



Estate or trust income tax return guide 2003

If you need more help, read our booklet *Trusts' and estates' income tax rules (IR 288)*. You can view this on our website or order a copy through INFOexpress (see page 53).

Complete and send us your IR 6 return by 7 July 2003, unless you have an extension of time to file. Refer to page 6 in the guide.

The information in this guide is based on current tax laws at the time of printing.

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Distributions of beneficiary income to a minor

A "minor" is defined as a New Zealand resident under the age of 16 years on the balance date of the trust.

Distributions of beneficiary income to which the minor beneficiary rule applies are taxed as trustee income, that is, they are:

- taxed at 33%
- included in the trustee's tax calculation in the IR 6 return, and
- included in the trustee's provisional tax calculations along with other trustee income.

The minor beneficiary should not include this distribution in their IR 3 individual tax return.

Subject to the usual rules, the trustee will have to pay use-of-money interest on any underpayment and we will pay interest on any overpayment of provisional tax.

Exceptions

The minor beneficiary rule does not apply if:

- the beneficiary income is derived by a minor for whom a child disability allowance is paid under the Social Security Act 1964, or
- the beneficiary income is derived directly from either a group investment fund, the Maori trustee or a Maori authority, or
- the beneficiary income distributed to each minor from the trust is \$1,000 or less in an income year.
- There are further exceptions from the minor beneficiary rule that relate to the nature of the settlements on the trust. For further information, please see *Tax Information Bulletin (TIB)* Vol 13, No 5 (May 2001).

Application date

The minor beneficiary rule applies to beneficiary income derived in the 2001–2002 and subsequent income years. Please see *TIB* Vol 13, No 5 for further details—you can get this from our website (see page 53).

Return due date

If the estate or trust has a 31 March balance date you have until 7 July 2003 to send in the return unless you have been granted an extension of time. If you have a balance date other than 31 March, this date may be different. Phone us on 0800 377 774 to check if you are not sure.

If the estate or trust is the client of an agent, it may have until 31 March 2004 to file the return. If this applies, contact the agent for more information.

Questions 1 to 6

The information in Questions 1 to 6 of the return helps us to be sure that any correspondence we send goes to the right person and the right address.

Fill in Questions 1 to 6 only if the correct information is **not** printed on the return.

Question 2 Name

It is very important that you set out the name as in the following examples:

- for estates, “Trustees in the estate of Jim Smith”
- for trusts, “Trustees in the Jim Smith trust”.

Questions 3 and 4 Postal address and phone number

If you have a new postal address, write the details at Question 3. If the estate or trust uses its tax agent’s postal address, leave this panel blank. Your tax agent will let us know of any change of address when updating their client list. We ask for your daytime phone number at Question 4 in case we need to contact you with questions about the return.

Question 6 Bank account number

Refund by direct credit

We recommend the estate or trust receives its refund by direct credit to its bank account because it’s faster than a cheque.

If there is no account number preprinted, or the preprinted account number is not correct, write it in Box 6.

If the estate or trust’s refund was direct credited last year and you are not using a preprinted IR 6 return, any refund due this year may go to the same account. If you want to change the account number for direct credits, print the new account number in Box 6.

Refund by cheque

If a bank account number is shown but you want to receive the refund by cheque, you must tick 27H on the back page of the return. If there is no preprinted account number leave Box 6 blank.

Question 7A Has the estate or trust ceased?

If the estate or trust has ceased, include accounts showing the distribution of all assets and liabilities to the date the estate or trust was finalised.

If the estate or trust is registered for GST or as an employer, you will need to complete a *Business cessation (IR 315)* form to finalise your records. You can order an IR 315 by phoning INFOexpress (see page 53).

Question 7B Nil trust returns

Where a trust has no prospect or intention of deriving any assessable income in a given financial year, please contact us on 0800 377 774 with the name and IRD number of the trust so we can record that a return is not required for that year.

However, if the trust receives any assessable income, for example, interest, the trustee must file a return, regardless of the amount of income derived.

If the trust subsequently derives assessable income in a future year, the trust must send in a return.

Note

This only applies to trust returns. Estates are still required to file a return of income regardless of whether or not they have derived assessable income.

Question 8 Types of estates and trusts

The type of trust determines the way certain distributions are taxed in the hands of beneficiaries.

There are three types of estates or trusts:

- qualifying
- foreign
- non-qualifying.

Note

In this guide, the word “trust” also refers to estates unless we have stated otherwise.

Qualifying trust

A qualifying trust is one that has been taxed (or would have been liable for tax but had no taxable income for that income year) in New Zealand on all its trustee income since the date it began. Qualifying trusts include:

- trusts settled by New Zealand residents with New Zealand trustees
- estates of people who were New Zealand residents when they died
- other trusts that have elected to become qualifying trusts.

Foreign trust

A foreign trust is a trust where no settlor of the trust has been resident in New Zealand since:

- 17 December 1987, or
- the date the trust was first settled whichever was later.

Non-qualifying trust

A trust that is not a qualifying trust or a foreign trust is a non-qualifying trust. Generally this is a trust:

- with a New Zealand-resident settlor, but non-resident trustees, or
- that has not been liable for, or has not paid, New Zealand tax on trustee income since first being settled.

Election to change category of trust for tax purposes

New residents who have settled a trust before coming to New Zealand may, within 12 months of arrival, elect to pay New Zealand tax on future trustee income. Making this election will mean the trust becomes a qualifying trust for income derived on or after the date on which the election is made. If you want to make an election use an IR 463 form, which is available from our website or INFOexpress (see page 53).

Unit trust

A unit trust is treated as a company for tax purposes. If you are preparing a tax return for a unit trust, please complete an IR 4 company income tax return. You can get a copy from our website or by phoning INFOexpress (see page 53).

Group investment fund

If the income is:

- solely from category B income, an IR 6 must be completed
- solely from category A income, an IR 4 must be completed
- a combination of both category A and category B income, an IR 4 and IR 44E must be completed. Please read the notes in the IR 44E for further information.

You can get an IR 4 or IR 44E from our website or by phoning INFOexpress (see page 53).

Superannuation schemes

A superannuation scheme that is not registered with the Government Actuary and does not allow investors to contribute will be treated as a trust for tax purposes and must file IR 6 returns.

Question 9 New Zealand interest

Include interest from all New Zealand sources at Question 9. In the gross interest column, write each amount of interest before the deduction of any tax. Write each deduction in the resident withholding tax (RWT) column.

Income from financial arrangements

If the estate or trust was a party to a financial arrangement, such as government stock, local authority stock, mortgage bonds, futures contracts or deferred property settlements, the income or expenditure from the financial arrangement may have to be calculated using a spreading method, rather than on a cash basis. To determine whether a spreading method must be used please read the notes under “Financial arrangements” on pages 18 and 19.

If the financial arrangement matures or is sold, remitted or transferred a base price adjustment must be carried out.

Any RWT will be deducted on a cash basis. Show the RWT deducted and any income from the financial arrangement in Boxes 9A and 9B.

Interest on broken term deposits

If you have broken a term deposit during the year, there may be “negative interest” to account for. This is interest repaid on the term deposit. This may reduce the amount of interest to declare on the tax return.

If the term deposit was broken in full, or it was business-related, deduct the negative interest from the gross interest amount shown on the RWT deduction certificate (IR 15 or equivalent statement).

Deduct the allowable negative interest component using the worksheet on page 12 before entering the gross amount at Question 9 of the tax return. In all other cases the negative interest is deductible in a later tax return when the term deposit matures.

Copy your gross interest from your RWT deduction certificate to Box 1. **1** ▶ \$.

Print any negative interest you have paid in Box 2. **2** ▶ \$.

Subtract Box 2 from Box 1 and print the answer in Box 3. Copy this amount to Question 9 of your tax return. **3** ▶ \$.

Interest paid by Inland Revenue

Include any RWT deducted and any interest paid by us in Boxes 9A and 9B. If we adjust the interest calculated for any income year as a result of a reassessment of the tax payable, the amended interest must be shown in the income year following the year in which the amended assessment is issued. If the overall interest is a loss, print the total in brackets in Box 9B.

Note

If expenses are deductible against the interest income, claim them at Box 16.

Do not send any interest statements or IR 15s with the return, but keep them in case we ask for them.

If you received interest from overseas read Question 12 on page 15.

Unit trusts

Distributions from unit trusts will generally be taxable. The statement the estate or trust receives from the unit trust should show the amounts required to be returned for tax purposes.

Question 10 New Zealand dividends

To work out the gross dividend, add up the dividends received, any imputation credits and any withholding payment credits or RWT deductions. Write the total for each dividend in the gross dividend column. Write the credits attached in the appropriate credit column alongside.

Note

If dividends are received from a qualifying company, all of the trust's cash and taxable bonus issue dividends derived from that qualifying company must be distributed by the trustees as beneficiary income to the beneficiaries (other than trustees or companies that are not qualifying companies).

Do not send any dividend statements with the return, but keep them in case we ask for them.

If you received dividends from overseas read Question 12 on page 15.

Note

If expenses are deductible against the dividend income, claim them at Box 16.

Question 11 Partnership, estate or trust income

Partnership

If the estate or trust received any income from a partnership, write the details at Question 11.

Do not include:

- interest and RWT—show them at Question 9
- any dividend imputation credits—include these in Box 10
- any overseas income—show this at Question 12 along with any credits attached.

Estate or trust

If income is received from a foreign or non-qualifying trust, complete a *Schedule of beneficiary's estate or trust income (IR 307)* and attach it to the return.

You can get this from our website or by phoning INFOexpress (see page 53).

Add up all the other income from partnerships, qualifying and foreign trusts, and write the total in Box 11B. Add up any other tax credits and write the total in Box 11A.

Do not include:

- any dividend imputation credits—include these in Box 10
- any overseas income—show this at Question 12, along with any credits attached
- any taxable distributions from a non-qualifying trust.

Calculate the tax on taxable distributions from non-qualifying trusts separately (at 45 cents in the dollar) and add it to the tax on trustee income in Box 25B on page 3 of the return.

Question 12 Overseas income

Convert all overseas income and credits to New Zealand dollars. Use either:

- the mid-month telegraphic buying rates (obtain these from our IR 270 leaflet or from any trading bank), or
- contact the overseas section of a trading bank and ask for the exchange rate for the day you received your overseas income.

You can get an IR 270 from our website or by phoning INFOexpress (see page 53).

Include gross income before the deduction of any tax at Question 12. Credit for tax paid overseas will be limited to the amount of New Zealand tax payable on that income.

If the estate or trust received income from a controlled foreign company or a foreign investment fund, read Question 23 on page 25.

Staple proof of tax paid overseas to page 3 of the return.

Question 13 Business or rental income

If you have business or rental income, you must attach either:

- a fully completed *Accounts information (IR 10)* form, or
- a set of the estate or trust's financial accounts for the year.

The IR 10 summarises the information we need from the financial records. If you complete an IR 10 you don't need to send us your financial records, but you still need to complete and keep them. You can get an IR 10 from our website or by phoning INFOexpress (see page 53).

If you need more help, please phone us (see page 52).

Business income

Write the net profit in Box 13B. This is the amount of income or net loss after all allowable business expenditure has been deducted. If this is a loss show the figure in brackets. When calculating business income, you can use the IR 3B form.

Rental income

If you have rental income, print the net profit or loss (total rents minus expenses) in Box 13B. When calculating rental income, you can use the IR 3R form.

You can get an IR 3B or IR 3R form from our website or by phoning INFOexpress (see page 53).

Attribution rule

Under the attribution rule, anyone whose actions cause an associated person (company, trust or partnership) to earn income, can be personally liable for tax on that income. If this rule applies to persons associated to your organisation, it will affect the amount of taxable income in this return. To find out how to apply this rule, please read our *Tax Information Bulletins*, Vol 12, No 12 (December 2000) and Vol 13, No 11 (November 2001). You can get these from our website at www.ird.govt.nz

Question 14 Other income

Show at Question 14 any other income received by the estate or trust, for example:

- income from any undertaking or scheme
- sale of land and/or buildings
- sale of shares or other property
- sale of securities
- source deduction income accrued to date of death and received later.

If the estate or trust received any of the income listed above, the following notes explain what you need to do.

Income from any undertaking or scheme

Profits made from the carrying on or carrying out of any undertaking or scheme entered into for the purpose of making a profit are taxable to the estate or trust. On a separate sheet of paper write down what the undertaking or scheme was and list the details of income and expenses from these undertakings and schemes. Staple it to page 3 of the return and include the total profit in Box 14B.

Income from sale of land and/or buildings

Profits from the sale of land and/or buildings will be taxable if the estate or trust:

- buys a property for resale
- buys and sells land and/or buildings as a business
- trades as a builder and improves a property before selling it.

These profits may be taxable if the estate or trust:

- subdivides land and sells sections, or
- has a change in designation on its property under the Resource Management Act 1991 and sells it within 10 years of buying.

Write the details of any sales on a separate sheet of paper and attach it to page 3 of the return. Include the total profits in Box 14B.

Income from sale of shares or other property

Profits from the sale of shares and other property are taxable if the estate or trust:

- buys and sells shares or other property as a business
- buys shares or other property for the purpose of resale
- buys shares or property to make a profit.

List the details of income and expenses from these sales on a sheet of paper and staple it to page 3 of the return. Include the total profit in Box 14B.

Sale or disposal of assets

There are a number of rules that apply to the sale and disposal of assets. If you need more help, please phone us (see page 52) or read our booklet *Depreciation (IR 260)*. You can get this from our website or by phoning INFOexpress (see page 53).

Losses from sale of land, buildings, shares or other property

If the estate or trust has made a loss and can show that if it had made a profit it would have been taxable, it may be able to claim the loss as a deduction.

Write the details of the loss on a separate sheet of paper and attach it to page 3 of the return. Show the loss in brackets at Box 14B. Include details of other profits or losses made from similar sales, whether in this tax year or earlier.

Financial arrangements

An estate or trust must account for income from financial arrangements on an accrual basis. Financial arrangements include government stock, futures contracts and deferred property settlements. Changes to the rules for the treatment of financial arrangements have split the rules into two sets.

Generally, the first set applies to financial arrangements entered into before 20 May 1999 and the second applies to financial arrangements entered into on or after 20 May 1999.

Both sets of rules require the income or expenditure to be spread over the term of the financial arrangement. However, both sets of rules allow some exceptions from these spreading provisions for the estate of a deceased person if, at the date of death, the person was:

- a cash basis holder (under the first set of rules), or
- a cash basis person (under the second set of rules).

The deceased person is a **cash basis holder** if:

- they held financial arrangements of \$600,000 or less in value, or
- the income derived from the financial arrangements was \$70,000 or less, and
- the difference between the amount calculated on a cash or accruals basis was \$20,000 or less during that income year.

The deceased person is a **cash basis person** if:

- the value of all financial arrangements added together is less than \$1 million, or
- the value of the income or expenditure from the financial arrangement is less than \$100,000, and
- the deferral of income or expenditure using the cash method rather than an accrual method is less than \$40,000.

Under both sets of rules, if the deceased person was a cash basis holder or cash basis person at the date of death, the concession applies in the year of death and up to four succeeding years.

Sale or maturity of financial arrangements

Whether or not the exemption from the spreading methods explained above applies, when a financial arrangement matures or is sold, remitted or

transferred, a “wash-up” calculation known as a base price adjustment must be carried out. The calculation ensures that the total gains or losses from the financial arrangement are brought to account.

If you need any information on calculating a base price adjustment please phone us on 0800 443 773.

Source deduction income accrued to date of death

The following types of source deduction income must be returned by the estate if it is accrued to the date of death and subsequently received by the estate:

- salary or wages
- holiday pay or other leave payments
- director’s fees
- any other source deduction income.

Include the total gross amount in Box 14B and any tax deductions in Box 14A. This income is assessed as trustee income.

Question 16 Expenses

The estate or trust may have incurred expenses in generating its income, for example:

- commission deducted from interest or dividends
- expenses for return preparation
- deductible trustee charges.

If these expenses have **not** been claimed elsewhere in the return write the amount claimed in Box 16.

Question 17 Loss from a loss attributing qualifying company

If the estate or trust is a shareholder in a loss attributing qualifying company write any attributed losses claimed in Box 17B.

Special rules apply if the attributed loss included a loss from a controlled foreign company or a foreign investment fund. If you are unsure how this loss should be offset, please phone us (see page 52).

Question 19 Net losses brought forward

There are two types of losses the estate or trust can bring forward.

Specified activity net losses

These are net losses from before the 1991 income year, which were limited to \$10,000. If the estate or trust made a profit from a specified activity, the estate or trust can offset it without limitation against net losses brought forward from this activity. If the net losses exceed the profit, it can offset up to \$10,000 against other income in the return.

Other net losses

All losses incurred from the 1991 income year onwards and other net losses that were not limited before 1991 (including any net loss resulting from excess imputation credits) are “other net losses”.

Write the total of all specified activity net losses and other net losses the estate or trust can bring forward to 2003 in Box 19A. Write the amount the estate or trust has offset against 2003 income in Box 19B.

Note

You will find the amount of net loss the estate or trust has to bring forward on the loss notice we sent you with the 2002 income tax assessment. If you do not have a loss notice, enter the details from your own records.

If the estate or trust cannot offset any losses in 2003, write “0.00” in Box 19B.

Question 20 Income allocation

The total income in Box 20 must be allocated. If the amount is a loss do not show it in Boxes 20A and/or 20B.

Question 20A – Beneficiary income (excluding minor beneficiaries – see page 5)

Beneficiary income is income of an estate or trust that vests absolutely in the beneficiary during the year, or is paid or applied for the beneficiary's benefit during the year or within six months after the end of that year. This total must reconcile with the combined totals of Boxes 24G on the IR 6B.

Question 20B – Trustee income (including minor beneficiaries – see page 5)

Trustee income is any income generated by an estate or trust that is not beneficiary income. See “Question 20A – Beneficiary income” above. It includes income accrued to date of death and received afterwards.

Accrued income and non-apportionment clauses

As a general rule, accrued income to date of death is retained by the trustee and becomes part of the capital of the estate. Consequently, such income is treated as trustee income.

However, where the will of the deceased taxpayer contains a “non-apportionment clause”, that clause will provide that a beneficiary is entitled to receive the income accrued to date of death. Therefore, if the accrued income is vested in or paid to the beneficiary, it is treated as beneficiary income.

Questions 21 and 22 Distributions to beneficiaries by foreign and non-qualifying trusts

Question 21 – Distributions

A distribution is any income or property of the trust that vests absolutely in a beneficiary or is paid or applied for a beneficiary's benefit. It includes any property or service disposed of or provided:

- to a beneficiary for less than market value, or
- to the trust by a beneficiary for greater than market value.

At Question 21 print the total amount of distributions made to beneficiaries during the year.

Attach a separate schedule showing the source (for example, accumulated trustee income or profit from the sale of buildings) and the amount of each distribution.

Question 22 – Taxable distributions

A taxable distribution is any distribution made to a beneficiary by a foreign or non-qualifying trust that is not beneficiary income and is **not** a distribution:

- from the corpus of the trust, or
- in the case of a foreign trust, distribution of capital profits that are not included in the taxable income of the trust except when derived from transactions with associated persons.

Write the total taxable distributions made to beneficiaries during the year in Box 22.

Note

Corpus is an amount equal to the market value at the date of settlement of any property settled on a trust. For more information phone us on 0800 377 774 or read our booklet *Trusts' and estates' income tax rules (IR 288)*.

Allocation of taxable distributions

Include the amount of the taxable distribution made to each beneficiary in the beneficiary's panel of the IR 6B:

- in Box 24F if the trust is a foreign trust, or
- in Box 24I if the trust is a non-qualifying trust.

For tax payable on taxable distributions see Question 24I on page 29 of this guide.

Special rules exist to work out what each distribution comprises, in order to decide whether a taxable distribution has been made. These rules are explained in our booklet *Trusts' and estates' income tax rules (IR 288)*, which is available on our website or by phoning INFOexpress (see page 53).

Schedule of beneficiary's estate or trust income (IR 307)

Each beneficiary (excluding minor beneficiaries) must attach a completed *Schedule of beneficiary's estate or trust income (IR 307)* to their individual tax return if they receive income from a foreign or non-qualifying trust.

It is helpful if the trustee or agent also provides a completed IR 307 when advising beneficiaries of their share of trust income. Beneficiaries do not then need to contact the trustee or agent when completing their own returns.

Question 23 Foreign rights

If at any time during the 2003 income year the estate or trust held rights such as shares, units or an entitlement to benefit in any foreign: company, unit trust, superannuation scheme or life insurance policy, they may be required to complete a disclosure form for interest in a foreign company or foreign investment fund to disclose the interest and/or attribute income.

Rights of the above type may be an interest in a foreign investment fund (FIF). These must be disclosed on the appropriate form.

The main exclusions from an interest in an FIF are:

- an interest in a company or unit trust resident in Australia, Canada, Germany, Japan, Norway, the United Kingdom or the United States
- a 10% or greater interest in a controlled foreign company (CFC).

An income interest of 10% or greater held in a foreign company that is not an interest in an FIF must be disclosed on an IR 477 or IR 479 form. If the company is a CFC, attribution of income is generally also required.

If a branch equivalent tax account (BETA) was maintained, complete an IR 308 and attach it to your return. If you need to order any of these forms please phone us on 0800 377 774.

What to include in your return

At Question 12 of your return include:

- any income and tax credits from a CFC or FIF
- any deemed dividend income arising under the attributed repatriation rules where you held an income interest of 10% or greater in a CFC
- any claim for BETA credits.

To convert to New Zealand dollars refer to our currency conversion tables published in the April and October issues of the *Tax Information Bulletin (TIB)*.

Note

The October issue gives the rates for the six months to September, and the April issue gives the rates for the previous 1 April to 31 March. *TIBs* are available on our website at www.ird.govt.nz or by phoning 0800 377 774.

IR 6B Estate or trust beneficiary details

Question 24 Beneficiary income and calculation of tax (excluding minor beneficiaries)

See the note to Question 20A on page 22 for the definition of beneficiary income. Complete the details on the IR 6B for each beneficiary. Please ensure an IRD number is shown for each beneficiary. If you don't have the beneficiary's IRD number please write their full name, address and date of birth.

You can get extra IR 6B forms by phoning INFOexpress (see page 53).

Question 24B Non-resident beneficiaries

Note

Please make sure you answer Question 24B about residency. This allows us to work out correctly how the beneficiary income should be taxed.

All non-resident taxpayers' records are dealt with at Inland Revenue's Non-resident Centre in Dunedin. Include all New Zealand-sourced income derived by each non-resident beneficiary in Boxes 24C, 24D, 24E and 24F.

Non-resident withholding income

Non-resident withholding income is interest, dividends and royalties for the supply of scientific, technical, industrial or commercial knowledge. These types of income are subject to non-resident withholding tax (NRWT) if the income has a New Zealand source.

This tax is deducted when the non-resident withholding income is paid or credited to a non-resident beneficiary. The rates and methods of calculating the tax on a non-resident beneficiary's share of income differ according to the type of income derived and the country in which the beneficiary is resident.

Include **all** income derived by each non-resident beneficiary in Boxes 24C, 24D, 24E and 24F.

Paying non-resident withholding tax (NRWT)

When paying non-resident withholding income to a non-resident beneficiary the trust must complete certain forms and pay NRWT.

If you need more help, please phone us (see page 52) or read our booklet *Non-resident withholding tax payer's guide (IR 291)*. This booklet is available through our website or INFOexpress (see page 53).

When calculating the amount of income liable for income tax at the ordinary rates, do not include non-resident withholding income or any overseas income in the taxable income figure in Box 24G for non-resident beneficiaries. Remember, the combined totals at Boxes 24G must reconcile with the total of Box 20A.

Add up all income that is not non-resident withholding income and write the total in Box 24G. Income tax on the non-resident beneficiary's share of this income will be assessed in the normal way, through the estate or trust if the income is sourced in New Zealand.

Question 24H Paying the tax on beneficiary income (excluding minor beneficiaries)

If the estate or trust is not paying the tax on behalf of the beneficiaries, complete Boxes 24A to 24I and then only Boxes 24K, 24M, 24P and 24R.

If the estate or trust is paying the tax on behalf of the beneficiaries complete all Boxes 24A to 24U.

Question 24I Taxable distributions

Taxable distributions by a non-qualifying trust are taxable to the beneficiary at a flat rate of 45 cents in the dollar. Show these taxable distributions to each beneficiary in Box 24I and the tax in Box 24T of the beneficiary panel. Include taxable distributions by a foreign trust with the other income in Box 24F.

Question 24J Calculation of tax

Calculate tax on taxable income of beneficiaries using the tax rates below.

<i>Income</i>	<i>Tax payable</i>
\$1 to \$38,000	19.5 cents in the dollar
\$38,001 to \$60,000	33 cents in the dollar
Over \$60,000	39 cents in the dollar

Question 24K Rebate for child beneficiaries

Child beneficiaries may be entitled to a maximum rebate of \$156 when calculating the tax on their income.

A person is a child beneficiary if at any time during the year they were:

- under 15 years old, or under 18 and still attending school*
- under 19 but turned 18 on or after 1 January 2002 and continued to attend school*.

*This includes schools for people with disabilities.

To work out the rebate, subtract the beneficiary's interest and/or dividend income (including any derived from another partnership, estate or trust) from their taxable income.

If the result is \$1,040 or less, multiply it by 0.15 (15%) to get the rebate. If it is more than \$1,040, claim \$156.

Note

This rebate cannot be claimed:

- by a non-resident beneficiary, or
- for distributions to minor beneficiaries

Question 24M Beneficiary's share of overseas tax paid

Allocate any tax paid overseas to beneficiaries on the same basis as the allocation of income.

Minor beneficiaries' shares of overseas tax is to be offset against tax payable on trustee income.

If the overseas tax paid (Box 24M) allocated to a beneficiary is greater than the tax payable in Box 24L, print "nil" at Box 24N in that beneficiary's panel.

Question 24P Beneficiary's share of dividend imputation, dividend withholding payment credits and resident withholding tax on dividends

If dividends have been allocated to a beneficiary, use the following formula to work out the credits attached to those dividends:

$$a \times \frac{b}{c}$$

- a is the total of all dividend imputation, dividend withholding payment credits and resident withholding tax attached to all dividends distributed to beneficiaries during the income year
- b is the total distribution including capital distributions made to the particular beneficiary during the year
- c is the total distribution including capital distributions made to **all** beneficiaries during the year

Show the beneficiary's share of imputation credits in Box 24P and dividend withholding payment credits in Box 24R.

If the beneficiary's share of the imputation credits is larger than their tax payable in Box 24N, the excess credit can't be refunded. Write "nil" in Box 24Q. The beneficiary should claim the balance of the unused imputation credits in their tax return.

Minor beneficiaries' shares of dividend imputation and dividend withholding payment credits are to be offset against tax payable on trustee income.

Question 24R Beneficiary's share of resident withholding tax and other credits

Allocate resident withholding tax credits to beneficiaries on the same basis as you allocate the interest income.

Minor beneficiaries' shares of RWT and other credits are to be offset against tax payable on trustee income.

Write each beneficiary's share of resident withholding tax (Box 9A and Box 10A) and other credits (Box 11A) in Box 24R of the IR 6B.

Note

Do not include any amounts already shown in either Box 24M or 24P of the IR 6B.

Question 25 Trustee income and calculation of tax

Question 25C Credit for tax paid overseas

The amount of the credit claimed for tax paid overseas on trustee income is limited to the amount of New Zealand tax on that income.

Question 25E Dividend imputation credits

If the trustee's share of the imputation credit exceeds the tax on trustee income at Box 25D, the excess credit cannot be refunded. Write "nil" in Box 25F. The excess credit is converted to a net loss to carry forward to the following year.

To calculate the net loss to carry forward to 2004, use the worksheet on page 34. We will send you a notice confirming the amount of loss to carry forward.

Example

In this example the net loss to carry forward to the income year ending 31 March 2004 is \$151.

Trustee's share of imputation credits from Box 25E of the return.	1	\$	350.00
Tax on trustee income from Box 25D of the return.	2	\$	300.00
Subtract Box 2 from Box 1. Print your answer here.	3	\$	50.00
Divide Box 3 by 0.33 (33%). Print your answer here.	4	\$	(151.00)

The amount in Box 4 is the net loss to carry forward to 2004.

Worksheet

Trustee's share of imputation credits from Box 25E of the return.

1 ▶ \$.

Tax on trustee income from Box 25D of the return.

2 ▶ \$.

Subtract Box 2 from Box 1. Print your answer here.

3 ▶ \$.

Divide Box 3 by 0.33 (33%). Print your answer here.

4 ▶ \$.

The amount in Box 4 is the net loss to carry forward to 2004.

Question 25G Trustee share of resident withholding tax and other credits

Ensure that you include the following amounts in Box 25G:

- **the trustees' share** of resident withholding tax (Box 9A and Box 10A)
- **the trustees' share** of other credits (Box 11A)
- **the total** from Box 14A.

Question 27 Refunds and/or transfers

If you would like your refund transferred to another account or to arrears that are being paid off by an instalment arrangement instead of being refunded, you will need to tell us what date you would like your excess tax transferred (the "transfer date").

The date you can choose depends on what tax has been overpaid and whose account you want the credit transferred to.

Note

If the transfer is to arrears being paid off by an instalment arrangement, you will need to include a note with your return authorising the transfer.

Please include the following information:

- that the transfer is to arrears currently under an instalment arrangement
- the name and IRD number of the taxpayer to whom the transfer should be made
- whether the taxpayer is an "associated taxpayer"
- the tax type and period
- the date you would like the transfer to occur.

For details on who is an associated taxpayer and transfer dates please refer to the information on pages 35 to 37.

Associated taxpayers

For estates or trusts the following persons are the main examples of "associated taxpayers" for the purposes of transferring overpaid tax:

- a partner in the same partnership
- a beneficiary of the trust.

If you would like your refund transferred to another person, you will need to indicate whether they are an associated taxpayer as listed above.

Transfer date

You can ask for your credit to be transferred at any date as long as it is not before the relevant date set out below.

Credit to be transferred to your own account or an account of an associated taxpayer

- | | |
|---|--|
| – if the refund is excess tax deductions (eg PAYE deductions) | the day after your balance date (or 1 April if your balance date is before 31 March) |
| – if the refund is overpaid provisional tax | the day the overpaid provisional tax was paid. |

Credit to be transferred to an account of another person who is not an associated taxpayer

the later of:

- the day you requested the transfer, or
- the day after your return is filed.

Future transfer dates

If you would like your credit transferred at a date in the future, you should attach a note to the front of your return with the details of the amount you want transferred, the account you want it transferred to (if it is to another person say whether they are associated) and the date you would like the credit transferred.

If you do not tell us the date at which you would like your credit transferred, we will transfer it at a date we think gives you the greatest advantage. If you would like the credit transferred at a different date, you can contact us and ask for the transfer date to be changed (including whether we have transferred your credit to cover a debt).

Requesting transfers on your return

You can request us to transfer a refund to another account by filling out the box on page 4 of the trust return. If you ask for a transfer on the trust return, we will transfer the refund at one of the following dates:

- | | |
|--|---|
| – transfer to the trust's own account or an account of someone associated to the trust | the later of: <ul style="list-style-type: none"> – the day after the balance date (or 1 April if the balance date is before 31 March), or – the due date in the destination account |
| – transfer to an account of someone not associated to the trust | the day after the return was filed. |

If you would like the trust's refund transferred at a different date to those listed above, you can attach a letter to the return. Be sure to include the details of the account you want the refund transferred to and the transfer date you want. If the transfer is going to another person, don't forget to tell us if they are associated to the trust.

For more information about transferring overpaid tax, visit our website at www.ird.govt.nz or phone us on 0800 377 774.

Question 28 New provisional tax payers

The estate or trust is a new provisional tax payer if:

- it starts to derive income from a taxable activity, and
- it had not derived income from a taxable activity within the last four years.

A special rule applies for the payment of provisional tax for new provisional tax payers.

Provisional tax is not normally payable if the residual income tax for the previous year was less than \$2,500. Most new businesses do not pay provisional tax in their first year of operation because there is no residual income tax from the previous year on which to base the calculation.

However, if the estate or trust does need to pay provisional tax in its first year of operation it must pay on instalment dates arising more than 30 days after the start of the taxable activity (see “Payment dates” on page 51.)

If you need help to work out whether the estate or trust has to pay provisional tax in its first year of operation, please phone us (see page 52) or read our booklet *Provisional tax (IR 289)*. This booklet is available through our website or INFOexpress (see page 53).

Interest rules (read the notes on page 47) still apply from the estate or trust’s relevant instalment dates.

The start date will determine from which instalment interest will be calculated. Provisional tax is payable on instalment dates that occur more than 30 days after the taxable activity started.

If the start date is more than 30 days before the second instalment date (and not more than 30 days before the first instalment date) interest will be charged from the second instalment date.

If the estate or trust doesn’t have provisional tax to pay and it looks as if it will have a residual income tax liability at the end of the year, you may wish to estimate or make voluntary payments to reduce interest charged.

Print the date the estate or trust started to derive income from the taxable activity in Box 28.

Question 29 2004 provisional tax

2004 provisional tax is charged for income the estate or trust will earn in the 2004 income year. It is payable in three equal instalments.

There are two options for paying provisional tax—standard and estimation.

If the estate or trust’s 2003 residual income tax in Box 26C is:

- **less than \$2,500**, it does not have to pay provisional tax, although it can make voluntary payments (read the notes on interest on page 46)
- **\$2,500 or more but expected to be less than \$2,500 for 2004**, it may estimate 2004 provisional tax at nil (but read the “Estimation option” section on page 40)
- **\$2,500 or more and expected to be \$2,500 or more for 2004**, it must pay 2004 provisional tax.

Estates or trusts can use either the standard or estimation options to pay their provisional tax.

Note

If you anticipate your residual income tax will exceed \$2,500 for the 2004 year, read the notes on interest on page 46. You may be liable for interest from your first provisional tax instalment date.

Standard option

Using the standard option, the estate or trust's 2004 provisional tax will be equal to its 2003 residual income tax plus 5%. If you use this option write "S" in Box 29A on the return and the amount of 2004 provisional tax in Box 29B. If the estate or trust's 2003 return has not been filed by the due date for the first instalment of 2004 provisional tax, the provisional tax is the 2002 residual income tax plus 10%.

Estimation option

Estates or trusts can estimate their 2004 provisional tax (trustees must include distributions to minor beneficiaries in their estimate). They can re-estimate any number of times up to their third instalment due date. If the estate or trust's 2004 residual income tax is expected to be less than its 2003 tax, estimating may prevent the estate or trust from paying more tax than it has to. Reasons for estimating could be:

- If the 2004 residual income tax is expected to be less than \$2,500, it can estimate its 2004 provisional tax as nil. If during the year it looks as if the 2004 residual income tax will be \$2,500 or more, the estate or trust should re-estimate its 2004 provisional tax on or before the next instalment due date.
- If the 2004 residual income tax is expected to be \$2,500 or more, but less than the estate or trust's 2003 residual income tax, it can estimate its 2004 provisional tax to the expected amount.
- If the estate or trust chooses the standard option, it still has the option of estimating its 2004 provisional tax any time before its third instalment due date.

Note

An estimate must be "fair and reasonable" at each instalment it applies to. Read the notes on page 42 on the "Lack of reasonable care" penalty and interest if you use this option.

Use the worksheet on page 43 to calculate provisional tax using the estimation option. If you use this option write "E" in Box 29A and the amount of 2004 provisional tax in Box 29B.

Estimating provisional tax on beneficiary income

When working out the tax on estimated beneficiary income, calculate the tax separately for each beneficiary, including estimated tax credits and the child rebate where applicable. The 2004 individual tax rates for provisional tax are:

<i>Income</i>	<i>Tax payable</i>
\$1 to \$38,000	19.5 cents in the dollar
\$38,001 to \$60,000	33 cents in the dollar
Over \$60,000	39 cents in the dollar

When using these tax rates to calculate 2004 provisional tax, you will also need to estimate the rebates the beneficiary may be entitled to.

If you need more help, please phone us (see page 52) or read our booklet *Provisional tax (IR 289)*. This booklet is available through our website or INFOexpress (see page 53).

Lack of reasonable care penalty

When you estimate the estate or trust's 2004 provisional tax, your estimate must be fair and reasonable. If the 2004 residual income tax is greater than the provisional tax paid, you may be liable for a lack of reasonable care penalty of 20% of the underpaid provisional tax.

If the estimate of the estate or trust's provisional tax exceeds the standard provisional tax assessment that would otherwise be payable, reasonable care has been taken.

Interest is only calculated on tax on trustee income. Interest is not calculated if all income is distributed to the beneficiaries.

Use this worksheet to calculate the estate or trust's 2004 provisional tax using the estimation option.

Print the estate or trust's estimated 2004 income to be allocated in Box 1. **1** ▶ \$.

Estimated allocation of income in Box 1.

• Beneficiary income **2** ▶ \$.

• Trustee income **3** ▶ \$.

Work out the tax on the amount in Box 2 (using the rates on page 41). Print your answer in Box 4. **4** ▶ \$.

Multiply the amount in Box 3 by 0.33 (33 cents in the dollar). Print the answer in Box 5. **5** ▶ \$.

If the estate or trust is non-qualifying, multiply the estimated taxable distributions, if any, by 0.45 (45 cents in the dollar). Print your answer in Box 6. **6** ▶ \$.

Add Boxes 4, 5 and 6. Print your answer in Box 7. **7** ▶ \$.

Print the estimated 2004 credits (trustees' share only) in Box 8. **8** ▶ \$.

Subtract Box 8 from Box 7. Print your answer in Box 9. **9** ▶ \$.

Box 9 is the estate's or trust's 2004 provisional tax.

Copy it to Box 29B of the return and print "E" in Box 29A.

Divide the amount in Box 9 by three to get the amount to pay for each instalment.

Question 30 Self-assessment by taxpayers

The law has recently been changed to require taxpayers to assess their own tax liability as part of meeting their return filing obligations. This change applies to the 2002-2003 and later income years. Previously, the Commissioner of Inland Revenue performed all assessment functions.

The change affects income tax only.

You will notice minor changes to the wording on the 2003 year income tax returns to cater for self-assessment. In particular, it will be clear that your return contains a notice of your self-assessment. Your assessment may be amended by the Commissioner if a correction is required to it.

One consequence of this change is that the two-month period for you to issue a notice of proposed adjustment (NOPA) to your self-assessment will start on the date your return is received by Inland Revenue.

If the Commissioner makes a correction to your assessment, and you have not already issued a NOPA, the two-month period for you to issue a NOPA will start on the date that the Commissioner issues a notice of the assessment that makes the correction. In this case your NOPA will relate to your assessment as amended by the Commissioner, rather than to your initial self-assessment.

More information

Self-assessment is discussed in more detail in *Tax Information Bulletin (TIB)* Vol 13, No 11 (November 2001) which is available on our website at

www.ird.govt.nz/library/newsletters/tib/vol13

Late payment

If tax is not paid by the due date, late payment penalties will apply. For every month the amount remains unpaid, a further incremental penalty will also apply. We will also charge interest on any outstanding amounts.

For penalties imposed on or after 1 April 2002

An initial 1% late payment penalty will be charged on the day after the due date. A further 4% penalty will be charged if there is still an amount of unpaid tax (including penalties) at the end of the 7th day from the due date.

Every month the amount owing remains unpaid a further 1% incremental penalty will be added.

For penalties imposed on or after 1 April 2001 and up to 31 March 2002

A 5% late payment penalty will be charged on the day after the due date. A further 1% penalty will be added every month the amount owing remains unpaid.

Amounts of \$100 or less

Interest and late payment penalties are not charged on outstanding amounts of \$100 or less.

Arrangements

If you are unable to pay your tax by the due date, please contact us to discuss an arrangement for making payments. In some situations, if you are in financial difficulties, we may agree to you paying your tax and any penalties and interest this way.

Arrangements can be agreed upon before or after the due date for payment. However, there are greater reductions in the penalties charged if the arrangement is made before the due date.

Interest

Interest for estates or trusts is calculated only on tax on trustee income.

Generally, if the estate or trust has paid too much provisional tax on trustee income we pay interest, or if it has not paid enough, we charge interest. The interest rates are aligned with market interest rates.

Interest the estate or trust pays is generally tax-deductible, while interest we pay is taxable income. We deduct RWT from any interest paid.

Interest applies from the estate or trust's first provisional tax instalment date if:

- the estate or trust's 2003 residual income tax on trustee income is \$2,500 or more
- the estate or trust is a new provisional tax payer and the taxable activity started more than 30 days before the first instalment date.

If the estate or trust pays the total tax plus interest assessed on a notice of assessment within 30 days of the notice, no further interest will be charged on that amount. Otherwise, interest will continue to accrue on a daily basis until the tax is paid. Interest no longer stops at the due date for payment for end-of-year tax.

If the trust has been charged interest, it should pay the interest by the due date for payment of the tax (for example, 7 February or 7 April).

If we pay interest, it continues to accrue until the date we refund the overpaid tax, or apply it to another liability.

Interest rules for new provisional tax payers

There are special rules that apply to the timing of when interest may be charged for new provisional tax payers.

New provisional tax payers may be charged interest from the first, second or third instalment date. The instalment date that interest applies from is determined by the taxable activity's start date.

For estates and trusts whose balance date is 31 March, the start date for interest will be:

- 7 July, if the taxable activity started before 7 June of the same year
- 7 November, if the taxable activity started between 7 June and 7 October of the same year
- 7 March, if the taxable activity started after 7 October of the previous year.

If the estate or trust has a balance date other than 31 March, the provisional tax payment dates will be on the 7th of the month, every four months following the balance date month.

Election to be a provisional tax payer

An estate or trust is a provisional tax payer for the 2003 year if its residual income tax for that year is \$2,500 or more. If the 2003 residual income tax is less than \$2,500, but the estate or trust paid provisional tax for that year, it may elect to be a provisional tax payer for that year. This may affect the interest it may be entitled to for that year.

To elect to be a provisional tax payer for the 2003 year, attach a letter to the front of the 2003 return.

If you need help calculating interest, please phone us (see page 52) or read our booklet *Provisional tax (IR 289)*. You can get this from our website or by phoning INFOexpress (see page 53).

2003 return not filed by 2004 provisional tax instalment date

Standard filing date

If you do not have an extension of time to file (that is, your return is due by 7 July), each provisional tax instalment will be one-third of your 2003 residual income tax (RIT) plus 5%.

Extension of time

If you have an extension of time to file your 2003 return, and have not sent us your return before your first, second or third instalments are payable. The information on pages 48 to 50 applies to you.

Also read the section on interest on page 46 as this may apply.

Standard option

2002 residual income tax less than \$2,500 (debit)

If your 2002 RIT was less than \$2,500 (debit), you were not a provisional taxpayer for the 2002 income year. Your 2004 provisional tax instalments will be payable after your 2003 return is filed or your third instalment date, whichever is earlier. Please see Table A on page 49.

Table A: 2002 RIT less than \$2,500 (debit), standard balance date of 31 March

	First instalment due 7 July	Second instalment due 7 November	Third instalment due 7 March
2003 return filed between 8 July 2003 and 7 November 2003	Nil	2003 RIT plus 5% divided by 2	2003 RIT plus 5% divided by 2
2003 return filed between 8 November 2003 and 7 March 2004	Nil	Nil	2003 RIT plus 5%
2003 return filed after 7 March 2004	Nil	Nil	2003 RIT plus 5%

2002 residual income tax more than \$2,500 debit

If your 2002 RIT was more than \$2,500 (debit), each provisional tax instalment due before you have filed your 2003 return will be one-third of your 2002 residual income tax plus 10%. You will need to recalculate any 2004 provisional tax instalment amounts after your 2003 return is filed or your third instalment date, whichever is earlier. Please see Table B on page 50.

Estimation option

If you estimate your provisional tax your instalments should be one-third of your estimation.

Table B: 2002 RIT more than \$2,500 debit, standard balance date of 31 March

	First instalment (P1) due 7 July	Second instalment (P2) due 7 November	Third instalment (P3) due 7 March
2003 return filed between 8 July 2003 and 7 November 2003	2002 RIT plus 10% divided by 3	2003 RIT plus 5% divided by 3, multiplied by 2, less P1	2003 RIT plus 5% less (P1 plus P2)
2003 return filed between 8 November 2003 and 7 March 2004	2002 RIT plus 10% divided by 3	2002 RIT plus 10% divided by 3	2003 RIT plus 5% less (P1 plus P2)
2003 return filed after 7 March 2004	2002 RIT plus 10% divided by 3	2002 RIT plus 10% divided by 3	2003 RIT plus 5% less (P1 plus P2)

Example

The following is an example of a taxpayer with an extension of time, who filed their return on 10 July 2003 (after the first instalment but before the second) and whose 2002 RIT was greater than \$2,500

	First instalment (P1) due 7 July	Second instalment (P2) due 7 November	Third instalment (P3) due 7 March
Example: 2002 RIT = \$3,000 2003 return filed 10 July 2003 2003 RIT = \$4,000	2002 RIT plus 10% divided by 3 ● \$3,000 plus \$300 divided by 3 equals	2003 RIT plus 5% divided by 3, multiplied by 2, less P1 ● \$4,000 plus \$200 divided by 3, multiplied by 2, less \$1,100 equals	2003 RIT plus 5% divided by 3 ● \$4,000 plus \$200 divided by 3 equals
2004 provisional tax = \$4,200	\$1,100	\$1,700	\$1,400

Changed balance dates

There are special rules about when provisional tax is due and how interest is calculated if there has been a change in balance date. If you need more help, phone us on 0800 377 774 or read our booklet *Provisional tax (IR 289)*. You can get this from our website or by phoning INFOexpress (see page 53).

Payment dates

For an estate or trust with a 31 March balance date the due dates for payments are:

2004 provisional tax

First instalment	7 July 2003
Second instalment	7 November 2003
Third instalment	7 March 2004

2003 tax to pay (Box 26E) 7 February 2004*

* If the estate or trust is the client of an agent and has a standard or late balance date, it may have until 7 April 2004. If this applies to your estate or trust, contact your agent for more information.

If the estate or trust has a balance date other than 31 March, the provisional tax payment dates will be on the 7th of the month every four months following the balance date.

For more help

If you have any queries, phone us on the 0800 numbers listed below. Our customer service representatives are available from 8 am to 8 pm Monday to Friday, and 9 am to 1 pm on Saturdays.

General enquiries	0800 377 774
Employers	0800 377 772
GST	0800 377 776

Customer service quality monitoring

We randomly record calls made to Inland Revenue to monitor and improve the quality of our customer service. Please note that we store these recordings securely for a limited time and destroy them after use.

Inland Revenue's website

Visit our website at www.ird.govt.nz for detailed information about tax and social policy, and online access to our booklets, returns, forms, newsletters, public rulings and the many other services we offer.

INFOexpress

INFOexpress is our automated telephone service. These are some of the things you can do by phoning INFOexpress:

- order Inland Revenue forms and booklets
- get tax payment information
- get updates on your account balances (income tax, GST, employer accounts for PAYE, child support, SSCWT, FBT and student loans)
- request or change a personal identification number (PIN).

All you need to use INFOexpress is a touch tone phone and your IRD number. It's also helpful if you know the number of any forms or booklets you are ordering. For personal information, such as account balances, you'll also need an INFOexpress PIN. You can get a PIN by phoning 0800 257 777 and following the instructions given.

INFOexpress is available between 6 am and 12 midnight, seven days a week. You can call these numbers for:

Forms and stationery	0800 257 773
Taxpacks	0800 257 772
All other services	0800 257 777

Privacy Act 1993

Meeting your tax obligations involves giving accurate information to Inland Revenue. We ask you for information so we can assess your liabilities and entitlements under the Acts we administer.

You must, by law, give us this information. Penalties may apply if you do not.

We may exchange information about you with Work and Income, the Department for Courts, the Ministry of Education, the Accident Compensation Corporation, or their contracted agencies.

Information may be provided to overseas countries with which New Zealand has an information supply agreement. Inland Revenue also has an agreement to supply information to Statistics New Zealand for statistical purposes only.

You may ask to see the personal information we hold about you by phoning us on 0800 377 774. Unless we have a lawful reason for withholding the information, we will show it to you and correct any errors.

If you have a complaint about our service

We're committed to providing you with good service. If there's a problem, we'd like to know about it and have the opportunity to fix it.

If you have a complaint, the quickest and easiest way to resolve it is usually with the staff member you've been dealing with. If you're not satisfied, ask to speak to their manager.

If you're still not satisfied, we have a Complaints Management Service that can take a fresh look at your complaint. You can call toll-free on 0800 274 138 between 8 am and 5 pm weekdays or, if you prefer, you can put your complaint in writing and send it to the Complaints Management Service, Inland Revenue, PO Box 1072, Wellington.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process. For more information, read our leaflet *If you disagree with an assessment (IR 778)*. You can get this from our website at www.ird.govt.nz or by phoning INFOexpress.

