



New postal standards

On 1 July 2008 New Zealand Post introduced new standards for bulk mail. The new standards mean it is now mandatory to include street numbers, town or city names and postcodes.

Inland Revenue is updating our database and aim to have all our postal addresses meet the new standards by December 2008. Until then, although mail generated by our system will not meet the new standards, your mail **will** continue to be delivered by New Zealand Post.

Please continue to let us know if you change your address. You can do this by:

- getting it done online—www.ird.govt.nz/how-to/change-address/
- completing the *Have you changed your name, address or phone number?* (IR 238) form and sending it to us
- calling us on 0800 227 774.

Online services have moved

The website address for our online services which require login (including ir-File, Look at account information, Client maintenance, Send and receive mail, Portfolio investment entity (PIE) file transfer) has changed.

If you login 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've also made some changes to the look and feel of the online services web pages, including improving the navigation and personalising menus based on your customer profile.

You can see what these changes look like in the 'News and updates' item on our website—www.ird.govt.nz/news-updates/like-to-know-online-services.html

Identifying tax agents on forms

We have recently found that agents and their employees are signing forms but aren't including a stamp to show which agent they work for.

If the employee of a tax agent doesn't show where they're from, we cannot validate the form, which holds up the processing of, for example, your client's return, payment, or tax credit (formerly rebate).

When completing our forms please ensure you and your employees use the company stamp or write the company name next to the signature to show which tax agent's office they're from.

Tax bill introduced

On 2 July 2008 legislation was tabled in Parliament introducing a number of major business tax reforms, including:

- reforming New Zealand's international tax rules to help New Zealand-based companies compete more effectively overseas
- raising tax thresholds to reduce compliance costs for smaller businesses
- clarifying the law to ensure employer payments for relocation and overtime meal allowances are tax-free
- introducing a new payroll system for people who want to have charitable donations deducted from their pay
- reform of the taxation of the life insurance business
- updating the petroleum mining tax rules
- changes to strengthen the definitions of "associated persons" in income tax law.

For further information go to www.taxpolicy.ird.govt.nz

Portfolio investment entity (PIE) allocated income and tax treatment

Tax rate

For PIEs using the quarterly return filing option or the annual plus monthly for investors exiting a PTRE or PIE (exitors) return filing option tax calculations, there is a two-step process to follow when working out the rate investors' allocated income is taxed.

Step one:

The PIE applies a flat rate of 30% (this is known as the default rate):

- unless the investor notifies their prescribed investor rate (PIR), or
- if a PIE operating under the quarterly return filing option applies a zero rate to an investor who exits the PIE.

Any investor that does not notify the PIE of their prescribed investor rate (including trustees, natural persons, PIEs, portfolio investor proxy (PIPs) and companies, all investors), will have the default rate of 30% applied to their allocated income.

This step is covered under the definition of portfolio investor rate and the tax calculation.





Step two:

Investors need to identify their prescribed investor rate and to notify their PIE. The prescribed investor rate is one applicable rate for all investors other than trustees. The investor does not have a choice of rates eg:

- a company has a prescribed investor rate of 0%
- a natural person with taxable income in both of the last two years greater than \$38,000, has a prescribed investor rate of 30%.

Trustees also have a prescribed investor rate of 0%, however they have the option to choose a 30% prescribed investor rate.

NOTE: If a trustee has not notified the PIE that they have chosen the 30% rate their prescribed investor rate will be 0%. This makes them a zero-rated portfolio investor. This distinction is important when looking at the tax status of the PIE allocated income.

If the investor	then the rate is
is exiting a quarterly PIE that zero rates exits	0%
has notified their PIR	their PIR
has not notified their PIR	30% default rate

Tax treatment

There are two categories that apply to investors, those that have:

- the zero rate correctly applied to their income (zero-rated portfolio investors)
- a prescribed investor rate greater than zero.

Zero-rated portfolio investors are:

- those that can only have a zero rate such as companies
- investors in quarterly filing PIEs that have had the zero rate applied to their income when they exited the PIE
- trustees that do not choose the 30% rate.

The income allocated to these investors is not excluded income and will be included in their income tax return. The PIE allocated income is included in the \$200 return filing threshold that applies to natural persons.

Investors that have prescribed investor rates greater than zero are:

- natural persons who are residents
- all non-residents
- trustees that have notified they have chosen the 30% rate.

Where an investor has had their actual prescribed investor rate applied to their income, ie, they have correctly determined they qualify for the 19.5% or the 30% rate, the allocated income is excluded income and does not get included in the return. This applies to natural persons, non-residents and trustees that have notified the 30% prescribed investor rate.

It does not apply to trustees that did not notify their prescribed investor rate.

NOTE: Having the 30% default rate applied to the investors allocated income does not change the investors prescribed investor rate status.

Default rate

Allocated income

All investors can have the default rate applied where they do not notify the PIE of their prescribed investor rate. For natural persons the default rate becomes a final tax and the income is excluded income and does not get included in the investor's return.

For investors that have a 0% prescribed investor rate (under the default rate this includes trustees) the income is not excluded income and must be included in the investor's tax return.

Credit for tax paid

Investors with a prescribed investor rate greater than zero have their income treated as excluded income, so there is no credit for any tax paid. Investors with a prescribed investor rate of 0% are allowed to claim a credit for either:

- the actual tax credits allocated
- the net of the tax credits
- any PIE tax paid or rebated, as shown on the investor statement.

Tax treatment for trustees

There are three situations that can apply to trustees. They can:

- have the default rate of 30% applied
- choose the 0% prescribed investor rate
- choose the 30% prescribed investor rate.

If the trustee has the default rate applied or notifies the 0% prescribed investor rate, the income is not excluded income and must be included in the trust's return. A credit for the tax either paid directly by the PIE or as the separate allocated tax credits shown on the investor statement, is available using the standard tax credit treatment. PIE tax paid is a non-refundable tax credit.



NOTE: The foreign tax limitation is calculated as if all the PIE income was from one foreign country, source and nature.

A trustee that elected the 30% rate cannot include the income and tax credits in the trust return or treat it as beneficiary income and include it in the beneficiary's tax return.

Natural persons

Natural person investors who have chosen 30% or had the 30% default rate applied but actually had a PIR of 19.5%, cannot include the income in their return to obtain credit for the higher rate of tax paid by the PIE. The income or loss will only be included where a rate lower than the investor's prescribed investor rate has been applied. This will occur where they have notified an incorrect rate or where the PIE they invest into zero rates their income when they exit the PIE. Only the details for the period that has had the lower rate applied is included in the return.

NOTE: You also need to provide your IRD number to your PIE in order for the PIE to use your PIR.

Losses allocated by the PIE

Investor statements may show the PIE has allocated an investor a loss for the 2008 income year. For investors that have all their income or loss taxed at their PIR, the PIE will have already credited the investor with the tax value of the loss. For example an investor that has an allocated loss of \$500 with a PIR of 33% will have a tax credit of \$165. The PIE files their PIE return seeking the refund and then applies the refund back to the investor. The PIE has the choice of how to give the credit, some may issue additional units, while others may increase a cash distribution.

For investors that have had the zero rate applied to their income/loss or a part of the income/loss the loss flows through to their income tax return and can be offset against other income.

When is PIE income or loss derived?

PIE income is included in the investor's return which includes the end of the PIE's income year. For example where an investor has a 28 February 2008 balance date and the PIE has a 31 March 2008 balance date the PIE income would be included in the investors 2009 income tax return, covering the period 1 March 2008 to 28 February 2009.

Further information and examples are available on our website—www.ird.govt.nz/toii/

Employer monthly schedule (IR 348) non-payment penalties update

Legislation was introduced on 1 April 2008 which means employers can be penalised if, after already receiving notice of a late payment, they don't make their employer monthly schedule (EMS) payments by their due date. This penalty was introduced to make it fairer for the majority of customers who do pay their EMS payments on time.

However, the systems which will implement these changes will not be available until November 2008. We want to make sure we deliver a robust system and have rescheduled the delivery to give us more time for development and testing.

Employers who have made full EMS payments between 1 April and November 2008 will not be affected by the new implementation date. But employers who have outstanding EMS payments when the system is introduced may receive a notice and then a penalty.

As you know, employers have always been responsible for making their EMS payments on time and this doesn't change. Please remind your clients they are responsible for making their EMS payments and penalties may apply if they are late.

So, please get in contact with us as soon as possible if you think any of your clients may have problems making a payment.

Callback service to save you time

From August, Inland Revenue began offering a new service called virtual hold on the tax agents, employers and personal/general 0800 numbers. Now, when you call us you'll have the option of waiting on hold for a customer service representative (CSR) or receiving a callback.

How will virtual hold work?

If you opt for a callback a virtual placeholder maintains your place in line and calls you back moments before it reaches the top of the queue.





You'll hear this message:

- "Thank you for calling Inland Revenue. The expected wait time is XX minutes.
- To receive a callback, press 1 (you'll be asked to enter your DDI phone number which is read back for verification and you'll be asked to record your name for use when the callback is made).
- To remain on hold, press 3."

When you're called back you'll hear:

- "Hello. This is your return call from IRD for [caller's name].
- If [caller's name] is ready, please press 1."

The system confirms the correct person is on the line and ready to speak with a CSR then routes the call to the next available CSR, who handles it as a normal inbound call.

If you're not ready (you're busy) or available (no answer) to receive the return call the system will attempt up to four more calls, at five-minute intervals.

Virtual Hold eliminates additional attempts to contact us, reduces long holding times, and frees up your time.

Facts about virtual hold

- Virtual hold callback options will not be available all day, every day. The callback option will only be turned on when wait times reach preset threshold levels.
- When the virtual hold callback option is not turned on, you'll still hear estimated wait times.
- Callbacks are only available to direct dial numbers.
- There will be a few months settling in period while the technology is fine-tuned to our requirements.

Other options

Our web and other self-service options are still the best sources of information when you don't need direct contact with us.

Future improvements

- We'll look at introducing virtual hold on all other queues at a future date.
- At present, callbacks can't be made to cellphones, extension numbers or international numbers. We'll investigate making these options available over the coming months.

Who can I contact if I have any questions?

Contact your agent account manager.

A reminder about income

payments to beneficiaries of trusts

Generally, income derived by a trustee is taxed as either:

- "trustee income"—at a flat rate of 33%, or
- "beneficiary income"—at the beneficiary's marginal rate of tax.

We've been asked about the rules relating to the distribution of beneficiary income of trusts and when this needs to be finalised.

Section HC 6(1) of the Income Tax Act 2007 provides that complying trusts have until six months following the end of the income year, 30 September in any given year, to pay or apply income in favour of beneficiaries. Trustees don't necessarily have to have finalised their accounts within this period, but do need to have confidence in the amount of income available for distribution to beneficiaries, and commit themselves to that distribution. If this is not done before 30 September the income in question will remain as trustee income and will be taxed accordingly.

We've noticed some instances of payments or resolutions and recording of payments occurring after that date. In these cases, the income will remain the trustee's, and essentially for the beneficiary this becomes a capital receipt. Advisors are reminded to take care in this area as the Commissioner has no discretions about the date.

Trust losses transferred to beneficiaries

We've also noticed instances of taxpayers including losses from trusts in their returns in which they are beneficiaries, ie, these losses are included in the beneficiary's tax returns as negative income. We remind you that losses incurred by the trustee of a trust remain with the trustee and cannot be allocated to beneficiaries as losses.

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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