

LARGE ENTERPRISES UPDATE

NUMBER FOUR – AUGUST 2008

IN THIS ISSUE

Welcome to the *Large Enterprises Update*.

In this issue: changes to the IR 6 tax return, employee tax code requirements, and some KiwiSaver Q & As.

We hope you find something of interest!

COMPANY RETURN CONSULTATION

Inland Revenue is reviewing the information we currently request from companies through company income tax returns and other disclosure forms, and how we collect it. In mid-July, we're releasing an issues paper seeking feedback on the proposals from small and medium sized companies. We recognise that larger companies are often more complex and may require the greatest amount of change and we are planning to consult directly with your representative groups over the next few months.

We require accurate and comprehensive data to administer the tax system, advise government on tax policy and accurately assess risk, and we want to work with you so the proposals are workable and the consequential compliance costs are minimised.

We encourage you to share your views and work through any practical implementation issues with us. Inland Revenue will be working closely with various representative groups to refine the data we request from large companies. You can be part of this consultation by attending a presentation coming to main centres soon. Please call Ashley Benson on 03 951 2160 to register your interest or go to www.ird.govt.nz/public-consultation/ to view the proposals. We will keep you updated about progress through this newsletter.

2008 ESTATE OR TRUST INCOME TAX RETURN (IR 6) – ALLOCATION OF INCOME AND ALLOWABLE DEDUCTIONS

Changes in the 2008 IR 6 returns which better reflect the Income Tax Act 2004 (the Act) require allowable deductions and losses to be allocated between trustee and beneficiary income. There are four key concepts:

- Beneficiary income is expressed in the Act as a "gross" concept—which means it's allocated to beneficiaries without the deduction of any expenses.
- Trust expenses must be deducted from trustee income—see section DV 9.
- Any losses brought forward from an earlier year can only be offset against the net trustee income—see section IE 1(2).
- Net trustee income is determined after income allocation to the beneficiary and any allowable deductions. This is where losses may be used or carried forward as necessary.

These concepts are now embodied in the new look IR 6. The example below shows how it all works.

EXAMPLE

During the 2008 tax year, ABC Trust earned gross income of \$80,000 and allocated \$20,000 to its beneficiaries. The trust also incurred expenses and claimed losses. Here's how the figures appeared in the trust's 2008 IR 6 return:

Box in IR 6	Description	Amount
16B	Total income of estate/trust (gross)	\$80,000
17A	Beneficiary income (gross)	\$20,000
17B	Trustee income (gross)	\$60,000
19	Loss from an LAQC	\$8,000
20	Estate/trust expenses	\$15,000
21B	Loss brought forward	\$10,000
26A	Taxable income	\$27,000

EMPLOYEE TAX CODE REQUIREMENTS

From October 2008 you may be required to change your employee's tax code.

We regularly check employees' details on your *Employer monthly schedule (IR 348) (EMS)* to make sure that the right amount of tax and student loan repayments are withheld from their salary or wages. If the wrong amount has been deducted for any of your employees, this shows they aren't using the right tax code and they may end up with a bill to pay at the end of the tax year.

If we identify a salary or wage earner using the wrong tax and/or student loan repayment code, we'll write to you requesting you to change it. We'll tell you which employees are using incorrect tax codes and let you know which code they should be on. To make sure affected employees pay the correct amount of tax or student loan repayments as quickly as possible, you'll need to change their tax code to the correct code, starting from the next pay period.

We'll also write to any of your employees using the incorrect tax code to advise them that the tax code they've been using is incorrect for their circumstances and that we've asked you, as their employer, to change it from their next payday.

If an employee disagrees with this change, please tell them to contact us on 0800 227 774.

If the employee no longer works for you, show the date they finished working for you on your next EMS.

During the period July to September we will be sending letters to employers of employees who have a student loan and a projected income of over \$30,000 who are using an M tax code, but should be using an MSL tax code.

We'll be making follow-up calls to any employers who haven't changed the tax codes on their next EMS.

EMPLOYERS' CORNER

Here are some quick tips to help you manage your taxes.

EMPLOYEE IRD NUMBERS

Some employer monthly schedules (EMSs) have missing or invalid employee IRD numbers. Sometimes the IRD number belongs to an employee's previous employer.

Mistakes with employee IRD numbers can cause delays with your EMS.

If your payroll software can't identify invalid IRD numbers, we recommend you install the "Modulus 11" function next time you update your software. Please refer to our [Payroll specification documents](#) for more information.

CONTRACTORS

If you're hiring a contractor (tax code "WT") please remember to fill out the "gross earnings" and "earnings not liable" fields on your EMS. Both fields must contain the same figure.

This will ensure your contractors get a correct summary of earnings (SOE) and the correct earnings for their ACC assessment.

ESCT (EMPLOYER'S SUPERANNUATION CONTRIBUTION TAX)

If you're not liable for ESCT (formerly specified superannuation contribution withholding tax) please leave the "SSCWT deductions" box blank on your *Employer deductions (IR 345)* form. Don't write "nil" or "zero" as our scanner may not pick up your details properly.

If you were liable for ESCT, but now aren't, please call your account manager, or 0800 443 773, so we can close the account.

KIWISAVER REFUNDS

Expecting a Kiwisaver employer or employee refund (code KSE or KSR)? Please fill out a *Fast refunds (IR 587)* form and email it to your account manager, or fax it to the [appropriate team](#). We're sorry—we can't accept your details over the phone for security reasons.

THE IR 345

Do you file paper copies of the *Employer deductions (IR 345)* form? In April 2008, we removed the tear-off payment slip. You now need to send us the whole form—remember to take a photocopy for your records.

The bottom of the IR 345 shows the total amount of your payment only, there is no breakdown into tax types. If you don't send us the whole form, your payment may be allocated incorrectly.

Thank you for your cooperation.

Why not consider filing your employer forms online? Go to www.ird.govt.nz and follow the links under "Services requiring login."

The image shows a scan of the IR 345 Employer deductions form. Callouts on the right side of the form indicate the following sections:

- Please do not tear off the top section:** Points to the top header area containing the IR 345 title, Inland Revenue logo, and contact information.
- Please send the whole completed form and keep a photocopy of it for your records:** Points to the main body of the form, including the declaration, signature, and various deduction boxes.
- Please do not tear off the payment slip:** Points to the bottom section of the form, which includes the Inland Revenue copy, payment slip, and the total amount due.

The form itself includes fields for IRD number, period ended, and various deduction categories such as PAYE, child support, student loan, KiwiSaver, and SSCWT. It also features a declaration section, a signature line, and a payment slip section at the bottom.

AGENT LINKING/DELINKING

If you're a tax agent, you can now link or delink a client over the phone, provided you have written authority from the client. The number to call is 0800 443 773.

Once you've linked a client, you get immediate access to their records on Look at account information (also known as "Account Lookup").

This phone service is available during weekdays from 8 am to 4.30 pm.

If you prefer to link or delink manually, you can fax the *Client linking or delinking (IR 795)* form to the [appropriate team](#). Please note that if you're linking a client who is currently linked to another tax agent, the transfer action is an overnight process.

We'd like to draw your attention to sections 1 and 2 of the IR 795. You'll note you can tell us who to send the client's mail to—you or the client. Not everyone fills out these boxes, but they can save a lot of hassle.

Please note that if you link or delink a client's income tax records, you'll also be linking or delinking these "associated tax types": DWT, ICA, WPE and WPN. And if you link or delink a client's PAYE records, you'll also be linking or delinking CSE, SLE, KSE, KSR and ESCT (now SSC).

Do you have clients with RWT exemption certificates? We recommend you link to the IPE tax type so we can discuss any RWT matters with you if they arise.

APPOINTING A NOMINEE

Have any of your staff ever called us, only to be told they don't have access to your tax records? Because of our secrecy requirements, we can't discuss your tax affairs with anyone else, unless you appoint them as a nominee.

You can appoint a nominee by filling out the form *Elect someone to act on your behalf (IR 597)* and sending it to us.

The IR 597 allows you to limit the Inland Revenue accounts the person has access to.

For example, you may give your payroll staff access to your PAYE and FBT accounts only. Someone else may get GST, and so on.

We recommend chief financial officers and financial accountants get access to all accounts.

If you're based overseas, you can still use the IR 597, even if your employees don't have an IRD number. We record the information in our system in a different way.

Refer to our article "Improvements to Online Services" to see how you'll soon be able to give nominated staff online access to your records.

UNIT TRUSTS

Recently, some unit trusts have contacted us looking for their refund, or asking why we've requested an imputation return.

Unit trusts are companies for tax purposes and are required to file an imputation return (IR 4J) with their income tax return (IR 4).

Once the IR 4J is filed, we can process any refund owing to you.

FILING YOUR RETURNS ONLINE

Did you realise you can file some tax returns electronically through our website? And you don't need a user ID or password. Why not give it a go?

The returns you can file online include:

- GST returns
- FBT returns
- GMD returns
- Income tax returns (IR 3, IR 4, IR 7).

Our online services are quick, convenient and secure. You'll find the returns at www.ird.govt.nz under "Get it done online".

You can also file your employer forms online. Please follow the links under "Services requiring login". You'll need to apply for a user ID and password for this service.

DO YOU MAKE ELECTRONIC PAYMENTS?

Electronic payments include automatic payment, direct credit and online banking. Most banks offer an online tax payment service on their website which ensures the correct payment reference details are included with your payment.

This means you can simply select the tax type and period end date you wish to pay from their drop down boxes.

ARREARS

At present, we're receiving a significant number of electronic payments with no identifying details.

If you're deducting arrears payments from an employee's salary or wages, please note the employee's name, IRD number, or the reference number from the order notice and send these details to us.

This will stop payments being credited to the wrong employee.

Please use the tax type ARR.

NOTE

If you're paying interest PAYE on the IR 15P form, please use the tax type IPS. Only use the tax type RWT if you're paying RWT on specified dividends using the IR 17P form.

Some of our customers are using the wrong tax type, causing delays in processing their payments.

ANY QUESTIONS?

For more information about electronic payments, go to www.ird.govt.nz and click on the "Making payments" link at the bottom of the page. Or you can read our booklet *Making payments (IR 584)*, available under "Forms and guides". Pages 10–12 cover the most important information.

KIWISAVER Q & AS

In March this year, we ran KiwiSaver seminars in Auckland, Wellington, and Christchurch for our Large Enterprises customers. Here are some of the questions that were raised, along with our answers.

Q. Which month do I claim employer tax credit (ETC) in if my PAYE period runs from the end of one month into the start of the next month?

A. You claim the ETC on your *Employer deductions (IR 345)* form for the month in which the period ends. For example, if your PAYE period runs from 15 April to 15 May, you claim the ETC in May.

Q. What about company super schemes? Does the employer have to make compulsory employer contributions (CEC) on these, as well as making KiwiSaver contributions?

A. CECs are only required if the scheme the member contributes to is a KiwiSaver scheme or a complying superannuation fund. Talk to your scheme provider if you're unsure whether the contributions are being made to a complying superannuation fund.

Q. When do you start making CEC and claiming ETC?

A. You start making CEC and claiming ETC from the first full pay period after 1 April, which is not necessarily on 1 April. For example, if your pay period starts on Thursday 3 April, that's when you have to start making CECs. But if you do make a contribution for a period that began before 1 April and finished after that date, you can claim ETC for it in your April return.

Q. Why doesn't ETC cover situations where there are more than four pays in one month?

A. The government is proposing an annual square-up process to fix this. Inland Revenue will engage with employer groups during the design phase. When a month includes an extra pay, you'll need to keep records showing what your contributions were and how much tax credit you claimed, so you can work out whether you may be in line for an extra entitlement. Please see the [May/June 2008 issue of Payroll News](#) for more information.

Q. Is the *Employer monthly schedule amendments (IR 344)* form getting set up so it can be filed online?

A. No, because the IR 344 is sometimes used for other purposes (not just for amendments). For example, sometimes employers use it to make a voluntary disclosure. We may put it online in the future.

Q. How will we know if we've over-contributed?

A. Our system takes 1% as the CEC. The rest will be considered a voluntary contribution and will show on your statement of account (SOA) as a separate transaction.

Q. Can you get your over-contribution back?

A. Yes, by filling out an IR 344. Be aware however, that the adjustment may also impact on your ETC entitlement.

Q. When an employee opts out, how and when will employers' contributions be refunded to the employer?

A. Employers should be getting these refunded already. They are refunded by direct credit to your bank account. They will show on your SOA. If you haven't been getting your refunds, contact us.

Q. If an employee contacts Inland Revenue to opt out of KiwiSaver, the employer may not find out until much later. In the meantime, the employer will keep on making CECs and claiming ETC. How do we get confirmation to reduce the ETC?

A. If employers are holding the KiwiSaver deductions, they can refund them directly to those employees or pass them on to Inland Revenue with their next EMS. Inland Revenue will arrange a refund to the employee, as well as refunding any employer contribution paid. Inland Revenue will also adjust any employer tax credits that have been claimed. A letter is sent to the employer advising them whenever an employee has opted out.

Q. How will ETC show on our SOA?

A. It will show as a separate transaction, and will look similar to a payment transaction.

Q. If you pay each tax type separately on your IR 345, what tax type do you deduct your ETC from?

A. You deduct it from your employer contributions.

Q. Can we still file the IR 345 manually?

A. Yes, but it may take longer for your payments to be posted to your account, and sometimes payments can be credited to the incorrect tax type.

Q. What is considered a complying fund and how do you know?

A. A complying fund is a section of a registered superannuation scheme that has been approved by the Government Actuary as having met certain criteria similar to KiwiSaver, for example, KiwiSaver lock-in rules and portability. If you're not sure, ask your scheme provider.

Q. When do you claim ETC if you pay in advance to an employee eg, holiday pay as a lump sum in one period?

A. You claim ETC in the period when you make the payment, up to the maximum you can claim for that period under the formula. For example:

Regular pay	\$ 2,500
CEC	\$ 25
Pay in advance	\$10,000
CEC on advance	\$ 100

A maximum of \$88.57 ETC is available for the period.

Q. How can you claim ETC for a previous period?

A. You just send in an IR 344 amendment for that period. Please note that claims for prior periods can only be made if the contributions were made in that period. You can't make a back-payment in the current period and claim ETC for that period.

Q. How will Inland Revenue know whether employees are entitled to the CEC?

A. We don't know, so it would be helpful if employers can provide us with a list of employees belonging to in-house or complying schemes, and employees under 18 who are also not entitled to the 1%. We can then flag individual employees on the EMS so our system will accept they do not need to have CEC, and we won't have to contact you every month.

Q. Does Inland Revenue need to know what percentage of CEC will be going directly into complying funds?

A. No.

Q. When does the ETC get processed?

A. The ETC is worked out on the IR 345, but the internal system checks are not done until both the IR 345 and the *Employer monthly schedule (IR 348)* are in. That's because we need to check the information is consistent on the two forms.

Q. Can an employer claim the maximum monthly employer tax credit in the first half, the second half of the month or must the claim be split between both halves?

A. An employer can claim the full amount of the employer tax credit entitlement in the first half, the second half, or split between both halves of the month if the employer has contributed this amount in compulsory or voluntary contributions. The amount of employer tax credit claimed in any month is limited to the lesser of the employer contribution or the employer tax credit limit of \$88.57 for the month.

Large employers can choose how they split their claims between the two PAYE periods according to their accounting practices so long as the amount claimed does not exceed the amount of employer contribution paid or the monthly employer tax credit limit of \$88.57.

Q. Are there changes around casual workers?

A. No, if they join a scheme you must contribute CEC.

Q. With the KS 1–KS 10 interface, when you ir-File the forms you don't get an acknowledgement. Is this going to be fixed?

A. We're planning to introduce an acknowledgement shortly.

Q. Can we file KS 1 through CSV file/format?

A. Yes, please refer to our [Payroll specification documents](#) for more information.

Q. Employees are calling KiwiSaver and being told they haven't had any deductions/contributions made by their employer when the employer has made them and sent them to Inland Revenue. Why is this?

A. Besides the natural delay between money being deducted from employees' pay and being passed on to Inland Revenue, issues with the employer monthly schedule (EMS) are the most likely cause of this. We've brought in extra staff to resolve this issue as quickly as possible but you can do your part too, by making sure there are no errors or missing information on your EMS.

Q. Have all deductions/contributions gone across to providers yet?

A. When a person joins KiwiSaver, we have to hold their contributions for three months by law. This gives people time to decide on their provider or opt out if they've been automatically enrolled. After the three-month period, contributions should pass regularly as we receive them, but we first need to check the information, and any problems with the EMS can cause delays. We've brought in extra staff to resolve these issues as quickly as possible but you can do your part too, by making sure there are no errors or missing information on your EMS.

Q. If you have an employee migrating overseas permanently how do they get their KiwiSaver funds?

A. They need to apply for a refund through their provider.

Q. How will employers be able to reconcile the shortfall in ETC on amendment?

A. Inland Revenue automatically adjusts ETC credits whenever an employer advises ETC should be amended, provided the ETC does not exceed the \$20 per week per employee rule.

Q. How will the transitional rates work from April 1st?

A.	Rate for employer	Rate for employee
2 years starting on 1 April 2008	2%	2%
1 year starting on 1 April 2010	3%	3%
1 year starting on 1 April 2011	4%	4%

Q. Are contributions deducted for relocations from overseas or cost of living overseas?

A. No, employer contributions are paid by the employer and are based on a percentage of the employee's gross salary/wages. Nothing else is deducted before the calculation is made.

Q. Do contributions get deducted from gratuities?

A. Yes.

Q. Does the employer voluntary contribution have to be a certain percentage?

A. No, an employer can choose any amount as a voluntary contribution.

Q. We have a complying fund—how can we stop being queried every month because it looks as though we're not making contributions?

A. Send us a list of your staff with their IRD numbers and we'll flag them in our system so we don't have to contact you.

IMPROVEMENTS TO ONLINE SERVICES

Inland Revenue is improving our online authentication systems so organisations can access more of our online services that require a user ID and password, and also manage their organisation's access themselves.

Organisations will be able to:

- access more of our online services, in particular Look at Account Information (currently, organisations and businesses only have partial access to our Online Services: ir-File and Send and Receive Mail)
- automatically access the online services they're entitled to use, based on their user profile (currently, users have to manually select the services they want access to)
- set up and administer their organisation's access to our online services eg, allowing or restricting staff member access
- delegate the above abilities to other people in their organisation.

The ability to authenticate organisations online and open up access to our online services is a major step forward for us and our customers. The changes come on the back of improvements to the look and feel of online services.

Registration for individuals and businesses will now be a complete online process and a customer's account will be activated straightaway by our call centre (previously we used a paper process).

To take advantage of the new fast-track processes and improved access, some of our customers who already have access to our online services will require a person in a position of legal responsibility within the organisation to contact us. This is a one-off process aimed at making access easier going forward. You will be able to find out more online as we get closer to delivering these improvements.

All the changes we've rolled out this year do not affect how our online services operate. ir-File, File PIE returns and certificates, Look at account information, Send and Receive Mail will all function as they always have.

FROM THE EDITOR

Disclaimer

Large Enterprises Update comments generally on topical tax issues relevant to large enterprises. 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.

INLAND REVENUE AND LE SENIOR MANAGEMENT MEETINGS

In 2006, Inland Revenue made organisational changes designed to help us become more aware of our customers, the environment they operate in, and also to build an understanding of customer needs and pressures. Through this understanding Inland Revenue can be more flexible in its approach to customers, help to identify opportunities to make it easier for customers to meet their tax obligations, and look at ways we can reduce compliance costs.

Robert Russell (Commissioner), Carolyn Tremain (Deputy Commissioner, Service Delivery) and other Inland Revenue senior managers have been participating in this work, by visiting a number of large enterprises, and meeting with chief executives, chief financial officers and senior tax managers. These visits are providing an opportunity to discuss the challenges facing large enterprises and their particular industry, and how to build a stronger relationship that is better for both parties.

Earlier this year, the OECD's 4th Forum on Tax Administration concluded that enhanced relationships between tax authorities and large business would be good for both. These visits are part of New Zealand's response to that Forum, and so far, they have been received positively. Consequently, Inland Revenue is keen for them to continue, and the Commissioner will be extending further invitations to New Zealand corporates.

The general themes coming out of the visits are in line with the results of recent LE surveys. There is overall satisfaction with the relationship between LEs and Inland Revenue. In particular, the ongoing relationships with the account managers and the ability to work through issues together are seen in a positive light.

The consultation with Inland Revenue's Policy Advice Division over proposed legislation has also been welcomed by large enterprises.

Inland Revenue and large enterprises continue to work through issues in policy and service delivery in real time—rather than several years after a transaction or change in legislation has occurred.

Large enterprises have expressed concerns around the timeliness of investigations, communications during the investigations process and binding rulings. Inland Revenue is currently reviewing the rulings system with a view to determining whether a priority rulings system, similar to that in Australia, would be appropriate in New Zealand. We have also conducted an internal review of how we may improve the timeliness of investigations, and our communications during investigations and are working through the recommendations now.

If your organisation receives an invitation from our senior management group, we encourage you to meet and discuss your issues and concerns with them.