



IR 6 returns and allocation of RWT* credits

There have been several cases recently of agents completing the *Estate of beneficiary trust details (IR 6B)* incorrectly. The two key corrections are that:

- losses and expenses shouldn't be allocated to beneficiaries.
- RWT/imputation credits have to be allocated in the same proportion as the gross.

Example

During the 2008 tax year, the ABC Trust earned gross income of \$80,000 and allocated \$20,000 to its beneficiaries. Here's how the figures appeared in the trust's 2008 IR 6 return:

Total gross interest	\$80,000
Total partnership loss	(\$60,000)
Total RWT	\$26,400
Beneficiary income	\$20,000

	Incorrect	Correct
Interest	\$80,000	\$20,000
Other income	\$20,000	\$0
Taxable income	\$20,000	\$20,000
Total RWT	\$26,400	\$6,600

* Formerly resident withholding tax

2008 Disclosure requirements for Foreign Investment Funds (FIF)

From 1 April 2007 new tax rules for attributing interests in FIFs came into effect. The disclosure requirements were also reviewed, and have subsequently been issued as an International Tax Disclosure Exemption ITR 19.

A copy of the full text is set out in the May 2008 issue of the *Tax Information Bulletin* available at www.ird.govt.nz/aboutir/newsletters/tib/

If you use any of the following methods to calculate your FIF income or loss then the disclosure requirements are unchanged from prior years:

- The deemed rate of return (DRR),
- Accounting profits (AP), or
- Branch equivalent (BE)

However, the new tax rules have meant a change to or a development of the cost method, the fair dividend rate (FDR) and comparative value (CV) method, and the disclosure method, which are described below.

Cost method

If you use the new cost method to calculate your FIF income, you will need to complete and file the *Cost method foreign investment fund disclosure (IR 449)* form. Information to be disclosed on this form includes:

- name of investment
- country of incorporation, organisation or registration (as appropriate)
- opening value of the investment in NZ\$
- basis of opening value.

FDR and CV methods

The disclosure requirements for the fair dividend rate (FDR) and comparative value (CV) methods vary depending on whether you are:

1. An individual,
 - trustee of a trust
 - closely-held company
 - other entity not covered below.

or

2. A widely-held company,
 - widely-held superannuation fund
 - widely-held group investment fund
 - Portfolio Investment Entity (PIE).

Individuals and non-widely-held entities

If your FIF investment is in a country that we do not hold a double tax agreement (DTA) with as at 31 March 2008 (for the list of countries see overleaf), and you use the new fair dividend rate or comparative value methods, then you will need to complete and file the relevant disclosure form(s):

- IR 447 for the fair dividend rate
- IR 448 for the comparative value

These forms require you to disclose:

- name of security
- stock exchange code—if known
- country of incorporation or tax residence
- opening market value at the beginning of your income year in NZ\$.





Widely-held companies, widely-held superannuation funds, widely-held group investment funds, or PIEs

For each calculation method used, separately disclose the end of year market value of your investments—split by the jurisdiction in which the attributing interest in the FIF is held or listed.

Alternatively a split by the currency in which the investment is held will be accepted as a reasonable proxy, as long as it is at least 90-95% accurate for the underlying jurisdiction.

If your investments are denominated in euros you will need to split these into the underlying jurisdictions.

The disclosure forms are:

- IR 445 for the fair dividend rates
- IR 446 for the comparative value.

Disclosure method

It is a requirement that the IR 445 and IR 446 are completed in an electronic format. The IR 447, IR 448 and IR 449 can also be completed and submitted electronically.

The electronic process is being developed and will be available as part of our online service at www.ird.govt.nz/online-services/keyword/

Currency conversion changes

New rules for calculating FIF income or loss now apply. You have a choice of two methods, either:

- the average mid-month rate for the 12 months or the relevant period
- the actual rate for the day for each transaction (including closing market value).

NOTE: For the actual rate we accept Table A—mid-month rate as equivalent to an actual rate for transactions occurring in that month. A copy of Table A is available at www.ird.govt.nz/how-to/overseas-currency/

You must apply the chosen conversion method to all interests for which you use that FIF calculation method in this and each subsequent year.

To find out more about the joint service, go to www.companies.co.nz

Countries with DTAs with New Zealand (as at 31 March 2008)

Austria	France	Norway	Taiwan
Australia	Germany	Poland	Thailand
Belgium	India	Republic of Korea	The Netherlands
Canada	Indonesia	Russian Federation	The Philippines
Chile	Ireland	Singapore	United Arab Emirates
China	Italy	South Africa	United Kingdom
Denmark	Japan	Spain	United States of America
Fiji	Malaysia	Sweden	
Finland	Mexico	Switzerland	



Reminder of rules for changing GST filing frequencies

The alignment of the GST and provisional tax due dates has meant that the rules for changing GST filing frequencies have also changed.

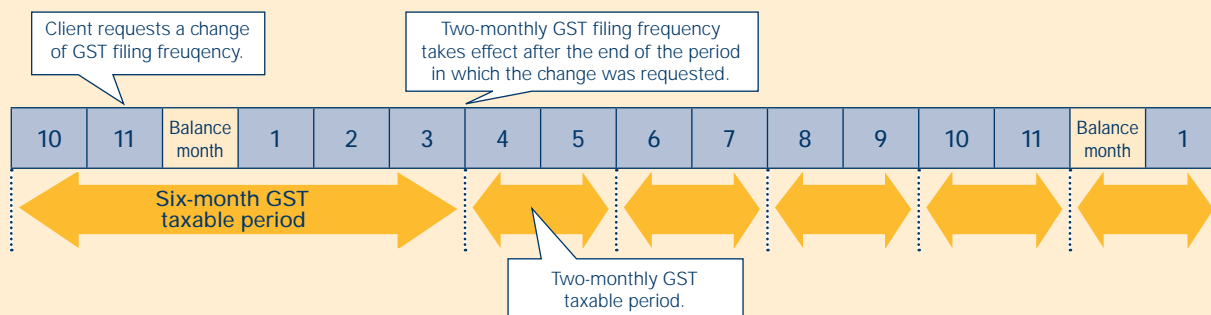
Under the previous rules, GST-registered clients could change their GST filing frequency at any time, as long as a GST return hadn't been filed for the affected period.

Under the new rules, the effective date of the new GST filing frequency depends on a number of factors, including whether a client is liable for provisional tax.

If a client is registered for GST and isn't liable for provisional tax, a change in GST filing frequency takes effect from the end of the current taxable period.

Clients who change to GST filing frequencies which don't align to their balance dates

The diagram below shows a client who wants to change their GST filing frequency from six-monthly to two-monthly, but isn't liable for provisional tax. So, they aren't required to have their GST filing frequencies aligned to their balance dates.

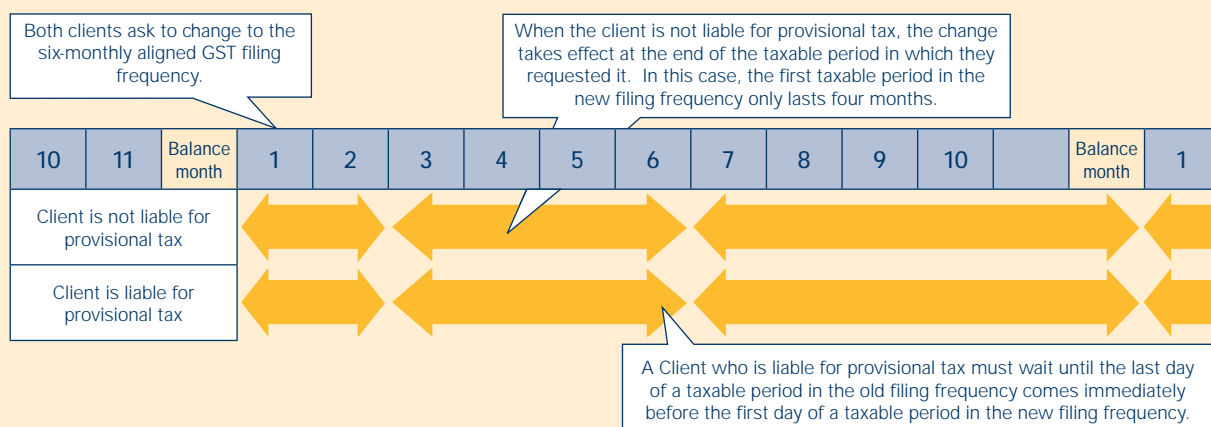


Clients who change GST filing frequencies which align to balance dates

Clients who are liable for provisional tax need to align their new GST filing frequencies with their balance dates. Some clients who aren't liable for provisional tax may align voluntarily, which will make it easier for them if they become liable for provisional tax in the future.

Clients who are liable for provisional tax need to use their existing GST filing frequency until the end of the existing period aligns with the beginning of the new filing frequency.

This diagram shows a client who wants to change their GST filing frequency from two-monthly to six-monthly. It compares situations where they need to align their new GST filing frequency with their balance date (because they're liable for provisional tax), and where the client isn't liable for provisional tax, but aligns voluntarily.



In some instances, a taxable period may be shortened to enable the alignment of the GST filing frequency and the balance date.





Business description website enhanced

ACC (Accident Compensation Corporation) has collaborated with Inland Revenue, Statistics New Zealand and the Companies Office to roll out an enhanced business description website. The website went live on 14 May and enables businesses, tax agents and Inland Revenue staff to find business industry descriptions and business industry codes (BICs) using a vastly improved search capability.

Background

Feedback from Inland Revenue staff and customers said that the business description website was difficult to use and frequently returned irrelevant or no results. To improve the customer experience, ACC redeveloped the website incorporating feedback from Inland Revenue and Statistics New Zealand.

To make this happen ACC asked Inland Revenue to make the business industry description a mandatory field for all electronic income tax returns and to ensure that the business industry description field is completed when a paper return is issued. This will enable the customer to advise Inland Revenue of any changes to their nature of business. The business description and code are also required when registering for GST, and when companies apply for a company registration and IRD number.

These improvements mean relevant results are now displayed when users enter logical search terms such as “plumber” or “plumbing”. You can view the enhanced website at www.businessdescription.co.nz/

Inland Revenue will work with ACC to review the changes and incorporate any customer feedback over the coming months.

Nine-digit IRD numbers arrive

Last month we began issuing 9-digit IRD numbers to new customers. This means that from now on, some customers will have an 8-digit number, and some will have a 9-digit number.

Things to remember:

- all current numbers remain as 8-digit numbers and all new customers get a 9-digit number
- 8-digit numbers should start in the second box when you're completing a form that has 9 boxes for the IRD number
- the display rules for GST numbers haven't changed—both 8 and 9-digit numbers should be displayed the same way.

If you have any enquiries or questions, please email us at number.extension@ird.govt.nz

Tax changes to ACC service payments

NOTE: this change has been communicated to many of you previously via email.

What's the change?

From 1 July 2008, ACC will be required to deduct 15% tax from the following schedular payments (formerly known as withholding payments) under Part I of Schedule 4 of the Income Tax Act 2007 made to either caregivers or clients:

- attendant care
- home help
- child care
- attendant care services related to training for independence
- attendant care services related to transport for independence

Why the change?

In the past, some people didn't fully understand how to pay tax on this money. So Inland Revenue has been working with ACC to help clients and their caregivers meet their tax obligations.

Before 1 July 2008, clients who received payments from ACC to on pay their caregiver were regarded as employers and some were required to deduct PAYE. For others, if the caregiver did not work more than 30 hours a week, the caregiver was required to pay their own PAYE as an IR 56 tax payer.

Communication

We have been working with ACC to develop joint communications to clients and caregivers. Letters have been circulated to clients and caregivers outlining how the changes will affect them and explaining their tax obligations in the future.

More information

For more information on these changes, please visit the Inland Revenue website at www.ird.govt.nz/your-situation-ind/acc-recipients/ or call us on 0800 224 476.

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 6140

Email: agents.answers@ird.govt.nz