ensure that the GST on the fringe benefit adjustment box is correctly completed. Where employees receive bonuses or at risk payments, please ensure that PAYE is correctly accounted for.

## Recent significant audit discrepancies

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A number of interesting issues have been resolved through the finalisation of audits in the past quarter. The adjustments made for each of the following issues exceed \$1 million.

Please note that given the specific nature of some of the adjustments, our comments are of a general nature only and should not be seen as a technical commentary of the issues in question.

### 1. Loss refreshing adjustments

#### What's the issue?

Adjustments in respect of tax losses have continued to feature highly in the audits we finalise. In a recent audit, the taxpayer deferred claiming a deduction of certain expenditure until after a shareholder continuity breach had occurred, thus seeking to "refresh" the tax losses. As a result of the audit, the incorrect deferred deduction was disallowed, thus increasing the taxpayer's taxable income after the shareholder continuity breach.

#### What to do

Ensure that expenditure is deducted in the correct income tax period where tax losses have been subject to a breach in shareholding continuity.

### 2. Foreign dividend withholding payment (FDWP) deductions

#### What's the issue?

In one audit the taxpayer did not account for FDWP in respect of foreign dividends at the time they were received.

#### What to do

When foreign dividends are received, ensure the FDWP liability is correctly met, for example by a payment of FDWP, current BETA credits or a loss offset.

### 3. GST on New Zealand supplies

#### What's the issue?

A taxpayer did not levy GST on services that were performed in New Zealand on the basis that the services were paid for from outside New Zealand. Ordinarily, if services are performed in New Zealand, they will be subject to GST, even if paid for outside New Zealand.

#### What to do

Ensure that GST is levied where services are performed in New Zealand unless they are exempt or zero-rated.

## End-of-year requirements

Date	Requirement
Monday 20 March 2006	Are your records correct? The last or second-to-last employer's taxes payments are due today.
Friday 24 March 2006	Any applications for D status should now be in.
Friday 31 March 2006	Today is the last day to file 2005 tax returns with extension of time, including <i>Annual imputation return including dividend withholding payment account return (IR 4J)</i> . If you are likely to have a debit in your imputation account, a payment today, sufficient to bring your account into credit again, will stop any penalty taxes.
Monday 3 April 2006	This is the first day Inland Revenue can action <i>Application for exemption from resident withholding tax on interest and dividends (IR 451)</i> for the 2007 year.
Wednesday 5 April 2006	Final payment for the year of PAYE and associated taxes, and IR File for large employers. Need to check running totals and PAYE etc are correct. Remember this affects your ACC calculations as well. Check all previous 11 months are balanced.
Friday 7 April 2006	If you are a client of a tax agent with a balance date between March and September inclusive, any end-of-year tax for 2005 is due today.
Friday 28 April 2006	All 2006 employers' taxes should be fully balanced because summary of earnings for staff will be produced in early May 2006.
Wednesday 31 May 2006	All reconciliations with certificates for the following must be lodged with: Southern Processing Centre PO Box 3753 Christchurch <ul style="list-style-type: none"> <li>• <i>Resident withholding tax (RWT) on interest reconciliation statement (IR 15S)</i></li> <li>• <i>Resident withholding tax reconciliation (RWT) statement (IR 17S)</i></li> <li>• <i>Non-resident withholding tax on interest, dividends and royalties reconciliation statement (IR 67S)</i></li> </ul> Final day to file FBT quarterly or annual returns to 31 March 2006, including multi-rate calculations at 49%.

Ready to send in your return? Stop! Check that you have:

- **Signed it.** Until we receive a signed return, it is deemed that no return has been filed. If you file electronically (through E-File or online) a signed hard copy of the return must be kept.
- **Answered every question,** including completing the disclosures section of the *Income tax return – Companies (IR 4)*.

## In brief

### Environmental restoration account scheme legislation

Environmental restoration account scheme legislation has effect for the 2006 financial year. Information about the scheme and how it will operate is available in the *Tax Information Bulletin*, Vol 17, No 7 (September 2005)

### Changes for the Corporates Segment

Late last year Spyros Papageorgiou, Group Manager Corporates Segment, announced his resignation. Spyros had been Group Manager for two years.

## Transfer pricing focus in 2006

John Nash and Keith Edwards of the International Audit Unit presented a comprehensive update on transfer pricing at the New Zealand Institute of Chartered Accountants' annual tax conference late last year.

The overall goal of Inland Revenue's transfer pricing enforcement programme is to maintain New Zealand's share of multinational tax in accordance with our tax law, acceptable income recognition principles and best international practices.

During 2006, we will be paying particular attention to three significant issues.

### 1. Chronic recurring losses

It has been our experience over the last five years that the great majority of companies receiving questionnaires due to losses being returned in New Zealand, have been able to explain why the losses have been incurred and have then lifted their performance considerably in subsequent years. For the few that have not improved, serious consideration will be given to undertaking further audit work this year with a view to making transfer pricing adjustments.

### 2. Intangibles

Intangibles need to be clearly identified and companies must be able to demonstrate that they add significant and substantial value if large royalty payments are to be substantiated. Answers to the following questions will be sought as a matter of course.

- Have all intangible profit drivers been individually identified, including goodwill and any licensed intellectual property (IP)?
- What is the value of all intangibles owned and used by the company and have they been valued by a professional firm?
- Is the IP protected?
- Who bore the cost of creating the IP?
- How and to what extent does the IP contribute to the profit?
- Has any IP been assigned and if so what was the consideration?
- How is the IP documented?
- If a royalty is paid for the use of any IP, does the taxpayer produce appropriate profits for its functions, assets (including its own intangibles) and risks after payment of the royalty?

### 3. Financing costs

We will be carrying out a special project focusing on associated party interest rates and guarantee fees, especially where those financing costs exceed \$1 million per year. Although we have set these levels of materiality, we will also sample lower amounts to gauge compliance.

In respect of guarantees, we will be testing the basis for the fees charged—in particular, the quantum of interest saved due to the credit rate enhancement arising, and the split of the economic benefits between the associated parties. Some charges are made by reference to nothing more than standard rules of thumb and short opinion letters received from group bankers. We expect more science where financing costs are material.

Should you have any queries concerning the above, please contact one of our National Advisors (Transfer Pricing):

Keith Edwards	09 367 1340	as of 20 March 2006	09 984 4340
Mike Spelman	09 367 1327	as of 20 March 2006	09 984 4327
Kriti Velji	04 802 7246	as of 20 March 2006	04 890 3246

## Inland Revenue numbers to change from eight digits to nine digits

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From 1 April 2007 IRD and GST numbers are to move from an eight digit to a nine digit format as current projections show that the eight digit number range will run out in June 2008. To ensure that the transition goes smoothly, Inland Revenue is working closely with other government departments, ministries and commercial organisations on changing their systems and forms to the nine digit numerical range within the allotted timeframe.

To achieve this change, all eight digit numbers will be converted during the months leading up to 1 April 2007 by adding a zero at the start of the number range to change them into the nine digit format. For example, 12-345-678 would transition into 012-345-678.

Anyone applying for IRD or GST numbers from 1 April 2007, will automatically be issued with a nine digit number.

Corporate organisations will be affected by this move to nine digits in three distinct ways:

- payroll and internal systems will need to be amended
- IRD or GST numbers on printed documentation will need to be changed
- they will need to field queries from employees.

**Payroll and Systems:** The main impact on your organisations will be in payroll and internal systems as employee numbers will need to be updated with a leading zero. We are currently defining the specifications for software developers and payroll providers so they are nine digit compliant. Our objective is to minimise any flow-on effects to your business by working with your suppliers to make this transition as automated as possible. If you organisation does not use a payroll provider your own in-house systems will need to be amended to the new specifications to be compliant by 1 April 2007.

**Documentation:** The IRD or GST number printed on invoices and receipts will also need to be updated to show the nine digit number. This should be done as close as possible to 1 April 2007 or, for preprinted stationery, when new stock is reordered.

**Employee queries:** As we start to communicate the intended change to the IRD and GST numbers, it is possible that your employees will begin to question you about the changes. Your existing employees do not need to do anything as Inland Revenue will transition them automatically to the new number range. They will notice these changes from 1 April 2007 when they receive statements, notices of assessment, annual returns of income tax and GST returns.

*It is important they take note of their new nine digit number for use in future discussions with us.*

We are currently devising a number of ways in which to communicate this impending change to the wider public and it is likely we will provide organisations with information flyers via *Payroll News* which can be placed on internal notice-boards for staff to view.

If you have any questions regarding these changes please feel free to contact either:

Frank Easton  
Project Manager  
DDI: 04 978 6214  
Email: [frank.easton@ird.govt.nz](mailto:frank.easton@ird.govt.nz)

Camille Dentice  
Project Advisor  
DDI: 04 978 6215  
Email: [camille.dentice@ird.govt.nz](mailto:camille.dentice@ird.govt.nz)

## Helping your employees access family assistance tax credits

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Up to 85,000 more New Zealand families will become eligible for family assistance from Inland Revenue from 1 April 2006.

This may include employees in your business, and we need your help to ensure they know how to find out if they're eligible.

The changes are part of *Working for Families*, a package designed to make it easier for people to work and raise a family.

Changes to family assistance include higher income limits and a new In-Work Payment for eligible working families.

This will mean families who weren't previously eligible may now find they are. Payments will increase for families already receiving family assistance, and people will also be able to earn more before payments start to reduce.

The changes will make a big difference for many families. For example, at the moment a family earning \$45,000 per year with two young children currently receives \$46 per fortnight from family assistance. From 1 April 2006 that will increase to \$280 per fortnight. A family earning \$60,000 per year with two young children is currently not eligible for family assistance but from 1 April 2006 they will receive \$164 per fortnight.

As a large employer, we would like to work with you to help your employees to find out if they're eligible. You can help by:

- placing brochures or putting up posters in shared employees areas like lunchrooms
- receiving a visit from a Social Policy Liaison Officer at a time that suits both you and your employees
- placing a short article that we can provide on the family assistance changes in employees newsletters
- circulating an email to employees that we can provide with links to our website, online calculators and application forms.

We can send you a *Working for Families* information pack with brochures and posters, and our Social Policy Liaison Officers are available to talk to your staff. For a pack or to arrange a visit, contact the Inland Revenue *Working for Families* communications team on 04 978 6201 or 04 978 6202.

If your employees think they qualify for family assistance they can go online to [www.workingforfamilies.govt.nz](http://www.workingforfamilies.govt.nz) or call 0800 257 477.

Your employees may also be eligible for other *Working for Families* entitlements. These include childcare assistance and the accommodation supplement from Work and Income. To find out how much they might get, they should go to the *Working for Families* website or call 0800 774 004.

### From the editor

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If you have any suggestions for future topics in *Corporates Contact*, please send an email to [Corps.Contact@ird.govt.nz](mailto:Corps.Contact@ird.govt.nz)

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#### Disclaimer

*Corporates Contact* seeks to comment generally on topical tax issues relevant to large corporates. While every attempt is made to ensure that the law is correctly interpreted, articles are intended to be a brief overview only and are not a full commentary or analysis of the law. The examples provided are not intended to cover every possible factual situation.