

## 'Sloppy' IRD must shape up

By [Maria Slade](#)

[www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=10725676](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10725676)

The article below was published in the Sunday Herald on 15 May 2011. We have inserted some minor amendments but stand by the general thrust of the article.

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Audits that take three years, demands for decade-old information, not stating the total amount owed and a refusal to communicate by email are all Inland Revenue Department practices a Wellington tax agent wants stamped out.

**Tax advisor** Jeff Owens has put a submission to IRD Commissioner Bob Russell and Revenue Minister Peter Dunne calling for a set of protocols for conducting tax investigations and audits.

"The behaviours expected by IRD senior management are not what is actually practiced in the field, and it is very difficult to get such issues addressed in any meaningful way," Owens said.

A lot of accountants were afraid to raise such issues because they feared being targeted.

But he was lobbying for change out of "a combination of frustration at the delays and extra costs that are imposed when IRD do act unreasonably, and a public interest".

IRD generally resisted being measured against any standards for timeframes or responding to correspondence, he said.

It would demand information in a fixed timeframe and then take months to get back.

It would then demand more information in a short time, and on it would go for several rounds.

In one case Owens handled, the owners of a Manawatu Chinese takeaway were forced to produce records going back 20 years and the audit took three years. The couple got a huge shock when **IRD offered a settlement but it turned out the** the final tax bill **would have been more than** double **the amount disclosed,** thanks to interest, and other charges.

**Comment [JO1]:** Please note that we are primarily tax advisors and only prepare and file tax returns for a small group of clients

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**Comment [JO2]:** This is very important. IRD offered to settle for \$185k, but didn't disclose other taxes and interest that meant to final bill would have been \$495k. We actually settled for \$220k. My suggested edits are consistent with that

**Deleted:** what they had agreed to

**Deleted:** penalties

The department will often not communicate electronically - even though it requires information in electronic form - and rarely acknowledges receipt of correspondence, he said.

Staff also often don't amend their "out of office" messages.

"I dealt with one person who had a near-fatal illness as it turns out, and I had no idea why I wasn't getting any responses.

"When you're in an audit situation it is important to co-operate with IRD. But IRD too often make it very difficult to co-operate."

Tauranga accountant Gail McIntosh said the issues Owens raised had been ongoing for many years, and she supported a review. "Whether [IRD] like it or not they're a big player in how people do business and they have to conduct themselves to the highest standard."

She described the department's practice of never adding up the total amount owed as "sloppy".

Christchurch chartered accountant Elisa Davis said a straightforward IRD audit of one of her larger clients, a construction industry business, lingered for more than a year and found nothing.

In the meantime, tax returns for future years couldn't be finalised. "The client was so frustrated. I have a feeling that the [IRD] auditor was not necessarily that conversant with that industry."

Graham Tubb, IRD's acting group manager assurance, said the department had received Owens' submission. He made some useful points and it would reply shortly, Tubb said.

It believed it had made significant improvements in its communications with taxpayers, the disputes process, and case management in the past few years. "We want to make it easier for people to comply with their tax obligations and harder for them to get away with not doing so."

### 'Bullying tactics' locked farmer in two-year tax battle

Retired upper Hutt farmer Ron Johnson says his life has been on hold for the past two years as he has battled the Inland Revenue Department over a \$750,000 tax bill it now admits was never owed.

This week IRD apologised to the Johnsons for pursuing income tax on the subdivision and sale of the family farm nine years ago.

At the time, Johnson consulted his accountants and was told the development wasn't taxable.

In 2009 IRD put aside time barriers on the transaction and decided to audit.

After spending \$30,000 fighting it, the department has agreed with him that there is no tax to pay.

**Comment [JO3]:** Generally IRD does allow email but wont provide documents electronically.

**Deleted:** by email

**Deleted:** capital gains

**Comment [JO4]:** We don't have capital gains tax in NZ, but sale of land is subject to income tax in some circumstances

Johnson, who has suffered two heart attacks, says the situation created untold stress. "The bullying tactics they used were actually disgusting," he said.

"We've had night after night of not even being able to sleep as a result of some of the letters they've sent us."

When he found himself in front of the IRD official who had written the letters, he said he had "never felt so angry in all my life".

"I couldn't even bear to basically look at the woman."

He is speaking out to support Jeff Owens, the tax [advisor](#) who resolved his situation and who is now lobbying for IRD to standardise its audit procedures.

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The owners of a Wairarapa family business are also supporting the campaign after battling IRD for most of last year. The department wrongly tried to claw back a GST deduction the business had claimed on a property. "It took 10 months of stressful negotiations and cost us \$12,000 to get back to square one," the wife said.

### **Managing the IRD**

- \* Keep good records.
- \* Assume that eventually IRD will audit you.
- \* Remember that IRD's job is to collect tax, not to be fair.
- \* Don't meet or talk to IRD without professional support.
- \* If you are aware of a shortfall, strongly consider making voluntary disclosure.
- \* Be aware of your rights.

*Source: Owens Tax Advisors Ltd*

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