

Online services

At this time of year we are sending out summaries of earnings (SOE), personal tax summaries (PTS) and IR 3 returns for many clients. You may also want to request these forms for other clients who do not receive them automatically.

Through the "Tax agents" page on our website you can:

- order up to 10 SOEs at a time for clients. These can also be requested for a number of different years

<https://www.ird.govt.nz/cgi-bin/form.cgi?form=agentsoerequest>

- use our online questionnaire if you're not sure whether a client needs to file an IR 3 or whether they will receive a PTS automatically or if you should request one for them

<http://www.ird.govt.nz/promotion/doyouneedtofile.html>

- request an IR 3 tax pack for a client

<https://www.ird.govt.nz/cgi-bin/form.cgi?form=ir3request>

- work out a hypothetical PTS calculation to see if a client is entitled to a refund

<https://www.ird.govt.nz/cgi-bin/form.cgi?form=ptscalculator>

- order a PTS for a client (requests made this way for the 2003 year will not be available until the end of this month)

<https://www.ird.govt.nz/cgi-bin/form.cgi?form=agentptsrequest>

- download a copy of the *Rebate claim form (IR 526)*

<http://www.ird.govt.nz/library/publications/incometax/ir526.pdf>

We encourage you to make use of these services.

Visit our personal tax summary calculator online

The personal tax summary online calculator is available again this year to help you calculate your clients' end-of-year tax position before requesting a personal tax summary. You can find the calculator at

<https://www.ird.govt.nz/cgi-bin/form.cgi?form=ptscalculator>

To use the calculator you need to have either the total income amount for the year or a summary of earnings (SOE)—these are sent out in mid May. You also need to know any interest or dividend amounts to add into the calculation.

Alternatively you can call us to request a *Personal tax summary worksheet (IR 746)* to calculate your clients' tax position. We also have a *Student loan worksheet (IR 767)* for customers with student loans. When you request an IR 767, the IR 746 will be sent automatically.

Our customer service representatives will need to know if your client has any interest and dividends, so we can ensure we have all the information we need for your client's SOE. You need an SOE to be able to complete the worksheets.

INFOexpress for common information requests

Client's summary of earnings

You can request a summary of earnings for a client through INFOexpress by selecting Option 5 at the menu.

Linking and delinking clients

You can link or delink a client through INFOexpress by selecting Option 3 at the menu. Recent changes allow you to link or delink a number of revenues at once and to update clients' addresses.

Provisional tax paid

You can get details of a client's provisional tax payments through INFOexpress by selecting Option 1 at the menu for account balances and then Option 3 for provisional tax payments to date.

You can request a faxback showing all the provisional tax payments by selecting Option 4 at the menu and then Option 3 for a transaction detail fax.

Employer running totals

You can request the total gross wages or salaries and/or total PAYE deducted by a client using INFOexpress by selecting the account balances option (press 1).

Requesting a copy of a summary of earnings

If you use INFOexpress to request a copy of a summary of earnings that has already been sent to your client or a previous tax agent, your call will be forwarded to one of our customer services representatives. This is to confirm the new address with you and arrange to have the summary sent there.

New standard practice statement

GNL-400 Income equalisation deposits and refunds

This Standard Practice Statement (SPS) sets out the Commissioner's practice regarding the statutory powers to:

- accept a deposit to the income equalisation scheme for an elected accounting year outside the specified period for making such an election
- accept an application for a refund from the income equalisation scheme for an elected accounting year outside the specified period for making such an election.

SPS GNL-400 applies to income equalisation scheme deposits and refunds made in respect of the 2003 and subsequent income years.

The SPS can be found in *Tax Information Bulletin (TIB)* Vol 15, No 5 of which you can find on our website at

<http://www.ird.govt.nz/library/newsletters/tib/>



How to show partnership income in an IR 3 return

Because partnership income can be made up of both active earnings (liable for ACC levies) and passive earnings (not liable for ACC levies), the way in which partnership income is required to be shown in the 2002 IR 3 income tax return was changed to meet ACC's invoicing needs.

The 2002 IR 3 guide sets out on page 37 how to show partnership income. The text is reproduced below. The same process applies to the 2003 and future years.

We have identified a number of agents who are not returning partnership income as explained in the guide, which means ACC is issuing invoices for ACC levies. In particular a large number of cases have been identified where rental income is being returned under the partnership keypoint 17B, rather than under rents at keypoint 20.

Extract from the IR 3 guide

Question 17 Partnership income

If you received any partnership income between 1 April 2002 and 31 March 2003, show it at Question 17.

How to split your partnership income

If your share of partnership income includes:

- interest and any RWT, show these at Question 13
- dividends and any credits, show these at Question 14
- overseas income and overseas tax paid, show these at Question 16
- rental income, show this at Question 20
- other income, and, if your share of this income:
 - is received in recognition of your capital investment in the partnership and you did not take any active part in the day-to-day operation or management of the business (sleeping partner), or
 - is generated from other investment activity (for example, sale of shares), show this at Question 22.

In all other cases, include your share of partnership income in Box 17B. This should be your share of the partnership income from the partnership's trade or business. Partnership income earned as a result of "active" involvement is liable for ACC levies.

Following the instructions in the guide will prevent double handling for both you and us as a reassessment won't be necessary.

Timing of overdue terminal tax collection

During the last week of April we issued statements of accounts to you for clients who have yet to pay terminal tax that was payable by 7 April 2003.

In the beginning of May we sent you letters for any overdue amounts. If an amount remained outstanding, a copy of the letter was sent to your client 10 days later. Any subsequent notices, such as statements or debt deduction notices are sent to you only.

This month, we will be issuing deduction notices to banks and employers to collect outstanding tax arrears. Once a deduction notice has been received, the employer or bank is legally required to deduct money from the salary, wages or bank accounts of the taxpayer.

If you receive a copy of a notice to deduct amounts owed to Inland Revenue, please pass this information on to your client. It's important that your clients are aware that their employer or bank is going to commence making deductions on behalf of Inland Revenue. This will also give your client a chance to contact us and make an alternative arrangement for payment.

Terminal tax due date for clients

Each year we receive a number of enquiries from tax agents regarding the terminal tax due dates for clients when they are set as 7 February instead of 7 April.

This will happen when a client's income tax return is manually filed before the client is linked to your agency list.

A client's terminal tax will be due on 7 April if:

- they have been linked before their income tax return is filed, and
- the return is prepared or filed by a tax agent, and
- the tax agent has an extension of time.

When a return is E-Filed, the client is automatically linked before the return is processed, if they are not already linked to that tax agent.

Therefore we're reminding you to link new clients when they first provide you with their written authority to act on their behalf—especially if you don't use E-File to file income tax returns. This will also mean you will be able to obtain information about your new client straightaway.



Tax trust income distributed to minor beneficiaries

Just a reminder about how to correctly show income distributed to minor beneficiaries in a trust's IR 6 income tax return.

Since the 2002 income year, income distributed to minor beneficiaries under the minor beneficiary rule is taxed as trustee income at the rate of 33%.

This means any income distributions to which the minor beneficiary rule applies should be included in the IR 6 return as trustee income (keypoint 20B) and not as beneficiary income on the IR 6B or in any return of the minors.

Sources of beneficiary income

The minor beneficiary rule applies to all beneficiary income distributed to a minor from a trust, unless all of the settlements on that trust fit within any of the exceptions specified below.

The minor beneficiary rule does not apply if the settlements were made:

- by a person who is neither a relative or legal guardian of the minor, nor a person associated with the relative or legal guardian
- by a relative, legal guardian or associated person as an agent of the minor if the settlor has received the property from someone other than a relative, guardian or associated person
- by a relative, legal guardian or associated person against whom a protection order has been made under section 14 of the Domestic Violence Act 1995. This exception only applies if the minor is a protected person in relation to the protection order and the settlement on the trust is made before the protection order is made or during the time the protection order is in force
- by a relative, legal guardian or associated person if the settlor is required by a Court order to pay damages or compensation to the minor, or

- under the terms of a will, codicil or intestacy, or court variation of a will, codicil or intestacy if the minor
 - is alive within 12 months of the date of the settlor's death, or
 - has a brother, sister, half-brother or half-sister who is alive within 12 months of the date of the settlor's death.

Mixed trusts

If a trust includes both some settlements that fit within one of the exceptions above and some that do not (a "tainted settlement"), this is referred to as a mixed trust. The minor beneficiary rule will apply to all beneficiary income distributed by a mixed trust to the minor unless the tainted settlements are either:

- dispositions of property, the total value of which does not exceed \$5,000 at the date of settlement, or
- financial assistance to the trust in the form of loans for less than market value and the underlying value of the loans themselves does not exceed \$1,000 in total at any time during the income year.

However, if a relative, guardian or their associate has provided services to the trust, all minor beneficiary income from that mixed trust is subject to the rule.

The minor beneficiary rule does not apply if:

- beneficiary income is \$1,000 or less in an income year
- the minor is in receipt of a child disability allowance under the Social Security Act 1964, or
- the beneficiary income is derived directly from a group investment fund or from the Maori Trustee or a Maori authority.

For more detailed information on the beneficiary rule, see *Tax Information Bulletin*, Vol 13, No 5, May 2001 at <http://www.ird.govt.nz/library/newsletters/tib/vol13/vol13-05.html>

Liability to file nil trust returns

When a trust has not derived any gross income during an income year, an income tax return for that year does not have to be filed.

All trusts are issued an income tax return each year, therefore if you do not want to file a nil trust return, you need to contact us each year for us to update our records.

If you have any trust clients in this position, please contact us on the tax agents' freephone number with the trust's name and IRD number, and confirm that the trust received no gross income during the year. We will update our records so that the income tax return shows as not required.

Mutuality principal

We have become aware of some confusion about whether the "mutuality principal" still applies to organisations that derive income from their members, in particular subscriptions paid by members.

Section HF 1 of the Income Tax Act 1994 deals with the taxation of profits of mutual associations in respect of transactions with members. The effect of section HF 1(1) is that transactions of the type listed in section HF 1(8) that would not normally be taxable by virtue of the mutuality principal will be subject to income tax. However the types of transactions listed in this subsection relate to the sale or purchase of trading stock, the supply of services or the borrowing of money.

Therefore it is still considered that subscriptions paid by members of a society, association or organisation are not gross income for income tax purposes.



Recent *Breaking news* releases

Breaking news is an email subscription service that provides urgent updates to subscribed tax agents. This means you get the information you need quickly, minimising any disruption to your business. You can subscribe to *Breaking news* emails on the "Tax agents" section of our website at <http://www.ird.govt.nz/taxagents/breakingnews.html>

You can also use our website to update the email address we send your *Breaking news* emails to.

In the first two weeks of May we sent *Breaking news* releases on two issues.

We sent the first when our call centres identified that tax agents were calling because some of you received statements with amounts outstanding for income tax due 7 April 2003, even though you had sent the payment in.

As a result we delayed the issuing of debt letters to you and your clients while we investigated the problem.

Our investigations have identified that:

- In 60 cases payments were incorrectly loaded into the wrong period because of an internal error. Where we have identified a misdirected payment we have corrected it. You will receive a statement showing the correction. We apologise for any inconvenience this may have caused.
- A large number (1,400) of misdirected payments were caused by the incorrect completion of payment slips. For example, some payment slips had the year 2003 entered instead of 2002. We have corrected payments we identified as being for the wrong year and will send you a statement showing the action taken.

The other *Breaking news* release related to the issuing of customer notices.

Due to a computer problem at our mail centre on Wednesday 30 April 2003, we were unable to issue statements of accounts, notices of assessment and automatic letters, eg confirmation of you linking to a new client. We were also unable to send you the weekly activity report you would normally have received at the end of the week.

Because of this you may have experienced a delay in receiving mail you were expecting from us—we apologise for any inconvenience caused.

Subscribing to *Breaking news* means you receive important information shortly after we become aware of an issue. We recommend that you subscribe to this effective information tool.

New procedures for disputing an assessment from 1 April 2003

Under our new self-assessment system, if a return has been accepted with no changes made, this constitutes a self-assessment. If the return has been self-assessed, the heading on the notice sent to you or your client will be "Return acknowledgment". If you or your client wish to dispute this acknowledgement, you must do so within two months of the self-assessment date on the front of the notice.

If the details in the return have been amended by the Commissioner, the notice will be called a "Notice of assessment". The two-month period for disputing this assessment begins from the issue date of the notice.

You cannot dispute any assessment or adjustment that has been agreed to in writing or that we consider to have been accepted because you or your client didn't respond within the timeframe specified above.

Provisional tax when the prior year's RIT is reassessed

Provisional tax for 2003 won't be reassessed if the residual income tax (RIT) for 2002 is amended less than 30 days before the third instalment for 2003. This is because a notice of assessment cannot be issued within the 30-day timeframe required by law. The amount of provisional tax payable on the third instalment is therefore still based on the previous assessment in 2002.

Error in *Fringe benefit tax return guide (IR 425)* – correction

In last month's edition we advised you about an error on page 21 of the fringe benefit tax return guide for both the 2002 and 2003 years. However, the instructions on page 21 in the fringe benefit tax return guide for the 2002 year are correct. The error applies to the 2003 year guide only. We apologise for any inconvenience caused.

Note from the editor

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

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

AGENTSanswers is also on our website
www.ird.govt.nz/taxagents