

A-Z Guide

INLAND REVENUE DEPARTMENT AUDITS



Overview

The Tax Administration Act 1994 provides the Inland Revenue Department with significant powers to audit companies, businesses and individuals in order to protect the integrity of the taxation system in New Zealand. Tax investigators from the Inland Revenue are able to:

- Access property including books and documents; and
- Require reasonable assistance with matters relating to tax audits; and
- Require any person to supply written information and produce for inspection any books and documentation considered pertinent to a tax audit; and
- Remove and retain any books and documentation pertinent to a tax audit.

If records or documents are covered by legal privilege, because they contain communications obtained for the purpose of legal advice, between an organisation or individual and a solicitor, they may be withheld. The Department is bound by law to keep the information it acquires from and about organisations and individuals confidential. The information privacy principles of the



Privacy Act 2020 apply in respect of individuals, and the Official Information Act 1982 applies to audits in respect of organisations.

The Department audits for a variety of reasons and has a number of different audits that reflect those reasons. Audits can be precipitated by a variety of events but may be random. Either way the Department is not obliged to advise why it audits an organisation or individual, when, or how, it does this.

The Department usually gives advance notice of its intention to audit; however, it will make random checks from time to time to ensure compliance with payroll and GST records. Generally speaking, an audit will involve a visit by a tax on investigator for a preliminary inspection of records and documents, which will be followed by questions, and a more in-depth check of records and documents. When any issues arising have been clarified and sorted the IRD will finalise the audit, which may involve a tax adjustment. Tax adjustments can be disputed.

Tax advisers are able to instruct organisations and individuals in the correct way to respond to and prepare for an audit. Once the purpose of the audit has been established it is important to set timeframes and information parameters to be established so that the audit process is contained and does not unduly interfere with the normal operation of the organisation or individual. The Tax Administration Act 1994 requires organisations and individuals to comply with the directions and requests of Department tax investigators.

Where organisations or individuals fail to comply, they may be liable for penalties and fines for obstruction:

- Up to \$25,000 for the first offence
- Up to \$50,000 for subsequent offences
- 25% increases further to any shortfall penalties. A shortfall penalty may apply where there is a:
 - Lack of reasonable care – 20% of the resulting tax shortfall
 - Unacceptable tax position (interpretation) – 20% of the resulting tax shortfall
 - Gross carelessness – 40% of the resulting tax shortfall
 - Abusive tax position – 100% of the resulting tax shortfall
 - Evasion – 150% of the resulting tax shortfall

If an organisation or individual makes a voluntary disclosure of information relating to its tax affairs which is likely to result in the imposition of a penalty, the fact of voluntary disclosure may reduce that penalty significantly.

Remember

- Always call AdviceLine on 0800 300 362 to check you have the latest guide.
- Never hesitate to ask AdviceLine for help in interpreting and applying this guide to your situation.
- Use our AdviceLine employment advisors as a sounding board to test your views.
- Get one of our consultants to draft an agreement template that's tailor-made for your business.

This guide is not comprehensive and should not be used as a substitute for professional advice.

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