



## Paid parental leave extended to self-employed parents

A recent law change means self-employed people can now apply for paid parental leave.

From 1 July this payment has been extended to help self-employed people becoming parents, and those planning to adopt children under the age of six.

Paid parental leave payments will equal the self-employed parent's average weekly earnings over the last six or 12 months, up to a current maximum of \$357.30 a week before tax.

Those who make a loss or earn less than the minimum wage for at least 10 hours work a week will be paid for 10 hours a week at the highest rate of minimum wage. Currently this payment is \$102.50 a week before tax.

Self-employed parents who choose to take up paid parental leave must stop working while they receive payments, but will be able to continue to oversee their business to some degree (doing occasional administrative tasks such as completing GST returns).

They will also be able to earn income generated by work done before going on parental leave, or by work done by other people for the business during the leave period.

A self-employed person applying for payments must fill in the applicable Inland Revenue form (IR 888 and/or IR 889)—available on our website [www.ird.govt.nz](http://www.ird.govt.nz) or the Department of Labour website [www.ers.dol.govt.nz/parentalleave](http://www.ers.dol.govt.nz/parentalleave)

A self-employed parent who decides to take parental leave can apply any time, right up until they return to work or cease self-employment.

The application must also include verification:

- that the applicant is a self-employed person and meets one or more of the definitions of being self-employed

- of their total net income for the six or 12 months before the expected date of birth or the date they start caring for the child they intend to adopt, and
- of their average weekly earnings for the six or 12 months before the expected date of birth or the date they start caring for the child they intend to adopt.

Many applicants are likely to ask their tax agents to supply them with this information, which should take the form of:

- a self-declaration made by the applicant and notarised by a JP, or
- a statement and declaration by a Chartered Accountant in respect of the applicant.

## Paid parental leave – who's eligible?

### Self-employed mothers having a baby

Paid parental leave will be available to self-employed mothers who:

- have a baby due or born on or after 1 July 2006, and
- have been working an average of 10 hours or more a week for the six or 12 months immediately before the expected date of birth.

Self-employed mothers will be able to transfer all or part of their payment to eligible spouses or partners (who can be either employed or self-employed).

### Self-employed parents adopting a child

Paid parental leave is available to a self-employed parent (male or female) who:

- starts caring for a child under the age of six on or after 1 July 2006 whom they intend to adopt, and
- has been working an average of 10 hours a week or more for the six or 12 months immediately before they start caring for the child.

## Income tax rewrite – Part N and Part O

Exposure drafts of Part N and Part O of the rewritten Income Tax Act have been released for public comment. Part N contains rules relating to tax payment obligations, some of which were previously located in Part M. Changes to Part O, which relates to defined terms, include the use of tests of association for the associated person rules and rationalisation of the source rules according to income type. They are the final rewrite exposure drafts to be released before preparation of the bill begins. Submissions close on 21 July 2006.

These documents are available at [www.taxpolicy.ird.govt.nz/](http://www.taxpolicy.ird.govt.nz/)

## PAYE intermediary subsidy update

In May's *AGENTSanswers* we told you about the PAYE intermediary subsidy scheme. As part of the 2006 Budget, the Government has announced that the subsidy will be \$2.00 a pay period per employee for up to five employees per month for each small employer. The subsidy will be paid at a flat rate from 1 October 2006.





## Calculating the depreciation rate for assets acquired on or after 1 April 2005

This item explains the new depreciation rules and provides a table of the new rates. The current depreciation rate finder on our website only applies to assets acquired before 1 April 2005 and buildings acquired before 19 May 2005. These are called the "old rates". We are in the process of updating our depreciation rate finder to also include the new rates, this should be completed shortly. In the meantime the table below will allow you to find the new depreciation rate for your assets.

### Old rates

Asset	Diminishing value (DV)	Diminishing value plus 20% loading	Straight line (SL)	Straight line plus 20% loading
Amplifiers	33	39.6	24	28.8

The DV rate for an amplifier acquired before 1 April 2005 is 33%. Using Table 1 find this rate in the "1993-2005 old rates" in the DV rate column then scroll across to the DV column for "Assets other than buildings acquired on or after 1 April 2005" to find the new rate to use, which in this case is 40%. If the asset you've acquired is new you can use the DV + 20% loading rate (48%).

### How this table works

If you have acquired assets (other than buildings) on or after 1 April 2005 and buildings on or after 19 May 2005 use the **Depreciation rate finder** to find the "old rate" for your asset. Once you've found the old rate for your asset or building use Table 1 (below) to find the new rate to use.

For example:

In the industry category **Audio and video recording studios and professional photography** the rates for amplifiers acquired before 1 April 2005 are as follows:

**Table 1**

The 1993-2005 columns list the general depreciation rates that apply for assets acquired on or after 1 April 1993. The 2005 and future years columns list the general depreciation rates for assets (other than buildings) acquired on or after 1 April 2005 and buildings acquired on or after 19 May 2005.

Estimated useful life	1993 - 2005 asset ("old") rates				2005 & future years asset ("new") rates					
					Assets other than buildings acquired on or after 1 April 2005				Buildings acquired on or after 19 May 2005	
Years	DV rate (%)	DV rate + 20% loading (%)	SL rate (%)	SL rate + 20% loading (%)	DV rate (%)	DV rate + 20% loading (%)	SL rate (%)	SL rate + 20% loading (%)	DV rate (%)	SL rate (%)
100	2	2.4	1.5	1.8	2	2.4	1.5	1.8	1.3	1
50	4	4.8	3	3.6	4	4.8	3	3.6	3	2
33.3	6	7.2	4	4.8	6	7.2	4	4.8	4.5	3
25	7.5	9	5.5	6.6	8	9.6	6	7.2	6.5	4
20	9.5	11.4	6.5	7.8	10	12	7	8.4	8.5	5
15.5	12	14.4	8	9.6	13	15.6	8.5	10.2	11	6.5
12.5	15	18	10	12	16	19.2	10.5	12.6	13.5	8
10	18	21.6	12.5	15	20	24	13.5	16.2	0	0
8	22	26.4	15.5	18.6	25	30	17.5	21	0	0
6.66	26	31.2	18	21.6	30	36	21	25.2	0	0
<b>5</b>	<b>33</b>	<b>39.6</b>	<b>24</b>	<b>28.8</b>	<b>40</b>	<b>48</b>	<b>30</b>	<b>36</b>	0	0
4	40	48	30	36	50	60	40	48	0	0
3	50	60	40	48	67	80.4	67	80.4	0	0
2	63.5	76.2	63.5	76.2	100	100	100	100	0	0
1	100	100	100	100	100	100	100	100	0	0



## Special rules that apply to new rates

For assets (excluding buildings) acquired on or after 1 April 2005, but before the start of your 2007 tax year, you may elect to use the 1993-2005 depreciation rates for the asset for the 2006 and subsequent income years. The election should be made in your 2006 income tax return.

Buildings acquired on or after 19 May 2005 must apply the new rates from the 2005/06 year except for:

- buildings acquired as relationship property or under a wholly-owned group company transfer that the previous owner depreciated using the old building depreciation rates—in which case those rates continue to apply, and
- buildings that were purchased, or to be built, and the relevant contract was signed prior to 19 May 2005—the old building depreciation rates also continue to apply.

Assets excluded from the new rates for assets other than buildings are:

- certain aircraft
- certain motor vehicles
- high residual value property (residual value greater than 13.5% of cost) eg international ocean-going yachts
- fixed life intangible property and excluded depreciable property.

The rates for these excluded assets:

- aircraft (fixed wing, self-propelled, not used for top-dressing or spraying, non-international aircraft that are not helicopters) are 10% DV or 7% SL
- motor vehicles (designed exclusively or mainly to carry people and having no more than 12 seats) are 30% DV or 21% SL
- assets that have a high residual value use the same rates as were applicable to those kinds of assets under the 1993-2005 depreciation rates
- there are no changes to the way that depreciation rates are calculated for fixed life intangible property and excluded depreciable property.

## Depreciating residential rental properties

We have recently confirmed that residential rental property owners cannot break up their properties into smaller components to take advantage of the higher depreciation rates under the “building fit-out (when in the books separately from building cost)” asset category.

We are aware that some taxpayers have been “breaking-up” their residential properties into smaller components in order to obtain higher depreciation rates. “We have had concerns about this matter for some time. Now, after consideration by the Adjudication & Rulings business group, we have confirmed our view that this practice is not acceptable,” says Naomi Ferguson, Deputy Commissioner Service Delivery.

“Property owners are still able to depreciate chattels, such as carpets, drapes, light fittings and whiteware, as separate assets. Similarly, there is provision to depreciate separately other items such as water heaters, clothes-lines and other fittings that are not part of the building,” says Naomi.

Items that we do not believe to be separate assets are internal walls, doors, electrical wiring and plumbing etc, as well as furniture and fittings which are permanently attached to the building, such as kitchen cupboards, bathroom vanities and built-in wardrobes. We consider these items to be part of the building and they should be depreciated as such.

“Property owners who have been splitting these components out from the cost of the building will have overstated their depreciation claim in the past, but we won’t be asking them to adjust previous years’ income,” says Naomi. “However they will be required to add the value of the various ‘components’ they have been depreciating individually into the cost of the building, and combine the depreciation claimed for those individual assets.”

This will identify the asset to be depreciated, the cost of that asset and the depreciation claimed to date. The building should then be depreciated using the correct rate. This will depend on the type of building and when it was acquired.

Property owners with cases still under investigation or going through the disputes process may be able to apply this approach from the first period not under dispute or being investigated. “A taxpayer may, of course, decide not to settle and to take the matter through the disputes process if they do not agree with the Commissioner’s treatment,” says Naomi.

An Interpretation Statement on this ruling is being prepared for public consultation.





## Accounts information

We collect statistical information from taxpayers' financial statements for both our own purposes (eg audit case selection) as well as to pass on to *Statistics New Zealand*.

Although we only require a general summary of what is in a set of financial statements, it still requires us to handle a large volume of data each year. This means we have to capture the information from the financial statements and store it in our computer system so it can be analysed and transferred.

The way we currently capture the required financial information is through the *Accounts information (IR 10)* form. Details from financial statements are summarised on this form and then keyed into our system. If you E-File your clients' income tax returns you are able to send this information to us electronically instead of filling in the IR 10.

When we do not receive an IR 10 with an income tax return, we have to obtain the financial statements and then complete the form. This can hold up the processing of that return.

An IR 10 is required if a client is "in business", has rental income or withholding income with expenses.

Generally an IR 10 should be completed if amounts are entered in the following key points:

Return	Key point
IR 3	KP 21 KP 22 KP 23
IR 4	KP 19B KP 21B
IR 6	KP 14B KP 15B
IR 7	KP 16B KP 17B
IR 9	KP 11C KP 12C

Completing an IR 10 when required, and sending it in with the client's income tax return would greatly assist us, particularly to avoid delays in processing these returns.

## E-File – debt letter 1 and summary of earnings

We have received positive feedback following the successful implementation of these enhancements. Comments have included the benefits of receiving the debt letter well before clients receive their copy, and how easy it was to manage receiving the SOE electronically as opposed to the paper output. Over 330,000 SOE's were E-filed in the main run. The debt letter report is transmitted daily to your mailbox.

If you are not registered for E-File this could be a good time to consider the advantages of using the total E-File package to:

- **send:**
  - most tax returns (IR 3, IR 3NR, IR 4, IR 6, IR 7, IR 8, IR 9), IR 101 and the IR 526
  - correspondence on its own or attached to a client's return
  - changes to your client list
  - changes in client details (such as a change of address)
  - stationery orders
- **receive:**
  - client lists
  - debt letter 1
  - summary of earnings.

The following link provides full information relating to E-File, including all the software developers [www.ird.govt.nz/taxagents/working-ird/e-file/](http://www.ird.govt.nz/taxagents/working-ird/e-file/). Your agent account manager can also provide information about this service.

## "Business is Booming"

A new TV series for small and medium businesses is on-screen this month, supported by us.

Screening at 8 am on Saturdays from 8 July and again each Tuesday night at 11.30 pm, *Business is Booming* aims to help those in business by providing both information and inspiration.

*Business is Booming* is fronted by entrepreneur and PC Direct founder Sharon Hunter and multi-award winning radio host Matt Lawrey. Along with information about compliance issues—*How does provisional tax work? What's the deal with withholding tax? What's the difference between capital and operating expenditure and why does it matter?*—the show features interviews with a wide range of New Zealand business people talking about their experiences in building small businesses into big ones.

The show aims to help small business owners deal with the complexity of compliance requirements and management decisions they face in what can be an isolated and tough existence.

### Note from the editor

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