

TAXTEAM TALK

THIS ISSUE AT A GLANCE

Introduction

Tax changes

IRD investigation

Relocation expenditure

*Voluntary disclosure—
A red flag*

Tax training

Tax policies

INTRODUCTION

Welcome to another tax newsletter from Toovey Eaton & Macdonald Ltd ("TEAM"). The new Government has wasted little time in making business tax changes, and indications are that these will be ongoing. At the same time, unprecedented IRD audit activity in the public sector reinforces the need for tax compliance to be treated with high importance.

TAX CHANGES

The recent tax changes include a package of tax measures aimed at making it easier and less expensive for businesses to pay taxes.

A number of these changes will also apply to Central Government, as follows:

- § The value of minor fringe benefits (e.g. vouchers, flowers, gym memberships) that can be provided to employees without attracting FBT has been raised, up to a maximum threshold of \$300 per employee per quarter, and \$22,500 per employer per year. This change applies from 1 April 2009.
- § The FBT prescribed interest rate has been reduced from 10.90% to 8.05%. This change applies from 1 January 2009.
- § The use-of-money interest rate for underpayments of all tax types has been reduced from 14.24% to 9.73%. The rate for overpayments has been reduced from 6.66% to 4.24%. These changes apply from 1 March 2009.

We *strongly* recommend that you review and amend your tax policies and procedures accordingly, and ensure that your Finance team is aware of these changes. A full summary can be found on our website.

IRD INVESTIGATIONS

In recent years, the IRD has been relatively inactive in the Central Government sector, and the likelihood of IRD investigation was minimal. However, it's time to be vigilant, as Central Government entities now face a *real* risk of an IRD investigation. In the past few months, the IRD has been increasing its audit activity in the public sector, has commenced investigation of one Department, and has advised us that further Central Government entities will be included in its planned coverage.

How exactly would your entity be affected by an IRD investigation? In addition to the potential monetary costs, it will also incur significant non-fiscal costs during the process of the investigation.

Monetary costs include core tax liabilities on issues identified by the IRD, as well as tax

penalties and interest that may arise. If your organisation's tax compliance has been less than exemplary, the financial ramifications could be significant in these tough economic times.

Non-fiscal costs include significant disruption to staff in dealing with IRD enquiry, management costs in ensuring that the IRD conducts its investigation expeditiously, and communication costs in keeping all stakeholders informed. And don't ignore the *political risk* arising from any tax non-compliance.

If you have any concerns over tax compliance, particularly in the GST/PAYE/withholding tax areas, action now could eliminate all penalty costs, provided that issues are voluntarily disclosed to the IRD before you receive formal notice of an investigation.

RELOCATION EXPENDITURE

The IRD has released a draft determination on relocation expenditure, issued when the Tax Bill implementing its tax exemption was before Parliament. Whilst the Bill is still to be enacted, the exemption will be backdated to the 2002/03 income year.

The likely enactment date for the Bill is August 2009.

The determination sets out a comprehensive list of proposed expenditure that will be able to be reimbursed or paid to relocating employees tax-free. The IRD requested submissions on the appropriateness of the

proposed eligible expenditure, and TEAM has made submissions on behalf of a number of clients on the breadth and scope of the determination.

The draft determination can be found on our website, and we will update you once it's finalised.

VOLUNTARY DISCLOSURE—A RED FLAG

It's not uncommon to make errors in GST and FBT return filing. With ongoing changes to tax law and practice, systems and personnel, it is almost inevitable. How should these errors be rectified?

In our view, it is incumbent on all public sector institutions to be transparent and to notify the IRD expeditiously. Provided that corrective action is taken with 'all cards on the table', resolution should not be problematic. However where the proposed corrective action is, itself, incorrect, then warning bells will ring at the IRD! Be safe and obtain appropriate professional advice regarding voluntary disclosures.

TAX TRAINING

Unless staff with operational tax compliance responsibilities receive adequate ongoing training, whether or not your organisation has hidden tax risks may be more due to good luck than good tax risk management.

Our recently-held workshops in May and June were very well-subscribed, with representatives from 19 Ministries and Departments attending.

Our workshops have proved popular because they focus solely on practical and topical issues relevant to your sector, and aim to ensure that finance managers and staff responsible for tax compliance have sufficient current tax knowledge to ensure that your organisation is tax-compliant. Being able to compare their practical experience with that of their sector peers adds a valuable practical dimension to the learning experience.

We intend to hold a further series of workshops in 2010. There has also been considerable interest in a shorter course targeting HR staff, covering employee/contractor withholding taxes, FBT and hurt and humiliation payments in the context of the IRD's current investigation focus. If this is of interest, please contact Sara Thomson by e-mail at sara.thomson@taxteam.co.nz, or telephone 04 494 2390.

A further option is an in-house tax workshop solely for staff of your organisation. These are effective where operational tax decisions are required to be made by a wider group of people, and consistent training and approach is the desired outcome. We have recently confirmed or completed such workshops for four Central Government clients. If this is of interest, please contact us.

TAX POLICIES

A number of you subscribe to our tax policies, which provide a best practice guide for everyday tax decision for Ministries and Departments. These are provided as an online service via our website, on a contracted subscription basis. They are totally aimed at helping users with their tax compliance, easy to search, and provide practical guidance on all tax compliance areas applicable to your organisation.

They are also regularly updated to reflect current law and practice—a critical feature given that we have had four Tax Bills and three Amendment Acts in the past year.

If you would like a temporary password to give these policies a try, please contact us.

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