

First return filing target 15 September 2000

The extension of time filing target for clients' returns due to be filed by 15 September 2000 are:

- standard target 40%
- E-file target 37.5%
- late balance date target 20%

There may be genuine situations where you will not be able to meet this first target percentage. The authority to negotiate filing targets lies with your Agent Account Manager and Corporate Account Managers. If you anticipate that you will not meet this first target we encourage you to contact your Account Manager prior to the target date. An adjustment to your expected filing target will ensure that there is no unnecessary contact from the department.

Transfers of Rebate Claims

Some tax agents, including E-Fileers, have had trouble getting rebate credits transferred and distributed as they require. Essentially this is occurring when the return is processed prior to the rebate claim request being processed.

Examples of when this might happen:

- IR3 debit and/or IR6 debit filed, with a rebate claim credit to offset the respective debits.
- Rebate credit to be transferred to the clients IR 3 (which is also a credit) and both credits to go out as one cheque.

To avoid these delays we recommend that correspondence be clearly attached to **both** the return form and rebate claim form. When correspondence relating to rebate claims is received with a return form, processing of the return is held until such time as the rebate claim is processed.

Correction to legislative update

Last month's *AGENTSanswers* contained an incorrect website reference to the legislative update on the Taxation (Annual Rates, GST and Miscellaneous Provisions) Bill.

Commentary on this Bill can be found on the Policy Advice Division of Inland Revenue's webpage at <http://www.taxpolicy.ird.govt.nz>

Help your clients pay off their (or their children's) student loans faster

As the number of people with student loans is increasing, more of your clients will have student loans themselves or have children with student loans. The following article describes some of the products we have developed to help you help your clients save money on their loans.

- Our new student loan flyer *How to save yourself money (IR 217)* provides easy to understand examples of how your clients can save money on their student loan by making additional voluntary payments. A copy of this is enclosed for your information. This can be ordered through *StationeryXpress* or *INFOexpress*.
- A loan calculator has been developed to assist in planning loan repayments. By entering your clients' loan, income details and a number of different voluntary repayment amounts, we can tell you how much your client can expect to save in interest by making extra voluntary repayments. From there you can help your clients to decide how much extra they can afford. We'll give you the expected term of the loan and how much your client can expect to save in interest by making extra voluntary repayments. Call us on 0800 377 778.
- A power point presentation is also available to complement the flyer. The presentation is designed to help clients understand how voluntary repayments will save them money. Tax agents are welcome to use this presentation and can request a copy by writing to agents.answers@ird.govt.nz.

New E-File correspondence codes

Due to the changes to the 2000 returns you will have noticed that there are two new subject codes available for use when E-Filing correspondence. The new codes are:

ECC

This code is to be used when E-Filing correspondence relating to any corrections or changes to the details shown on the *Summary of Earnings form (IR544)*.

FSQ

This code is to be used when E-Filing correspondence relating to any corrections or changes to the details on the *Personal Tax Summary (IR 537 or IR 538)* or the *Family Assistance form (IR 541)*.

Correctly noting your E-File correspondence with the appropriate code will ensure that urgent correspondence, such as Family Assistance credits, will be targeted and processed faster. Use of these codes will also negate the need to send written correspondence.

If you have any questions please contact your software supplier; or our E-File Support Team on (04) 498 9600, (04) 498 9601 or (04) 498 9605.



Terminal Tax Date

If your client was one of the 32,000 taxpayers who had their EOT removed as part of the late filing penalty process in May, the FIRST system will have incorrectly changed their terminal tax due date for the 1999 income tax returns from 7 April to 7 February. This will mean that use of money interest and late payment penalties would be calculated from 7 February. As stated in Inland Revenue's EOT agreement with the Institute of Chartered Accountants of New Zealand the, EOT would be removed from the following year i.e. the 2000 income tax return.

We will therefore change Inland Revenue's system to ensure that use of money interest and late filing penalties are calculated from 7 April and not 7 February for the 32,000 taxpayers affected.

We will advise you, in future *AGENTSanswers* issues, when these changes have been completed.

Changes to FBT

From 1 April 2000 the fringe benefit tax rate increased to 64% for all taxable benefits provided or granted after this date. Further legislative changes were introduced in the Taxation (FBT, SSCWT and Remedial Matters) Bill which is expected to be enacted early September.

What do these changes mean to employers?

The majority of FBT filers will have filed their quarter one return (1 April 2000 – 30 June 2000) at the rate of 64%. However, some employers filed their return at the old rate of 49% and this resulted in an underpayment of FBT. These employers will be receiving an assessment of the correct amounts that will need to be paid.

Likewise, employers will be required to pay 64% in quarter two (1 July – 30 September). Information will be sent direct to employers explaining this change. It is important that the right rate is used, as shortfall penalties will apply.

In quarter three (1 October – 31 December), employers will have the choice of applying a rate of either 64% or 49%. It is important that an employer considers their particular situation when deciding the FBT rate they will use.

If most of their employees are high-income earners (over \$60,000) they should consider using the flat rate of 64% when calculating FBT, as this method is simpler to use and may result in the same FBT liability as the multi-rate calculation.

Other employers should consider the multi-rate option and elect the rate of 49% in the third quarter, particularly where employees to whom the benefits are attributed are on lower income levels. Therefore, the main consideration for all employers is to weigh any increase in compliance involved in undertaking the multi-rate calculation against reduced FBT liability as compared to the flat 64% rate option.

In quarter four (1 January – 31 March 2001), if employers used a rate of 64% in the previous three quarters, then they have an option of applying either the multi-rate calculation or the flat rate of 64%. If employers used the 49% rate in quarter three, they will have to complete the end of year multi-rate calculation. However, if they meet certain criteria, they may be eligible to apply a transitional year rule as explained below:

Changes to FBT:

The key changes that were announced on 31 July include:

Quarters 1 to 3

- An extension to the one-off transitional period where only the 64% rate option is available now also applies to the second quarter. The third quarter return (due 20 January 2001) will now be the first opportunity for employers to decide between the FBT rates of 64% or 49%.

Final quarter return (optional multi-rate calculation)

- The inclusion of the value of attributed benefits in the calculation of FBT payable. The bill now proposes that once a benefit is attributed, the rates of FBT will be based on each employee's "fringe benefit inclusive cash remuneration" when using the multi-rate calculation. That is the "net cash remuneration (cash remuneration less tax on cash remuneration) plus taxable value of fringe benefits provided". The value of the benefit is added to the employee's net income for FBT calculation purposes. A progressive grossed-up tax scale is then applied to the total remuneration so that the FBT payable for the year can be calculated.
- 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%.
- A transitional year provision applies only for the first year of the new rules (1 April 2000 to 31 March 2001). In the fourth quarter, it allows an employer who does not have the necessary records and systems to undertake the multi-rate calculation to retrospectively "top-up" to the rate of 64% for all benefits over the year if the 49% rate has been used in the third quarter. Details around what requirements need to be met will be issued at a later date.
- An increase in the threshold for the catch-all category of fringe benefits (section CI 1(h)) to \$2000.
- Returns for the final quarter are now due on 31 May.
- The requirement to annualise "cash remuneration" under the bill as first introduced has been removed.

Over the coming months more information will be sent to employers who provide fringe benefits.

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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AGENTSanswers is also on our website:
www.ird.govt.nz/business/tax_agents/index.htm