

Our Compliance Focus 2014–15

Helping you get it right



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Whether you're...



Barb



Jim



Sue

From the Commissioner



Most New Zealanders want to play fair when it comes to tax: to pay the right amount, to get the payments they're entitled to, and know they're helping make society work.

This guide will help you keep on top of what you should do to file and pay tax on time, and receive the right payments.

Whether you're in business, starting a new job or starting a family, whether there's a student loan or child support to pay, whether you're investing in KiwiSaver, property rentals or receiving superannuation, there's information, tools and services here and online to help you get payments right and avoid common mistakes.

Inland Revenue wants to make it as simple, open and certain as possible for everyone to do the right thing. At the same time, we take very seriously any attempts people make to deliberately avoid paying tax or claim payments they're not entitled to. We have sophisticated systems to detect such activities so we can take action.

We share our compliance focus with you every year to make clear the particular areas where we're investing time and effort, so everyone knows what to expect, and New Zealanders can get on with their lives without worrying about tax.

We'll continue to look beyond the areas covered here to make things easier for customers. In coming years, Inland Revenue's business transformation and connections across government will make tax simpler, more open and more certain for all of us, and contribute further to growing New Zealand's wellbeing.

Naomi Ferguson
Chief Executive and Commissioner
of Inland Revenue

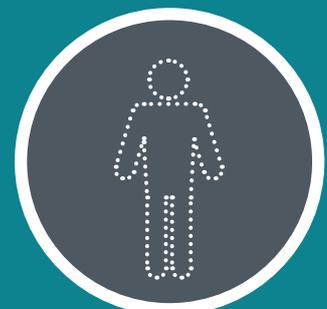
or whether you're...



Wiremu



Sam



or anyone in NZ

The tax you pay benefits people in your community—people like you!

The basics everyone needs to get right

Everyone needs to get these five things right to keep their tax life running smoothly.

We've included these details in our Compliance Focus, because we work hard to make it as easy as possible for people to understand what they need to do in each of these areas.

This list is just a starting point. There could be other things you need to do to get your tax and entitlements right.

1 Get your IRD number and keep it safe

Most people in New Zealand need an IRD number. If you're applying for Working for Families Tax Credits, everyone in your family, children included, needs their own IRD number.

It's really easy to get an IRD number for a newborn. You just need to tick a box on the form you complete to

register your child's birth with the Department of Internal Affairs.

Once you have your IRD number, be sure to keep it safe. It's rare, but a few people have tried to use someone else's IRD number to get money they shouldn't. We don't want that to happen to you.



Applying for an IRD number

Get the process under way by going to www.ird.govt.nz and downloading an application form (search keyword: IR595).

2 Use the right tax code

Your tax code lets your employer know how much tax to deduct from your income. If you use the wrong code, you could end up with a bill to pay.

The tax code you need to use depends on how many sources of income you have and whether you have a student loan. There are also a few codes used in special circumstances.

It's up to each person to make sure their tax code is right. If you want to know what tax code you're on now, ask your employer. They should have it on file.

You'll find everything you need to know about tax codes on our website, including a simple tool you can use to work out which tax code you need to use (search keywords: tax code).



Find out your tax code

Work out your tax code using our simple online tool. www.ird.govt.nz/mytaxcode

3 Tell us when your details change

Keep us up to date if your contact details change, in case we need to get in touch with you. This includes if you go overseas or come back to New Zealand after being away for some time.

If you receive Working for Families Tax Credits or pay or receive child support, it's important to let us know if your

income or family situation changes. These changes can have an impact on what you pay or receive. Keeping us up to date helps you avoid getting a bill to pay later.

When you want to tell us about a change in contact details, income or family situation, the fastest and easiest way is to update us online.

4 Make sure you pay tax on all your income

Like most of us, you probably have a main source of income you pay tax on. This could be earned through employment, self-employment or business income.

You also need to pay tax on any other income you receive, for example:

- rental income
- income from cash jobs or "under the table" payments
- royalties
- more than \$200 of schedular payments (withholding payments)

- estate, trust or partnership income
- overseas income.

Working for Families Tax Credits and child support are both affected by the income you receive. Telling us about all your income now, means you avoid getting landed with a debt to pay later.

5 File and pay on time

To make sure you can pay what you owe by the due date, it's best to plan ahead. Paying on time means you avoid penalties and interest.

There are lots of fast, easy and safe ways to make payments to Inland Revenue online. You can go to your bank's website, log in to internet banking and use their tax payment service. Or you can pay by credit or debit card on our website.

If you're overseas, you can use any of the fee-free international money transfer services listed on our website.

If you're finding it difficult to pay on time, you should contact us as soon as possible. You don't have to wait until the due date has passed to get in touch with us.

We collect taxes on behalf of government, which uses them to fund services that benefit the New Zealand community, like schools and healthcare. Most people pay what they owe. For those who don't, we follow up to help make sure everyone pays their share. You can find out more about how we do this on page 9.



Watch online

Watch a 40-second video to find out the quickest, easiest ways to pay Inland Revenue. Go to www.ird.govt.nz/pay

The basics for business

There are some basics that businesses need to get right to make sure they meet their tax responsibilities.

At Inland Revenue, we focus on making it easy to understand what you need to do to get these basics right. We do this by providing information, tools, services and reminders for people who need them.

1 Your responsibilities as an employer

Your main responsibilities to Inland Revenue are making the correct deductions from your employees' salaries (eg, PAYE, KiwiSaver), filing your employer monthly schedules (EMS) and making payments when they're due.

How you can get it right

- File your EMS every month.
- Make sure you get a fully completed *Tax code declaration (IR 330)* from every new employee.
- If an employee doesn't give you a completed IR 330, deduct PAYE from their pay at the no-notification rate of 46.45%.
- Make sure the right IRD number and tax code are next to each person's name on your EMS.
- Confirm how much each person's KiwiSaver, student loan or child support payments are on your EMS.
- Tell us when someone stops working for you through your EMS.
- If your employees have child support to pay, you must make these deductions from their pay after deducting PAYE and before any other payments.
- The fastest and easiest way to file your EMS each month is using myIR secure online services.

Online tools make it easier to get it right

Use our online tools to find out your contribution and deduction requirements for:



PAYE



Child support



Student loan



KiwiSaver

2 GST (goods and services tax)

GST is a tax on most goods and services in New Zealand, most imported goods and certain imported services. GST is added to the price of taxable goods and services at a rate of 15%.

How you can get it right

- You must register for GST if you carry out a taxable activity and your annual turnover is more than \$60,000, or you expect it to be that for the next year. If your turnover is \$5,000 or more a month and you expect it to stay at that level all year, you will need to register.
 - Declare all your sales and income on your GST return.
 - Keep copies of all the tax invoices you have sent to customers.
 - Keep records of all your sales.
 - Keep copies of invoices or receipts for expenses.
 - Cancel your GST registration if your business closes down.
- File your GST returns electronically using myIR. It's the most accurate and efficient way.
 - If you've made a mistake in your GST return, contact us and we'll help you.

Mistakes we see

- Not accounting for GST on the private use of assets owned by the business.
- Not including all your taxable supplies in the GST return.
- Reporting sales and expenses for a period not covered by the return.
- Not registering for GST early enough, and not deregistering when the business closes.

Online tools make it easier to get your tax right

Use our online Tool for Business or watch our Introduction to Business videos to learn more about what you need to do to get your tax right.



3 FBT (fringe benefit tax)

FBT is a tax on benefits that employees (and shareholder-employees) receive as a result of their employment, including benefits provided through another person.

How you can get it right

- If you start providing fringe benefits at any stage, you must tell us right away.
 - You may file FBT returns quarterly, income yearly or annually.
 - Make sure you choose the right FBT rate for the FBT return you file.
- File your FBT returns and pay on time to avoid penalties.
 - If you stop employing and providing benefits, you must let us know and file a final return to cover the period up to the date you stop.

Examples of fringe benefits



Vehicles



Low or interest-free loans



Free, subsidised or discounted goods and services



Gifts or prizes



Employees' entertainment



Private phone use

4 Record keeping

It's important to keep accurate and complete records. We accept paper records and electronic records, or a combination of both. Having accurate records:

- makes filling in your tax returns easier
- makes it quicker for your tax agent or accountant to do your books—which can save you money
- gives you the information to manage your business and help it grow
- makes it easier to get a loan.

You can get it right by keeping:

- all your records throughout the year
- records of cash and non-cash sales and expenses
- all your records (including electronic ones) for at least seven tax years
- your records in English, unless we agree to you using another language.

How we help you

- Use our online Tool for Business to learn how to get your record keeping right.
- Check out our short record keeping guide (search keywords: record keeping guide).
- We also have detailed information on our website (search keywords: keeping business records).

What are tax records?

Information or documents about sales, income and expenses, assets and liabilities to help you fill in tax returns and finalise your tax.



5 Contractors

Independent contractors are solely responsible for meeting their tax obligations.

How you can get it right

- Use our online filing and payment calendar to meet due dates.
- Check your tax obligations for GST, income tax and provisional tax with a tax advisor.
- Ask the business or agency you worked for to confirm your income details, if you need help calculating your annual income.

Mistakes we see

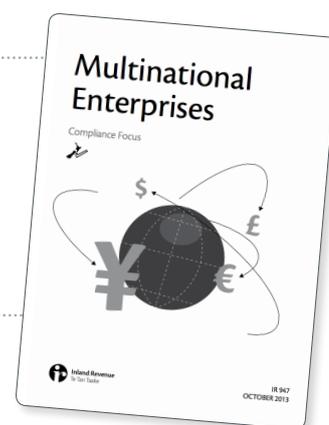
Some of the common tax mistakes independent contractors make are:

- not filing IR 3 income tax returns on time
- not declaring all contract income on IR 3's
- not being registered for GST if turnover is more than \$60,000 a year
- not accounting for GST on income where required
- claiming private expenditure against income
- incorrect income splitting with a spouse or partner.

Read our Multinational Enterprises Compliance Focus

In October 2013, we published our ongoing compliance focus for multinational enterprises. It describes Inland Revenue's approach to managing compliance for this group and highlights the particular areas we pay special attention to.

Read our guide online at www.ird.govt.nz (search keywords: multinational enterprises).



Our key focus areas

General focus areas

In this section we outline the general compliance areas we're focusing on.

Everyone files and pays on time

Whether we're talking tax, student loans or child support—most people pay on time.

Most people also file on time. We know that when it comes to tax, if a customer doesn't file a return on time, they may also struggle to pay the tax they owe on time.

In all cases, paying what you owe by the due date means avoiding penalties and interest. That's why we work hard to make it as easy as possible for you to file and pay on time and contact us quickly if you miss a due date.

What we're doing

We focus on prompting people to get overdue returns filed, particularly employer monthly schedules (EMS). That's because EMS can impact the entitlements employees receive, like Working for Families Tax Credits.

We remind customers about their filing and payment obligations before and after due dates, through text messages, letters and phone calls.

When a customer misses a filing or payment date, penalties and interest can quickly add up. So we contact them right away, to help them get back on track.

We're always looking for ways to improve our processes, services, the way we communicate and the information we offer customers. That's because we want more people to get their returns filed and get debt-free—whether they owe tax, student loan repayments or child support and whether they're here in New Zealand or overseas.

It's important to remember that student loan and child support obligations don't disappear when people go overseas. We take action ourselves, and work with overseas collection agencies, to get these customers' debts paid.

How you can get it right

Check out page 5 for key things you need to do to make sure you pay the right amount on time. For example, letting us know when your contact information, family or work situation changes.

Building on that, you can make sure you get it right by:

- staying up to date with your obligations by registering for a myIR secure online services account
- contacting us early if you think you might have difficulty making a payment—we'll work with you to find a solution
- talking to a tax advisor
- telling us if your business closes down or if you think you no longer need to file an income tax or GST return or be registered as an employer.

Fast and easy ways to pay

Go to www.ird.govt.nz/pay to find out about all the ways you can make payments to Inland Revenue.



People with high wealth or high income

People who have significant assets or high income often have complex tax affairs. Like everyone else, most people with high wealth pay the right amount of tax at the right time, but sometimes people make mistakes and don't get their taxes quite right. We have a dedicated team that helps these customers get back on track.

What we're doing

We share information with high-wealth customers and their tax agents to help people avoid common mistakes.

We also look out for signs that they might not be paying the right amount of tax. That way we can contact them early, help them get back on track and stop penalties and interest adding up. Here are just a few examples of what we look out for:

- large one-off or unusual transactions
- unexplained losses
- unusual classifications of income and expenditure between capital and revenue

- mismatches between tax paid and net wealth
- complicated structures or intra-group dealings
- unusual financial instruments or financing arrangements
- mixed business/private use of assets—especially lifestyle assets.

How you can get it right

- If you're not sure about an arrangement, consider asking us for a binding ruling so you can be certain to get your taxes right.
- If you think you may have got your taxes wrong, let us know by making a voluntary disclosure.

The property business

Whether you're buying or selling property for profit, renting out a property you own or having boarders stay in your family home, it pays to know the rules. That way you won't end up with an unexpected tax bill to pay.

What we're doing

We're focusing on tax issues associated with residential property trading and one-off speculation, with a focus on new and infill developments.

But no matter what your situation, we want to make it as easy as we can for you to understand what you need to do to get your tax right on any property transaction.

The property pages on our website are there to help. They include a handy tool to help you check out if you have to pay tax on your property.

Whether you have a straightforward question, or a situation that's a bit unusual, our website is a great starting point.

We also work with industry groups and educate people about their tax responsibilities.

People who don't follow the rules may be investigated.

We may also place an alert on any future property transactions they make, so we can make sure they file their returns and declare the right amount of income down the track.

How you can get it right

- Look at our property webpages, read our guide *Tax and your property transactions (IR 361)* and watch our video about tax on rental income.
- Find out about the common mistakes people make before you buy, sell or rent out a property.
- If you're in doubt about your situation, contact us or a tax advisor.
- If you think you may have got your taxes wrong, let us know by making a voluntary disclosure.

Everything you need to know about property and tax

Check our property pages at www.ird.govt.nz/property for everything you need to know about property and tax. Do you have a rental property? Watch our video on tax and rental income www.ird.govt.nz/rentalincome



Trusts

People can choose to use trusts in their personal or business affairs. If you set up, manage, or receive income from a trust, make sure you understand and meet your tax responsibilities. Otherwise, you might face penalties or end up with an unexpected tax bill.

What we're doing

We're working to educate people about the tax rules for trusts and how they can avoid common mistakes. We're doing this through:

- the trusts section of our website
- maintaining our guides
- articles in business journals, industry publications and our newsletters.

We also look out for the use of trusts in aggressive tax planning arrangements. We look for structures involving trusts that:

- don't seem to make commercial sense
- deliver unusually favourable tax advantages.

We don't find a lot of these cases. But when we do, we take action.

How you can get it right

- Be sure you understand the tax rules for trusts. Look at the trusts section of our website, or our guide *Trusts and estates income tax rules (IR 288)* to understand the basics.
- If you have questions about your tax responsibilities, contact a tax advisor or Inland Revenue for information.
- If you're a trustee, keep good records (see page 8). This includes trust deeds, meeting minutes, resolutions, asset registers, bank statements and invoices. Good record keeping will help make filing income tax returns easier for you.
- If you think you've made a mistake with your taxes, let us know by making a voluntary disclosure.

Everything you need to know about trusts

Find out more about trusts at www.ird.govt.nz/trusts



It's not worth the risk

We know that sometimes people make honest mistakes with their tax or entitlements. When this happens, we're here to help them get back on track.

It's rare, but sometimes people try to avoid paying the tax they owe or get more entitlements than they should. We're always working to improve our systems and processes, so that we can spot when this happens and take action.

For people who don't do what they're meant to, the consequences can be serious. They could end up in prison or with substantial financial penalties. It's just not worth the risk.

Fraud and identity theft

It's infrequent, but people sometimes:

- create fake documents or identities or intentionally provide incorrect information to pay less tax or get money from us—and that's fraud
- use another person's IRD number to get money from us—and that's identity theft, which is a form of fraud.

What we're doing

We take fraud seriously. Our systems are designed to prevent people from receiving refunds they aren't entitled to. They're also designed to protect your personal information.

We use sophisticated technology, information from other government agencies and data analysis to detect and monitor suspicious activity, ranging from basic scams to complex and organised criminal activities.

Where we find someone has attempted or committed fraud, we take action.

We're also a member of the Welfare Fraud Collaborative Action Programme along with the Ministry of Social Development, Accident Compensation Corporation and Housing New Zealand, with support from New Zealand Police. We work together to identify and take appropriate action when someone attempts to commit welfare fraud against one or more of these agencies.

How you can get it right

- Keep your tax and social policy information and online password safe.
- Contact us if you suspect your identity has been misused.
- Complete a *Report tax evasion or fraud anonymously (IR 873)* form if you suspect any inappropriate activities or if you suspect someone of misusing someone's identity.
- If you receive an Inland Revenue-related email or text you think seems suspicious, email us at phishing@ird.govt.nz. We'll never ask you to text or email us your personal information.
- Make sure you know what you need to do to get your taxes right. For example, include all your income and only claim legitimate expenses in your tax returns. If you need help, your tax advisor can help you.

Keep your details safe

Find out what you can do to protect your IRD number. Go to www.ird.govt.nz/keepsafe

We'll never ask you to text or email us your personal information.



Under-reporting income and operating outside the system

Most people report their income correctly and pay the right amount of tax. But a small number intentionally under-report their income and pay less tax than they should. This means:

- some businesses may get an unfair competitive advantage over other businesses that pay the right amount of tax
- government has less to spend on services that make New Zealand a great place to live, like schools and hospitals.

What we're doing

We understand that people who are new to New Zealand and people who are starting their first job or business might not know exactly what they need to do to get their tax right. We provide information, education and services they need to get their tax right from the start. For example, through our website or free tax seminars.

We're always working to improve the tools and techniques we use to detect when people are under-reporting their income or taking steps to stay outside of the tax system. Where we find tax evasion, we take action.

To support global efforts to combat tax evasion, we contribute to information sharing that's happening across government here in New Zealand and with organisations overseas, for example, the Australian Taxation Office.

How you can get it right

- Find out about your tax obligations on our website or ask a tax advisor. If you're in business we recommend checking out our online Tool for Business and the Companies Office's website business.govt.nz
- Make meeting your tax responsibilities simpler by having good business processes in place and keeping good records.
- If you've been under-reporting income or not paying the right amount of tax, tell us by making a voluntary disclosure. We'll help you get back on track.
- If you suspect someone of not paying the tax they should, tell us about it anonymously by using our online form, *Report tax evasion or fraud anonymously (IR 873)*.

Aggressive tax planning

A small number of people try to avoid paying the tax they should or boost entitlements to social benefits by using inappropriate or unlawful tax structures. We call this aggressive tax planning (ATP).

What we're doing

We match tax data from various sources to identify potential ATP structures and schemes.

If we suspect ATP is happening, we'll monitor the tax position taken and follow up with an investigation, where required.

We're working on projects to address specific ATP issues we've identified. For example, herd scheme restructuring in the dairy farming industry and complex financing.

We've been very successful challenging tax avoidance in court over the past few years. You can read more about these cases on our website (search keywords: legal decisions).

We also:

- actively support the international community's work on Base Erosion and Profit Shifting (BEPS) in New Zealand

- provide education and support to professional bodies and other stakeholders (eg Chartered Accountants Australia and New Zealand).

How you can get it right

- Learn more about ATP by reading information on our website (search keywords: tax schemes).
- If you're considering an arrangement that minimises the tax you need to pay, get independent advice from a tax advisor.
- If you're not sure about an arrangement, consider asking us for a binding ruling so you can be certain to get your taxes right.

What is BEPS?

In our increasingly connected world, some international companies avoid tax in their home countries by moving activities to countries with low or no tax jurisdictions. In 2013 the Organisation for Economic Cooperation and Development launched a project called Base Erosion and Profit Shifting (BEPS).

The goal? To identify steps the international community may be able to take to address this challenge.



Groups we're working with

Here are some specific groups we're working with to help get their taxes right.

Life insurance providers

We're coming to the end of a five-year transition period that eased in new tax rules for life insurance providers. This included grandparenting concessions for pre-existing policies.

What we're doing

We're continuing to offer advice and support to insurance providers around any questions or individual situations.

How you can get it right

If you're unsure about how the changes affect your business, contact us or a tax advisor.

Charities

Charities make an important contribution in our communities. In recognition of this:

- registered charities receive tax exemptions
- Kiwis who donate to charities can claim tax credits.

It's rare, but sometimes charities are misused by people to pay less tax than they should or receive money they shouldn't.

What we're doing

We educate people when they have gone off track. This helps ensure that they understand what they need to do get their tax right now and in the future.

We work closely with the Charities Services team at the Department of Internal Affairs to identify people who misuse charities. We investigate when people set up structures or schemes designed to avoid paying tax or receive money they shouldn't.

How you can get it right

- If you help run a charity, make sure you know and follow the rules. You'll find information on our website (search keyword: charities) and on the Charities Services' website charities.govt.nz
- Get advice from a tax advisor before undertaking any unusual transactions or setting up complex structures.
- If you think you've made a mistake or incorrectly claimed a donation tax credit, make a voluntary disclosure.

More about charities

There are 27,434 registered charities in New Zealand. They raise \$15,850 million annually between them.



27,434
registered charities



\$15,850
million raised annually



To help people in
our communities

Source: October 2014 statistic on charities.govt.nz

Central and local government

With the continued structure and organisational changes in the public sector, we're maintaining our focus on GST and remuneration systems and processes used by central and local government.

What we're doing

We're working with organisations that are undergoing change. We provide them with information about their tax obligations, now and in the future, and help them with any transitional issues.

Our programme of system and process reviews continues across central and local government. We've been addressing any risks we identify and highlighting areas where compliance can be improved as we go.

How you can get it right

- Review your systems and processes to be sure you're getting your taxes right.
- If you're uncertain about how to apply specific legislation, consider whether requesting a binding ruling is right for you.
- If you think you might have made a mistake with your taxes, let us know by making a voluntary disclosure.

What's a binding ruling?

A binding ruling is Inland Revenue's interpretation of how tax law applies to a particular arrangement.

An arrangement is any agreement, contract, plan or understanding (whether enforceable or not), including any steps and transactions that carry it into effect. For full details read our guide *Binding rulings (IR 715)*.



How you can stay up to date

Here's how you can stay up to date on the latest news from us:



Check out our website www.ird.govt.nz



Sign up to receive our newsletters at www.ird.govt.nz/subscribe



Register for a myIR secure online services account at www.ird.govt.nz/myir



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