

# BUSINESS TAX UPDATE

Inland Revenue's tax news for businesses

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## Update on Budget tax changes

In last month's issue of *Business Tax Update* we summarised the tax changes from the May 2010 Budget. Here's a more detailed update of how some of the changes will affect you and your employees.



The main changes to PAYE and other individual changes are outlined here. These are followed by GST, company tax and other changes. For more information, check out the Budget information on our website [www.ird.govt.nz](http://www.ird.govt.nz)

### PAYE rates reduced

The table below shows the PAYE rates that will be used during the 2010–11 income year.

Income range	PAYE rates 1 April to 30 September 2010	PAYE rates 1 October 2010 to 31 March 2011
\$0–\$14,000	12.5%	10.5%
\$14,001–\$48,000	21%	17.5%
\$48,001–\$70,000	33%	30%
Over \$70,000	38%	33%

You need to start using the new rates to calculate the correct amount of PAYE to deduct from your employees' salaries and wages for pay periods ending on or after 1 October 2010.

We'll write to you in August to let you know when the updated PAYE tables and the online calculator will be available and provide more information about the other implications of the income tax rate changes.

### Secondary tax rates reduced

The secondary tax rate will reduce from 1 October 2010 to align with the new personal income tax rates. The new PAYE tables effective from your employee's first pay period ending on or after 1 October 2010 will include the new secondary tax rates.

### New certificates for special tax codes

Employees who are affected by the change will be issued with a new certificate, which they'll give you prior to 1 October 2010. The new certificate will include the new tax rates and thresholds.

### Extra pays

Lump sum payments made to employees are known as extra pays. Tax on extra pays will reflect the new personal income tax rates in the table above. These apply from the first pay period that ends on or after 1 October 2010.

### Special types of workers

For casual agricultural employees and election day workers the tax rate will drop for both from 21% to 17.5%. This is effective from their first pay period that ends on or after 1 October 2010. For more information on special types of workers, go to [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: workers payroll).



**Inland Revenue**  
Te Tari Taake

## Welcome to Business Tax Update

In this issue: Update on Budget tax changes, GST Budget changes, company changes from the Budget, other Budget changes, using codes when making your electronic payments, requesting a back-year personal tax summary, paid parental leave increases, and making tax easier.

If you have any suggestions for topics you'd like covered in this newsletter, email [BusinessTax.Update@ird.govt.nz](mailto:BusinessTax.Update@ird.govt.nz)



## REMINDERS

**IR 3 income tax return due 7 July:** Your IR 3 is due by 7 July unless you have an extension of time through your tax agent, or you have an approved change in balance date.

An easy way to file your tax return (IR 3, IR 4, IR 44, IR 6, IR 7, IR 8 and IR 9) is by using our secure online services at [www.ird.govt.nz](http://www.ird.govt.nz) "Secure online services". You can also request and confirm a personal tax summary (PTS), change your contact details and update your bank account details.

We automatically send you a PTS in July if you:

- received Working for Families Tax Credits, or
- have a student loan and haven't had enough money deducted from your income, or
- used the wrong tax code, or
- used a special tax code.

If you haven't received a PTS by the end of July you can request one by using our secure online services.

## GST Budget changes

GST will increase from 12.5% to 15% from 1 October 2010. You may have to apply a mix of rates—12.5% and 15%—during the transition if your return period straddles the 1 October 2010 date.

You can calculate the GST content of a GST-inclusive amount as follows:

- for 12.5% divide by 9 (for transactions that occur on or before 30 September)
- for 15% multiply by 3 and divide by 23 (for transactions that occur on or after 1 October).

### Filing your GST returns

Monthly, two-monthly or six-monthly GST returns that are filed for the period ending 30 September 2010 will use the 12.5% rate but you'll need to use the new 15% rate from then on.

GST returns filed every two or six months may span the date of the GST rate change. In this case you'll

need to use the 12.5% rate for the period up to and including 30 September 2010, and the 15% rate for the period on or after 1 October 2010.

We're developing a transitional GST return to cover the rate change and we'll write to you in August explaining what you need to do.

### Panel set up to assist with GST change

The Government has set up a special advisory panel to help ease the transition for businesses implementing the GST rate increase.

The panel will act as a channel between businesses and the Government. It will deal with concerns from particular industries, activities or types of transactions relating to the GST rate increase.

You can find out more about the GST Advisory Panel, ask questions or send feedback on their website [www.gstadvisory.govt.nz](http://www.gstadvisory.govt.nz) or phone 0800 387 783.

## Company changes from the Budget

The Budget also introduced changes to the tax rules for business and investment. These reforms are intended to improve the competitiveness of our company tax system.

### Company tax rate changes

The company tax rate is changing from 30% to 28% from the 2011–12 income year.

### Property tax changes

The current 20% depreciation loading on new plant and equipment will be removed for assets purchased after 20 May 2010.

A zero depreciation rate has been set on buildings with an estimated useful life of 50 years or more, effective from the 2011–12 income year.

### Qualifying companies (QC) and loss attributing qualifying companies (LAQC)

LAQC and QC rules will be tightened from income years starting on or after 1 April 2011 to prevent people choosing to have losses deducted at their marginal personal tax rate but profits taxed at the lower company tax rate.

### Tax rules for foreign multinationals

Changes to the thin capitalisation tax rules will limit the scope of foreign multinationals to reduce the amount of New Zealand tax they pay by over-allocating debt to their New Zealand operations.

The changes apply to non-resident companies, and resident companies controlled by non-residents, and reduce the safe harbour for the New Zealand group from 75% to 60%.

The changes will apply from the 2011–12 income year.

No change has been made for the worldwide group ratio of 110% or the outbound interest ratio of 75%.

### Capital contributions

This is a payment made by a customer towards the cost of an asset for a business. For example, a farmer makes a payment to a lines company towards the cost of extending the electricity lines network so a new building can be connected to the company's network. Previously the payment was treated as capital so the lines company would not have included the payment as income and would have depreciated the full cost of the new power lines.

From 20 May 2010 these payments must now either be:

- counted as amortised income of the recipient (in the above example of the lines company), or
- the tax book value of the recipient's assets (the new power lines) must be reduced by the extent they are funded through capital contributions.



## Other Budget changes

The Budget changes impact on other aspects of our tax system that may affect your business, such as RWT, FBT and the redundancy tax credit.

### RWT rates reduced

RWT rates will be reduced from 1 October 2010 to align with the new personal tax rates.

The no-notification rate will drop from 38% to 33% to align with the new highest tax rate.

### FBT changes

You currently have the option of applying the alternate rate or using a single rate of 61% for FBT.

The single rate changes from 61% to 49.25% for those that have a standard balance date.

The alternate fringe benefit rates from 1 April 2010 are as follows.

Income range	FBT rate
\$0–\$12,390	12.99%
\$12,391–\$39,845	23.84%
\$39,846–\$54,915	45.99%
\$54,916 and over	55.04%

### ESCT changes

From 1 October 2010 the rates and thresholds will change as follows.

Income range	ESCT rate
\$0–\$16,800	10.5%
\$16,801–\$57,600	17.5%
\$57,601–\$84,000	30%
\$84,001 and over	33%

### Redundancy tax credit

From 1 October 2010 the redundancy tax credit will be removed. The redundancy tax credit was originally introduced so receipt of a redundancy payment didn't cause a person to be taxed at a higher tax rate than they'd normally pay. This credit has been removed because from 1 October the 38% tax rate will reduce to 33% so the gap will be smaller to the next rate of 30%.

## Use the right codes when making electronic payments

Making your tax payments electronically is convenient and easy and more of our customers are choosing this option. Here are some pointers to help you use the correct codes and references so we can process your payment quickly.

Most banks offer an online tax payment service on their website. You'll find this in the online banking section when you log in to your account. When making an online payment you'll be prompted to enter or select the details relating to the payment. This includes the:

- IRD number of the person or organisation the payment is for
- amount
- tax type
- period end date.

Each bank has a different cut-off time for processing payments. Your bank will carry over payments made after this time and process it the following business day. Please check your bank's cut-off time to ensure your payment will be processed on time. Most banks let you postdate your payment so you can set it up in advance for processing on a future date.

If your bank doesn't offer an online tax payment service, or you pay using a banking software package, you'll need to enter your payment reference details in the first two available fields.

Here's an example of income tax payment reference details for the period ending 31 March 2011.

1	2	3	4	5	6	7	8				
1	N	C		3	1	0	3	2	0	1	1

You may be prompted for the following information, which will show on your statement, payment slip or return.

In the first payment reference field enter the IRD number of the person or organisation the payment is for.

In the second payment reference field enter the code for the correct tax type. Leave the next box blank and then enter the period end date for the payment, **not** the date when you make the payment. The period end date must show the day, month and all four digits of the year, eg 31032011. If you're an employer, the correct period end date is printed on your employer monthly schedule.

Use the tax code **ARR** if you're paying off tax arrears. If your employer deductions payments include a combination of PAY, CSE, KSE, KSR, SLE, or SSC, you can make one payment using the **DED** tax type code.

When making other types of electronic payments to us, eg automatic payments or direct credits, you may need our bank account number. Payments to Inland Revenue should be made to bank account number 03-0049-0001100-27.

For more information on electronic payments go to [www.ird.govt.nz](http://www.ird.govt.nz) (keywords: electronic payments).

## Requesting a back-year personal tax summary

If your employees ask how far back a personal tax summary (PTS) can be issued, it's any of the past four tax years but not earlier. For example, from 1 April 2010 to 31 March 2011 they can only request a PTS for the years ending 31 March 2006, 31 March 2007, 31 March 2008 and 31 March 2009.

Your employee's PTS will show if they have:

- a refund,
- tax to pay, or
- paid the correct amount of tax.

However, once they've requested a PTS and it works out they have tax to pay, they'll have to pay that tax. They can work out whether to request a PTS by using our personal tax summary calculation at [www.ird.govt.nz](http://www.ird.govt.nz) "Work it out".

## Thank you from Child Support

There are many families that depend on you to deduct child support payments from parents' salaries or wages so we can pass on the payments. At Child Support we recognise the complexities that may be involved and we appreciate how you assist with the collection of child support.

In the 2010 tax year you helped collect almost \$241 million dollars through deductions from your employees' wages to help financially support their children. We're committed to working with you to help make the collection of child support payments as easy as possible.

If you'd like to talk to us or arrange an advisory visit—where we come out to visit you and go over any questions you may have about the child support deduction process—please call us on 0800 220 222.

### Paid parental leave weekly rate increases

From 1 July 2010 the paid parental leave (PPL) weekly entitlement rate increased from \$429.74 to \$441.62.

## Making tax easier – a Government consultation

The Government is consulting on changes to the way you deal with Inland Revenue. If you haven't already, join the discussion at [www.makingtaxeasier.ird.govt.nz](http://www.makingtaxeasier.ird.govt.nz) and see how simpler tax processes could work for you.

Under the proposals, individuals, businesses, employers and intermediaries would manage most of their tax affairs (and social entitlements) online, through their own secure space on the Inland Revenue website, in an approach like internet banking. Rapid responses and confirmation would provide certainty in dealing with tax.

For businesses and employers, new payroll software would manage a range of routine PAYE tasks, including the employer monthly schedule. Software that updates and exchanges information with Inland Revenue systems could automatically correct most current errors in PAYE information before it is sent. PAYE deducted each payday would be very accurate and be a final tax for many people in full-time work. However annual square-ups would be retained for other groups of workers and those with other income.

Further proposals cover sharing some information—with appropriate privacy safeguards—with other government departments, to reduce compliance costs and make it easier for people changing employment, going on parental leave, or updating their student loan repayments.

Videos and stories on the site show differences between dealing with Inland Revenue now and what the future could look like.

If you have difficulty accessing the internet you can write to Inland Revenue Policy Division, PO Box 2198, Wellington 6140, or phone Inland Revenue on 04 890 1404 and ask for a copy of the *Making tax easier* discussion document. You can then write in with your comments.

Consultation closes on 23 July 2010.

