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## The Client Link

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### Electronic Payments

It is not unusual for payments made to the Inland Revenue Department to sit in an 'unallocated' account if the taxpayer has not supplied sufficient details of the payments especially if they are made electronically in the form of a direct credit, automatic payment or online banking method.

The Inland Revenue Department must have the following details:

- IRD number of the taxpayer (can be a person, a partnership, a company or a trust).
- The correct code for the tax type e.g. GST, IPS (for resident withholding tax on interest), INC (for income tax) etc.
- For PAYE only the code is PAY, but if the payment includes a combination of PAYE, child support, student loan or specified superannuation contribution deductions, the correct code is DED.

- The period-end date for which the payment is made e.g. put 31-03-06 for March 2006 PAYE paid on 20 April 2006 and not the payment date.

For those who want to know the step-by-step process, it is contained in an Inland Revenue Department booklet called *Making Payments (IR584)*.

Taxpayers also need to know about their bank's policies with regard to cut-off times for processing their payments. If you make an online payment on the due date for payment, but *after* the bank's cut-off time, the payment will be processed the following day and you may end up making a late payment.

In addition, banks are unable to cater for several payments of different tax types in one transaction payment given their current banking technology i.e. you need to make separate payments for each tax type.

## SOUTHERN CROSS BUILDING SOCIETY

### Term Investment Rates

<u>Investment</u>	<u>\$100—\$250,000</u>
1 month	6.00%
2 months	6.20%
3 months	6.60%
<b>6 months (special)</b>	<b>7.30%</b>
9 months	7.00%
12 months	7.00%
24 months	6.30%
36 months	6.30%

*Please note: Interest is calculated daily and paid at maturity, rates are per annum. Other Interest payment options are available. Interest Rate as at date of printing and is subject to change.*

*Please phone Lynch & Partners to confirm current investment rate & ask for an Application form.*

### WORKING FOR FAMILIES

In September, IRD will be writing to customers who receive their family assistance as a lump sum at the end of the tax year, inviting them to confirm their eligibility for the new in-work payment.

You need to be aware of the danger of any invitation to receive family assistance payments progressively.

Because of the fluctuations of farming and business incomes you could be caught in the scenario of having to pay it back.

If you have any questions about this please contact us.

**IMPORTANT:** This is not advice. Clients should not act solely on the basis of the material contained in **The Client Link**. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. **The Client Link** is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.

## Increase in Child Rebate

From 1st April 2006 the child rebate has increased from \$156 to \$351. This means that if you are paying wages to school children, they can now earn \$45 a week (\$2,340 a year) before you need to deduct PAYE or withholding tax from payments made to them. Previously they could earn \$20 a week before deductions needed to be made.

Note that in looking at whether the total for the year will be \$2,340 or less, it is necessary to look at what the child earns (or is expected to earn) from all employers.

## Trustee Distributions of Interest and Dividends

You are reminded about streaming of dividends. They have to be allocated in the same ratio as the income is allocated to beneficiaries. Attached imputation credits and withholding tax should also be allocated in the same proportions.

There is no obligation to allocate interest in any particular proportion. You could give rent to an overseas beneficiary and interest to a local beneficiary. Likewise, there are no rules governing the allocation of withholding tax. You can apportion it anyway you like including retaining of it in the Trust.

## Fringe Benefit Tax (FBT) Changes

Changes to the FBT rules were legislated recently and came into effect from 1 April 2006.

Some of the key changes include:

### **Exemption threshold**

The previous exemption of \$75 per employee per quarter limited to \$450 for all employees has increased to \$200 per employee per quarter and limited to \$15,000 for all employees per annum.

### **Loans to employees**

In order to reduce compliance costs, advances made against salary or wages to employees are now exempt from FBT provided the outstanding balance on the loan is not more than \$2,000.

### **Employer-provided business tools**

It's more common now for an employer to provide business tools such as mobile phones or laptops to employees for business purposes. These items will not be subject to FBT provided the value is not more than \$5,000 and they are used mainly for business.

### **Motor Vehicles**

There are a myriad of changes concerning motor vehicles and FBT. The key features are:

#### **Valuation Rate**

The valuation rate used to calculate fringe benefits on motor vehicles has reduced from 24% to 20% annually on its GST-inclusive cost price. A new rate of 36% per annum has also been introduced if another option (see below) is used.

#### **Valuation Options**

Under the old regime, there were no options available to calculate the fringe benefit value of motor vehicles

available for private use. Now employers have the option to either continue to use its GST-inclusive cost price to calculate the fringe benefit or the GST-inclusive tax value of the motor vehicle depreciated at 36% on a diminishing value per annum.

To illustrate this option by way of an example let's say the purchase price of a motor vehicle is \$65,000 (GST-inclusive) on 1 April 2006. The tax value for FBT purposes will be as follows:

Tax value on 1 April 2006	\$65,000
Depreciation at 36%	<u>\$23,400</u>
Tax value on 1 April 2007	<u>\$41,600</u>

However, if the tax value of the vehicle drops to below \$8,333 say after 6 years, then the minimum tax value that must be used for FBT purposes remains as \$8,333.

Note that the annual taxable value on which FBT is payable for the year ended 31 March 2007 is \$23,400. This seems unusual but is as per IRD website.

Also, once the employer chooses between cost and tax value options, it must continue to use the chosen option until either:

- The motor vehicle is sold *or*
- Ceases to be leased *or*
- Five years has elapsed.



#### **Leased Vehicles**

Leased vehicles are now treated the same as company-owned vehicles for FBT purposes. This means that the vehicles have to be valued either on the cost or tax value basis.

#### **"9 - 5" Leases**

FBT now applies to any private use even where there is an agreement between the employer and employee to suspend the lease when the vehicle is used for private purposes.