



2005 annual returns

We will send you the 2005 annual returns for your clients on the following dates:

29 March to 4 April 2005

Rebate claim forms (IR 526)

1 April to 19 April 2005

Company income tax returns (IR 4)

Estate or trust income tax returns (IR 6)

Partnership income tax returns (IR 7)

Māori authority income tax returns (IR 8)

Club or society income tax returns (IR 9)

Registered superannuation fund income tax returns (IR 44)

29 March to 1 April 2005

Resident withholding tax on interest reconciliation statements (IR 15S)

Non-resident withholding tax reconciliation statements (IR 67S)

26 April 2005

Family assistance end-of-year statements for IR 3 filers (IR 541)

18 May to 24 May 2005

Summary of earnings (IR 544) for those clients who are required to file an income tax return.

14 April to 5 May 2005

Individual tax returns for use by tax agents (IR 3A)

Non-resident individual taxpayer income tax returns (IR 3NR)

Individual tax returns (IR 3) will also be issued during this time.

2 June to 30 June 2005

Personal tax summaries (IR 537 and IR 538)

Imputation account balances

With 31 March 2005 approaching, now is a good time to check company imputation account balances.

If a company's imputation credit account balance is in debit after 31 March they will be required to pay further income tax equal to the debit balance and will also be charged imputation penalty tax. The penalty tax can be avoided by paying sufficient income tax by 31 March, to clear any imputation account debit balance.

Working for Families

Working for Families is a package being delivered jointly by Inland Revenue and the Ministry for Social Development (Work and Income).

When fully implemented in 2007–08, the package will provide:

- extra assistance to almost 300,000 working families with dependent children (including almost 50,000 newly eligible families)
- more help with childcare costs to around 28,000 families
- more help with accommodation costs to almost 100,000 households
- help with accommodation costs to around 15,000 newly eligible households.

Family assistance enhancements

The *Working for Families* package will put more money in the pockets of many low and middle-income families through increased family assistance payments.

From 1 April 2005:

- Almost all families with incomes below \$45,000 will benefit, along with many with incomes between \$45,000 and \$70,000 per year.
- The maximum rate of Family Support will increase by \$25 a week for the first child and \$15 a week for subsequent children.
- A weekly payment option for family assistance will be available.

Remember:

- Clients already receiving family assistance don't need to do anything to receive the increase. Their payments will automatically increase from 1 April 2005.
- We want to ensure customers receive financial support when they need it, rather than waiting until the end of the year and possibly incurring hardship in the meantime.
- Clients can also alternate between the different payment options ie weekly, fortnightly or as a lump sum.

We encourage you to work with your clients to determine the entitlement option that matches their financial situation.

More information about the *Working for Families* initiatives can be found at www.workingforfamilies.govt.nz



A new image – same return

You will notice that your *Employer monthly schedule (IR 348)* (EMS) looks a bit different. We've made some changes to the EMS so we can use imaging technology, which will speed up the processing of your EMS.

There is no change to the information you need to provide.

What's changed on the EMS?

- We have replaced the \$ value panels that you fill in with individual character boxes. Please print clearly and only enter one character in each box.
- The number of lines on the IR 348 has been reduced from seven to six. This may mean that you get an additional page (an IR 349) to complete because there are fewer lines available on the IR 348.
- The "Tick if lump sum payments made and taxed at lowest rate" column has been moved to above the "PAYE and/or withholding tax deductions" column.
- Black lines have been inserted around each employee's details to clearly separate them.

We have also lightened the background colour, as requested by a number of you. This will improve the photocopy quality for those of you who want to keep EMS photocopies.

Taxing Māori authorities

Where your client is a Māori authority for the 2003–04 income year, you have until 31 March 2005 to register them as Māori authority under the new tax rules.

If no election has been made by 1 April, your client will no longer be considered a Māori authority and may be treated as a company or trust for tax purposes.

To elect a client as a Māori authority, please complete the *Māori Authority election (IR 483)* form and send it to PO Box 1454, Hamilton.

Clients who are unable to file their return by 31 March

If you haven't done so already, now is the time to contact your agent account manager about any clients who you think will be unable to file their income tax returns by 31 March because of circumstances outside their control. In these cases we can defer policing action for their returns by recording a D status for the client.

Circumstances where a client may qualify for a D status include:

- difficult personal circumstances involving the client (for example, serious illness)
- unavoidable difficulty or delays in obtaining third party information
- pending legal proceedings
- other non-personal circumstances beyond the client's control where the client's records are damaged or destroyed (for example, major computer systems failure, major fire or flood).

The above criteria will also be taken into account if they affect a related entity and you expect flow-on effects.

You should contact your agent account manager or corporates account manager if you have clients whose circumstances you feel may qualify them for D status.

Clients who do not file their 2004 income tax return by 31 March 2005 and who are charged a late filing penalty will lose their extension of time (EOT) for their 2005 return. In these cases they will need to file both their 2004 and 2005 income tax returns by 7 July 2005 to have their EOT reinstated for 2006.

Inland Revenue's strategy for tax agents – next steps

In the September issue of *AGENTSanswers* we provided Inland Revenue's Strategy for tax agents. The strategy has two parts; the first outlines the relationship we want to have with you in the future and the second part lists a set of guiding principles.

We are now focusing on making this strategy a reality by identifying short, mid and long-term initiatives to be implemented in the next five years. These initiatives will involve changing our compliance and service processes to reduce administrative and compliance costs while also increasing the take-up rate of electronic services.

You are welcome to provide ideas for potential initiatives by either sending an email to tax.agent@ird.govt.nz or talking to your agent account manager.



Early payment discount

An amendment in the Taxation (Venture Capital and Miscellaneous Provisions) Act 2004 provides a discount of tax to encourage individuals who commence receiving self-employed or partnership income to voluntarily pay tax in the year before they become liable to pay provisional tax. This will help relieve the financial strain faced by these taxpayers when they commence paying provisional tax and have two years' worth of tax payments to make, namely income tax for the prior year and provisional tax for the current year. The amendment applies from the income year commencing 1 April 2005.

Who qualifies for the discount?

To qualify, the taxpayer has to:

- be either self-employed or a partner in a partnership
- derive gross income predominantly from a business (not interest, dividends, royalties, rents or beneficiary income)
- not be required to pay provisional tax in the income year
- make a voluntary payment of income tax before the end of the income year (31 March for a March balance date taxpayer)
- elect to receive the discount within the timeframe for filing a return of income for that income year
- not been liable to pay provisional tax in the previous four years, and
- never received an early payment discount unless they come within the four-year rule outlined below.

Once the taxpayer has made a voluntary payment they must keep a credit balance in their income tax account until the terminal tax date for the income year. The credit balance must be greater than, or equal to the lesser of the following:

- the amount paid as voluntary payments before the end of the income year, or
- the amount of terminal tax for the income year.

Taxpayers who are already provisional tax payers before they start to receive self-employed or partnership income will not be entitled to the discount as they do not face two years' tax payments in their second year in business and are already aware of the need to make provisional tax payments.

The discount is not available where a taxpayer only ceases paying provisional tax. For example, a business that is in a loss situation would not qualify for the discount.

Four-year rule

There is a concession to enable a taxpayer to claim the discount again where they have ceased deriving partnership and self-employed income for a period of four years and after that period commence a new business. This is because if the taxpayer has been out of business for some time (four years) they may be less aware of the problem where two year's worth of tax will become due in their second year of business.

Election

The individual will be able to choose whether to receive the discount in their first year of business or in a subsequent year, but they must claim the discount prior to the year in which they commence paying provisional tax, when qualification ceases.

A tick box will be added to the 2006 IR 3 return to enable taxpayers who qualify for the discount to make an election. Taxpayers who omit to claim the discount in their tax return will be able to apply to Inland Revenue to amend their return and claim the discount, but must be able to do so before the last date for filing the return for the income year in which the discount is claimed.

Calculation

The discount is calculated on the lesser of:

- The amount of any voluntary income tax payments made for the year
- 105% of the residual income tax for the income year.

The current discount rate is 6.7%.

Example

A taxpayer makes voluntary payments of \$5,000 for the year ended 31 March 2006.

Their residual income tax for 2006 is \$8,000.

The discount is calculated on \$5,000 being the lesser of the voluntary payments made and 105% of the residual income tax amount (\$8,400).

The value of the discount is \$335 being 6.7% of \$5,000.

Further information

More information about the early payment discount, including examples of its application, can be found in *Tax Information Bulletin (TIB)* Vol 17, No 1 (February 2005) and is also available on our website at www.ird.govt.nz/library/newsletters/tib/

Standard Practice Statement SPS 05/01 – Late filing penalty

The above standard practice statement (SPS) sets out the Commissioner's practice in relation to the imposition of the late filing penalty under section 139A of the Tax Administration Act 1994.

This replaces *SPS RDC 5 – Late filing penalty*, and can be found in *Tax Information Bulletin (TIB)* Vol 17, No 1 (February 2005) and is also available on our website at www.ird.govt.nz/library/newsletters/tib/



Taxpayer self-assessment of GST

New legislation formally recognises that taxpayers have a responsibility to self-assess their GST liability as part of meeting their return filing obligations. This change applies to GST return periods from 1 April 2005 and brings the GST legislation in line with income tax legislation. Previously, the legislation indicated that the Commissioner of Inland Revenue performed all assessment functions.

This change is to acknowledge and formalise that self-assessment adds to and enhances other improvements towards the simplification of tax administration by:

- making responsibility clearer, and
- removing ambiguity.

Implementing the change

This change affects GST only. No significant policy changes are required as the legislation has been aligned more closely with current practice. Also, there are no significant changes required to returns or assessment procedures.

The wording on the declaration on GST returns for periods starting from 1 April 2005 will change to reflect that the return is the taxpayer's assessment.

Change to notices

For GST return periods starting from 1 April 2005, if we are satisfied with the assessment as filed, a return acknowledgment form will be issued. If we are not satisfied with the return as filed or amend the assessment, a notice of assessment will be issued.

More information

More information about self-assessment of GST, can be found in *Tax Information Bulletin (TIB)* Vol 17, No 1 (February 2005) also available on our website at www.ird.govt.nz/library/newsletters/tib/

Use-of-money interest rates to rise

To align with market interest rates, the interest rates on any unpaid and overpaid tax will increase from 8 March 2005.

The new interest rates are:

- 13.08% for any unpaid tax, and
- 5.71% for any overpaid tax.

Linking and delinking clients during April

For the last two years any requests received by phone or mail to update your client list to link or delink clients for two to three weeks beginning from 1 April were not able to be processed immediately. This was to ensure that the filing statistics as at 31 March were accurate. Any linking or delinking requests received during this period were held and updated once the system was available.

This year we have improved our processes which means that on an individual client basis we will be able to action your requests for linking and delinking. However, we will be unable to transfer bulk clients between agents between 1 April and 17 April 2005.

You will be able to link and delink clients through INFOexpress during these two weeks (only clients that are not linked to another tax agent or agency will be updated immediately).

Requesting any bulk transfer of your clients list prior to 31 March will avoid any delays in keeping your list current. Normal services will resume from 18 April 2005.

Please note:

- Letters issued to client as a result of linking or delinking will not be processed until 18 April 2005.
- The AMBR1006 (weekly activity report) will not be processed on 8 and 15 April 2005. It will resume on 22 April 2005. This report will contain all clients linked and delinked between 1 April and 22 April 2005.

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:

The Editor
AGENTSanswers
Inland Revenue
PO Box 2198
Wellington

Email: agents.answers@ird.govt.nz

AGENTSanswers is also on our website:

www.ird.govt.nz/library/newsletters/aanswers/