



Remember—tax due 7 April

Clients with standard 31 March balance dates, who have an extension of time to file their tax returns, need to pay their 2007 end-of-year income tax by 7 April 2008.

If you think a client may have difficulty paying their tax, please ask them to contact us as soon as possible, before 7 April if they can. In most cases your client will be able to pay off their debt by instalments over time.

Remember—the sooner your client gets in touch with us, the sooner we can help. And the less they'll pay in terms of interest and penalties.

Penalties amendments

The Taxation (Business Taxation and Remedial Matters) Act 2007, makes a number of amendments to the Tax Administration Act 1994, including:

- increasing the reductions given for some voluntary disclosures
- a new late payment grace period
- new GST late filing penalties
- new EMS non-payment penalties
- changes to shortfall penalties.

These amendments are designed to encourage customers to work with us. Most take effect from 1 April 2008. The voluntary disclosure rules took effect from 17 May 2007.

Reductions for voluntary disclosure penalties

If you have a client who has made a mistake in their tax return, we recommend they tell us about it as soon as possible.

Shortfall penalties for not taking reasonable care, making an unacceptable interpretation, or taking an unacceptable tax position can now be reduced by 100% if your client makes a voluntary disclosure **before** we advise them of a pending tax audit or investigation.

Previously, the maximum reduction in penalties was 75%.

The 75% reduction still applies to voluntary disclosures made before notice of an audit if the tax shortfall arose because the taxpayer was grossly careless, took an abusive tax position or evaded tax. Disclosures made after notification of an audit or investigation, but before the audit or investigation begins still qualify for a 40% reduction.

A new late payment grace period

Each customer, regardless of their compliance history, starts with a clean slate and will get a grace period the first time they make a late payment after 1 April 2008. We'll send these customers a reminder, stating a further due date for payment. If payment is not made, the late payment penalty will be imposed as if the reminder had not been given.

Further late payments in the subsequent two years will not qualify for a grace period.

New GST late filing penalties

Late filing penalties will apply to GST returns from 1 April 2008.

The first time a customer files a GST return late after this date they will receive a letter requesting the overdue return and informing them that a late filing penalty may be charged on any GST return filed late in the future.

If a subsequent GST return is filed late, a late filing penalty will be charged.

Late filing penalties for GST returns are \$50 for someone on the payments basis or \$250 for people on the invoice or hybrid basis at the date the GST return is due.

New EMS non-payment penalties

From 1 April 2008 non-payment penalties apply to employers who file their employer monthly schedule (EMS) but do not pay the amount payable on the schedule.

The penalties will be applied on a monthly basis until:

- the outstanding amount is paid, or
- the employer enters into an instalment arrangement, or
- the total non-payment penalties charged reach 150% of the amount outstanding when the first non-payment penalty was charged.

Before any non-payment penalties are charged, we'll send the employer a letter informing them that they may incur a penalty if the tax is not paid or an instalment arrangement entered into.

One month after this letter, penalties of 10% will be charged on any unpaid tax. When the customer pays or enters an instalment arrangement the last penalty imposed reduces to 5%.

Non-payment penalties are in addition to shortfall penalties, late payment penalties and use-of-money interest.





Changes to shortfall penalties

The scope of the “unacceptable tax position” penalty has been narrowed and now only applies to income tax shortfalls over \$50,000 and more than 1% of total tax for the period. The threshold for the imposition of the abusive tax position shortfall penalty has been removed and the temporary shortfall rules have been clarified.

Do you need more information?

You will find an in-depth discussion of all amendments to the compliance and penalties legislation in the upcoming April 2008 *Tax Information Bulletin*.

Company tax rate reduction

Recently passed tax legislation reduces the company tax rate to 30% from the start of the 2008–09 income year and makes a number of consequential changes affecting the payment of provisional tax, imputation, formulas and other rates connected to the company tax rate.

The maximum ratio of imputation/foreign dividend payment (FDP) credits that can be attached to dividends is determined by the CTR. So this reduces to 30:70 (ie you can now attach a maximum of \$30 of credits to every \$70 of dividends). The key transitional rules are:

- A rate changeover window, expiring on 31 March 2010, will prevent the rate change disadvantaging companies or their shareholders, by allowing companies to use up their 33% tax credits. Companies can attach credits relating to tax paid at 33% at up to 33:67, the previous maximum ratio.
- Companies that do this will need to track the relevant tax rate for entries in their ICA/FDP account. If they over-allocate credits during the 2009 or 2010 tax years, penalties will also be affected by the special transitional rules.
- Imputation and FDP credits attached to dividends received by a company in the window can only be claimed as a tax credit for up to 30% of income. The full amount is creditable to the relevant imputation or FDP account.

Full details of the changes will be in the April 2008 *Tax Information Bulletin*.

Research and development tax credit

Recently passed legislation introduces the research and development tax credit.

Businesses doing research and development (R&D) may be able to claim a 15% tax credit from the start of the 2008–09 income tax year. The R&D must meet three eligibility tests.

The definition of R&D for the tax credit differs from the rules governing what R&D can be deducted by businesses for tax purposes and the criteria used by agencies that give R&D grants.

Key features of the system are self-assessment and electronic filing of a detailed statement. The credit is claimed in the annual income tax return and a supporting R&D tax credit detailed statement must be filed online, within 30 days of the business's income tax return due date.

The credit will first be applied to amounts due with any remainder being refundable or transferable. Businesses that don't pay tax, eg tax-exempt organisations, can still claim the credit if they are eligible.

A draft R&D tax credit guide, which sets out the criteria and other information to help businesses determine their eligibility, is available on Inland Revenue's website.

The new-look IR 345 and employer tax credits

We're updating the *Employer deductions (IR 345)* form to reflect the introduction of compulsory employer contributions (CECs) and the employer tax credit (ETC). The new form replaces both the existing IR 345 and IR 346 forms.

Employers **must** send us the new form to claim the ETC.

From 1 April 2008 employers will need to make compulsory employer contributions to their employee's KiwiSaver scheme or complying fund if:

- The employee is or should be having KiwiSaver contributions deducted from their salary or wages, and
- The employee is between 18 years old and the age of eligibility for New Zealand superannuation.

Note:

- Employer contributions made to existing superannuation schemes may count as compulsory employer contributions.
- KiwiSaver employer contributions are paid to Inland Revenue through the PAYE system. Complying fund contributions are paid direct to the scheme.



Employers who make contributions can claim an employer tax credit of up to \$20 per member per week, or the amount of the employer contribution, whichever is the lesser. The employer tax credit can be claimed for both compulsory and voluntary employer contributions to KiwiSaver schemes or complying funds.

Employers taking on a new employee who enrolls in KiwiSaver (or who is already enrolled and is contributing), must start making employer contributions and can claim the ETC from the first pay day.

The new IR 345 will be used from the April 2008 period. The ETC is offset against the payment due and the net amount is paid to Inland Revenue.

We'll mail employers the new-look IR 345 in time for April deductions. It has no employer (carbon) copy so employers will need to make a photocopy of the form for their records. Or, employers can file online if they're registered for ir-File. We're asking employers who file online not to file paper copies of the IR 345 as well.

Employers can get more details from www.ird.govt.nz or the revised *Employer guide (KS 4)* which was sent to all employers in February.

Elections for the ratio option due soon

Clients with a standard 31 March balance date who want to use the ratio option to calculate provisional tax instalments during their 2008–09 tax year, must make their election by 31 March 2008. Clients must be GST-registered to use the ratio option.

Clients with non-standard balance dates who want to use the ratio option for the 2008–2009 tax year must elect to do so before the beginning of their 2008–2009 tax year.

For details, please refer to our brochure *A new way to calculate your provisional tax (IR 851)* at www.ird.govt.nz

Correctly determining prescribed investor rates (PIRs)

Investors in PIEs should review their PIR each year and give it—along with their IRD number—to the PIE before the start of the tax year.

As the end of the current tax year is fast approaching, you might want to check that clients investing in PIEs have done this. Further information about PIRs, including examples is available at www.ird.govt.nz/toii/pir

Foreign investment funds (FIFs)

Transitional issues

FIF investments held on revenue account may be subject to a deemed disposal and reacquisition provision, effective the day before the income year starting on or after 1 April 2007.

Details of any additional tax liability arising from the deemed disposal and reacquisition of these interests, including how the amount is to be spread, should be sent to Neil Owen, Team Leader, Finance Sector, Large Enterprises.

Further information about FIF transitional issues can be found in *AGENTSanswers* Issue 95 October 2007.

FIF market value

To calculate FIF income, most investors will need to get the closing/opening market value of their investment. If your client uses the new fair dividend rate (FDR) FIF income calculation method, then they will need the opening market value as at the commencement of the client's income year. Generally this will be the standard balance date of 31 March. To see if your client's actual return is less than 5% they will also need the closing market value.

Updated KiwiSaver employer guide and employee information pack

New KiwiSaver legislation passed in December included compulsory employer contributions (CEC) and the employer tax credit (ETC). Your clients should have received the updated *Employer guide (KS 4)* and *Employee information pack (KS 3)* which cover these changes in more detail. They can get additional copies by calling INFOexpress on 0800 257 773. Copies dated 2007 must no longer be used.

We are also sending out a guide to help with monthly filers' compulsory employer contributions and employer tax credit calculations.

All KiwiSaver material is available in pdf format under "Forms and Guides" on the right-hand menu at www.ird.govt.nz/kiwisaver/employers

KiwiSaver seminars

We'll be running seminars about the legislation changes for employers in the next few months. Your clients should contact their agent account manager for details.





New process for getting an individual IRD number

Have you got a new client who doesn't have an IRD number? Now they can apply for one at an AA Centre or a PostShop. Applicants will just need to bring two specified forms of identification, plus photocopies. At least one of the identity documents must contain a photo. There is also a new application form.

To get an IRD number for a child, parents must provide one identity document for the child, two forms of identification for themselves and a document which shows the relationship between the child and the adult. If you have a business need to issue IRD numbers to individual customers, please discuss this with your agent account manager. If your client is a non-resident, please refer them to our Non-residents Unit. There's more information about IRD numbers, and the application form itself, on our website at www.ird.govt.nz

Online services are moving

This month, the website address for our online services requiring login is changing.

If you log in using the button on our homepage, we'll take you to the new page. You can then update the link in your bookmarks or favourites.

We're also making some changes to the look and feel of the Online Services web pages. You can see a preview of these changes on our homepage under "News and updates."

Update on the 24-hour fax line

The February 2008 edition of *AGENTSanswers* gave an update on the 24-hour fax line that processes IRD number requests and GST registrations.

This update left out this important information:

IRD numbers for non-individuals

- The Companies Office website (www.companies.govt.nz) now supports applications for company IRD numbers and GST registration. This process should now be used at the point of incorporation and provides your tax details in real time through email.
- The 24-hour fax line for non-individuals will now have a 5-day turnaround for GST registrations, partnerships, companies that already have a company number and trusts/estates.
- Urgent requests can be considered on a case-by-case basis (within 24 hours) where an urgent need is clearly indicated and it meets our criteria.

IRD numbers for individuals

- All individual applications must now be verified at any Automobile Association (AA) Driver Licensing Agent, Postshop, or selected New Zealand Post retail outlets. Your client will need to take two forms of identification to either one of the above, and they will forward the application to Inland Revenue.
- Individual IRD number applications can no longer be received through the 24-hour fax line.
- We do understand that some agents may like to provide this service direct to their clients. If so, please contact your agent account manager who can tell you the requirements that need to be met.

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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