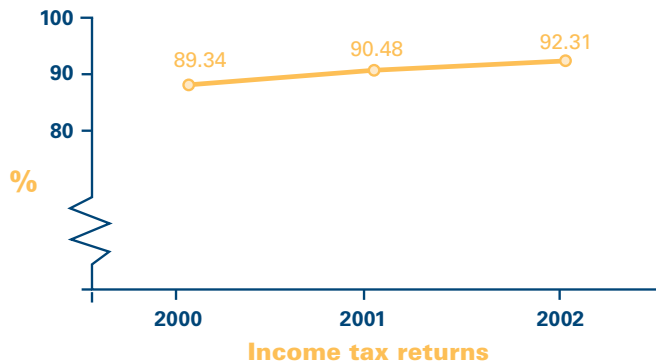


Tax agent filing performance for 2002

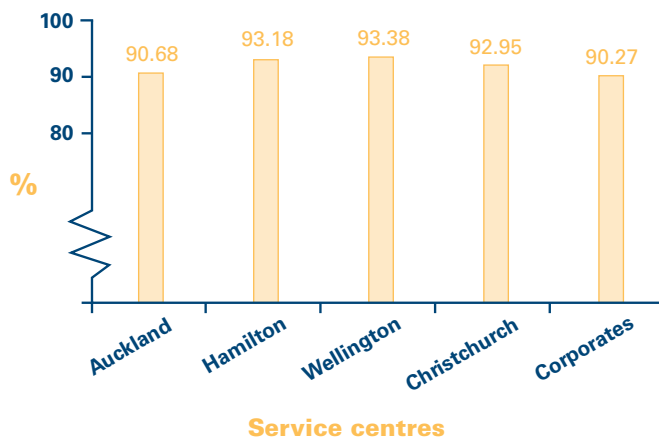
Now that 31 March 2003 has passed it is time to evaluate the filing percentage achieved for 2002 tax returns. As at 31 March, 90,278 returns were outstanding for clients of tax agents. A national filing percentage of 92.31% was achieved.

The national filing result for the last three years has improved slightly. However, tax agents are reminded that 100% of returns are required to be filed by 31 March.



Regional performance

Previously, articles on filing performance have focused on the national percentage for the year, but we have also been asked to show how regions have performed. This is shown below.



Timing of late filing penalties

This year, as in the past, we have issued letters to clients of tax agents after 31 March if their client's return was outstanding. The letter gives the client 30 days to organise the filing of their outstanding return and, after that time, a late filing penalty may be charged.

We are evaluating this process and may implement a different strategy for outstanding 2003 income tax returns. The late filing penalty may be charged shortly after 31 March 2004 so please make sure your clients' returns are filed by this date. We will provide an update in future editions of *AGENTSanswers* about any changes.

Extension of time (EOT) arrangements 2003/2004 (IR 9XA)

This contains details of:

- the EOT arrangements, and
- procedures in the agreement.

The extension of time agreement is not available in a paper copy.

While this new 2003/2004 extension of time agreement is similar to last year, we hope to work closely with tax agent representative groups and tax groups over the coming months to develop a new strategy that will be more relevant over the next five years.

General depreciation determinations

New general depreciation determinations have been published in the January and March 2003 editions of the *Tax Information Bulletin (TIB)*.

They refer to the following assets:

- prints (including limited edition prints), paintings and drawings – DEP 48.
- compact disc players, digital versatile disc players, video games players and related assets – DEP 49.

The rates for these assets are already available on our website which is always up-to-date with the latest depreciation determinations. You can find them through the depreciation rate finder at www.ird.govt.nz/cgi-bin/form.cgi?form=deprates

You can also calculate depreciation using the online calculator available at www.ird.govt.nz/cgi-bin/form.cgi?form=depncalc

New Zealand tax residence questionnaire

If you have a client who is leaving, or who has left New Zealand for more than 325 days, you can complete a *New Zealand tax residence questionnaire (IR 886)* for advice on their tax residency status.

The questionnaire requests information about a person's ties with New Zealand, for example economic and social ties. It also asks for the name of any other country they may also have ties with. This is so we can take into account any relevant double tax agreement.

The information requested on the form also ensures that we are able to correctly assess the repayment obligations and interest write-off entitlements for overseas student loan borrowers.

You can find the New Zealand tax residence questionnaire on our website at

www.ird.govt.nz/library/publications/studentloans/ir886.pdf or request printed copies through INFOexpress or StationeryXpress.

Tax bill passed

Parliament passed legislation introduced last year in the Taxation (Annual Rates, Maori Organisations, Taxpayer Compliance and Miscellaneous Provisions) Bill.

This edition of *AGENTSanswers* includes several articles that summarize some of the main features of this new legislation. If you are interested in these changes, please read the following articles:

- Donation and rebate changes
- Provisional tax pooling
- Taxation of Maori organisations.

Donation and rebate changes

Individuals

In the March edition of *AGENTSanswers*, we discussed the proposed change to increase the maximum charitable donations threshold from \$1,500 to \$1,890 for the 2002–2003 income year onwards.

This legislation was passed on 26 March 2003 and now means your clients can claim a maximum of \$630 for this rebate from 1 April 2002.

Previously we indicated that we would hold any claims exceeding \$1,500 until the new legislation was passed. Since the legislation was passed before the end of the 2002–2003 income year, no rebate claims were delayed.

E-File software developers have been given new specifications which include the threshold figure of \$1,890. This means you will be able to claim the new maximum limit on E-Filed returns as well.

The childcare and housekeeper maximum remains the same at \$310 if the customer pays \$940 or more.

Tax agents can file claims for their clients without the need to include receipts. However as a tax agent you must sight the receipts for donations, and the taxpayer is required to retain them for four income years after the income year to which the claim relates.

Companies

Companies also benefit as a result of a change in legislation. The maximum deduction thresholds for donations by a company have been simplified—with just one threshold of 5% of net income calculated before taking into account the deduction. This change is effective for the 2002–2003 income year.

Changes also mean close companies can now qualify for the deduction, providing they are listed on the official list of a recognised exchange like the NZSE.

Provisional tax pooling

The recently passed legislation allows for the establishment of provisional tax pooling accounts.

Provisional tax pooling has been introduced to reduce compliance costs in response to taxpayer concerns over difficulties in calculating their provisional tax and the resulting exposure to use-of-money interest (UOMI).

Often, the amount of income tax a taxpayer will be liable for is uncertain, with the amount paid during the year as provisional tax reflecting the taxpayer's best judgment of the law on a large number of technical issues. If the taxpayer's judgment of their liability is incorrect, and they have actually overpaid or underpaid tax, they may be exposed to the imposition of UOMI.

Previously, there was no way taxpayers could avoid UOMI without substantially overpaying their tax. Many taxpayers also consider that the rate of interest paid on overpaid tax to be too low and the rate charged on underpaid tax too high.

Tax pooling accounts

Provisional tax pooling will allow taxpayers to pool provisional tax payments, offsetting underpayments by overpayments within the same pool, thereby reducing their UOMI exposure. The pooling arrangement will be made through a commercial intermediary, who will arrange for participating taxpayers to be charged or compensated for the offset.

Intermediaries may be able to pay a higher rate of interest to taxpayers who have overpaid their tax into the pool, and charge a lower rate of interest to those who have underestimated their tax, and have therefore borrowed from the pool.

Making payments

Provisional tax payments made to an intermediary will be passed on to Inland Revenue and held in a tax pooling account. When the taxpayer knows their income tax liability for the year, they can arrange for the intermediary to ask Inland Revenue to deal with their payment accordingly, for example, transfer the payment to their income tax account if they are liable for debit UOMI.

Voluntary provisional tax payments, as well as payments for provisional tax instalments, can be paid into the tax pooling account. It should be noted though that until a payment is transferred from the tax pooling account to a taxpayer's income tax account, the taxpayer has not met their income tax obligations. However no late payment penalties or UOMI will be imposed, and no debt letters will be issued for provisional tax instalments until the income tax return for the year is filed.

Provisional tax pooling may help your clients better manage their exposure to UOMI.

For more information

More information about provisional tax pooling (including a list of provisional tax intermediaries) can be found on the tax agents' page of our website at www.ird.govt.nz/taxagents



Taxation of Maori organisations

From the 2003–2004 income year there is new legislation concerning:

- relaxing the “public benefit” requirement for charitable status
- deductions available to Maori Authorities for donations to Maori organisations
- marae charitable tax exemption.

Relaxing the public benefit requirement

New section OB 3B(1) of the Income Tax Act 1994 relaxes the public benefit requirement so that a trust, society or institution that meets the charitable purpose requirement will not be automatically excluded from qualifying for the associated income tax exemption simply because its members are connected by blood ties.

The trust, society or institution will still need to meet the other requirements of a charity, for example, the purpose must be for the benefit of the public or an appreciably significant section of the public, and the entity must not be carried on for the private pecuniary profit of any individual.

Some of your clients who would not have been eligible for charitable status might become so as a result of the change.

Deductions available to Maori Authorities

New section DI 2 of the Income Tax Act 1994 allows Maori Authorities to deduct donations to organisations with “approved donee” status. The maximum level of deduction will remain at 5% of the Authority’s net income calculated before taking into account the deduction.

A letter has been sent to all current Maori Authorities advising them of this change.

Marae charitable tax exemption

New section OB 3B (2) of the Income Tax Act 1994 gives a “charitable income tax exemption” on any trust, society or institution that administers marae situated on Maori reservations which solely use their funds to administer and maintain the land and physical structures of the marae, or for other charitable purposes.

The exemption is for the entity responsible for the marae, not the marae itself. As long as the entity administers marae situated on a Maori reservation, it will be eligible for the exemption. If the marae is not situated on a Maori reservation, the entity can apply for an income tax exemption under the general charitable provisions instead.

A letter has been sent to all identified marae advising them of the new exemption.

Other changes applying to Maori Authorities

New rules will apply to Maori Authorities from the 2004–2005 income year.

We will keep you informed about the impacts these changes will have on your clients over the coming months.

Child support changes

Two child support changes took effect from the start of the child support year, 1 April 2003.

The first change increased the minimum amount non-custodial parents are required to pay to financially support their children from \$663 a year, to \$677. Even if the paying parent does not receive any income, they are still required to pay a minimum amount to financially assist with the raising of their children.

The highest taxable income we use is based on 2.5 times the average New Zealand income. This has been increased from \$86,684 to \$90,823.

The first payment based on the new assessments is due on 20 May 2003. All customers were advised in February and March about their new assessments.

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

We’ve noticed an error in the *Fringe benefit tax return guide (IR 425)* for both the 2002 and 2003 years. This error affects quarterly FBT filers who used the multi-rate calculation.

If you followed the instructions on completing the fourth quarter multi-rate calculation sheet in the return guides in either of the 2002 or 2003 years, and the benefits you provide are liable for GST, you will have underpaid the total payable.

This article explains how to calculate the correct amount and make an adjustment for this in your next FBT return. We apologise for any inconvenience this may have caused.

Page 21 of the guide for both the 2002 and 2003 tax years states that when you calculate the FBT to pay in the fourth quarter, you will need to total the amount of FBT that was assessed in the last three quarters. Although this in itself is correct, the guide then goes on to show that the figures for the previous three quarters should be taken from Box 8 of each of those returns to arrive at the assessed amount. In fact, the values should be taken from Box 6, not Box 8.

The result of taking the values from Box 8 instead of Box 6 means you have deducted the total payable, including any GST payable in the first three quarters from the total fringe benefit tax payable for the year, instead of deducting the FBT payable in the first three quarters (from Box 6). The result of this means the liability for the square-up in the fourth quarter is incorrectly reduced by the GST payable in the first three quarters.

If you have filed FBT returns for clients and used the multi-rate calculation sheet instructions as stated on page 21 of the return guides for the 2002 or 2003 fourth quarters, please recheck your calculations. If after checking your calculations you find you have used the values from Box 8, you will need to recalculate using the values from Box 6. The underpayment should be included in Box 7 of the client’s next FBT return, along with any GST payable in that quarter.



Student loan calculator

Most student loan borrowers don't realise the impact paying as little as \$10 extra a week can have on the amount of interest they pay and the term of their loan. So, we've redeveloped the student loan repayment calculator to help them work out what they can do for themselves.

The calculator gives borrowers the opportunity to see the difference between paying back the minimum or the minimum plus a little extra. It can be easily accessed through www.owezero.org.nz – a site registered exclusively for the purpose of getting borrowers straight to the calculator. The repayment calculator is also available through the student loan section of our website at www.ird.govt.nz/studentloans

We've been testing this new version with borrowers and the results have been very positive, with comments like "It reminds me that I am in a position to do something, and "The calculator result showed a small amount will really help!" and "I didn't realise \$10 a week would make a difference—I thought it had to be way more!"

Borrowers are an internet-savvy bunch, with the student loan section of the Inland Revenue website rating consistently high in hits. So, we've also taken this opportunity to redevelop the student loan section of the Inland Revenue website.

We encourage you to take a look at our website. Our aim is to develop this tool into a valuable resource for student loan borrowers and their tax agents.

Arrangements for the payment of tax due 7 April 2003

We have previously talked about the new options available to clients who were not in a position to pay their tax by 7 April 2003.

We are aware that many of your clients have taken advantage of these options prior to 7 April. This means they will only be subject to the initial 1% late payment penalty and use-of-money interest on any amount unpaid after the due date. No further penalties will be charged as long as the agreed payments are made on time.

Clients who are unable to pay their tax and have not already entered into an arrangement, can still avoid monthly incremental late payment penalties on outstanding tax by contacting us and entering into a payment arrangement.

Imputation due date

A reminder for any client companies that are required to pay further income tax and imputation penalty tax because their imputation credit account had a debit closing balance as at 31 March 2003.

Even though the imputation return for the 2003 imputation year is due to be filed at the same time as the 2003 income tax return, any further income tax and imputation penalty tax owing is due for payment by 20 June 2003.

Linking and delinking during April

In the March edition of *AGENTSanswers* we told you that Inland Revenue staff would not be able to update your client list to link or delink clients from 1 to 14 April 2003. This was so we could assure the accuracy of your return filing statistics.

Our staff are now able to update your client list again.

We apologise for any inconvenience this may have caused.

Linking and delinking changes

Student loan borrower tax type

Many agents have expressed a preference for being able to link the student loan borrower (SLS) tax type separately, rather than have it automatically linked as an associated tax type of income tax. As a result, we are making changes to the different linking methods.

From 12 April, if you link for income tax using INFOexpress, SLS is no longer associated. Instead you can choose to link your client for SLS separately. The other tax types associated with income tax will continue to be linked with it.

However, SLS will still be automatically linked with income tax if you use the *Client linking or delinking (IR 795)* form or if you link over the phone with one of our customer services representatives. This is something we are working on and in the near future the process will be consistent across all methods of linking.

ACC employer and ACC self-employed tax types

Other linking and delinking changes planned for the near future are for the ACC employer (ACC) and ACC self-employed (SEA) tax types.

From 1 July 2003 you will no longer be able to use INFOexpress to link, delink or obtain account information for ACC or SEA. From 1 August 2003 you will no longer be able to add or modify information relating to ACC or SEA. We will delink all your clients' ACC and SEA accounts and they will no longer appear on your client list.

Shortly after August, we will be closing the ACC and SEA tax types completely, which means the information will be unavailable to our staff. A date hasn't been set for this yet and until that time you will still be able to request information about them if you have written authorisation from your client.

Child support tax types

For privacy reasons, you are unable to be linked for the child support custodial parent (CPR) and paying parent (NCP) tax types. However, your client can nominate you for these tax types by writing us a letter or using an *Elect someone to make child support enquiries on your behalf (IR 146)* form.

If you want to receive the mail for these tax types, your client should specify this when they nominate you.

File your clients' FBT returns online with eFBT

Last month we published this article on our website as a Special Edition of *AGENTSanswers*.

The filing of FBT returns online through Inland Revenue's website will be made available to all taxpayers in June 2003 in time for filing FBT returns for the first quarter (1 April – 30 June 2003). Before making this service available to all taxpayers we would like to trial it with tax agents. This trial will be available for the fourth quarter, annual and income year FBT returns.

If you're interested in filing online with eFBT, please read on.

Brief description

The eFBT returns are electronic forms on Inland Revenue's website—currently accessible from the tax agents' page. They closely resemble the paper returns, but being electronic they can do the arithmetic for you, so you don't have to complete so many boxes.

As well as making the returns available electronically, we have also developed online supporting schedules and calculators to assist in the calculations required. The schedules are simply designed for you to print and keep with your FBT records. Our website does not store any of the data that you enter on the schedules, nor does it carry over totals from the schedules to the return itself.

The benefits to you are:

- all the arithmetic in the schedules (except for the low-interest loan schedule) takes place automatically, once you've entered the minimum information required
- the eFBT return arrives at Inland Revenue the same day as you send it
- you get a time-stamped receipt for the return as soon as you send it
- the calculations are checked before you file
- any refund is paid earlier than if filing was paper-based, subject to normal audit checks.

How to file with eFBT

1. Go to eFBT at <http://www.ird.govt.nz/fringebenefittax/calculatingfbt/fbtsuite.html>
2. Fill in your client's name and IRD number, plus the 14-character DLN number that's computer-printed on the top of your client's paper return. (The client's name is optional, but if entered it will appear on the printed copy that you get at the end.) You will continue to receive paper returns so you have a new 14-character DLN number for filing next time.
3. Fill in the last day of the quarter (or year) covered by the return eg 31/03/2003.
4. Enter the taxable benefits provided. You need to break this down into fringe benefits which are liable for GST and fringe benefits which are not. There are separate boxes for these.

5. If you are completing a quarterly return simply click on the "continue" button. You will then be asked to choose the rate you want to use. If completing the annual return, select the rate you are using and then click on the "continue" button.
6. If you elect the multi-rate option, we will ask you to enter the fringe benefit tax to pay (if you elect the 64% option we will do the calculation for you). You then need to click on the "continue" button. Once all the information is complete you'll get a "Please confirm" page. Here you can either alter anything that needs correcting, or transmit the return to Inland Revenue.
7. As soon as you transmit the return you'll get a receipt page showing the time/date of filing and all the information you entered. Please print this page, sign it, and keep it as part of your FBT records for audit purposes. This signed page becomes the FBT return for the purposes of the Tax Administration Act, so you don't need to fill out a paper return.

Paying any FBT owing

If there's FBT to pay and your client is a Westpac, ANZ or Kiwibank customer they can pay online at their websites. There is a link from the eFBT receipt page to these sites.

The other major banks in New Zealand (and some international banks) also have an internet banking or bill pay facility which you may be able to use. Please make sure sufficient details are supplied for us to correctly credit the payment to the account. See our booklet *Making payments (IR 584)* to find out how to make these online payments correctly.

To pay by cheque just tear off the pay-in slip on the bottom of the paper return and post it with the cheque. Don't fill in the return—just send us the pay-in slip.

How we process eFBT returns

The details you send update to our computer system overnight without any manual intervention. From there the usual process will apply—you'll receive an assessment if we calculate a different result for any reason. Any refund will be paid either by direct credit or cheque, based on the instructions we hold.

Feedback

We welcome your feedback, if you would like to comment about the schedules, returns or the process please email us at taxagents@ird.govt.nz

Any problems?

The eFBT return is on the secure part of Inland Revenue's website, so your browser needs to support 128-bit encryption and recognise Inland Revenue's website as a trusted site. For more information see our "Online services – if you can't get through" page.

For other issues you can call us on the tax agents' 0800 number between 8 am and 8 pm weekdays and 9 am and 1 pm Saturdays.



E-Filing over the internet

In December last year, we told you about the changes we were making so that tax agents would have the option of E-Filing clients' returns over the internet.

We have completed this work and returns can now be E-Filed across the internet if your software package has this facility.

The internet facility is expected to provide an improved level of service for tax agents. One benefit will be that you will no longer require a PACNET connection to E-File returns, correspondence and request tax agent management system (TAMS) reports.

We have worked closely with the E-File software developers to implement the internet facility. To date we are aware that EMCOM and Advanced Professional Solutions have made the necessary updates to their software to allow you to E-File across the internet. Other developers are working towards updating their packages.

We are always looking at ways we can improve the E-File service to better meet your needs and we encourage you to consider the internet option for transmitting your returns to us.

Recently updated publications

The following publications have recently been updated and are available from our website at www.ird.govt.nz/library or they can be ordered through INFOexpress or StationeryXpress.

Family Assistance (IR 200)

This guide explains how to register for family assistance payments and includes the FS 1 registration form.

Unfortunately some FS 1 forms for the 2004 year have been issued with incorrect dates. To enable easy identification of correct FS 1s, the updated version has the date **April 2003** on the front page on the top right-hand corner between the wording FS 1 and 2004. All copies of the incorrect FS 1s should be destroyed.

Adjusting your business income for Family Assistance (IR 215)

Use this worksheet to calculate business adjustments for family assistance purposes.

Congratulations on your new baby (IR 753)

This flyer provides information about parental tax credit and paid parental leave.

Information for salary and wage earners (IR 723)

This is a factsheet about income tax requirements for salary and wage earners.

Amendments to the *Tax Agents' CD Rom*

You will have received your 2003 *Are you connected?* pack with Version 5 of the Tax Agents' CD Rom in early April. We hope you are finding it a useful resource.

Unfortunately there are some faults in this version. You can find a link dedicated to amendments of the CD Rom on the tax agents' page of our website at www.ird.govt.nz/taxagents

Not all the forms on the CD Rom have fill-in formats and in some fillable forms the tabbing between the fields is a little irregular. This can be avoided by clicking your mouse on the field you want to go to. These will be corrected and updated versions of the forms will be migrated to our website and linked to "Web updates" on the CD Rom.

The PAYE 2003 calculator on the CD Rom does not give a result. However, you can find a working 2003 calculator and the current income year's calculator at www.ird.govt.nz/otherservices/online/calculators.html

The income tax rates have not changed so the tax on 2001 taxable income calculator on the CD Rom can be used for the current year also.

The rebate claim threshold for donations has changed. The legislation had not been passed when the CD Rom was written so the rebate information on the Tax Agents' 2003 Guide is incorrect. Under "Changes to the 2003 return forms" the paragraph referring to the IR 526 rebate claim form should read "The maximum donations rebate able to be claimed has increased from... to \$630 on \$1,890 donations or more", not "\$680" as it currently states. In the "Keypoint guide" for the IR 526 form, keypoint 3 should read "Maximum rebate allowed - \$630", not "\$500".

For agents with older computers the L letter on the last page of the extension of time (EOT) agreement may load slowly. You can find a working copy of the L letter in the EOT agreement on the Inland Revenue website at www.ird.govt.nz/library/publications/taxagents/ir9xa.pdf

We apologise for any inconvenience these faults may cause you. If in doubt, for the most current information, please check our website at www.ird.govt.nz/taxagents or phone the tax agents' freephone number.

If you have any other feedback on the CD Rom or would like to suggest changes or additions for any future version, please email tax.agent@ird.govt.nz

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:

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