



GST & provisional tax alignment – letters

During August and September, you would have received letters with a brochure about the new ratio option for your clients who have balance dates earlier than 31 March, and need to have their GST taxable periods aligned with their balance dates.

You will continue to receive these letters during October, with the bulk of these being issued in November, for clients with 31 March balance dates.

We'll also be issuing two other letters, as mentioned below, prior to the alignment of the GST and provisional tax due dates. We'll be sending these to the addresses we hold for GST and income tax purposes. If the address is yours, please be aware you will receive a letter for each client. You can send these to your clients as you see appropriate.

Change to provisional tax and/or student loan interim repayment due dates

This letter advises provisional tax clients, including those who make student loan interim repayments, of their new due dates.

These letters are being sent two to three months before the clients' balance date.

balance date	letters received by
October	07/08/07
November	07/09/07
December	05/10/07
January	09/11/07
February and March	13/12/07
April	08/02/08
May	13/03/08
June	10/04/08
July	08/05/08
August	06/06/08
September	10/07/08

Advice of alignment and/or confirmation of GST location

This letter will be sent to clients who don't have their GST taxable periods aligned with their balance dates. It will advise:

- that their final GST taxable period for the 2007/08 tax year will be shortened so it can be aligned with their balance dates
- their new taxable periods
- their default GST location.

balance date	letters received by
October	05/10/07
November	09/11/07
December	13/12/07
January	09/01/08
February	08/02/08
March	13/03/08
April	10/04/08
May	08/05/08
June	06/06/08
July	10/07/08
August	07/08/08
September	05/09/08

GST payments without the returns

Since we removed the carbon copy from the GST return, some GST registrants have mistakenly detached and sent in only the payment slip portion of their GST returns with their payments.

This means we've been unable to process their returns and have consequently sent them reminder letters.

Please remind your clients that they need to send us their original completed and signed GST returns together with their payment slips and payments. Alternatively, they can file their GST returns online by visiting 'Get in done online' at

www.ird.govt.nz





Business Tax changes

Two key tax changes for businesses were introduced by the government in the 2007 Budget:

- A cut in the company tax rate from 33% to 30%, for all companies and some savings vehicles, to take effect from 1 April 2008.
- A proposed 15% tax credit for businesses doing qualifying research and development (R&D). Businesses will be able to claim the tax credit in conjunction with their normal tax return process.

The changes are part of a package of improvements for New Zealand businesses resulting from the 2006 Business Tax Review.

Company Tax Rate

This tax rate reduction mostly applies to companies although it may also apply to other entities defined as companies by the Income Tax Act. From July 2008 the way the provisional tax rate is calculated will also change to ensure companies won't pay more than they need to.

As tax agents, you have a key role to play in assisting your clients to understand and apply the new rate. An item on TV One's Business is Booming programme in October 2007 will refer viewers to you for advice as will the information on our website.

Individuals should seek professional advice before they rush into incorporation to take advantage of the company tax reduction. Again, your professional advice will be vital as there are a number of things to consider and incorporation may not be the best solution for them.

Research and Development Tax Credit (R&D)

Other changes will need to be made as a result of the company tax rate reduction. The bill introducing these changes and the 15% R&D tax credit is currently before parliament with the proposed credit available from the 2008/09 income year.

Businesses can currently claim a tax deduction for R&D. If the tax bill becomes law they'll also be able to claim, for certain amounts of eligible expenditure, a 15% tax credit.

Businesses will be able to claim the tax credit in conjunction with their annual income tax return. They'll be required to file a detailed R&D tax credit claim form which must be completed electronically.

We'll be consulting you and others on the draft R&D tax credit guidelines in late December 2007 and January 2008 after the legislation is enacted.

Investment Income Update

Following on from our article last month about the foreign investment fund (FIF) changes and the introduction of portfolio investment entities (PIEs), this month we'll focus on several further issues we think will be of interest to you.

Correctly Determining Prescribed Investor Rates (PIRs)

It's important that your clients provide the correct PIR if they invest in a certain type of PIE called a portfolio tax rate entity (PTRE).

- If your client doesn't provide a PIR and IRD number to their PIE, then the PTRE will apply the default rate of 33% (30% from 1 April 2008).
- If your client provides a PIR that's lower than their correct rate then the income allocated to them by the PTRE is not excluded income. This means your client will need to include this income in their tax return, and it may be taxed at your client's marginal tax rate of up to 39% and possibly affect any child support and student loan payments. The tax paid on this income would be allowed as a credit in their tax return.
- If your client is entitled to use the 19.5% PIR then please ensure they advise the PIE accordingly (and provide their IRD number at the same time).
- There is no process available to adjust for tax paid at 33% (30% from 1 April 2008) instead of 19.5%.

Online Fair Dividend Rate Calculator

We've recently developed an online calculator for you and your clients to calculate their foreign investment fund (FIF) income using the fair dividend rate (FDR) and comparative value methods. It's available in the 'Work it Out' section of our website www.ird.govt.nz

Overseas Investment Changes and Provisional Tax

With the recent changes to the overseas investment rules some of your clients may now derive FIF income to which the FDR calculation method may apply. Investments previously covered by the "grey list" exemption may have generated little if any taxable income however, under the FDR calculation method there may be additional FIF income. This needs to be taken into account when calculating your client's provisional tax for the 2008 income year.

Overseas Investment Changes and Transitional Tax (section EX 54B of the Income Tax Act 2004)

All clients who have investments which become subject to the new FIF rules for the first time, may be required to value these investments at market value upon entry to



the FIF regime. For example, clients might hold overseas investments that were previously subject to exemptions that no longer apply, such as the grey list exemption. These investments will be subject to the new FIF rules.

If your clients held these investments on revenue accounts (as a trader) at the start of their income year beginning on or after 1 April 2007, then these investments will be subject to deemed disposal and reacquisition. Any gain your client makes from the deemed disposal would form part of their taxable income on the day before the commencement of their income year. Generally, for standard balance date taxpayers, this process will be carried out in the income tax return for the year ending 31 March 2007.

Clients who hold their investments on capital account are still required to carry out the deemed disposal and reacquisition in order to establish the open market value for entry into the new FIF rules. Any gain made in this circumstance would not be taxable.

If your client has additional tax arising from this deemed disposal and reacquisition, they're able to pay this tax over the next three income years. At least one third of the tax liability must be paid in the first income year, half of the balance in the second and the remainder in the third income year.

Example:

Assume that your client holds shares on a revenue account and there is a deemed disposal as at 31 March 2007 and reacquisition as at 1 April 2007—generating an additional tax liability of \$150,000. This liability arises in the 2007 tax year, being the year of disposition. Payments of this liability could therefore be spread as follows:

- payment of \$50,000 in the 2008 income year
- payment of \$50,000 in the 2009 income year
- payment of \$50,000 in the 2010 income year

Note

Your client wouldn't be liable for penalties or interest resulting from an estimate or shortfall in payment of their provisional tax that arose because of this deemed disposal.

Transitional impacts for PIEs

If your client is considering electing to become a PIE, then you need to ensure they are aware of, and consider, the following consequences:

- If an entity with a non-standard income year chooses to become a PIE effective 1 October 2007 and pays tax under section HL 21 or HL 23, then the entity will have two changes in balance date. The entity is treated as having

a balance date of 30 September 2007 and a PIE balance date of 31 March 2008 on 1 October 2007. This extends the length of the period covered by the 2007 income tax return.

Example 1:

A client with a 31 December balance date elects to become a PTRE from 1 October 2007. The client would have a standard 2007 income year of 1 January 2006 to 31 December 2006. Because of the election to become a PTRE, the entity now has a 30 September 2007 balance date. The entity has two income years falling within the 2007 tax year and therefore the entity's 2007 tax return will cover the period from 1 January 2006 to 30 September 2007. The PTRE will then commence filing periodic returns either quarterly under section HL 21 or monthly if an investor exits from the PTRE under section HL 23 from 1 October 2007.

Example 2:

A client with a 30 June balance date elects to become a PTRE from 1 October 2007. The client would have a standard return period of 1 July 2006 to 30 June 2007 and will also have a second income year from 1 July to 30 September 2007. Their return period would therefore be 15 months long.

- Your clients would not be liable to pay any penalties or interest for an inaccuracy in an estimate or shortfall in payment of provisional tax to the extent that it was due to:
 - o the adjustment to the length of this income year, or
 - o the deemed disposal and reacquisition of investments held in certain New Zealand and Australian companies.

Your client will have three tax years in which to pay any additional tax arising from the deemed disposal and reacquisition.

- Where your client's second 2007 income year commenced after 1 April 2007, the changes to the FIF rules will apply for that part of the 2007 income year. In example two, this means that for the period 1 July 2007 to 30 September 2007, the FIF income would be calculated under the new FIF rules.

Other Impacts

If your client elects to become a PIE and pay tax under section HL 21 or HL 23 from 1 October 2007, and has a standard balance date, they will need to file a 2008 income tax return which will only show six months of trading income. The obligations for their return, provisional tax and residual income tax remain the same.





Tax agents management system (TAMS) reports calendar

Below are the expected dates of TAMS reports scheduled for the 2007-08 filing period. We send these reports to you automatically. You will also find information about TAMS reports in the tax agents area under the *Working with Inland Revenue* section of our website.

Report	Description	Estimated run dates
AMBR1000 Client listings	<p>A list of a tax agent's clients divided into two parts. The first part is divided into separate sections for each income tax return type. The sections provide information about clients linked for tax types including income tax. Details are provided for each client's:</p> <ul style="list-style-type: none"> • return types linked • extension of time (EOT) status. <p>The second part of the report provides details of clients linked for tax types other than income tax.</p>	13/10/07 12/01/08 13/04/08
AMBR1001 Outstanding returns	<p>A list of overdue income tax returns for the previous four years (not including the current year). This information is divided between clients with:</p> <ul style="list-style-type: none"> • an extension of time • a deferred extension of time • no extension of time • R EOT (two or more years outstanding). 	13/10/07 20/04/08
AMBR1002 Filing statistics	<p>A summary of client income tax return filing statistics for a specific year for each income tax return type. Totals include only clients who are linked for income tax. This report provides the total returns required, total returns lodged and percentages filed for standard, early and late balance dates, and clients' EOT status.</p>	22/09/07 24/11/07 23/02/08 13/04/08
AMBR1003 Filing statistics summary	<p>A summary of total lodgement performance for all return types for a particular target period or for the year-to-date. The information is divided between clients:</p> <ul style="list-style-type: none"> • balance dates • extension of time status. 	22/09/07 24/11/07 23/02/08 13/04/08
AMBR1004 Current year returns	<p>A summary of the current year returns required and still unfiled for clients of tax agents. This information is divided between clients:</p> <ul style="list-style-type: none"> • with EOT • without EOT • with D EOT • with R EOT 	08/12/07
AMBR1006 Activity report	<p>A list of clients who have been linked, delinked, transferred, had their EOT withdrawn or issued with an L letter.</p>	Issued weekly

Reminder

The Companies Office and Inland Revenue have gone real time. This is now the fastest way for you to start your clients up in business, enabling you to incorporate their company, apply for a company IRD number and register them for GST—all at the same time. For more information please see the August 2007 edition of *AGENTSanswers*.

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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AGENTSanswers is also at:
www.ird.govt.nz/taxagents/newsletters/agents-answers