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Interacting with Inland Revenue

At some stage in their lifecycle, all businesses will interact with Inland Revenue in a non-routine way – either proactively, or in responding to a risk review or formal audit. We have outlined below the most common scenarios, and ways that Deloitte can help. Managing these interactions efficiently, pragmatically and strategically is key to maximising outcomes, and minimising business disruption/costs.

'Section 113' adjustment

This is the primary mechanism for "positively" correcting a tax position previously taken, e.g. to reduce taxable income or secure a (greater) refund. It's at the Inland Revenue's discretion, which means that providing clear information and support for your application is critical. It's also possible for a business to use a notice of proposed adjustment (see 'Disputes process') to do this in certain circumstances.

Voluntary disclosure

A voluntary disclosure is made when a business wants to 'come clean' about errors in their previously filed return(s).

Provided it is complete, a voluntary disclosure can entitle the business to a full reduction of any shortfall penalties (SFPs) imposed by Inland Revenue. Where Inland Revenue accepts a voluntary disclosure, they issue an amended assessment to confirm the relevant adjustments.

Statement in support of a tax position

Businesses can also manage their exposure to SFPs by filing a "Statement in support of a tax position" (SSTP) with their tax return. So long as the SSTP makes adequate disclosure, any SFP for taking an unacceptable tax position or an abusive tax position may be reduced by 75%.

Binding ruling / Short Process Ruling

Binding rulings and short process rulings record Inland Revenue's interpretation



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of how a tax law applies to a particular arrangement and are binding on Inland Revenue provided that their conditions and assumptions are met. These rulings are applied for by businesses to secure certainty on a particular tax position so that it cannot be challenged by Inland Revenue.

Inland Revenue charges an application fee and also for its time working on the ruling. Rulings have an expiry date but can be renewed provided that the relevant laws haven't changed.

Indicative view

An indicative view is Inland Revenue's non-binding interpretation of how a tax law applies to a particular situation.

These are not charged for by Inland Revenue, and so involve less cost and are quicker to achieve. Although an indicative view does not provide the certainty of a binding ruling, it is a useful tool to obtain an indication of the Inland Revenue's view about a particular transaction/arrangement/issue.

Indicative views cannot be obtained on tax avoidance issues and cannot involve more than 20 hours of Inland Revenue's time.

Risk reviews and tax audits

A risk review is a preliminary review of a business' position to determine whether a full audit is required. Once commenced, a tax audit can potentially run for years and involve numerous information exchanges and meetings. Tax audits are extremely onerous for businesses and require careful management to resolve. A tax audit is not always preceded by a risk review.

Disputes process

The formal disputes process starts with the Inland Revenue issuing a notice of proposed adjustment (NOPA), generally when agreement cannot be reached on completion of an audit. Once a NOPA has been issued, the disputes process then follows a largely prescribed timeline with tight deadlines.

The disputes process is heavily weighted in favour of Inland Revenue, and 'burn off' for businesses who engage in the process is common. A tax dispute needs to be strategically managed from the outset, to ensure the best and most cost-efficient prospects of an effective resolution.

How Deloitte can help:

- Interactions with Inland Revenue can be time and resource intensive. It is important that all such interactions (proactive or reactive) are carefully managed from day one, with expert input and guidance.
- Deloitte leverages its breadth and depth of experience and expertise to strategically manage all forms of Inland Revenue interactions, resulting in optimal and cost-efficient outcomes for our clients
- · Although Inland Revenue risk review and audit activity went into hibernation during COVID-19 lockdown periods, that activity is now picking up again back to normal levels. We expect Inland Revenue to be focused on scrutinising businesses' tax affairs closely, given the inevitable pressure to plug the fiscal gap created due to the Government's COVID-19 economic stimulus measures. Early involvement of Deloitte experts in any non-routine interaction with Inland Revenue is critical to successfully securing an appropriate resolution.
- For more information please contact one of our Tax team.

Contact us:



Campbell Rose
Partner, Tax
Tel: +64 9 303 0990
Email: camrose@deloitte.co.nz



Virag Singh Director, Tax Tel: +64 9 952 4208

Email: vsingh@deloitte.co.nz

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