

## Enhanced ir-Filing

Users testing Inland Revenue's enhanced ir-File system say the new system is a big improvement on the current system.

ir-File is used to send employer monthly schedules to Inland Revenue over the Internet. Inland Revenue is enhancing the current system to improve the user friendliness and remove technical issues that have created difficulties for some users.

Nearly 40 employers – both users and non-users of the current system – took part in the test in September. Those who had been unable to file due to technical difficulties were also involved. Participants were asked to register and were given a number of schedules to file using the enhanced ir-File. They were asked to keep diaries of their experiences and were interviewed before, during and after the test by research company AC Nielsen.

The testing aimed to ensure that:

- the changes being made to ir-File would meet the needs of employers, tax agents and bureaux
- the enhanced system was user-friendly and well designed.

Participants say they were highly satisfied with the ir-File registration process, which they have found to be a vast improvement on the current process. They consider it simpler and faster, particularly as it removes the need for digital certificates and downloading software. This means ir-File can be used on any computer with Internet access as long as the user has a valid userID and password.

Most aspects of the filing process also rated well. Participants suggested changes to some of the screens, particularly to ensure that full instructions are given on-screen for each part of the process. One participant (a tax agent who is a current ir-File user) commented, "Registration was much simpler – a piece of cake. Filing was better than the electronic system I use now".

Participants stress the importance of an effective support system for ir-File users, with the need for a comprehensive User Guide and easy-to-use on-line Help function. Development work is now continuing and will incorporate many of the improvements suggested by test participants. In December a pilot service will be tested with 200 to 250 users. This will fine-tune ir-File in preparation for moving current users across to the enhanced system early next year.

The comprehensive pilot test will include employers, tax agents and bureaux, particularly those who have had difficulties using the current system.

Inland Revenue is pleased with the development of the enhanced ir-File system and looks forward to offering the system to all employers next year.

Any agents interested in participating in the pilot service should send their contact details and agency IRD number to Karen Black at [karen.black@ird.govt.nz](mailto:karen.black@ird.govt.nz) before 22 November.

## Student loan interest write-off

Last month we told you about the proposed interest write-off for student loan borrowers. Since then Inland Revenue has mailed information to all student borrowers, outlining who qualifies and what they will need to do.

Borrowers must be New Zealand tax residents who either studied full-time during 2000 or studied part-time and earned \$24,596 or less. To receive their interest write-off, they need to send Inland Revenue their student ID and their tertiary education provider code.

The mailout to borrowers included an IR 890 form for providing the borrower's student ID and tertiary education provider code, an IR 891 sheet which lists all tertiary providers and their codes and an IR 892 explanatory flyer. There are two other convenient options for providing details. An online form can be completed and submitted from Inland Revenue's website. By clicking on a hyper link on the home page of the website ([www.ird.govt.nz](http://www.ird.govt.nz)) students will be taken to the online form where they can also find more information about the interest write-off. Confirmation that details have been received is provided.

Another option for providing details is *INFOexpress*. Borrowers dial 0800 257 999 and enter their IRD number, student ID and tertiary provider code when prompted.

Inland Revenue will send the information collected to the Ministry of Education. They will confirm whether a borrower was studying full-time or part-time and after the end of the tax year, borrowers will be notified of their interest write-off eligibility.

## Deadline for claiming rebates extended

Legislation has been passed to extend the deadline for claiming rebates for donations and payments for childcare and housekeeping from 30 September 2000 to 31 December 2000. The extension only applies to taxpayers with early or standard balance dates.

The new legislation also allows some taxpayers in certain circumstances to claim their rebates after the end of the rebate claim period. For example, taxpayers who have been unable to make their claim on time because of illness or because they have been out of the country may make a late claim.

The three month extension only applies to donations and payments for childcare or housekeeping made during the 1999-2000 income year. It is a transitional measure to help taxpayers get used to the new process.



## Use of Money Interest update

It was planned to have the issues regarding the calculation of use of money interest on trusts finalised by 30 June. In order to develop a suitable solution, however, this timeframe was extended. The changes for trusts will now be implemented by 15 November.

The opportunity has also been taken to make some additional changes to reduce the liability for interest and penalties where there is credit interest available in an account. These changes will also be implemented by 15 November.

### Purification

Due to the extended timeframe for completing the UOMI changes, purification of accounts with nil balances will now take place in November/December.

## Change of Use-of-money interest rates

The use-of-money interest rates payable on underpayments and overpayments of tax and duties are to increase as prescribed by government regulation. The rate for underpayments will increase from 10.84% to 12.62%, and the rate for overpayments will increase from 4.67% to 5.74%. The new rates will apply from 8 November 2000.

The rates are reviewed regularly to ensure they track with market interest rates. They were last changed in March 2000. As prescribed by Government regulation, the rates are set at 2% above the base lending rate and 1% below the 90 day bill rate.

The rates were changed by Order in Council on 2 October 2000.

## Second return filing target 17 November 2000

This year's extension of time targets for filing clients' tax returns has been reduced. The reduction follows the removal of IR 5s and the reduced time available to file IR 3s because of the new Summary of Earnings process.

The first quarterly target was underachieved with only 36.38% of returns filed nationally, compared with the 37.50% target due. Tax agents are reminded that, as per the 2000/2001 extension of time agreement, the second filing date for returns is 17 November.

Inland Revenue expects tax agents to have filed the following target percentages:

60% of returns for standard target  
50% of returns for late balance date target  
57.5% of returns for e-filers.

## Electronic Products

We mentioned in the last issue that we are currently reviewing all electronic information media, and how these can be best used to provide information to tax agents, corporates and solicitors.

In the past the main product has been the Tax Agents CD Rom. We are now reviewing whether this is the best electronic medium to use, particularly with regard to the opportunities the Internet offers.

We've had some feedback on this but if you haven't yet taken the opportunity to give us your thoughts, please email us at [agentcd@ird.govt.nz](mailto:agentcd@ird.govt.nz). Alternatively, leave a message on (04) 498 5752.



## May Bill enacted by Parliament

### Less Taxing Tax

The Taxation (Annual Rates, GST and Miscellaneous Provisions) Bill was enacted by Parliament on 10 October 2000. The new legislation implements several of the tax simplification and compliance cost recommendations made by the Finance and Expenditure Committee inquiry, and discussed in the Government discussion document "Less Taxing Tax."

From the date of enactment, applications for instalment arrangements no longer need be in writing, and from 1 April 2001, incremental penalties for late payment of tax will be reduced from 2% to 1%.

From 1 April 2001, the serious and financial hardship provisions have been extended to include all tax types, and Inland Revenue will be able to apply these relief provisions to amounts of more than \$50,000. Currently, the Tax Administration Act 1994 requires the Minister of Finance to apply the serious and financial hardship relief provisions to amounts of more than \$50,000.

In addition, from 1 April 2001, the use-of-money interest grace period given to taxpayers who receive a statement of account for overdue tax will be increased from 15 days to 30 days. This measure is designed to make it easier for taxpayers to pay overdue tax as they will not have to calculate their interest liability on a daily basis.

While incremental penalties have been reduced, taxpayers should not become complacent about paying their tax. The new 1% incremental penalty is designed to not unduly penalise taxpayers, but still provide an incentive to give priority to the payment of overdue tax. Penalties and interest will effectively increase a debt by 30% a year. Paying tax in full and on time is still the best option.

Taxpayers are still urged to contact Inland Revenue if they cannot pay their tax in full by the due date. Staff can review their options and suggest an appropriate course of action. The more streamlined processes will increase the efficiency in applying the relief provisions, thereby reducing anxiety and stress for those taxpayers who are having difficulties in paying their tax.

For more information about these changes or other aspects of the Bill, refer to the Commentary on the Bill – Taxation (Annual Rates, GST and Miscellaneous Provisions) Bill, available at Bennetts bookshop or on Inland Revenue's web site at <http://www.taxpolicy.ird.govt.nz/publications/files/html/maybill2000/index.html>

### GST law changes

Parliament has enacted a number of Goods and Services Tax (GST) legislative changes contained in the May Bill. These changes have arisen from a recent review of GST, the first comprehensive review since the tax was introduced in 1986. The changes are being made to improve the effectiveness and workability of GST.

The main GST changes will affect:

- the second-hand goods input tax credit
- the valuation rules for deregistration
- deferred settlement arrangements
- the general anti-avoidance provision
- GST adjustments for changes in use
- the registration and payments basis thresholds
- the threshold for simplified tax invoices.

Changes to registering for GST, payments basis and simplified tax invoices are effective from 1 October 2000. The other changes apply from 10 October 2000, the date of enactment.

A GST changes newsletter (IR 368) that explains the main changes is in the process of being issued to all agents and GST registered persons. If you require additional copies of the newsletter these can be downloaded from <http://www.ird.govt.nz/resource/gst/gtchanges1000.pdf> or are available by phoning INFOexpress forms and stationery line on 0800 257 773.

Agents are also advised that three important GST forms have been changed. The IR 360 "Registration form" has been revised and will be in production by the time you read this update. The "GST Adjustment calculation sheet" (IR 372) has had a shoulder number change from GST 101C to IR 372 and now reflects all the law changes. In addition, the "GST guide" (IR 375) has also been revised to incorporate the new legislation. All of these publications are available for download from our website at <http://www.ird.govt.nz/resource/publicat/index.htm>, through *StationeryXpress* or through *INFOexpress*.

Detailed information is available in a special report (11 October) published on the Policy Advice Division web site at <http://www.taxpolicy.ird.govt.nz>



## Dividends received from overseas companies – consequences of amendments

Legislation has been passed raising the threshold under which taxpayers with small interests in foreign entities are exempted from the FIF regime. The threshold has been raised from \$20,000 to \$50,000 invested in any foreign entities not resident in Australia, Canada, Germany, Japan, Norway, United Kingdom or United States. The exemption only applies to natural persons (which does not include those acting as Trustee).

Taxpayers not now subject to the FIF regime must account for any income from the foreign entities. In the case of dividends received by individuals, the dividends are gross income. In the case of dividends received by corporate shareholders, Foreign Dividend Withholding Payments must be accounted for.

In recent times there have also been a number of New Zealand companies which have moved their head office and place of incorporation offshore, thus becoming a foreign company and changing the nature of how their dividends should be returned by their New Zealand resident shareholders eg: Brierley Investments Limited.

A similar situation results from foreign companies issuing shares to New Zealand residents (e.g. AMP) and subsequently paying dividends. Also, of course, where a New Zealand resident acquires shares in a foreign company. If a taxpayer receives any overseas income that has not been taxed, they are required to furnish an IR 3 tax return.

As a result of the above legislative amendments and recent corporate migrations it is possible that there are a large number of taxpayers who have either not filed an Income Tax return, or who have received a Personal Tax Summary and have not included their overseas income.

The following procedure will apply:

1. Taxpayers who have received overseas income and who have not received a Personal Tax Summary will be required to complete a 2000 IR 3 tax return.
2. Taxpayers who received more than \$200.00 overseas income and who have incorrectly received a Personal Tax Summary will be required to complete a 2000 IR 3 return.
3. Taxpayers who have received less than \$200.00 in overseas income and have received a Personal Tax Summary can ask for their Personal Tax Summary to be amended to include their overseas income for the 2000 income tax year. However for future years they must file an IR 3 return.
4. Taxpayers who have already correctly filed an IR 3 return will remain unaffected. The return can not be replaced by a Personal Tax Summary.

The legislation takes effect from 1 April 1999, ie: 2000 income tax year.

### 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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