

## TAXTEAM TALK

THIS ISSUE AT A  
GLANCE*New TEAM member**Local authority Order in  
Council**Property disposals—  
getting it right**Mileage reimbursement—  
flat rate**IRD scrutiny continues**“Why have I got a tax  
bill?”**Hearing Commissioners**GST—Court-awarded  
costs*

## NEW “TEAM” MEMBER

At TEAM, we pride ourselves on our tax specialisation and focus on the local authority sector.

We are also proud that, as a New Zealand business, and with your support, we have bucked the trend in consultancy firms by continuing to grow.

It is with pleasure, then, that we welcome a new addition to our team—Pranesh Lal. His experience speaks for itself:

- Senior tax roles at the “big four” in Auckland and Sydney;
- Senior tax role at a leading Melbourne law firm;
- Barrister and Solicitor of the High Court of New Zealand and the Supreme Court of Victoria, Australia; and
- Roles at the IRD, including the Office of Chief Counsel and the Tax and Legal Services group.

Pranesh’s legal experience adds another dimension to our service delivery.



## LOCAL AUTHORITY ORDER IN COUNCIL

We are pleased to announce that, once again, TEAM has successfully secured an Order in Council (“OIC”) permitting eight local authorities to continue filing GST returns on a payments basis, being the Far North, Gisborne, Kaipara, Opotiki, Ruapehu, Waitomo, Western Bay of Plenty and Whakatane District Councils.

The sting in the tail is that this is the final time that such an OIC will be issued, and these councils will need to move to an invoice basis in 2013.

## PROPERTY DISPOSALS—GETTING IT RIGHT

As funds become tighter and demands for core services increase, many councils are divesting themselves of property (i.e. land and buildings).

Often, the Finance area of a council is advised of these transactions after agreements are signed and tax liabilities incurred. At TEAM, we have sought to remedy this common problem by developing an “online tool” to assist the flow of key information from the property division to Finance—with just a click of a button.

We are happy to provide a personal demonstration.

## MILEAGE REIMBURSEMENT—FLAT RATE

The IRD has announced that a flat fee of 70c per km can be paid tax-free when reimbursing staff for business mileage. This replaces the previous 62c and 19c rates. In applying the 70c rate, there is no threshold in terms of distance travelled.

But is this good for local authorities? Our experience is that this change is having an inflationary impact at exactly the wrong time. Areas of concern arise in the impact on pre-existing employment agreements and the calculation of tax-free “additional transport allowances”. Council may need to revisit these matters.

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## IRD SCRUTINY CONTINUES

Yes, the scrutiny into the local authority sector continues unabated. This is not surprising given the diversity of local authority operations. It is imperative that all councils have robust tax policies and procedures.

TEAM is now actively maintaining these policies for over 45 local authorities. If you do not subscribe to this service, there is no better time to start!

## “WHY HAVE I GOT A TAX BILL?”

Many employees have received unexpected bad news for the 2008/09 tax year. They have discovered that they owe the IRD extra tax, over and above the PAYE deducted from their income.

How can this be? The answer lies in the threshold and tax changes that occurred halfway through the year.

Simplistically, this could mean that an employee with a stable income would face the following profile (if we assume an average rate of tax of 31.5%):

1st half of year	\$33	(tax overpaid \$1.5)
2nd half of year	\$30	(tax underpaid \$1.5)
Average tax due	<u>\$31.5</u>	(no further tax due)

However, if a pay-rise (bonus or redundancy payment) occurred in the second half of the year, then the IRD's tax tables would have resulted in a tax deduction at the “2nd half of year” tax rate, rather than the average for the year. The result is tax underpaid for the whole period.

Many employers face enquiry from their staff over this matter. Further, staff members who are not required to file tax returns could have tax shortfalls of which they are unaware. This raises the prospect of downstream penalties and interest.

Communication with staff is key in resolving this matter.

## HEARING COMMISSIONERS

Local authorities may, from time to time, appoint an individual to act as a Hearing Commissioner. Typically, these Commissioners will hear notified resource consent submissions and make decisions on the applications.

It has been our recent experience that local authorities are failing to account properly for tax (i.e. GST and withholding tax) on the payments of fees and expenses to Commissioners. Generally, such payments would not be subject to GST, and withholding tax would apply.

## GST—COURT-AWARDED COSTS

It is common practice for local authorities to be awarded “costs” in cases of legal dispute. The amount of GST involved is often significant. Remember, GST only applies to the supply (or deemed supply) of goods and services.

From our visits to local authorities around New Zealand, it has become apparent that GST treatments vary. For many, this can involve substantial overpayment of tax.

If you would like advice on your particular circumstances, contact us.

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