

2003 Personal tax summaries

We are now well into this year's tax season. This means some salary and wage earners who need an end-of-year square-up will have received a personal tax summary (PTS) in June.

However, you may have other clients you'd like to request a PTS for as they may be due a refund.

Are your clients entitled to a tax refund?

If your client is a salary or wage earner and did not receive a PTS automatically in June and one of the following situations applies, they might be entitled to a refund:

- if they are eligible for a low-income rebate such as the child rebate and/or received salary and wages of less than \$9,880
- if they received salary and wages of less than \$38,000 and were paid dividends
- if they had more than one job during the year
- if they didn't work a full income year
- if they are able to deduct expenses from their income.

If you would like a PTS for your client, you can request one online at <https://www.ird.govt.nz/cgi-bin/form.cgi?form=agentptsrequest> or by phoning the tax agents' 0800 number.

An easy way to check your client's tax position for the year before requesting a PTS is to use the personal tax summary calculator on our website at <https://www.ird.govt.nz/cgi-bin/form.cgi?form=ptscal2003>. You'll need your client's salary and wage information for the year, which you can find on their summary of earnings. You'll also need the details of any interest and dividends your client received for the year.

Student loans

The student loan section of our website at www.ird.govt.nz/studentloans has been redeveloped to make it easier for people to locate answers to general enquiries and request forms, booklets and information.

Features designed to improve information flow include:

- a student loan homepage that features current topics of interest to borrowers
- a side navigation menu in the student loan section that relates to topics on student loans, not tax in general
- sections specifically relating to the obligations of overseas borrowers
- flowcharts to enable difficult concepts to be presented graphically, such as write-off eligibility and which tax code to use
- links to specific sources of student loan information such as quarterly reports, newsletters and the Student Loan Scheme Act 1992.

The redeveloped student loan web section has been tested with borrowers and the feedback we have received has been positive. The site is now live and we encourage you to have a look around this valuable tool.

INFOexpress

FAM tax type added

In May we told you about the ACC and SEA options being removed from INFOexpress, effective from 1 July 2003.

We've taken the opportunity to add the Family Assistance (FAM) tax type in their place.

INFOexpress will now provide a Family Assistance account balance and FAM details on both the "Account balance" and "Transaction detail" faxes. You will also be able to request a statement of account for FAM.

Changes as a result of your feedback

There have been a couple of small changes introduced in response to feedback from tax agents. When you request an "Account balance" fax, you can now select to request another fax when you get to the end of the question. If you want to request a "Transaction detail" fax for more than one period for the same client, you can now do so without having to enter the client's IRD number again.

Faxbacks

Over the last month you may have experienced slower than usual response times for your fax requests. We apologise for any inconvenience this has caused. All three of our INFOexpress sites are working as required now so you should receive your fax requests within 30 minutes.

Compliance and penalties changes

With the recent passing of the Taxation (Annual Rates, Maori Organisations, Taxpayer Compliance and Miscellaneous Provisions) Act 2003, there are a number of changes to compliance and penalties that may directly impact on your clients.

These changes include a reduction of penalties for previous good behaviour, the introduction of "promoter" penalties, changes to the "unacceptable interpretation" shortfall penalty and the introduction of a cap on shortfall penalties.

For details of these changes, please refer to the article published in *Tax Information Bulletin*, Vol 15, No 5, May 2003 at <http://www.ird.govt.nz/library/newsletters/tib/vol15/tib15-05.pdf>



Updated registration forms – targeting our services to new business taxpayers and new employers

From 1 July 2003 updated *GST registration (IR 360)* and *Employer registration (IR 334)* forms were introduced. As many agents complete these forms on behalf of their clients and some refer their clients to our advisory service, we'd like to tell you about the changes we have made. The forms have been updated to allow us to better target our services to taxpayers who need help the most.

On the previous versions of the registrations forms we asked "We offer a free advisory service to explain your tax obligations and responsibilities. Would you like an advisory officer to contact you to arrange an appointment?" We found that some taxpayers were not asking for an advisory visit when this may have been useful to them and others asked for an advisory when it may not have been what they needed.

This question has been replaced with three new questions that ask:

- whether the taxpayer will be using a tax agent or other tax professional to complete or assist with the completion of their GST returns or employer monthly schedules
- if they have worked with GST or PAYE-related tasks before, and
- to rate their ability to complete tax type-related tasks.

The answers to these questions will help us gauge what assistance the taxpayer may need. If the answers indicate that a taxpayer may not fully understand what they need to do to meet their new tax responsibilities, one of our tax advisors will contact the taxpayer to discuss what help is needed (for example, a visit from one of our Business Tax Information Officers or a Maori Community Officer).

You or your clients can still ask for an advisory visit by phoning us, filling out the online request form or writing to us.

We will continue to send a post-registration pack to all taxpayers who register for GST, as an employer or as an IR 56 taxpayer. The packs include the *Smart business – Tax help (IR 318)* pamphlet and either the *GST guide (IR 365)*, the *Employer's guide (IR 335)* or the *IR 56 taxpayer's handbook (IR 356)*.

Other changes to registration forms

We have also taken this opportunity to update the GST and employer registration forms to make them easier to complete for some taxpayers (for example, a brief explanation of the GST accounting basis is now included in the GST registration form).

The information about IR 56 taxpayers has been removed from the *Employer's registration (IR 334)* form and we have introduced a new *IR 56 taxpayer's registration (IR 359)* form. The new questions outlined above are also included on this new form.

The updated *GST registration (IR 360)*, *Employer registration (IR 334)* forms and the new *IR 56 taxpayer registration (IR 359)* form can be found on our website or you can order them through StationeryXpress or by phoning INFOexpress on 0800 257 773.

Alternatively you can register your clients for GST, as an employer, as an IR 56 taxpayer and for other tax types (such as RWT) on our website at <http://www.ird.govt.nz/otherservices/online/registerntaxtype.html> If you register your clients online, you can also link them to your agency at the same time.

If you are using a paper form to register your clients, please use the June 2003 versions. Please also dispose of any stock you may have of the previous versions of the GST and employer registration forms.

Totalisator duty

From 1 August 2003 racing clubs will no longer need to file IR 188 totalisator returns.

The Racing Act 1971 has been replaced with the Racing Act 2003, enacted on 10 March 2003. The key feature of the new Act is that the racing industry will now be governed by the New Zealand Racing Board (the Board), which will replace the New Zealand Racing Industry Board and the Totalisator Agency Board (TAB). The TAB brand will be kept.

The Board will undertake betting that was previously undertaken by racing clubs and the TAB. They will also file a totalisator duty return monthly that will include totalisator duty on both TAB and racing betting profits.

For more information on the changes introduced by the new Act, see *Tax Information Bulletin*, Vol 15, No 4, April 2003 at <http://www.ird.govt.nz/library/newsletters/tib/vol15/tib15-04.pdf>

Tax Agents' CD Rom phonline

Many agents have been ringing the Tax Agents' CD Rom phonline with general tax enquiries lately. The CD Rom phonline is specifically for enquiries and feedback about the CD Rom—the staff who clear the message box are not trained to answer general tax enquiries and this may create delays in getting an answer to you. For general tax queries, please phone the tax agents' 800 number (ask your Agent Account Manager for the number).

The CD Rom phonline goes directly to a message box. If you have CD Rom feedback, please make sure you speak slowly and clearly, and leave a contact name and phone number. We often receive messages that aren't clear enough for us to action your requests and which have no or unclear contact details so we are unable to get back to you.



E-Filers, IR 10 and disclosure obligations

The IR 10 is an integral part of Inland Revenue's E-File system. We use it for providing information to Statistics New Zealand and to build up data for audit case selection.

Tax agents and taxpayers who file returns manually may either send in an IR 10 or a set of financial statements with tax returns. However, we are encouraging tax agents to use both the E-File system and the IR 10 instead.

Concerns about lack of information disclosure on an IR 10

There has been some concern about the lack of information disclosure when using an IR 10 compared with the information disclosed in the financial statements, which could affect how section 108 of the Tax Administration Act 1994 applies to reassessments after the four-year time limit has passed.

There is a perception that a taxpayer who filed an IR 10 instead of financial statements could be disadvantaged if an investigation of back-year returns reveals a discrepancy. If the discrepancy is in an item that is recorded in the financial statements (obtained during the investigation), but which did not need to be recorded on the IR 10, section 108 could be used to reopen the statute-barred assessment with the argument that full disclosure was not given in the return for that particular item.

This problem does not exist when financial statements are filed with the tax return. If a reassessment is not issued for the item before the four-year time limit has passed, Inland Revenue is statute-barred from reopening that assessment because full disclosure was made to us with the return.

Because of these concerns some E-Filers and other agents choose to send paper returns so they can attach more disclosure information. We'd like to assure agents that this is not necessary and that they can continue to use the IR 10 and E-File returns confidently.

It's our policy **not** to disadvantage taxpayers and their agents who use the IR 10.

Our policy

The details of income to be recorded on the IR 10 do not cover all income sources.

Two situations can occur where there will be an omission of income when filing a return (either manually or through the E-File system) with an IR 10:

- If an item of assessable income did not have to be recorded on the IR 10, but has been recorded in the financial statements.
- The income is omitted completely from the financial statements, and is not included when calculating taxable income.

We will be applying the following policy when investigating back-year returns filed with an IR 10.

- If an investigation reveals an item incorrectly recorded in the financial statements that is deemed to be either assessable income or non-deductible expenditure, but which did not have to be recorded on the IR 10 and:

- there is no conclusive evidence that the taxpayer intended to fraudulently or wilfully mislead, no statute-barred back-year assessment will be reopened under section 108
- there is conclusive evidence that a taxpayer intended to fraudulently or wilfully mislead, section 108 will be applied to re-open statute-barred assessments.
- If an investigation reveals an omission of income and:
 - the omission is because disclosure was not required on an IR 10, (but the income was recorded in the financial statements that were not filed with us), **this will not be used as a reason to reopen a statute-barred assessment**
 - the income was omitted from the financial statements, section 108 may be applied to reopen a statute-barred assessment.

Receipt of E-File returns

When income tax returns are received in the E-File system, a confirmation report is produced within 15 minutes advising whether the returns have been received successfully or not. At times it could take longer, especially on an EOT target date, due to the increased number of users filing on those days. If they haven't been received successfully, an error message will be displayed on the confirmation report advising the reason it was unsuccessful.

If a return is received successfully in the E-File system before 4 pm on any working day, the return will be passed to the Inland Revenue computer system (mainframe) that night and will appear in the mainframe the next day.

Any returns E-Filed after 4 pm on any working day will still be dated as received on that date even though it will not be passed to the mainframe until the following day. Therefore it will take two working days to appear in the mainframe.

For example, any returns E-Filed after 4 pm on a Friday will not appear in the mainframe until the following Tuesday.

The only exceptions to the above standards are when the annual return development process is underway. From 1 April, the new tax year's returns are usually able to be E-Filed, but will be held in the E-File system and not passed to the Inland Revenue mainframe until we get the go-ahead to say they can be fully processed by the mainframe. This is usually received in April or May of a new tax year. Confirmation reports will still be issued during this time advising you that the returns have been received successfully by the E-File system.

The E-File Support Team updates the E-File billboard message with news about which returns are being held and the date they are likely to be passed. It's important that during these two months you check your billboard messages every day to see the latest update.

If you have any questions, please contact the E-File Support Team on 0800 433 453, 8 am to 4.30 pm, Monday to Friday.



Email virus

On 1 June 2003, a new virus was released onto the internet called Win32.Sobig.C. This virus is the third variant to the original Win32.Sobig virus and Win32.Sobig.B virus. The virus has hit over 80 countries and was designed to be a nuisance by randomly emailing data to non-intended people.

Inland Revenue received this virus a few days after its release in early June. On identification of the virus we ceased all email operations and began an eradication process. Inland Revenue's main tax systems have not been affected.

The virus is sent by email. It uses enticing subject lines to make the user open the email and run the attachment. The virus is also reported to change the FROM address so that the email appears to be received from an address different to that of the infected machine. As an infected email can have a FROM address of "Microsoft.com" or even "ird.govt.nz", users can believe that it is a safe email.

A number of tax agents have contacted Inland Revenue stating that they have received this virus.

You can find information on how to eradicate the virus on our website at <http://www.ird.govt.nz/promotion/virusalert.html> or by phoning the tax agents' helpline. We also sent this information to agents subscribed to *Breaking news*.

Loss attributing qualifying companies

Inland Revenue has determined that loss attributing qualifying companies (LAQCs) must attribute all losses in full to the shareholders, and cannot firstly offset losses to other group companies in the same way that ordinary group companies and qualifying companies can.

Page 26 of the February 2001 version of our *Qualifying companies (IR 435)* booklet states the previous view that LAQCs could elect to make inter-company offsets. This is now incorrect.

The *Qualifying companies (IR 435)* booklet contains the previous view that LAQCs could elect to make inter-company offsets prior to attributing losses to the shareholders. This is now considered to be incorrect.

Page 26 of this booklet has been amended to reflect current policy and the amended booklet is available on our website at www.ird.govt.nz or you can get a printed copy (check it is dated March 2001) by phoning INFOexpress on 0800 257 773 (have your IRD number handy).

A full review of this booklet is scheduled for later in 2003.

Address details for clients

Feedback has shown that agents are having problems with mail incorrectly being sent to them when:

- a client is delinked, or
- an agent changes their address and the mail keeps going to their old address.

This can delay processing and cause frustration for you and the client.

The most common reason this occurs is when the address panels on forms are completed incorrectly.

Our IRD number applications, registration forms and tax returns ask specifically for the client's physical and postal addresses. We ask for the client's address details because sometimes we need to send mail directly to them—for example, for privacy reasons we issue a letter to clients confirming any tax agent linking.

On our registration forms there are two panels for the client's address details:

- the physical street address where the business operates from, and
- the postal address (if different from the street address).

The postal address section is clearly marked "Do not show your tax agent's address here", yet many agents continue to fill this out with their agency's postal address. This means that you will receive mail that should go to your client. Also the record this creates on the client's file won't be updated automatically if your agency address changes or you delink your client.

If you would like the client's mail sent to you, please leave the postal address blank and attach a completed *Linking and delinking (IR 795)* form with the registration. If you tick the A option (agent to receive mail) on the IR 795, we will use your agency postal address. Then if you change your address, the same change will automatically be made for your client and if you delink, your address will be removed from the client's records.

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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AGENTSanswers is also on our website
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