

Liz Sinclair's column

As acting Operations General Manager I am tackling issues that are high priority for Inland Revenue and our stakeholders.

The most immediate priority is the consolidation of recent tax simplification changes. Everyone associated with the changes appreciates how significant these have been and the difference they make to the requirements of taxpayers concerned.

It is important that the department not only recognises the transition taxpayers and tax agents are currently going through but also evaluates how effective tax simplification has been, so further enhancements can be made as required.

Improving the performance of our phone service is another immediate priority and we have been working hard across the organisation over the last two months to keep this in focus, as it is such a critical way we deliver service. This will be a continuing focus throughout the year.

I want to pay tribute to Inland Revenue's project team and to the Institute, including their Tax Director Jeff Owens, for the excellent cooperation in resolving the use of money interest issues. Constructive input from roadshow attendees was also valuable.

Looking further out our priorities will be consolidating and strengthening our performance in the core functions we perform. Maintenance of business processes and computer systems that has had to be deferred will be the focus in 2000/2001.

Part of our consolidation efforts will be to update our database. For instance we are allocating resources to ensure that our address details are up to date.

Specific staff resources will be dedicated to this work.

We also intend to focus on providing accurate and consistent technical information and continued investment in staff training.

The review of the Agent Account Manager role will re-inforce the value of the relationship between Inland Revenue and tax agents. We have included more information about the review in this issue of *AGENTSanswers*.



Review of service provided to tax agents

Inland Revenue and the Institute of Chartered Accountants of New Zealand have been reviewing the Agent Account Manager (AAM) role since March 1999. Inland Revenue and the Institute conducted surveys of tax agents and AAMs to identify the issues with respect to the AAM role. The findings broadly were as follows:

- It should be easier for agents to contact their AAM by phone, with less use of voicemail, and have back-up staff available when the AAM cannot be contacted.
- AAMs need to be dedicated to that role, rather than combine it with other roles.
- AAMs should have a high level of technical skills and taxation knowledge.
- Inland Revenue should provide structured communications such as site visits, regular meetings, newsletters or other contact with agents.

As a result of that review Inland Revenue is exploring opportunities of improving service delivery to tax agents. Inland Revenue needs to know more about which tax agents contact them and why, so that the service can be more focused, with staff who have the appropriate level of skills. A project team has been established to discuss with tax agents what service is required from Inland Revenue and how it can be best delivered. The project is expected to take until December with any resulting changes in place in July 2001.

As part of the project, Inland Revenue will seek further input from tax agents and their representative groups, including the Institute of Chartered Accountants of New Zealand. The department will also research the service provided by other organisations with account managers.

After consultation is completed, the next step will be to analyse the information and come up with an improved service delivery, which will more closely meet the needs of tax agents and their clients. The information already gathered from the surveys and discussions with the Institute has been instrumental in establishing the scope of the project and will also be valuable in assisting with the design.

If any readers have views they wish to be considered, contact Mike Brown, by e-mail to mike.brown@ird.govt.nz or write to Mike Brown, Inland Revenue National Office P.O. Box 2198 Wellington.

AGENTSanswers questionnaire

A reminder following last month's insert in *AGENTSanswers* that we are seeking your views on providing copies of *AGENTSanswers* in an electronic format.

If you still wish to send us your comments, you can obtain a copy of our questionnaire from our web site at www.ird.govt.nz/business/tax_agents/index.htm

Election to be a provisional taxpayer

A reminder now that 2000 income tax returns are starting to be filed, taxpayers have the option to elect to be provisional taxpayers if their 2000 residual income tax is less than \$2,500, but they paid provisional tax in respect of the 2000 year.

A taxpayer may be able to elect to be a provisional taxpayer so they get the benefit of the credit interest on any overpaid tax.

An election must be made when first furnishing an income tax return for the 2000 year.

The criteria for election to be a provisional taxpayer are:

- on or before the third instalment date for the 2000 year, the taxpayer has paid provisional tax of \$2,500 or more; and
- on the day on which the first payment of provisional tax was made for the year, the taxpayer had a reasonable expectation of being a provisional taxpayer in that year, other than by an election.

Refer to section MB 2A of the Income Tax Act 1994 for further information.

If a taxpayer meets these criteria, a letter can be attached to the 2000 income tax return when it is filed, stating they wish to elect to be a provisional taxpayer for the 2000 year.

As there was some confusion regarding elections for the 1999 income year, where a taxpayer met the criteria to elect to be a provisional taxpayer for that year, but did not elect, consideration will be given to any entitlement to credit interest on request.

Computer prepared schedules (IR 3C) attached to IR 3 returns filed

A number of errors have been identified in the computer prepared schedules (IR3C) prepared by tax agents that have been received by Inland Revenue to date. These errors include salary, wage and withholding income not shown on the schedule or shown added together at either keypoint 11B or 12B.

When completing these schedules ensure that only salary, wages, benefits or New Zealand superannuation is shown at keypoint 11B and only **withholding income** is shown at keypoint 12B. The Summary of Earnings shows the income separated under two headings 'Income from Salary, Wages, Benefit or Taxable Pensions' and 'Withholding Payments'. Accurate schedules increases our ability to process them quickly.

A reminder also that two ACC premiums are payable when your client has received income from personal effort such as self employment, withholding income, overseas income, cash jobs, tips, payments made "under the table", bartering or an illegal enterprise. These two premiums are residual claims levy and earners' account levy and keypoints 37 to 37I must be completed to ensure the correct assessment of your client's ACC liability.

2001 provisional tax calculations

Enclosed with this issue of *AGENTSanswers* is a simple worksheet and an example that clarifies how 2001 provisional tax is calculated when a **taxpayer's taxable income is greater than \$60,000** and the 1999 return is used as the basis of the calculation.

Before the amount of 2001 provisional tax payable can be determined using the 1999 return it is necessary to re-calculate the residual income tax figure *as if the new rates had applied*. Provisional tax is 110 % of the recalculated 1999 Residual Income Tax.

Adjustments are required where:

- the total income exceeds \$60,000. The rates of tax and income thresholds were different in 1999 therefore a recalculation of the tax on taxable income at the new rates is required rather than simply add 6% to income over \$60,000.
- the following income types exceed \$60,000:
 - Gross earnings with PAYE deducted;
 - Interest with RWT deducted; or
 - Estate/Trust income with tax paid by trustees.

An additional credit of 6% on each type of income over \$60,000 must be added to the tax credits as returned.

- Rebates, tax credits (along with any uplifted tax credits) are included. These should be subtracted from the increased tax on taxable income to arrive at the recalculated residual income tax figure.

Linking taxpayers

A reminder that tax agents are permitted to link only those clients they have obtained a signed authority from.

The Privacy Act 1993 and the Tax Administration Act 1994 protect the confidentiality of taxpayer records by preventing Inland Revenue staff from providing information about a person or organisation to a tax agent unless they hold a signed authority for each tax type.

As newly linked clients are sent a letter by Inland Revenue to confirm linking details provided by the tax agent, any errors will be notified to the department at that stage.

Any breach of linking requirements is considered serious and tax agents could face court action by the taxpayer concerned if they use incorrect information when linking or if a signed authority is not held.



ir-File update

Inland Revenue is enhancing the ir-File service used by tax agents, payroll bureaus and employers to file employer monthly schedules electronically via the Internet. As part of this process we talked to payroll staff about the present service and the changes we were proposing. We want to ensure that we deliver what is wanted.

The first stage of the consultation was completed last month and stage two will start soon. During stage one, interviews were held with payroll staff employed by companies, agents and payroll bureaus. We interviewed both current users of ir-File and also payroll staff who have never seen ir-File to find out if the proposed changes would encourage them to become users of the enhanced ir-File service.

The payroll staff told us the registration process was drawn out and difficult, filing times and compliance costs for small and medium employers had not been reduced, and the time to answer the calls at our helpdesk was unacceptable.

Key changes the payroll staff interviewed would like from the enhanced service are compatibility with their existing systems and a quick connection to ir-File when it is time to file. They expect filing to be easy with simple navigation through the screens and for the screens to have a 'Windows' feel, with point-and-click operation and drop-down menus. The ability to print key screens to maintain audit paper trails was also seen as important.

They want to spend no more than 10 minutes to complete and file a schedule and say that good support from Inland Revenue is essential to ensure they use ir-File successfully. Being able to use e-mail to contact our helpline staff if a problem did not need to be resolved immediately would be seen as a positive addition to the service.

Shortly, the payroll staff interviewed for stage one along with some new recruits will use a trial service developed by Inland Revenue to send pre-prepared dummy schedules over a period of a few weeks. This will allow them to assess the enhancements to the service and test the proposed screens, the user instructional guide and help text.

Once the results of the trial have been analysed, any changes will be confirmed with groups of current users and prospective users before the pilot trial begins.

E-File efficiencies

The first target date for quarterly filing of E-Filed returns is 15 September.

There are significant increases in user sessions in the week before and in particular on the target date. This affects the response times of the E-File front-end processor which will slow down, and at times logging into E-File may not be immediately possible.

Confirmation reports usually received within 20 minutes may take up to two hours to be returned to you.

Heaviest daily volumes are between 9 am and 5 pm but information filed before or after these hours has quicker response times.

To avoid these delays consider E-Filing well before the target date. This provides a greater opportunity to identify any errors showing on the confirmation reports and to send in, file and count corrected returns before the target date.

The E-File helpdesk is available from 8:30 am to 4:30 pm each weekday, therefore assistance can only be provided, including unlocking your E-File account during these times. Contact (04) 498 9605, (04) 498 9600 or (04) 498 9601 for assistance.

Upcoming GST changes

On 16 May 2000 the Government introduced the Taxation (Annual rates, GST and miscellaneous provisions) Bill. The Bill contains a number of policy changes and remedial amendments including significant changes that affect the Goods and Services Tax Act 1985. The Bill is yet to be passed and is subject to change and the following is a brief overview of the proposed changes.

The main proposed GST changes will affect:

- the second-hand goods input tax credit;
- the valuation rules for deregistration;
- deferred settlement arrangements;
- the general anti-avoidance provision; and
- GST adjustments for changes in use.

These changes are pending submissions. They are expected to take effect from the date the legislation is enacted, around mid October 2000.

An important amendment (if passed) to limit the input tax credit available for changes from non-taxable to taxable use will apply on and after 1 October 1986 unless the Commissioner has agreed, in writing, to the input tax credit claim before 16 May 2000.

Changes that are proposed to be effective from 1 October 2000 have also been made to the following thresholds in the Goods and Services Tax Act:

- the registration threshold will increase from \$30,000 to \$40,000;
- the payments basis threshold will increase from \$1 million to \$1.3 million; and
- the abbreviated tax invoice threshold will increase from \$200 to \$1,000.

For more information about these GST changes or other aspects of the Bill refer to the *Commentary on the Bill – Taxation (Annual Rates, GST and Miscellaneous Provisions)* Bill available from Bennetts bookshop or on Inland Revenue's web site at

<http://pad/external/publications/files/html/gstreview2.html>

Deduction of withholding tax

An item regarding the deduction of withholding tax from commissions paid to independent financial advisors in relation to the sale of products provided by a funds management company has been included in the July issue of the *Tax Information Bulletin*. You can see the item on Inland Revenue's web site at http://wcpp211/technicalstand/QWBA/commissions_paid_to_independent_.html

Recently updated publications

The following are some of the publications that have been updated by Inland Revenue recently. They are available from Inland Revenue's web site www.ird.govt.nz. Most can also be ordered through the department's automated telephone service INFOexpress or StationeryXpress, our internet-based stationery ordering service.

2000/2001 extension of time agreement (IR 9XA)

The agreement is available on Inland Revenue's web site and on the Institute of Chartered Accountants of New Zealand (ICANZ) web site <http://icanz.co.nz/tax>, via the link 'other'. This publication is not available in paper copy.

It contains details of the arrangements and procedures in the agreement, which is prepared annually by Inland Revenue in consultation with the Institute of Chartered Accountants of New Zealand (ICANZ).

If you disagree with an assessment (IR 778)

This brochure summarises what to do if you or your client disagrees with an assessment. It shows taxpayers how to proceed if considering disputing an assessment. Full details of the process are provided in *Disputing an Assessment IR 776* (previously an IR210J).

Conversion of overseas income to NZ currency (IR 270)

This form contains a table that helps convert any overseas investment income to New Zealand currency when completing a New Zealand tax return for the tax year ended 31 March 2000. Alternatively the applicable exchange rate available at any trading bank can be used.

Approved Issuer Levy (IR 291A)

This booklet explains how to pay interest to overseas lenders without having to deduct non-resident withholding tax. It explains the requirements for approved issuer status, registration of securities and payment of approved issuer levy.

Request for a Certificate of Exemption from withholding tax (IR 332)

This form is used for requesting a certificate of exemption from withholding tax.

Payments and gifts in the Maori community (IR 278)

This booklet provides information on the tax treatment of payments or gifts in the Maori community.

Disputing a notice of proposed adjustment (IR 777)

This booklet – previously called the IR 210K – provides information on how to resolve a dispute with Inland Revenue.

Summary of earnings

Some tax agents are writing to request Summaries of Earnings. An easier and faster way is to use the tax agent INFOexpress line. Full instructions on how to request a Summary of Earnings through INFOexpress are on the insert sent with the June 2000 *AGENTSanswers* and in the *INFOexpress pamphlet (IR 355)* included with the *Are you connected? (IR 780)* pack issued last month.

Some requests for Summary of Earnings have also been received for clients who are not linked to the tax agent's client list. Please remember to link any new clients to your agency list by phoning the tax agents' toll free number, using INFOexpress or E-File TAMS, or by completing the *Client linking/delinking form (IR 795)*. You need to hold signed authority from your client to access their records before requesting new client linking.

If you disagree with any information shown on the Summary of Earnings, or if any details are missing, make the changes on the form. Transfer the adjusted figures to the tax return and send the Summary of Earnings to Inland Revenue with the completed tax return. You do not need to receive an amended Summary of Earnings before you file the tax return.

Note again that the PAYE figure combines both PAYE and ACC levy. When completing a return, ACC levy must be calculated separately using the instructions in the IR3 guide.

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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Email: agents.answers@ird.govt.nz

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

Worksheet for 2001 provisional tax based on 1999 RIT where taxable income exceeds \$60,000

1999 taxable income	\$		
Less \$60,000	\$ 60,000	Tax on \$60,000 @ 2001 rates	\$ 14,670
Excess	\$	Tax on excess @ 39 % =	
		Interim Tax Calculation	
Less tax paid			
<i>Non adjusted credits(as returned)</i>			
KP 11A Tax on superannuation	\$		
KP 11C Tax on veteran's pension	\$		
KP 14 Dividend imputation	\$		
KP 14A Dividend RWT	\$		
KP 16A Overseas tax	\$		
KP 17A Partnership tax credits	\$		
Total non-adjusted credits	\$	Total non-adjusted credits	\$
* Adjusted credits(as returned)			
KP 12A Total tax deductions	\$		
KP 13A Interest RWT	\$		
KP 15A Trustee credits	\$		
Total	\$		
*Plus adjustments	\$	= Adjusted credits uplifted	\$
(refer to Adjusted tax credits field below)		Total recalculated deductions	\$
*Adjusted tax credits field			
Enter income where over \$60,000			
KP 12B Total gross earnings (less Withholding Tax income)	\$	Less \$60,000 =	\$
KP 13B Total gross interest	\$	Less \$60,000 =	\$
KP 15B Total estate or trust Income	\$	Less \$60,000 =	\$
		Total	\$
		Multiply by 6 % – Enter in	\$
		*plus adjustments	
Interim tax calculation	\$		
Less total recalculated deductions	\$		
Equals recalculated RIT for provisional Tax calculation	\$		
Multiply by 110 % to get interim 2001 provisional tax	\$		

Note: Where a taxpayer qualified for any rebates in their 1999 IR 3 return these would also be included in any residual income tax calculation.



Example of IR3

2000 return filed after the first but before the second provisional tax instalment date.

Income per 1999 return

Interest	\$ 61,000.00
Dividends	\$ 900.00
Self Employed income	<u>\$ 10,100.00</u>
Taxable income 1999 year	\$ 72,000.00

Tax calculation – as returned 1999 rates

\$0 – \$34,200 @ 20% =	\$ 6,840.00
\$34,201 – \$38,000 @ 22.875% =	\$ 869.25
\$38,001 – \$72,000 @ 33% =	<u>\$ 11,220.00</u>
	\$ 18,929.25

Less tax paid (as returned)

KP11A (tax on super)	\$ 0.00
KP 11C (tax on vet pen)	\$ 0.00
KP 12A (PAYE/WT)	\$ 0.00
KP 13A (Interest RWT)	\$ 10,632.25
KP 14 (Dividends Imp)	\$ 0.00
KP 14A (Dividends RWT)	\$ 297.00
KP 15A (Trustee Credits)	\$ 0.00
KP16A (Overseas tax)	\$ 0.00
KP 17A (P/Ship tax)	\$ 0.00
	<u>\$ 10,929.25</u>
RIT Assessment 1999	<u>\$ 8,000.00</u>

Tax calculation – recalculated 2001 rates

\$0 – \$38,000 @ 19.5% =	\$ 7,410.00
\$38,001 – \$60,000 @ 33% =	\$ 7,260.00
\$60,001 – \$72,000 @ 39% =	<u>\$ 4,680.00</u>
	\$ 19,350.00

Less tax paid (recalculated)

KP11A (tax on super)	\$ 0.00
KP 11C (tax on vet pen)	\$ 0.00
KP 12A (PAYE/WT)*	\$ 0.00
KP 13A (Interest RWT)*	\$ 10,692.25
KP 14 (Dividends Imp)	\$ 0.00
KP 14A (Dividends RWT)	\$ 297.00
KP 15A (Trustee Credits)*	\$ 0.00
KP16A (Overseas tax)	\$ 0.00
KP 17A (P/Ship tax)	\$ 0.00
	<u>\$ 10,989.25</u>
Interim tax calculation	<u>\$ 8,360.75</u>
Provisional tax (@ 110% (rounded to whole \$))	\$ 9,196.00

Note: *KPs 12A, 13A and 15A will be adjusted to include the 6% tax credit increase where the associated income exceeds \$60,000.00.

For the example above only interest income exceeded \$60,000.00 therefore the recalculated credit using the new tax rates is:

\$ 61,000.00	
less \$ 60,000.00	
equals \$ 1,000.00 @ 6% =	\$ 60.00
plus RWT deducted as returned	<u>\$ 10,632.25</u>
	<u>\$ 10,692.25</u>

Instalments in tax records for 2001:

07 July 2000 (\$9196.00 ÷ 3)	\$ 3,065.00
07 Nov 2000 (\$7420.00 – \$3065.00)	\$ 4,355.00
07 Mar 2001 (11130.00 ÷ 3)	\$ 3,710.00

In this example the 2000 return is filed after the first instalment but before the second, in line with existing processes:

The first instalment is based on one third of the provisional tax calculated per the 1999 return. However if the 2001 provisional tax calculated from the 2000 return is less than the 1999 recalculated residual tax (plus uplift) then the 2001 provisional assessment would be used. (This is called the “lesser of” rule).

The second instalment is based on two thirds of the provisional tax calculated per the 2000 return less any payment made at 7 July.