

AGENTS ANSWERS

Inland Revenue's tax agents' update



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REMINDERS

We have several calendars you can use to plan ahead to help you meet your obligations. Remember that if a due date falls on a weekend and public holiday, we can receive your return and payment on the next working day without a penalty being applied.

Check out our solutions webpage

Remember that you can keep up to speed on myIR changes, issues, and information that may affect tax intermediaries on ird.govt.nz/solutions.

Provisional tax changes

Safe harbour from use-of-money interest (UOMI)

A law change for provisional tax modifying the existing safe harbour from UOMI came into effect from the 2018 income tax year. It may be affecting some of your clients' provisional tax calculations.

The changes increase the safe harbour from \$50,000 to \$60,000 of residual income tax (RIT) and extend the safe harbour to non-individual taxpayers.

When the safe harbour applies

The amended rule provides that a provisional taxpayer's RIT for a tax year is due and payable in 1 instalment on their terminal tax date if:

- they have paid all instalments under 1 of the standard methods on or before the instalment dates or they have no obligation to pay provisional tax
- their RIT is less than \$60,000 for the tax year
- they have not estimated their RIT for the tax year
- they have not used a GST ratio method in the tax year to determine the amount of provisional tax payable for the year, and
- they don't have a provisional tax interest avoidance arrangement.

You can find out more in *Tax Information Bulletin* Vol 29 No 4, pages 45 – 46, particularly Examples 13 and 14. Example 14 spells out the requirement to pay instalments on time or the customer will fall out of safe harbour.

Safe harbour for all taxpayers using the standard provisional tax method

Under the previous rules, taxpayers who used the standard method for paying provisional tax but exceeded the safe harbour threshold of \$60,000 of RIT were liable to UOMI from the first instalment when RIT for that instalment differed from the amount paid.

For taxpayers using the standard method who cannot reasonably estimate their income (eg, those with volatile or seasonal income), the previous rule could be unfair as provisional tax assumes a straight-line earning of income throughout a year.

Under the new rule, if a taxpayer makes all their provisional tax instalments (except for the final instalment) using the standard method on the payment dates, UOMI will only apply from the date of the final instalment on the difference between the RIT and the payments made.

You can find out more in *Tax Information Bulletin* Vol 29 No 4.

Share of partnership income

In a typical family partnership, one partner often undertakes the services of the business (eg, plumbing) and the other partner (eg, their spouse) takes a less active role.

The fact that one partner's contribution may be management input and/or clerical work does not mean their share of the partnership income is passive. The share of income should be shown in the "partnership income" key point at Question 18 of the IR3. It is liable for ACC.

The type of partnerships where the partners do not take an active part in the day-to-day operation or management of the business are partnerships with multiple partners (say a forestry investment partnership). In these cases, the only involvement the investor has is attending an annual meeting to be updated on the activities and performance of the partnership. So, the share of income received is truly passive and should be included at Question 24 of the IR3, not Question 18.



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