



Budget announcements 2008

There have been changes to tax rates and Working for Families Tax Credits. See back page for more information on how this will affect your clients.

Foreign dividend payment returns (IR 4F) due next month

A reduction in the company tax rate (CTR) came into effect from the beginning of the 2008–09 income year for all entities whose income is taxed at the company rate. This reduction also reduced the rate of tax payable on foreign dividends received. The tax on these dividends is foreign dividend payments (FDP)—formerly FDWP.

If you have clients liable to pay FDP, their income is taxed at the company rate, and their quarterly FDP returns for the 2009 tax year and onward are affected by this change. The first of these returns are due on July 20 (for the period 1 April–30 June). Clients will need to use the new 30% company tax rate to calculate how much FDP to pay—the IR 4F returns have been updated to reflect this change.

The CTR reduction affects use of FDP credits in the same way as use of imputation credits. The key changes relate to:

- the maximum imputation/FDP ratio for dividends distributed during the rate changeover window
- tracking the relevant tax rate in ICA/FDP accounts
- claiming a tax credit for imputation/FDP credits received as shareholder of another company.

Our *Imputation and the company tax rate change (IR 237)* factsheet, available from www.ird.govt.nz has more details.

A full explanation of the CTR changes can be found in *Tax Information Bulletin* Vol 20, No 3, April 2008 or in the "Business income tax" area of our website.

2008 estate or trust income tax return (IR 6) – allocation of income and allowable deductions

There are some changes in the 2008 IR 6 returns which better reflect the way the provisions of the Income Tax Act

2004 (the Act) require allowable deductions and losses to be allocated between trustee and beneficiary income. Key concepts are:

- Beneficiary income is expressed in the Act as a "gross" concept—that is, it's allocated to beneficiaries without the deduction of any expenses from it.
- Trust expenses must be deducted from trustee income—see section DV 9 of the Act.
- Any losses brought forward from an earlier year can only be offset against the net trustee income—see section IE 1(2) of the Act.
- 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, the 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

IRD numbers of shareholders required while incorporating companies

If you apply for a company IRD number and register for GST when incorporating a company online with the Companies Office, you now need to provide IRD numbers for all individual New Zealand resident shareholders.

When entering the information check you enter the full legal name of the person so we can match the data. You may need to build this into your process.





There is no change to the process—your company will be incorporated, and you'll receive your IRD and GST registration numbers as you do now.

To find out more about the joint service, go to www.companies.co.nz

Making sure employees use correct tax and repayment codes

Background

We've identified many salary and wage earners using the wrong tax and/or student loan repayment code. This means they aren't paying sufficient tax or the correct repayments on their student loan and can finish up with an end-of-year tax and/or student loan bill.

To help reduce the number of salary and wage earners getting into debt, we're enhancing some of our processes.

You may be contacted by your clients (salary and wage earners and employers) about these changes, which we've summarised below.

Summary of changes

Currently, when we identify an employee on the wrong tax code, we send them a letter asking them to change the tax code with their employer. However, this hasn't been effective.

Starting in July 2008, when we identify a salary or wage earner using the wrong tax and/or student loan repayment code, we'll send out two letters—one to the employee and one to their employer.

The letter to the employee will advise them they're using the wrong code and that we have also written to their employer instructing them to change the code on their behalf. The letter to the employer will instruct them to change the employee's code. Section 24G of the Tax Administration Act 1994 allows us to instruct an employer to change an employee's tax or repayment code if the employee is not using the correct code for their circumstances. However, this section also states that the tax code does not apply if the employee notifies their employer that their circumstances have changed and, as a result, a different tax code should apply.

If the letters are not effective in changing the employee's tax code, we'll follow-up with a phone call to the employer.

We've already successfully trialled this new process with a group of employees and employers in Hamilton and received positive feedback.

We'll keep you up-to-date with these changes in future issues of *AGENTSanswers*.

Aligning GST filing frequencies with balance dates

We've been receiving calls from agents about why some clients haven't had their GST filing frequencies aligned with their balance dates.

We want to clarify why this hasn't happened for some clients.

In the majority of cases, these clients are registered for GST, but not liable for provisional tax. Because they're not liable for provisional tax, they aren't required to make a combined payment for both taxes and don't need to have their GST filing frequencies and balance dates aligned.

If the client becomes liable for provisional tax we'll align them at this point.

Filing paper returns for your clients?

Our scanning equipment sometimes has difficulty reading tax returns when the boxes are filled out using light-coloured ink. A large percentage of our processing errors are caused by employer monthly schedules and GST returns completed in pencil, or with a red or green pen.

When you file paper returns for your clients, please type the information, or use dark ink. Black or blue is best. That way, our equipment can accurately capture your clients' details.

Thank you for your cooperation.

Losses from finance company investments—can losses be claimed as a bad debt?

Inland Revenue issued a media release on 26 February 2008 on the deductibility of losses from finance company investments. This article provides a summary—please see the full release at www.ird.govt.nz and read the item dated 26 February 2008 under "News and updates."

Do you have clients who lost money on investments in failed finance companies? A client on the accruals basis may be able to claim a deduction for a bad debt if they didn't receive interest they were entitled to receive and they previously included the interest in their tax return.

Those on the accruals basis include companies, trustees and individuals who earn more than \$100,000 a year in interest.



No deduction is available for:

- Losses of capital (the original principal amount invested plus any interest reinvested).
- Income your client has actually received. As a guide, if resident withholding tax has been deducted from interest payments, the interest has been paid to the investor.

Individual clients earning less than \$100,000 a year interest are taxed on a cash basis. Because they pay tax on interest as they receive it, it's unlikely the majority of individual investors will need to claim a deduction for a bad debt.

To write off a bad debt you must believe there is no commercially realistic possibility your client will recover their money (which may only be part of the total amount they are owed). You must take the deduction in the year you write off the debt.

Please record the following details to support the claim:

- the amount to be written off
- the reasons for believing the debt is now bad
- the decision to write the debt off
- the date of the write-off.

You should be able to demonstrate some reasonable basis for the write-off, such as a report from the liquidator.

If the debt has matured, been extinguished or remitted (perhaps by the liquidation of the financial company) or transferred to another party, you can no longer declare the debt to be bad and take a tax deduction. You should think carefully about making a bad debt declaration prior to any of these events occurring.

Please note that these rules do not apply if you are in the business of holding and dealing in debt securities (including finance company deposits).

New terms in IRD publications

In the Income Tax Act 2007, a number of tax terms were changed to more clearly reflect their meaning. Their intent has not changed.

These terms are being introduced to all our information as it's updated. We expect most information to be updated by December 2008, although end-of-year returns and guides will be completed during 2009. A list of the changed terms is available in *Tax Information Bulletin* Vol 20, No 2, (March 2008).

During the transition you can still rely on the information in our booklets, guides and forms, on our website and from our people, even where old terms and references are used.

Ordering copies of the IR 901

The tax agent payment form (IR 901) no longer comes in pads of 100. Instead, it's now produced as a single form.

You can still get the IR 901 through StationeryXpress—just order the number you require. The only change is you'll receive single forms rather than a pad.

Do you make electronic payments?

Electronic payments such as automatic payment, direct credit and online banking are a popular way of paying us. 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.

If you are paying PAYE you need to select the DED tax type. DED relates to employer deductions and applies to PAYE or any combination of PAYE, child support, student loan and ESCT (employer superannuation contribution tax).*

Example

Rose is a small employer with five employees. One employee has a student loan and another has child support deductions. When Rose makes her payment for the May period (31/05/2008) she enters the following:

IRD number	Tax type	Period
12-345-678	DED	31052008

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.

* Formerly Specified superannuation contribution withholding tax

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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October 2008 tax changes

Legislation has been passed changing thresholds and rates for personal income tax for the 2008/09 tax year and subsequent years. The rates and income threshold for the Family Tax Credit component of Working for Families (WFF) also increase from 1 October 2008.

Personal income tax thresholds and rates

New rates and thresholds will take effect from 1 October 2008, 1 April 2010 and 1 April 2011, as set out below:

Current rates		New rates from 1 October 2008	
Income to \$9,500	15%	Income to \$14,000	12.5%
\$9,501 - \$38,000	21%	\$14,001 - \$40,000	21%
\$38,001 - \$60,000	33%	\$40,001 - \$70,000	33%
\$60,001 and over	39%	\$70,001 and over	39%
From 1 April 2010		From 1 April 2011	
Income to \$17,500	12.5%	Income to \$20,000	12.5%
\$17,501 - \$40,000	21%	\$20,001 - \$42,500	21%
\$40,001 - \$75,000	33%	\$42,501 - \$80,000	33%
\$75,001 and over	39%	\$80,001 and over	39%

In addition:

- ▶ The Low Income Rebate is being removed
- ▶ Although there will be a new 12.5% rate, no new matching secondary tax code has been introduced. However the government is considering whether to introduce a new lower secondary code from 1 April 2009.

Employers will need to start using the new rates to ensure they are deducting the correct amount of PAYE from employees' salary and wages from the first pay period that ends on or after 1 October 2008. New tax tables will be issued at a later date.

How this applies to annual tax

As the new rates are being introduced partway through the income tax year, a composite schedule will apply for the 2008/09 year. The composite rates reflect the current rates applying to 30 September 2008 and the new rates applying from 1 October 2008. Use these rates to calculate your clients' annual tax liability. The composite tax rate schedule for the year from 1 April 2008 to 31 March 2009 is:

Income range	Composite tax rate applied
\$0 - \$9,500	13.75%
\$9,501 - \$14,000	16.75%
\$14,001 - \$38,000	21.00%
\$38,001 - \$40,000	27.00%
\$40,001 - \$60,000	33.00%
\$60,001 - \$70,000	36.00%
\$70,001 and higher	39.00%

How this applies to provisional tax

Provisional taxpayers who use the estimation method will need to apply the composite tax rates to determine their tax liability for the current year and determine whether they wish to recalculate their provisional tax for 2009.

For those who use the standard method to calculate their provisional tax, the formula from 1 October 2008 will be the standard uplift (105% of last year's tax or 110% of the tax from two years ago) based on the earlier residual tax less \$730 for provisional tax instalments due after 1 October 2008.

For those who use the ratio option, we'll need to recalculate the ratio that will apply from 1 October 2008 and advise the client accordingly.

How this applies to special tax codes

If your client has a special tax code, you may need to recalculate this before 1 October 2008. We'll provide more information about this in due course.

Tax on investment income

No change has been made to RWT rates and therefore current rates of RWT on interest income continue to apply. Even though banks and financial institutions will be withholding RWT from interest income at the correct rates, you may find some clients have paid too much income tax at the end of the income year, especially if they earn \$14,000 or less.

After 31 March 2009 they can go to our website and use our personal tax calculator and then request a personal tax summary or file a return if they are owed a refund.

The government has not changed tax rates and thresholds for PIEs. This means the current tax rates and thresholds continue to apply. As the tax deducted from PIEs is a final tax, people should not account for the tax deducted from their PIE if they file a tax return.

Working for Families Family Tax Credit changes

From 1 October 2008 the WFF Families Tax Credit rate and income threshold will increase to take account of inflation. The income threshold increases from \$35,000 to \$36,827. Because the threshold change is mid-year, a composite threshold of \$35,914 will apply for the 2008/09 income year.

Where can I get more information?

More information has been published on our website at www.ird.govt.nz and at www.taxpolicy.ird.govt.nz. The full set of Budget 2008 documentation can be found at www.treasury.govt.nz