[Insert DD Month YYYY]

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[Insert Contact Person’s Name]

[Insert Company Name]

[Insert Company Address]

[Suburb]

[City, Post Code]

Dear [Insert Client Name]

**Re:** **[Insert Taxpayer] Common Errors Targeted by Inland Revenue**

We are writing to you in regards to [insert taxpayer’s name]’s tax compliance in light of common errors seen by Inland Revenue. If any of the below apply to [insert taxpayer’s name] or if you wish to discuss any of the these matters in further detail, please feel free to contact us.

Inland Revenue have highlighted the following key factors as common areas of mistakes which are targeted by Inland Revenue. Please note that this is not an exhaustive list, and if you are unsure of the tax treatment of any transaction, we would be happy to assist you with it.

**Companies**

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| **Issue** | **Examples** | **Recommendations - How we can assist** |
| **(1) Payroll** | | |
| Employer Responsibilities | Incorrect employee IRD numbers or incorrect format.  Employer monthly schedules not filed on time to make payment.  Incorrect amounts entered for employee’s KiwiSaver, Student Loan, or Child Support Payments.  Over-reliance on payroll software to produce the correct answer (particularly when payroll service provided internationally). | We offer payroll assistance and can prepare payroll returns and file them on your behalf. Alternatively, we can perform a high-level review of your payroll function.  We recommend proper procedures are in place to prevent errors. This includes regular reconciliations of employer monthly schedules and employer deduction forms across PAYE, KiwiSaver and other deductions.  Appropriate checks should also be performed of forms being filled in by employees (such as the IR330).  Spot checks should be regularly performed to ensure amounts paid for individual employees are correct. These checks are particularly important when lump sum amounts are being paid, or upon an employee leaving. |
| Employees vs Contractors | Incorrect treatment of employees as independent contractors, and non-compliance with employer responsibilities. | We can assist with appropriate identification of whether a person is an employee or an independent contractor. |
| **(2) GST** | | |
| Preparation Errors | Figures entered in incorrect boxes, numeric errors, insufficient information. | We can review your GST returns and file these with Inland Revenue on your behalf. |

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| **Issue** | **Examples** | **Recommendations - How we can assist** |
| **(2) GST** | | |
| Private Use Adjustments | Claiming a full input tax credit on an asset that is partially used for private (non-business) use. | We can review the correct GST treatment of business assets used for private purposes and provide advice on how to reflect this in your GST returns. |
| Registration and De-registration | Not registering for GST when you expect business income to be over $60,000 and not de-registering when taxable activity ceases. | We can discuss your particular circumstances and provide advice regarding registration and de-registration issues. |
| Incomplete Taxable Supplies Returned | Not including all supplies which should be subject to GST at 15%. | We can review your supplies and advise what amounts are exempt and what should be rated at 0% and 15% to ensure the correct amounts are returned. |
| Returning GST in Incorrect Periods | Including supplies made after the return period, or adjusting for prior errors of supplies not included in last return period. | We can assist you in correcting any historical GST issues by lodging all necessary information with Inland Revenue in the most efficient format to ensure quick processing. |
| Zero Rating of Exported Goods | Goods incorrectly zero rated where the taxpayer is not the exporter of record. | We can assist with advising on the requirements to zero rate exported goods and application of these provisions to you. |
| GST and Land Transactions | Transactions are incorrectly zero rated or secondhand goods credits are incorrectly claimed when land and buildings do not relate to the taxable activity of the taxpayer. | We can advise on the specific requirements of the GST zero rating provisions and assist in filing second hand goods credit claims with Inland Revenue to ensure smooth processing of such GST returns. |
| GST and Bodies Corporate | Previously there has been uncertainty around whether bodies corporate may be registered for GST. | Given recent Inland Revenue guidance in this regard, we can advise on the advantages and disadvantages of being GST registered and all associated requirements. |
| **(3) FBT** | | |
| Motor Vehicles | Private use of motor vehicles not being subject to FBT – often in reliance on a ‘restriction of use’ letter that is not enforced. | We can assist in establishing necessary processes and procedures to ensure compliance with FBT rules, including assistance with restriction of use letters where these are not already in place. |
| Mobile Phones | Provision of mobile phones being subject to FBT where these may, in fact, be exempt as a business tool. | We can review all benefits provided to employees to ensure the company is compliant, while taking advantage of any available cost savings opportunities. |

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| **Issue** | **Examples** | **Recommendations - How we can assist** |
| **(4) Transfer Pricing** | | |
| Arms’ Length Transactions | Transactions with companies overseas not arms’ length.  Lack of documentation, or reliance on documentation prepared by overseas parent. | We can assist with a Transfer Pricing review and/or preparation of Transfer Pricing Documentation. Alternatively, an Advanced Pricing Agreement can be agreed with Inland Revenue to reduce New Zealand risk. |
| Low value added intra-group services | Mark-up being applied is excessive without benchmarking analysis being provided. | We can assist with reviewing the mark-ups being applied to various transactions and review whether Inland Revenue’s simplification measures can be applied. |
| **(5) Controlled Foreign Companies** | | |
| Attribution of Income | New Zealand income tax implications associated with foreign companies controlled by New Zealand residents. | We can assist you with determining whether any income should be attributed to a New Zealand company from a controlled foreign company. |
| **(6) Overall** | | |
| Incomplete Records | Records are not accurate and complete. | Records need to be organised, up to date and held for seven years. |
| Undeclared income | Taxpayers not disclosing all income earned, especially income earned overseas. | New Zealand tax residents must return all worldwide income earned. Inland Revenue has begun to focus their compliance efforts on this, including examining taxpayer credit card transactions, to determine if any income from foreign jurisdictions has been omitted. |
| Excessive deductions being claimed (especially in the real estate industry) | Taxpayers claiming a deduction for expenses which may potentially be of a private nature. | We can assist with a review of the expenses being claimed and advise on the appropriate income tax treatment. |

**Individuals**

We outline below the top nine misconceptions for individuals in respect to international tax compliance:

1. New Zealand residents are taxed on their worldwide income, not just income earned in New Zealand.
2. If an individual leaves the country, but maintains a permanent place of abode here, the individual is still a New Zealand resident.
3. Foreign income including investments (even if in an offshore account) is taxable in New Zealand even if it is not repatriated to New Zealand. This may even be the case if withholding tax is deducted on the foreign income.
4. A foreign tax credit is only available where tax is not subsequently refunded (even in a later year), is substantially the same as income tax and doesn’t exceed tax payable on underlying income in New Zealand.
5. Not all overseas pension plans are tax-free, certain ones may be fully taxable in New Zealand.
6. Special taxing regimes (controlled foreign company and foreign investment fund rules) apply to gains on certain foreign shareholdings, retirement schemes and life insurance investments.
7. Additional disclosures are required in respect of controlled foreign companies and foreign investment funds.
8. Allowances that may be treated as tax-free in other countries (for example, living-away-from-home allowances) are generally fully taxable in New Zealand.
9. The temporary tax exemption on foreign income for transitional residents expires after 48 months and there is no entitlement to Working for Families Tax Credits during the period of this exemption.

In regards to individuals, we can assist with preparation of tax returns for individuals and determine whether any of the above factors are of relevance.

If any of the above appears relevant to your circumstances, please feel free to contact us on [insert telephone number] to discuss further.

Yours sincerely

[Insert Name and Title]

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| Encl. |