

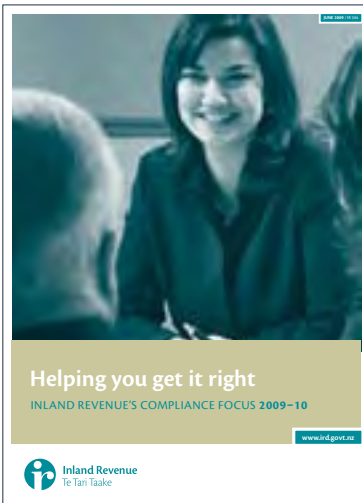
LARGE ENTERPRISES UPDATE

Inland Revenue's corporate update

Issue No 8 • August 2009 • IR 785

Our compliance plans for the coming year

In June 2009 we published *Helping you get it right: Inland Revenue's compliance focus 2009–10*. This document identifies tax and social support issues that pose a risk to the government's revenue base, and sets out how we propose to address them.



Every year we address risk areas by undertaking a mix of assistance, education and enforcement activities. This year we're giving you a heads-up about what we're doing.

The compliance document has sections for different community and business segments and one for large enterprises.

We hope that by being open and transparent, businesses and people will have a greater understanding of the areas we are targeting. It will help them, and their advisors, manage their tax affairs more effectively—resulting in lasting improvements in compliance.

What's in store for you?

You tell us you want certainty so you can make the right business decisions. Certainty can be provided through personalised relationships and timely and effective information and services.

During 2009–10 we'll be working to develop and foster relationships based on two-way transparency and early disclosure of tax issues. This approach is intended to result in mutual benefits—including more certainty upfront and much less investigation activity.

We'll also be reviewing the timeliness of our services and activities. In particular, the rulings system and the time it takes to complete an investigation.

Issues we'll be targeting include transfer pricing, aggressive tax planning, executive remuneration and mergers and acquisitions.

Why not go to our website and get the full story? You'll find *Helping you get it right: Inland Revenue's compliance focus 2009–10* at www.ird.govt.nz (keyword: reports).

There's a new look to our newsletters

You'll see this issue of *Large Enterprises Update* has a fresh new look. We've redesigned all our newsletters to give them a consistent look and feel, making it easy for you to recognise them.

Each newsletter has its own distinguishing colour, but similar layouts will make it quick and easy for you to find the information you need.

This is the first step in a move to bring you tax information in real time to suit your needs. Other options will follow allowing you to customise your tax news.



Inland Revenue
Te Tari Taake

Welcome to Large Enterprises Update

In this issue: Our compliance plans, new look to newsletters, secure online services, tax help anytime online, *Business Tax Update* newsletter, binding rulings, donation thresholds, finance questionnaires, filing frequencies, cheque duty refunds, technical tax information, R&D tax credit.

If you have any suggestions for topics you'd like covered in this newsletter, email us at

LargeEnterprises.Update@ird.govt.nz



REMINDERS

Use-of-money interest rates:

Use-of-money interest rates on unpaid and overpaid tax have been lowered.

From 28 June 2009, the rate on unpaid tax was lowered from 9.73% to 8.91%, while the rate for overpaid tax was lowered from 4.23% to 1.82%.

Ever wondered how the rates are set? A "Special report on use-of-money interest rates and underpayment rate method changes" on our Policy Advice Division's website at www.taxpolicy.ird.govt.nz (under "Publications") explains both the policy background of the rates and the formulas used for setting them.

FBT rate for low-interest loans:

From 1 July 2009, the prescribed rate used to calculate FBT on low-interest employment-related loans dropped from 8.05% to 6.41%.

Our secure online services

Do you want to view your tax account details, period by period, in real time without having to look at paper statements of accounts?

On our website www.ird.govt.nz you can go to "Secure online services" to use:

- **Look at account information** to view tax account details
- **ir-File** to file employer deduction forms (EDF) and employer monthly schedules (EMS).

Selecting an account owner

When registering for online services, select one of the following people (or their nominated person) to be the account owner:

- director, CEO, CFO
- taxation manager
- company secretary
- financial controller.

The account owner is responsible for the security and use of online services by other users.

The account owner should go to www.ird.govt.nz "Secure online services", "Demonstrations", "Manage account access (MAA)" and:

1. review Lesson 1: Introduction and registering for an account
2. register
3. activate their online services account by phoning Large Enterprises on 0800 443 773, Monday to Friday 8 am to 4.30 pm. You'll need to tell us your

userID, and answer some questions to validate who you are.

Companies with multiple branches under one IRD number, and group companies, must register for each individual IRD number.

The account owner can then set up administrator(s) and users (see Lesson 2: Create new users) using MAA:

- An **administrator** has default access to all the online services and MAA features. Account administrator(s) are trusted by the account owner to manage the large enterprise's ongoing access, eg a payroll supervisor.
- A **user's** access is set by the account owner or administrator, eg a payroll clerk may be given ir-File access only, or an accountant may be given "Look at account information" only.

"Look at account information" gives access to **all** tax account details. If you wish to limit access, eg for a payroll clerk to be able to look at the employer taxes only, then you must create internal controls, eg give them a letter limiting their access.

User roles and access can be changed later (see Lesson 3: View and edit user details).

If you're not using ir-File then you may want to consider it. To see how the ir-File service works, try the interactive online demonstration at www.ird.govt.nz/help/demo

If you have any queries, please call Large Enterprises on 0800 443 773.

Getting tax help any time online

Like many government agencies, we are improving the services available on our website. It makes sense—customers can get tax help at any time from anywhere.

Customers tell us they want to receive less printed material and have more options to deal with us electronically. So we've stopped automatically mailing some of our tax guides to our customers where the information is already available on our website. Guides we no longer mail out include:

- *IR 260 Depreciation—a guide for businesses*
- *IR 289 Provisional tax guide*
- *IR 320 Smart business guide*
- *IR 335 Employer's guide*
- *IR 340 Weekly and fortnightly PAYE deduction tables*
- *IR 341 Four weekly and monthly PAYE deduction tables*
- *IR 375 GST guide*
- *IR 409 FBT guide.*

You can read everything you need to know about business and tax at www.ird.govt.nz "Businesses & employers". While you're there, check out our **Tool for business** (keywords: tool business).

Business Tax Update newsletter

September kicks off the first issue of a new newsletter just for businesses—*Business Tax Update*. We're no longer publishing *Payroll News* and *GST News*, instead we've combined these two newsletters into one monthly newsletter that will bring all your business tax updates straight to you.

If you, your staff or your clients want to receive GST updates, subscribe now to *Business Tax Update*. If you're already a *Payroll News* subscriber you don't need to do anything, your subscription will carry over.

Subscribe to our online newsletters

You can find all our newsletters at www.ird.govt.nz "Newsletters and bulletins". To subscribe to receive an email alert when each issue is published, go to www.ird.govt.nz/subscribe

Quicker delivery of binding rulings

The recently released *Helping you get it right: Inland Revenue's compliance focus 2009–10* outlined various areas for us to focus on. One of these under the theme of helping people and business to comply was: "We will be improving the timeliness of our binding ruling service to provide certainty on specific arrangements".

We've been working to improve delivery of our binding rulings over the past 12 months. Some internal process changes have shown marked improvements in our performance from previous years.

Performance standard	Target	2007 year end	2008 year end	2009 year end
Timeliness – high complexity	80% completed within 5 months after allocation	0%	62.5%	71%
Timeliness – medium complexity	80% completed within 12 weeks after allocation	59%	70.6%	86%
Timeliness – low complexity	80% completed within 6 weeks after allocation	22%	100%	100%

However, the full benefit of our changes is best reflected in the rulings completed for post-January 2009 applications where the average delivery time was nine weeks. The nine weeks is from the date of acceptance of the fee estimate, but it is pleasing that from 1 January there have been no delays in allocating rulings to our staff to commence work on them.

We are continuing to review how we complete our binding rulings and in particular how we can best use a wider pool of resources to complete binding rulings within three months.

If you'd like to know more about the rulings process, please contact your account manager or phone 0800 443 773.

Finance questionnaires

There was good feedback from the finance questionnaires we issued in May. We received 100 responses from the 107 questionnaires issued, which is a very positive response rate.

Several taxpayers voluntarily disclosed that they were not correctly meeting their NRWT or AIL obligations on funding structures. These taxpayers have now forwarded the tax as well as use-of-money interest. This is very pleasing for us and taxpayers who can revisit their compliance without being investigated.

New donation thresholds

Donation thresholds have increased from the 2008–09 income year.

Companies (includes certain societies)

Companies are able to claim a deduction for cash donations they make to donee organisations, up to the level of their net income (calculated before deducting the donation amount). Previously, the maximum they could deduct was limited to 5% of their net income.

Close companies (companies with five or fewer shareholders) which aren't listed on any recognised exchange will also be able to claim a donation deduction.

A new donation deduction key point has been inserted into the 2009 IR 4 and IR 9 income tax returns.

Māori authorities

Māori authorities are able to claim a deduction for cash donations they make to donee organisations and Māori associations, up to the level of their net income. Like companies, the maximum they could deduct previously was 5%.

Individuals

Individuals can claim a tax credit (formerly rebate) of one-third of qualifying cash donations they make to donee organisations, up to the level of their taxable income. Previously, no matter how much they donated, the maximum amount they could base their claim on, was the lesser of \$1,890 or their taxable income.

Example

Kath donates \$10,000 to donee organisations during the year ended 31 March 2009. Her taxable income for that year is \$40,000.

Previously, Kath would have only been entitled to a claim of \$630 (one-third of \$1,890).

With the increased threshold, Kath will be able to claim \$3,333 (one-third of \$10,000).

For more details see www.ird.govt.nz (keyword: donations) "Greater tax incentives for charitable donations".

Investigation cases have started as a result of some responses relating to tax advantages obtained using specific funding arrangements. We're now consulting with these taxpayers.

Over the next few months we'll respond to all taxpayers who completed finance questionnaires advising them whether any further enquiries will be made. We'll follow up with taxpayers who haven't responded and further finance questionnaires will be issued shortly.

Filing frequency changes for PAYE/FBT

The Government recently announced a tax assistance package to help employers economically and compliance-wise. Employers should consider the following to see if they qualify for monthly PAYE or yearly FBT filing.

If two or more companies were a group of companies (as defined by section IC 3(1) of the Income Tax Act 2007) at a time in the relevant tax year, they are treated as a single employer.

Therefore, from 1 April 2009, if the prior tax year total PAYE (including employer's superannuation contributions payable) was \$500,000 or more across the company (for those with multiple branches) or companies (for those within groups of companies), PAYE must be accounted for twice each month (due on the 20th of the month and the 5th of the following month).

Cheque duty refunds

If you've paid cheque duty on cheques that become unusable or cancelled before they're used, you may be entitled to a refund of 5c per cheque. Refunds can only be applied for within eight years of the date of payment of the cheque duty.

You must apply in writing for a refund to the Duties Unit stating the:

- licence number (on the left hand side of the cheque)
- contact name and phone number
- number of cheques included in the refund
- total value of duty paid on the cheques
- sequence number of the cheques.

Also include a declaration signed by an authorised person certifying that all cheques have been destroyed and a deposit slip for direct credit of the refund if not already supplied.

Our guide *Cheque duty (IR 192)* is available at www.ird.govt.nz "Forms and guides". Please use the contact details below for written queries (these have changed since the guide was written):

The Duties Unit
Inland Revenue Department
PO Box 2871
Christchurch 8140
New Zealand

Phone: 0800 105 654

Fax: 03 968 4600

International/or cell phone calls: 64 4 978 0779

Correction to IR 4 Question 21

Question 21 of the companies income tax return asks if the company received any other income, and if not, to go to Question 27. This should have said "go to Question **22**". We have corrected the online version of the return.

PAYE must still be filed electronically by ir-File, unless the Commissioner authorises the employers to furnish the employer monthly schedule in other non-electronic forms where the total PAYE is \$100,000 or more.

Also, from 1 April 2009, if an employer provides a fringe benefit to an employee who is not a shareholder-employee in a tax year, and the prior tax year total PAYE (including employer's superannuation contributions payable) was \$500,000 or more across the company (for those with multiple branches) or companies (for those within groups of companies), FBT must be filed quarterly on an IR 420.

If you're still unsure of your legal obligations please phone your account manager or 0800 443 773. When calling please have the details of the company structure or ownership and your IRD number.

Need more technical tax information?

Have you visited the technical tax area of our website? This is where you'll find copies of the *Tax Information Bulletin*, determinations, interpretation guidelines and statements, operational statements, product and public rulings, standard practice statements, questions we've been asked, case notes on legal decisions and revenue alerts.

This is a good source of information on:

- various tax issues
- answers to specific tax issues that may be of general interest to taxpayers
- the position we may have taken
- our view on the law
- how the law applies to a particular "product"
- how the law applies to you and specific types of arrangements
- how we will exercise a statutory discretion or deal with particular issues arising out of the administration of the Inland Revenue Acts
- brief notes on decisions made by the courts
- changes to legislation
- significant and/or emerging tax planning issues or arrangements that we may have concerns with.

To access this information go to www.ird.govt.nz/technical-tax/

Using the 38% RWT rate

If you pay RWT (resident withholding tax) on interest and you choose to deduct it at 38% instead of 39%, you may also use 38% as the no notification rate if the person or organisation does not provide you with an IRD number.

We have amended the online version of the *Resident withholding tax (RWT) on interest—payer's guide (IR 283)* to reflect this.

R&D tax credit filing available online

An R&D (return and development) tax credit is available for eligible expenditure on eligible R&D activities carried out in the 2008–09 income year. To make a claim for an R&D tax credit, a detailed statement must be completed online, and an income tax return filed with the credit claimed.

Some claims received show it might not be clear what information is required on the detail statement. Comprehensive guidelines about the R&D tax credit are given at www.ird.govt.nz/rd-tax-credit/

We'll be able to process your claim more quickly if full details can be given for the following.

What eligible R&D activities were undertaken to meet this objective?

Describe the research plan, outline, methodology or framework you used to develop your research, and clearly identify the R&D activities conducted within the 2008–09 income year.

Important: When you describe the R&D activities, include details that support the eligibility of your claim. Include clear descriptions of your hypothesis (what you're trying to prove with your research; this is different to the intended research outcome), and any related experimentation conducted in the 2008–09 income year.

Find out more at www.ird.govt.nz/rd-tax-credit/ "Find out which R&D activities are eligible".

What is the scientific or technological uncertainty that the eligible R&D seeks to resolve?

What is the problem that no-one knows how to solve, on a worldwide basis (the scientific and technological uncertainty)? If others have solved the problem but the answer isn't accessible you can still claim.

Provide information on the background research you've done on the problem and why you're confident it qualifies as a scientific or technological uncertainty.

Note: Scientific or technological uncertainty is when knowledge of whether something is scientifically or technologically possible, or of how to achieve it in practice, is not publicly available or deducible by a competent professional working in the field.

Find out more at www.ird.govt.nz/rd-tax-credit/ "R&D activities aimed at resolving scientific or technological uncertainty".

What appreciable element of novelty does the eligible R&D contain?

What is the new thinking or original idea (the appreciably novel element) in your R&D? How have you developed the technological frontier or used the technology in a way that is outside its previously known capabilities?

Provide information on the background research you've done on the novel element and what differentiates your proposal from similar products, processes or knowledge already available worldwide.

Find out more at www.ird.govt.nz/rd-tax-credit/ "R&D activities involving an appreciable element of novelty".

Research contracts

Enter the amount of eligible expenditure on contracts for eligible R&D activities with research providers (including listed research providers) on this project.

If you're not claiming any expenditure in this section, enter "0" in this field.

Important: Remember to identify which eligible R&D activities were contracted in the "Activities details" section.

Find out more at www.ird.govt.nz/rd-tax-credit/ "Find out what expenditure is eligible and what is excluded".

Self-assess your eligibility

The R&D tax credit is based on the principle of self-assessment. This means claimants are responsible for applying the eligibility criteria to determine whether or not they are eligible to claim the credit. To claim an R&D tax credit, customers must enter the amount they wish to claim on their tax return, and complete and file a detailed statement giving more detail. The detailed statement must be filed within 30 days of the date the tax return is due.

Find out more about the eligibility criteria at www.ird.govt.nz (keywords: glossary R&D).

If you require assistance or want to discuss how we might approach your claim, you can find more information at www.ird.govt.nz/rd-tax-credit/ or call Greg Crow, R&D Tax credit, Large Enterprises 04 890 3045 or R&D Tax credit on 0800 399 001.

