Business Transformation: April changes for individuals

Webinar for community organisations

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Rata is a Transformation Account Manager focusing on small and medium enterprise customers, not-for-profit organisations and Iwi. He has both project and service management skills as well as experience working across government and business advisory groups.

Rata is passionate about improving services for employers and Iwi and spends his days working with industry associations, professional bodies and Iwi to update them on the changes, capturing their feedback and advocating on their behalf.

Questions?
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Greetings everyone, and welcome to this presentation introducing some upcoming changes that may be of interest to you.

My name is Rata Kamau and I'm a Transformation Account Manager at Inland Revenue working with Industry Associations, Professional bodies and Iwi across New Zealand. Over the last couple of years, I have been assisting our Community Compliance staff in talking to community organisations about the Business Transformation changes - many of you may have attended these presentations.

In this webinar I'll tell you about some of the annual changes coming in April this year, including a new top income tax rate for individuals.

Please note that the content is correct as of February 2021 and some details may change.

If you have any questions arising from this webinar, please send them to webinar.questions@ird.govt.nz

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Contents

Today we'll cover:

- Changes in 2021
- New Legislation
- Portfolio Investment Entity changes
- Automatic assessment, IR3 and return changes
- Other changes

Here's the topics we'll be covering today. As you can see we have a bit to get through.

Changes in 2021

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To be confirmed
- Legislative changes
- Scope and details around design

- Release 1 – was delivered on **1 March 2021**
  - Paid Parental Leave
  - New Zealand Foreign Trusts
  - Unclaimed Money
  - Duties (Lotteries Duty, Casino Duty and Totalisator Duty)
- Annual and other changes in **April 2021**. These include:
  - The new 39% tax rate
  - Automatically issued income tax assessments
  - Returns changes
- Release 2 – to be delivered around **October 2021** (date tbc)
  - Child Support
  - An upgrade to a new version of myIR

We'll start with a reminder of what's changing, and when.

- Release 1 went live on 1 March. This covers changes to Paid Parental Leave , New Zealand foreign trusts, Unclaimed money and Duties. We've covered these topics in previous webinars.
- The next changes will come into play on 1 April this year. They will include a range of changes for individuals – these are the changes we will focus on in this presentation.
- Later this year our next major release, Release 2, will go live. This is planned for October and will include moving Child Support into our new system upgrading myIR.

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New Legislation

On 3 December 2020 the Government passed the Taxation (Income Tax Rate and Other Amendments) Bill. This was granted assent on 7 December 2020.

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New Legislation

The Taxation (Income Tax Rate and Other Amendments) Bill contains four main measures:

- A new top personal income tax rate of 39%
- Increased disclosure requirements for trusts
- Increasing the Minimum Family Tax Credit threshold for the 2020-21 tax year, and
- Clarifying the ability for Inland Revenue to require information for the purposes of providing quality policy advice.

In the Bill the Government introduced a new top personal tax rate of 39%, increased disclosure requirements for trusts, increased Minimum Family Tax Credit Threshold, and clarified Inland Revenue's ability to require information for the purposes of providing quality policy advice – we'll cover these changes in more detail over the next few slides.

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Tax rate changes

A new top income tax rate for individuals and unincorporated bodies will be in effect from 1 April 2021 - 39% on income over $180,000.

New top income tax rate for individuals and unincorporated bodies	39%
New top Fringe Benefit Tax (FBT) rate	63.93%
New resident withholding tax on interest rate	39%
New employer superannuation contribution (ESCT) tax	39%
New residential land withholding tax (RLWT) rate	39%
New top retirement savings contribution tax (RSCT) rate	39%
Non-declaration rate for Resident Withholding Tax (RWT) on Taxable Māori authority distributions	39%

The Bill introduced a new top tax rate of 39% for individuals and unincorporated bodies on income over $180,000. This new rate will come into effect from 1 April 2021.

As well as the rate change, the Bill contains a number of flow on changes for individuals**:**

- There will be two new secondary tax codes, SA and SA SL. Individuals who have more than one source of income need to pay secondary tax to ensure they pay the right amount of tax and do not end up with a bill at the end of the year. SA will be for individuals to use for their secondary income source if they will earn more than $180,000 a year. If they earn more than $180,000, have a secondary income source and a student loan they need to use SA SL.
- The Residential land withholding tax (RLWT) rate changes to 39%. Residential land withholding tax is a tax deducted from some residential property sales. It's paid by offshore people who sell their residential property. Withholders deduct and pay the tax to us for the offshore people.
- There will be a new employer's superannuation contribution tax (ESCT) rate of 39% on superannuation contributions made for employees whose ESCT rate threshold amount (usually their prior year's salary/wages plus gross employer contributions) exceeds $216,000
- There will be a new Fringe Benefit Tax (FBT) calculation rate of 63.93% applying to all-inclusive pay exceeding $129,680
- There will be a new top retirement savings contribution tax (RSCT) rate of 39%
- The non-declaration rate for Resident Withholding Tax (RWT) on Taxable Māori Authority distributions will change from 33% to 39%.

There will also be a New Resident Withholding Tax on interest rate of 39%, for individuals with income over $180,000. Banks have been given until October 2021 to update RWT rates, so the new 39% RWT rate will be available from 1 October 2021. Some individuals will receive a tax bill because tax was under deducted prior to the new rate coming into effect. From 1 October 2021 impacted individuals will need to change their RWT rate.

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Increased disclosure for Trusts

Trusts must provide more information on their annual returns for the 2021-22 income year onwards, including:

- distributions
- settlements
- profit and loss statements
- balance sheets.

The increased disclosure requirements do not apply to non-active trusts, charitable trusts and trusts eligible to be Māori Authorities.

From the 2021-22 income year onwards trusts will be required to provide more information on their annual returns, including distributions and settlements made in the income year, profit and loss statements and balance sheets.

This change has been introduced by the Government to help ensure that Inland Revenue has a clear picture of how a trust is being used. We will be able to request information for prior income years back to 2013-2014, as appropriate, to allow for comparable information to be gathered.

The increased disclosure requirements do not apply to non-active trusts, charitable trusts and trusts eligible to be Māori Authorities.

There will be further consultation on disclosure requirements for Trusts for 2021-22 income.

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Minimum family tax credit changes

The annual rate minimum family tax credit (MFTC) threshold has been increased from $27,768 to $29,432 for the 2020-21 tax year and subsequent years.

Inland Revenue started paying the higher rate in weekly or fortnightly payments from late December 2020.

The MFTC threshold is reviewed regularly to ensure the scheme serves its purpose.

The Minimum Family Tax Credit is available to low-income families with children to ensure that families do not suffer a reduction in income when moving off benefit into full-time employment.

The annual rate minimum family tax credit (MFTC) threshold has been reviewed and has been increased from $27,768 to $29,432 for the 2020-21 tax year and subsequent years.

This equates to a maximum additional $32 per week which will be retrospectively increased.

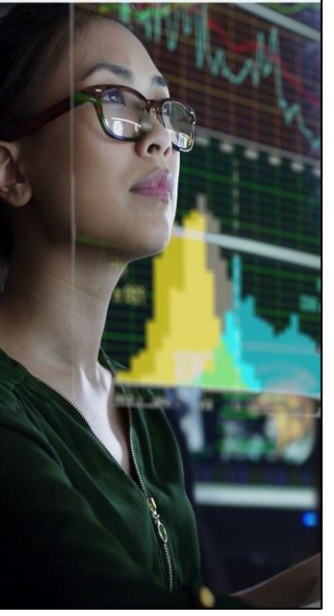
As this started in the 2020-21 tax year, we started paying the higher rate in weekly or fortnightly payments from late December 2020. For the portion of the year between April and December 2020, the increase will be delivered in a lump sum as part of families' end-of-year tax square-up.

The MFTC threshold is reviewed regularly to ensure that the scheme continues to serve its purpose, so this amount may change in the future.

Information gathering measures

The Bill clarifies the existing measures - that the Commissioner of Inland Revenue can require information to be provided to assist with the development of tax policy.

Requests for additional information are approached on a case-by-case basis.



The information gathering powers outlined in the Taxation (Income Tax Rate and Other Amendments) Bill are not new. The Bill simply clarifies the existing measures - that the Commissioner of Inland Revenue can require information to be provided to assist with the development of tax policy.

As always, we take a considered approach to requesting additional information from taxpayers and only do so as appropriate.

Any requests for additional information are approached on a case-by-case basis.

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Income tax assessment, IR3 and return changes

Now that we've covered the legislative changes introduced in the Taxation (Income Tax Rate and Other Amendments) Bill, we'll move on to discuss further changes that are coming in April. Let's start with a couple of changes that we are making for automatically issued income tax assessments and IR3's.

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PIE income changes

New fields for PIE income will be included on Income Tax returns for resident individuals (IR3 and automatically issued income tax assessments).

All resident individuals will be squared up on PIE income.

IR will determine what the correct PIR was and compare this to the actual PIR the individual used.

If the individual used the correct PIR and they still have a debit balance this will be waived.

For the 2021 and future tax years we’re making changes that will ensure consistency of the treatment of PIE income for income tax, and also simplify the end to end process.

There will be new fields for PIE income included on Income Tax returns for resident individuals (IR3 and automatically issued income tax assessments). PIE income or losses must be reported in these fields, whether or not the correct PIR has been used.

Previously, individuals could only include PIE income on their return if tax was under-deducted because they used a PIR rate that was too low, and they had an amount to pay. They were unable to claim a credit for overpaid tax on PIE income – this is changing.

Going forward all resident individuals will be squared up when they have PIE income.

- A separate PIE calculation will be made using the taxpayer's correct PIR for the year. If any PIE income or loss was not taxed at the correct PIR, the tax difference will be included in the overall tax to pay or refund due.
- If we calculate a PIE tax debit but the taxpayer used the correct PIR for the whole year, the debit will be waived.

The PIE annual reconciliation due date will now be 15 May, this means that for many individuals who receive PIE income, IR will have their PIE income details earlier than in previous years.

Individuals who only have PIE income will be selected for an automatically issued income tax assessment, they will not be required to complete an IR3.

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IR3 select changes

Individuals who received the wage subsidy will be required to file an IR3.

Individuals with an active Research and Development Tax Incentive account will be selected as IR3 filers.

Now speaking about our IR3 selects, there are a couple of further changes that will impact whether an individual is selected for an IR3:

- As I’m sure many of you are aware, in response to COVID a wage subsidy was issued by the government to employers and self-employed persons, including sole traders, contractors, shareholders and partners paid a wage, salary or who draw income for the work they do. Self-employed customers and other customers who received the subsidy, either themselves directly or through an associated entity (not necessarily an employer) without tax deducted at source via the PAYE system, will be required to file an IR3.

- The second change will see individuals with an active Research and Development Tax Incentive account automatically selected as an IR3 filer.

As well as changes to our IR3 selects, we are making changes to some other returns and forms.

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Return changes

New field for wage subsidy on IR3 and IR3NR – "Government Subsidies"

Loss Carry back will be added to IR3, IR3NR, IR4, IR6, IR8, IR9 and IR44 to allow the loss carry back to be recorded for the period ending 31 March 2021.

Research and Development Tax Incentive will be expanded from IR4 to all income tax customers.

As we just spoke about, self-employed customers, or other customers who received the wage subsidy without tax deducted at source, must show this as income on their income tax return and it must be shown separately.

To allow individuals to do this a new field called 'Government subsidies' will be added to the IR3 and IR3NR individual income tax returns.

As well as the wage subsidy the **loss carry-back scheme** was also introduced as a temporary COVID response measure. A new field has been added on the IR3 to allow individuals to account for the loss being carried back. They can record this in their income tax returns for the period ending 31 March 2021 onwards.

The next change relates to the **Research and Development Tax Incentive (RDTI).** RDTI will be expanded from IR4 filers to all income tax customers, including individuals – fields for RDTI will be added to the IR3 and IR3NR to allow them to claim RDTI credits. The amount of RDTI credit that the customer is entitled to will be calculated on their RDTI return. The final values will be pre-populated onto the income tax return and used to offset any income tax debt before being disbursed.

And as we mentioned earlier, individual customers with active RDTI accounts will be selected as IR3 filers.

Return changes

The IR215 form will be updated for legislative changes that are effective from the year ending 31 March 2021

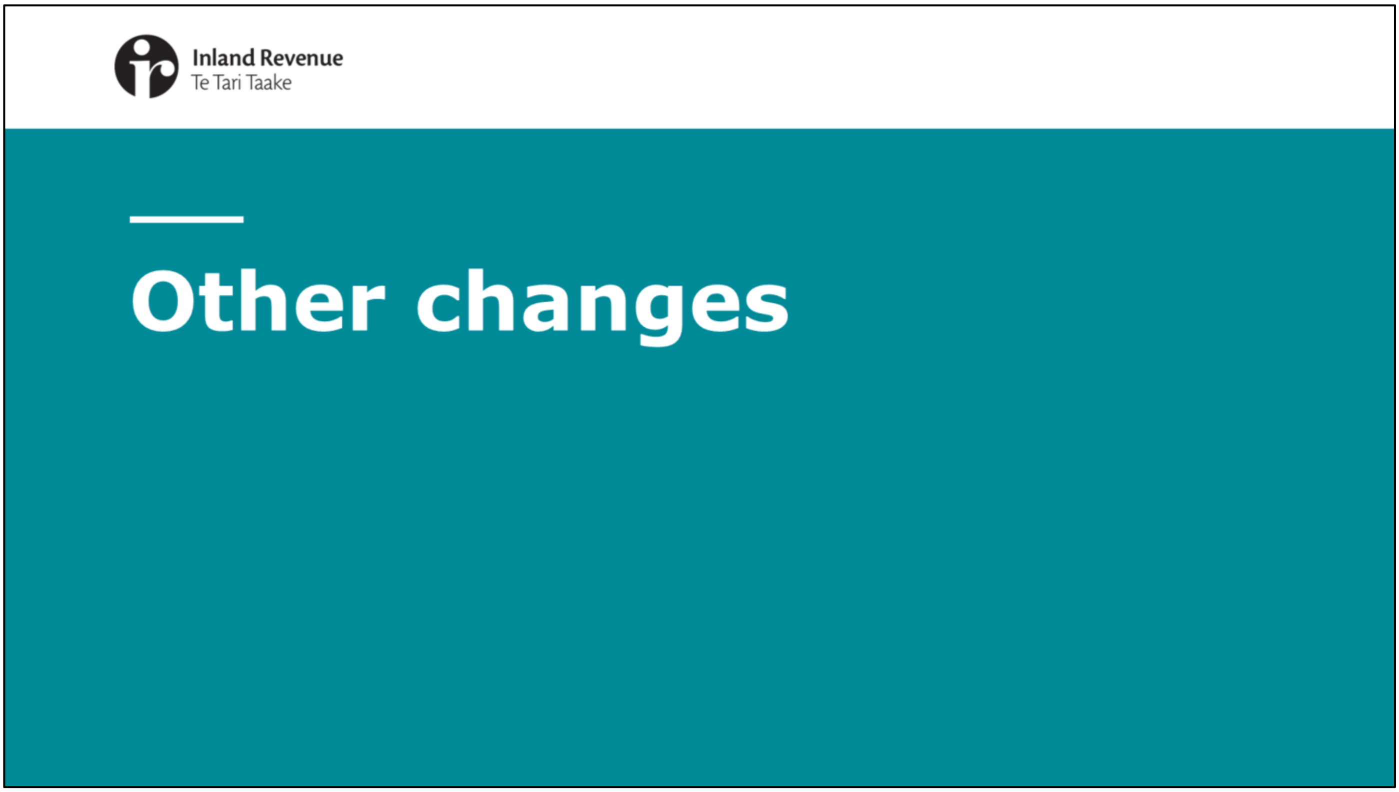
We will no longer accepted IR3NR income tax returns submitted through www.ird.govt.nz – you must log in to myIR, use our Gateway services via your software or paper

The next change relates to the **IR215 'Adjust your income' form.** Student loan and Working for Families customers with certain types of income are required to file an IR215 Income adjustment form to ensure that their SL obligations and/or FAM entitlements are calculated correctly. The IR215 form is being updated to align with legislative changes that are effective from the year ending 31 March 2021. These changes will see some income adjustment types that previously only applied to Working for Families, now also apply to student loans. These are:

- Retirement scheme contributions that were included in an IR3
- Depreciation recovered on sale of a building used in business and/or rental activity
- Attributed dependent child/children's income of a major shareholder in a close company

In addition, PIE income will only need to be included on the IR215 if it is from a locked-in fund.

Finally, we will no longer accept 2021 tax year income tax returns through unauthenticated channels. This affects the IR3NR. Customers who usually file their IR3NR through www.ird.govt.nz will need to use a different filing method, such as myIR or a paper return. If they file through myIR it will take less time to complete as they will benefit from the return pre-populating some information.



On top of the taxation bill and return changes there are some further changes that may impact individuals. I'll cover these now.

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In Work Tax Credit

From 1 April customers will keep receiving IWTC payments for up to two weeks when taking an unpaid break from work.

Customers will need to let us know if their employment situation changes to avoid being overpaid their IWTC.

If customers start receiving an income-tested benefit or student allowance they will not be entitled to IWTC payments.

Last year the Government announced the addition of a two-week grace period to the In-work tax credit (IWTC). This permanent change comes into effect on 1 April.

This means that from 1 April customers will keep receiving IWTC payments for up to two weeks when taking an unpaid break from work. This could be as they transition between jobs, are unpaid for a period of time, or leave employment.

Customers will need to let us know if their employment situation changes to avoid being overpaid their IWTC. This is because there is a delay in us receiving the employment details from employers.

If customers start receiving an income-tested benefit or student allowance they will not be entitled to IWTC payments.

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Child Support

From 1 April 2021 it is proposed that some of the Child Support penalties and penalty write off rules change.

Percentage of outstanding amount	Current	From 1 April 2021
2% ($5 minimum)	Applied day after the due date	Applied day after the due date
8%	Applied 8 days after the due date	Applied 8 days after the due date
2%	Applied each month after due date	**No longer applied**
1%	Applied each month from 13 months after due date	**No longer applied**

There are proposed changes to the way some of the Child Support penalties are applied and we are also simplifying the penalty write off rules.

The proposed changes for Child Support will be taking place from 1 April 2021 and they have been included in a supplementary order paper for the Child Support Amendment Bill.

I'll walk you through the penalties as they stand now, to help you better understand the changes:

Currently, if the liable parent does not pay by the due date, they will incur the following penalties:

- The day after the due date they will be charged an initial late payment penalty. This will be the greater of 2% of the outstanding assessment amount or $5.
- The second initial late payment penalty of 8% is charged 8 days after the due date

If the customer continues to have an outstanding amount, they will then start to be charged incremental penalties:

- 2% of the outstanding amount including penalties will be charged 1 month after the due date, if the customer continues to have an outstanding balance, they will be charged a further 2% each month for the first 12 months.

From 13 months they will be charged

- 1% of the outstanding amount including penalties each month until the outstanding amount is cleared.

From 1 April 2021 we will no longer be charging the monthly incremental late payment penalties. Any incremental penalties charged before 1 April 2021 will remain, but no further incremental penalties will be charged.

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From 1 April 2021 we will also be simplifying the penalty write off rules:

- Make it easier to write-off existing incremental and initial late payment penalties
- Changing the treatment of initial late payment penalties to reduce the circumstances when they can be written off

Further changes will be coming to Child Support in October 2021 and April 2022.

As well as changing the incremental penalties, we will also be changing the penalty write off rules to make them easier for customers to understand and to change how initial late payment penalties are treated.

Further changes from the Child Support Amendment bill will come into effect in October this year and April next year, these will include making employer deductions compulsory for newly liable parents or returning liable parents, introducing a 4 year time bar for reassessments and further changes to penalties.

We'll provide you with more information on the October and April 2022 changes later in the year, in the mean time you can refer to the Child Support Amendment bill or the tax policy website if you'd like to know more.

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Student Loans

From 1 April 2021 the following student loan changes will apply for the period ending 31 March 2022:

	Current	From 1 April 2021
Student Loan repayment threshold	$20,020	$20,280
Interest rate	3.5%	3.0%
Late payment interest	7.5%	7.0%
Reduced late payment interest rate	5.5%	5.0%

The final changes we'll be discussing today are the Student Loan changes – we covered the IR215 changes that may affect student loan customers earlier, but from 1 April 2021 the following changes will apply for the period ending 31 March 2022:

- The annual Student Loan repayment threshold, which is the amount that a customer can make in a year before they will be required to start making repayments towards their loan, will be updated from $20,020 to $20,280.
- The interest rate charged on outstanding balances for overseas-based customers will be updated from 3.5% to 3.0%
- The late payment interest rate will be updated from 7.5% to 7.0% - this is imposed when a customer has unpaid amounts.
- The reduced late payment interest rate will also change – this will reduce from 5.5% to 5.0%

That brings us to the end of our presentation today. Thank you for watching. Remember if you have any questions about this webinar please email: webinar.questions@ird.govt.nz