

## A good partnership

The end of another year is almost upon us and it is time to reflect on the significant amount of work that Inland Revenue and tax agents have been able to do together this year.

I believe that better communication and two-way dialogue with tax agents and their representatives has helped us all do things faster and more efficiently. From our end, we continue to improve business processes and systems to speed up turnaround times. We've widened the scope of our customer satisfaction survey and are hoping to use this to improve overall service levels.

Another highlight has been the completion in November of Inland Revenue's extensive programme of enhancements to use-of-money interest (UOMI). I know that this has been the source of a significant amount of aggravation in the past for tax agents and Inland Revenue staff.

Obviously the big issue that has kept us all on our toes this year has been the fundamental changes tax simplification has required. It hasn't been an easy process and I appreciate your help and patience in making it all possible.

One of the important channels of communication has been this newsletter. You've told us the kind of information you want as well as the best format for this. We continue to look at improvements to *AGENTSanswers*.

In the new year, other changes that will make life easier for you include fax-back facilities through INFOexpress, changes to E-File and upgrades for the CD-Rom and Tax Agents' website. A fundamental review of tax agent service delivery is also in its final consultation phase and we'll give you an update early next year.

I wish you all the best for the festive season and the new year.



Jared Mullen  
National Manager  
BusinessLink/Corporates Design



## Deadline for rebate claims

The legislation has recently been passed to allow for taxpayers to make rebate claims for donations, housekeeping and childcare until 31 December. Until this change occurred, all claims had to be filed by 30 September. However, there are some exceptions. Inland Revenue has recently sent information to all those who have claimed rebates in the previous two years but who have not yet made a claim for the 2000 year.

## New FBT requirements

Most of you will be aware that changes to fringe benefit tax (FBT) became law in September this year. Now that we are into the third quarter you will be noticing the first effects of these changes.

If your choice is to pay FBT at the flat rate (increased to 64% from 1 April 2000) in every quarter, it's business as usual.

On the other hand, if you haven't already made the choice, from this quarter you will need to decide whether to continue paying FBT at a flat rate of 64% or to use the new multi-rate calculation. If you choose the multi-rate option by electing the 49% rate, you will have to attribute the fringe benefits to the individual who actually receives the benefit and complete the end-of-year multi-rate calculations as part of the fourth quarter FBT return.

If you file FBT on an annual basis you will have to make the choice of using either the 64% rate or the multi-rate process when you receive your end-of-year return.

### The calculation

The new calculation process involves several additional steps that you will need to follow. The first step is deciding which benefits need to be attributed to the individual employee and which are non-attributed or pooled benefits. Those benefits that are not attributed or are pooled will have a flat rate of 49%—or 64% if provided to a major shareholder-employee or an associated person of the major shareholder-employee.

It works like this for each employee where the benefit is attributed:

- The inclusion of the value of attributed benefits in the calculation of FBT payable. The net effect of the calculation is as follows:

Cash remuneration  
**Less:** tax on cash remuneration  
 Net cash remuneration  
**Plus:** attributed fringe benefits  
**Equals:** fringe benefit-inclusive cash remuneration

- A table is then used to determine the total tax payable on the fringe benefit-inclusive cash remuneration. This grossed-up tax scale passes each employee's total remuneration through the FBT rates of 17.65%, 26.58%, 49.25% and 63.93%. After the tax on the fringe benefit-inclusive cash remuneration is determined, the following calculation is made:

Tax on fringe benefit-inclusive cash remuneration  
**Less:** tax on cash remuneration  
**Equals:** FBT payable

Inland Revenue will shortly be sending all FBT filers a letter and pamphlet explaining this calculation process in more detail.



## Calculation of interest for trusts and estates

Inland Revenue has recently implemented changes to the FIRST system to calculate interest for trusts and estates. This article explains these changes to the interest calculation process.

### Background

An assessment issued for an IR 6 income tax return (trusts and estates) may represent:

- Tax payable by trustees on trustee income retained within the trust, and/or
- Tax payable by the trustees as agent for the beneficiaries, on beneficiary income distributed from the trust.

Payments made to a trust's income tax account may be for tax on trustee income or tax payable on behalf of beneficiaries.

Only the liability on trustee income (and any payments in relation to this liability) are subject to interest. The tax liability on the trustee income is after the deduction of any tax credits (for example, resident withholding tax) retained within the trust, that is, the residual income tax liability on trustee income.

Each beneficiary's liability or entitlement to interest is determined in their own income tax account.

### Interest calculations

To determine the amount of unpaid or overpaid tax on which interest is to be calculated, the residual income tax on trustee income, if any, and any payments in relation to that tax, must be identified.

The residual income tax on trustee income is obtained from the information in the IR 6 income tax return. The portion of the total assessment that the residual income tax on trustee income represents, is then used to determine the amount of any payments (and any other transactions) that also relate to the residual income tax on trustee income.

### Example

If the residual income tax on trustee income represents 60% of the total assessment, 60% of any payments relate to the residual income tax on trustee income and need to be taken into account when calculating any interest.

The amount of the residual income tax on trustee income also determines the date from which interest is calculated.

- If the total assessment (residual income tax) for the trust **and** the residual income tax on trustee income are \$2,500 or more, interest will be calculated from the day after the first provisional tax instalment date (this date may be different for the 1998 year).
- If the total assessment (residual income tax) for the trust **or** the residual income tax on trustee income is less than \$2,500, interest will be calculated from the day after the end-of-year tax due date (or the date the income tax return was filed, in some circumstances).

## Election to be a provisional tax payer – REMINDER

This is another reminder about the need to make an election with income tax returns at the time they are filed. This can be done by attaching a note with the return advising that you are electing to be a provisional tax payer.

Remember, natural persons who are entitled to elect (refer to section MB 2A of the Income Tax Act 1994) will only receive interest from their first instalment date if they estimated their provisional tax for the year (refer to section 120K subsection 4 of the Tax Administration Act 1994).



The table below summarises what portion of the total assessment and other transactions will be subject to interest.

1 Residual income tax on beneficiary income	2 Residual income tax on trustee income	3 Total residual income tax (assessment)	4 Portion of transactions subject to interest
Debit eg \$2,500	Debit eg \$5,000	Debit eg \$7,500	<b>Trustee RIT</b> Total RIT eg 66% of assessment and payments subject to interest.
Credit eg \$3,000	Credit eg \$2,000	Credit eg \$5,000	<b>Trustee RIT</b> Total RIT eg 40% of assessment and payments subject to interest.
Nil	Nil	Nil	100% of payments subject to interest.
Nil	Debit eg \$5,000	Debit eg \$5,000	100% of assessment and payments subject to interest.
Debit eg \$5,000	Nil	Debit eg \$5,000	0% None of the assessment or payments are subject to interest.
Nil	Credit eg \$10,000	Credit eg \$10,000	100% of assessment and payments subject to interest.
Credit eg \$10,000	Nil	Credit eg \$10,000	0% None of the assessment or payments are subject to interest.
Debit eg \$5,000	Credit eg \$5,000	Nil	100% of payments subject to interest.
Credit eg \$5,000	Debit eg \$5,000	Nil	100% of payments subject to interest.
Debit eg \$10,000	Credit eg \$15,000	Credit eg \$5,000	100% of assessment and payments subject to interest.
Credit eg \$20,000	Debit eg \$40,000	Debit eg \$20,000	100% of assessment and payments subject to interest.
Debit eg \$16,000	Credit eg \$15,000	Debit eg \$1,000	0% None of the assessment or payments are subject to interest.
Credit eg \$13,000	Debit eg \$11,000	Credit eg \$2,000	0% None of the assessment or payments are subject to interest.

## Notes

- 1. Residual income tax on beneficiary income**  
Tax payable by the trustees on behalf of the beneficiaries (after taking into account tax credits distributed to beneficiaries).
- 2. Residual income tax on trustee income**  
Tax payable by trustees on trustee income (after taking into account tax credits not distributed to beneficiaries).
- 3. Total residual income tax**  
The sum of the residual income tax on beneficiary income and residual income tax on trustee income. This is the amount of the assessment raised for the trust.
- 4. Portion of transactions subject to interest**  
The amount of the total assessment (residual income tax on trustee income) and any other transactions, for example, payments, that are subject to interest.

## Transferring direct

If the trustees indicate that any beneficiary income was “transferred direct” to the beneficiary, that is, the trustees will not be paying any tax on their behalf, the beneficiary residual income tax will be nil, and any payments made to the trust income tax account will be treated as having been made for tax on trustee income only. The total payment will then be taken into account when calculating any interest.



## 1999/00 annual report available on the internet

Inland Revenue's annual report is now available on our Internet site at [www.ird.govt.nz/resource/publicat/annual\\_00.pdf](http://www.ird.govt.nz/resource/publicat/annual_00.pdf)

## Speedy IRD number applications

We often receive IRD number applications at the processing centres that do not have a linking form attached.

If this happens we cannot advise you of the IRD number. Please send us both the IR 595 (IRD number application – individuals) or IR 596 (IRD number application – non-individuals) and the IR 795 (linking of a client). This means we can process all of them at the same time and send the number notification directly to you.

## Saving you money

Do you want to save yourself and your clients money and make sure your job is processed quickly and efficiently at the same time?

If you use the prescribed IR 901 payment remittance series forms you'll be well on your way to doing just that. Benefits for tax agents using the new forms include paper and envelope cost savings as well as an assurance that payment details will be posted to the correct client account. In addition, IR 901 payment remittance forms are sorted to ensure payments are processed quickly and efficiently.

The IR 901 payment remittance series is specially designed to be used with Inland Revenue's payment processing imaging technology. Tax agents should be using these forms when submitting provisional tax and other associated tax payments.

IR 901C and D forms are generated and issued automatically. These forms can be ordered through INFOexpress (the IR 901C will be blank). The current maximum request for INFOexpress is 999 items.

## Talk to us!

Tax agents are encouraged to air their views regarding the on-line version of the *Depreciation guide (IR 260)*.

A new feedback box has been set up at the front of the guide and any comments on the format or content of this publication are welcome.

## E-Filed election

Good news! If you have provided all the appropriate information for an election when completing an E-Filed return, you no longer need to confirm this separately in writing.

In the past the department has requested that where there is an election to offset group losses the Commissioner must receive a separate notice of election. The return format has provision for all of the required information to be shown in the return, and provided all boxes are completed it is now Inland Revenue policy that a separate written election is not required.

The next problem was whether a return, sent electronically by E-File, met the criteria of being a notice in writing. Section 2 of the Interpretation Act 1999 defines writing as follows:

"Writing includes representing or reproduction of words, figures, or symbols –

- (a) In a visible and tangible form by any means and in any medium:
- (b) In a visible form in any medium by electronic means that enables them to be stored in permanent form and be retrieved and read."

So any communication received by E-File or email is considered to have been received in writing.

Therefore it is not necessary for tax agents to complete a separate written election.

## Client information in time

We recognise that some clients do not provide their tax agents with the information necessary for their returns to be filed by 31 March.

In an effort to address this, we introduced a letter (L letter) outlining obligations to tax agents' clients and reminding them to send their tax agent the information needed to prepare their tax return. At that time tax agents needed to provide their agent account manager with a list of clients who they wanted the L letters to go to.

We are currently automating this process and tax agents will soon be able to request this letter themselves, using our INFOexpress service. This service will be available around mid-January 2001. Letters will be issued direct to your client within five working days of the request.

From the tax agents INFOexpress main menu you press 2 (Return and Account Information) and then 5 for the L letter.

### 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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