



Connecting you to the topical tax issues

Tax Alert

August 2017

Is there any benefit to tax pooling under the new provisional tax rules?

By Liz Nelson and Vicky Yen

You will probably be aware of the changes made to the provisional tax rules with effect from the 2018 income year (refer to our [March Tax Alert](#)).

We have all either heard about, or been in the position of, someone who has been stung by use of money interest (UOMI) due to an unexpected increase in profits or a foreign currency swing.

In summary, the changes mean that from the 2018 income year, UOMI will only apply from the date of the third instalment for taxpayers who use the standard uplift method of calculating provisional tax for all instalments before the final instalment.

Taxpayers can breathe a sigh of relief that they will no longer be punished for profit growth. ➔

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The CEO of New Zealand's largest tax pool, Chris Cuniffe, says Tax Management NZ will provide clients with flexibility and options not otherwise available to them that will smooth any rough edges that remain under the new regime.

We have set out below some of the benefits.

1. Ability to earn interest

Some taxpayers pay provisional tax directly into a tax pool, to be transferred to Inland Revenue once their tax liability has been finalised.

Under the new provisional tax rules, if you pay provisional tax directly to Inland Revenue under the standard uplift method, and your final tax liability ends up being less than under standard uplift, no UOMI will be received until the final instalment.

On the other hand, the tax pooling intermediaries have advised that amounts paid into a tax pool on each provisional tax instalment date will still be eligible to earn interest (albeit at the rate of 1.02%).

There is also the potential to sell overpaid tax to other taxpayers to obtain a higher rate of interest (although we expect this will be less of a benefit going forward, as most taxpayers will pay based on the standard uplift method and will not need "top-ups" at the earlier instalments).

2. Decreasing profits

The new provisional tax rules are appealing in an environment of climbing profits. However, what if you expect profits to decline?

If you make provisional tax payments to Inland Revenue, you have two choices: pay based on the standard uplift method (which is likely to result in overpaying at the first two instalments, with no UOMI receivable); or take a risk and pay based on an estimate. The second option will expose you to UOMI if your estimate is not accurate.

Tax pooling provides a third option, allowing you to make payments directly into a tax pool based on your forecast without filing an estimate. Provided an estimate is not filed, the new rules will only charge UOMI on the lesser of your actual tax liability, paid in equal instalments, or your tax liability under the standard uplift method.

This gives the protection of the standard uplift method in the event there is an upswing in profits, provided you are able to source top up tax from the tax pool.

The tax pooling intermediaries we have spoken to are confident there will be sufficient tax pool stock to meet taxpayers' purchase requirements.

3. Increasing profits or missed payments

Under the new provisional tax rules, there will still be cases where mistakes are made or the precise tax liability cannot be calculated by the final instalment.

Taxpayers will still have the ability, provided the time restrictions are met, to purchase tax from a tax pool in order to pay for missed instalments or to top up the final instalment of provisional tax.

4. Accessing refunds earlier

Getting a refund of provisional tax that has been paid to Inland Revenue is no simple task – the typical request is subject to long processing times, can only be processed after the tax return for the relevant year is filed, and is also subject to the requirement that the taxpayer has sufficient imputation credits.

Refunds of tax payments made to a tax pool are not subject to these restrictions, and can be paid out to the taxpayer within 3-5 working days, at any time during the year.

5. Working capital and cash flow management benefits

Tax pooling intermediaries are coming up with increasing options to help taxpayers meet their provisional tax obligations.



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Most tax pools offer tax financing, allowing taxpayers to postpone tax payments at a competitive interest rate to free up working capital.

Taxpayers with irregular or unpredictable cash flows can choose to pay in flexible instalments or lump sums rather than fixed instalment amounts at set dates. Again, the interest rate is much lower than what IRD charges for missed/underpaid tax.

Further, the deposited funds can be drawn from as a line of credit as an additional source of cash if required.

These options can provide taxpayers with flexibility to manage tax payments in a way that better aligns with their cash flow requirements.

6. Audit / Voluntary Disclosures

Tax pooling will still be relevant in cases of increased assessments, either as a result of an Inland Revenue audit or through the voluntary disclosure process.

Provided specific requirements are met, taxpayers can purchase funds from tax pooling intermediaries in order to settle tax liabilities arising from increased assessments. The advantage of this is

lower interest rates and potentially the elimination of late payment penalties.

Other considerations:

- Think about when you file your tax return - some taxpayers may benefit from deferring or accelerating filing their income tax returns in order to secure a lower standard uplift liability for the first two instalments. Remember that the standard uplift method is calculated based on your last filed tax return.
- The concessionary UOMI rules will not apply if the amount paid is not correctly calculated under the standard uplift rules. Additional care should be taken by taxpayers who are changing tax balance dates, as they may be subject to different instalment dates and special rules for calculating uplift liabilities.

For specific advice on the new provisional tax rules or tax pooling, please contact your Deloitte tax advisor.

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Better Administration of Social Policy

By Rebecca Osborn



Last month the Government released its ninth discussion document aimed at modernising tax and social policy administration, *Making Tax Simpler: Better Administration of Social Policy*. It is the final piece of the puzzle that is Inland Revenue's Business Transformation programme, which first kicked off consultation in March 2015. Earlier discussion documents have seen the imposition of greater reporting by payers of various types of income, including payday reporting of PAYE income and monthly reporting of investment income. Until recently, the Government has adopted a "trust us, we promise this information is necessary" approach. With this discussion document, and the Making Tax Simpler for individuals document released in June (see the [July Tax Alert](#)) taxpayers and businesses are finally able to see whether the Government has stayed true to its word.

By way of a quick recap, Inland Revenue administers a number of the Government's social policy programmes, including: working for families tax credits (WFF); child support; student loan repayments; and KiwiSaver contributions.

Inland Revenue has accumulated these social policy responsibilities over a number of years, resulting in different rules and processes for each type of payment, causing complexity and confusion. The Government acknowledges that a "tax administration approach" to the administration of social policy programmes may not be fit for purpose or responsive enough to the changing needs of the social policy programmes.

Overall the proposals aim to ensure that Inland Revenue's "customers" are receiving or making accurate social policy payments at the right time. Implicit in this goal is a desire to minimise and better manage social policy debt.

The proposals should not alter the amount someone is entitled to receive or is obligated to pay, and entitlements will continue to be set with reference to an individual or family's income. Inland Revenue will still perform a year-end square-up calculation to ensure correct payments have been made. However, the expectation is that the "unders" and "overs" will be minimised. This is where the extra income reporting from income

payers comes in (see the [April Tax Alert](#)). The Government hopes that with more frequent information, Inland Revenue can respond in "real time" to changes in income, and can adjust entitlements or payment obligations accordingly.

Working for families

Currently, WFF payments made during the year are based on a family's estimate of their income for the coming year, with a square up at the end of the year. For the 2015 tax year square ups were required for 300,000 families, with 41.7% of families underpaid during the year and 24% overpaid.

The Government is proposing to base payments throughout the year on recent actual income (for example, income two months prior) rather than estimated future income, with the hope this will more closely align to a family's actual entitlement for the year. When income is not observable (i.e. it does not have tax withheld at source, such as self-employment income) the annual assessment would remain or customers could provide additional information throughout the year.

Child Support

It is proposed that an annual assessment for child support will be retained, while some changes are being considered to ensure that payments are set with reference to the most recent actual information.

However, the real story on child support is the mounting child support debt. While not covered in the discussion document, it has subsequently been reported that child support debt has ballooned to \$2.8b and is owed by 122,116 debtors, an average of just over \$23,000 per debtor. Of the amount owing, \$2.2b relates to interest

and penalties – a pretty clear indication the current system is broken.

Once a child support debt arises compulsory wage deductions apply. The Government is proposing to extend compulsory wage deductions to all parents liable to make payments, rather than only those who are in arrears. Inland Revenue would notify the liable parent and instruct the employer to deduct the child support payments.

Child support liable parents who do not have compulsory deductions (for example because they are not a salary and wage earner) will have to make more frequent payments and earlier than they currently do.

Student loan repayments

Student loan repayments are only deducted automatically from salary and wage income. However, student loan borrowers with other sources of income will have a repayment bill due at the end of the year. The Government is seeking to improve the timeliness of repayments for New Zealand based borrowers with other income by:

- Extending automatic deductions to income similar to salary and wages such as schedular income, casual agricultural or election-day income; and
- More timely payment of student loan repayments in relation to other income, for example by extra deductions from salary and wages or regular direct payments to Inland Revenue, based on prior year income.

An annual square up exercise will still be required to ensure that overall the borrower has met their repayment obligations for the year.

No changes are proposed to the repayment mechanisms for overseas based borrowers.

Managing missed payments and overpayments

While the proposals attempt to achieve more accurate social policy payments on a real time basis, the discussion document acknowledges that social policy debt will still arise. To better manage different types of debtors (for example, those struggling to do the right thing compared to those who are deliberately non-compliant) it is proposed that Inland Revenue will have a range of tools to help customers manage overpayments or missed payments. These include:

- An annual small balance write off of \$20 applied consistently across all social policy types.
- Various options for repayment methods and frequency based on the customer's preference.
- Ability for Inland Revenue to recover debt from future entitlement payments.
- Agreed arrangements to deduct repayments from salary and wages or from bank accounts.

When these arrangements are in place, interest and penalties would not apply.

Inland Revenue's existing powers for stricter debt collection actions would be retained, including demanding payment of a debt in full, and imposing penalties and interest on overdue amounts. Information matching and the ability to make arrests at the border would also remain.

Customers with unusual circumstances

The Government is also proposing to provide Inland Revenue with discretion to work with customers who have unusual circumstances in order to achieve the intended policy, based on principles of equity, fairness and reasonableness. It is intended that the discretion would be applied for the customer's benefit and will not be used to reduce entitlements

or increase obligations, noting that its application in a child support context may be more nuanced given this involves payment going from one person to another.

Deloitte comment

Overall, it is pleasing to see some flexibility introduced into the social policy administration framework. It reflects that real people are having to interact with these programmes every day and a one size fits all approach will never succeed. Changes to remove penalties and interest in some cases are also a practical response to a large amount of clearly unrecoverable debt.

The Government and Inland Revenue will be banking on Inland Revenue's new computer system (START) helping to deliver this flexibility in an efficient way. However, flexibility and a focus on individual circumstances often requires human intervention and it remains to be seen whether Inland Revenue will have sufficient resource to deliver this, as 1,500 jobs are due to be cut over the next three years. Given the additional compliance costs placed on businesses to give effect to these social policy changes it is important that they are effective, and that the savings and efficiency gains more than outweigh the costs borne in the private sector.



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Do you have unpaid PAYE relating to employees coming to New Zealand in the short term?

By Mike Williams and April Wong



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We have encountered several issues when dealing with Inland Revenue (IR) on voluntary disclosures relating to unpaid PAYE, where individuals worked in New Zealand for a short time, are no longer present in NZ and did not obtain an IRD number when they were working in New Zealand.

All individuals who come to New Zealand are required to obtain an IRD number when they start working in New Zealand – which for some is very difficult, if not impossible, as it currently requires them to have a fully functioning New Zealand bank account,

which they may well not be able to get. Employers are obliged to give employees a Tax Code Declaration form (IR 330) to complete which contains information on the correct amount of tax to deduct from an employee's wages each month – and requires the employee to have an IRD number to be able to properly complete it.

Employers may be subject to penalties and interest for failing to deduct PAYE from payments made to employees by each due date. Failing to withhold PAYE and pay this amount to IR constitutes a serious offence that can, in the very worst cases, result in

prosecution. Employers that are convicted may be fined up to \$50,000 and/or sent to prison for up to five years. Failing to adequately manage PAYE obligations can therefore be a very serious issue.

Filing a voluntary disclosure to declare any unpaid PAYE to IR is often a good strategy that we adopt in order to shield clients from the very worst consequences. The voluntary disclosure process aims to encourage taxpayers to “come clean” with Inland Revenue and disclose any issues with their tax returns or correct a tax liability before Inland Revenue discovers the error. By making a full voluntary disclosure, taxpayers will reduce their exposure to shortfall penalties imposed, potentially by as much as 100% if the disclosure is conducted before the notification of an audit conducted by Inland Revenue.

Resolving issues with processing voluntary disclosures

Recent experience has shown that IR representatives dealing with voluntary disclosures are unable to process submissions appropriately due to the absence of IRD numbers. Additionally, IR have also insisted that relevant employer monthly schedule forms be completed for all relevant months.

Deloitte has been able to reach an understanding with IR representatives that the hurdles to filing voluntary disclosures are less than ideal for our clients, and we have had some success in getting voluntary disclosures relating to unpaid PAYE processed with a minimum of difficulty. Furthermore, in many cases we are also able to secure adequate documentation to ensure that foreign tax credits can be claimed in the relevant overseas jurisdiction. Please contact your usual Deloitte adviser if you have any issues relating to unpaid PAYE as we may be able to mitigate your exposure to IR penalties and interest.



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Do you know how to withhold tax from directors' fees?

By Mike Williams and Nick Cooke

Inland Revenue has this month provided welcome clarification on the withholding tax obligations on directors' fees. An updated interpretation statement, IS 17/06 "Income tax – application of schedular payment rules to directors' fees" updates and replaces the previous interpretation statement from 1996 so is seen as a welcome update by many, but perhaps comes as no surprise given the recent changes modernising the schedular payment withholding rules which came into effect from 1 April 2017.

The requirement to withhold tax on the payment of directors' fees can be confusing, particularly where services are provided through a company structure. The complex schedular payment provisions, their interaction with non-resident contractor's rules and the contractual arrangements under which these payments are made are just a few of the reasons why the correct treatment of directors' fee payments can be difficult to determine.

Schedular payments

All employers have an obligation to withhold PAYE from "PAYE income payments" and this, by definition, includes "schedular payments".

A schedular payment is a certain class of payment, not being salary and wages, from which tax must be withheld by the payer. In essence, the schedular payment rules cover certain specified payments made to independent contractors (such as payments to non-resident contractors, labour-only contractors, entertainers, media contributors, sportspeople, seasonal workers and directors).

Generally, if you pay a directors' fee you are obliged to deduct tax at a flat 33%. The tax must be withheld and paid to Inland Revenue, while details of the gross payment, the tax withheld and the recipient of the payment should be reported on an Employers Monthly Schedule (EMS).

Many professional directors operate through a company structure. For some time now there has been some debate as to whether the withholding rules apply just to payments made to individuals operating as directors, or whether the rules also apply when the payment is made to an incorporated body in the business of providing director services.

IS 17/06 now finally clears up the debate and makes it clear that there is no requirement for a payer to withhold tax when director services are provided via a New Zealand incorporated company.

Conclusion

Deloitte is pleased to see a sensible interpretation from the Inland Revenue that offers taxpayers the certainty that they need in managing their obligations in relation to payments of directors' fees to New Zealand based directors.

We note that this interpretation statement does not deal with withholding tax obligations on payments of directors' fees to non-resident directors but this is on the list of issues to be looked at by Inland Revenue.

If you are unsure about your withholding obligations, contact your usual Deloitte advisor.



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A snapshot of recent tax developments



Applying for IRD numbers online

Inland Revenue has developed a new feature on their website which allows individuals and non-individuals to apply for IRD numbers [here](#). While the tool is currently accessible via myGST on Inland Revenue's myIR webpage, it is available to all taxpayers to register for an IRD number, whether or not they also need to register for GST. Inland Revenue are currently seeking feedback on the tool. Please let us know your experience with the tool and if you encounter any issues with it.

Inland Revenue's departmental restructure

Further to Inland Revenue's Business Transformation program, the Commissioner has announced significant internal changes that will take place within the Department. Earlier this year, Inland Revenue staff had the opportunity to comment on a draft restructure plan. Following feedback from the consultation, the Commissioner announced that the number of frontline customer services staff currently employed will not be reduced. Instead, new roles are being offered to the 3,300 customer-facing staff currently employed at Inland Revenue. In addition, 900 other staff would see their jobs change, with a reduction in management roles, and more roles for tax specialists

introduced (18 new specialist positions will be added across Inland Revenue's organisation).

The Commissioner has noted that the proposed changes will commence from 12 February 2018.

Draft Standard Practice Statement ED0197: Six-monthly GST return filing

Inland Revenue has released a draft SPS on six-monthly GST return filing. [Draft Standard Practice Statement ED0197: Six-monthly GST return](#) filing sets out certain practices that the Commissioner will exercise in applying the discretion to allow registered persons to remain or become six-monthly return filers for GST purposes. This item also replaces *GNL 420 Six-monthly GST return threshold*, as reported in the December 2001 edition of *Tax Information Bulletin*, Vol 13, No 12.

The deadline for comment is 18 August 2017.

Draft Standard Practice Statement ED0198: Loss offset elections between group companies

Inland Revenue has released a draft standard practice statement (SPS) on loss offset elections between group companies. [Draft Standard Practice Statement ED0198: Loss offset election between group](#)

[companies](#) sets out the extent to which the Commissioner will accept loss offset elections between group companies, and the consequences of specific events that can impact on a loss offset and how these should be addressed.

The deadline for comment is 18 August 2017.

Draft Standard Practice Statement: ED0199 – Elections to change a balance date

On 19 July 2017, Inland Revenue released draft standard practice statement [ED0199: Elections to change a balance date](#) for public consultation. The draft statement sets out Inland Revenue's practice for considering when to approve a taxpayer's request to change their balance date for income tax purposes. The draft item includes more examples of when the Commissioner may consent to a change in balance date compared to an earlier item published in February 2009, [SPS 08/04: Elections to change a balance date](#). The item also considers the GST and provisional tax consequences of changing a balance date and further updates SPS 08/04 for changes in legislation and Inland Revenue's online process.

The deadline for comment is 25 August 2017.

Update - Taxation (Annual Rates for 2017-18, Employment and Investment Income, and Remedial Matters) Bill

Given that it is Election year, we understand that any further progress on the Taxation (Annual Rates for 2017-18, Employment and Investment Income, and Remedial Matters) Bill will be on hold until November. We do not expect the Officials' Report to be released until [24 November 2017](#). Submissions on the Bill closed on 5 July 2017.

Inland Revenue publications on Automatic Exchange of Information and the Common Reporting Standard

Inland Revenue has published several documents and guidelines relating to the Automatic Exchange of Information (AEOI) and Common Reporting Standard (CRS) initiative on their [website](#). New Zealand's financial institutions that are affected by CRS should click [here](#) for information on what they need to do to comply with CRS due diligence and reporting requirements. The webpage also includes information about what qualifies as a financial institution for CRS purposes and an [initial list of participating jurisdictions](#).

CRS Determinations published

Several [determinations relating to CRS](#) have also been published by Inland Revenue. Broadly, these determinations clarify that certain financial accounts are excluded or included for the purposes of CRS. Determination CRS 2017/002 for example clarifies that a member's account within a KiwiSaver scheme (and the scheme itself) is a non-reporting financial institution for the purposes of CRS.

For more information on CRS, please also refer to our [July Tax Alert](#) article.

Tax Information Bulletin – July 2017

The [July 2017 edition](#) of *Tax Information Bulletin* has been published. This issue covers the Order in Council debt reporting threshold, latest interpretation statements, QWBA's, CRS publications, binding rulings and determinations.

Labour Party proposes to introduce Diverted Profits Tax on multinationals

On 18 July 2017, the Labour Party [announced](#) that it will introduce a Diverted Profits Tax (DPT) on multinational companies that are not paying their "fair share of tax" if it is elected into government at the general election on 23 September 2017. The DPT is a tax that is charged on profits that are considered to be artificially diverted out of the country. Labour has not released any technical details about the scope of the DPT, or how the DPT will be administered in New Zealand. However, from the announcements, it appears that the proposed DPT will mirror the UK's, i.e., the DPT will apply to business arrangements that are structured to avoid having a New Zealand permanent establishment, or payments that lack economic substance (or end up in a low tax company that lacks economic substance). The DPT would likely be higher than our

corporate tax rate of 28% given that the UK DPT is set at 25% (5% higher than the UK corporate tax rate of 20%). Former Labour leader, Mr Little, projected that an additional \$600 million in tax revenue will be collected from multinationals over three years and aims to resource Inland Revenue's investigations unit with an additional amount of \$30 million each year to assist in achieving this. Recent changes to the leadership of the Labour Party may result in changes to their tax policies.

New Zealand – Hong Kong Double Tax Agreement updated for AEOI

On 28 June 2017, Minister of Revenue Judith Collins signed an [amending tax protocol](#) between New Zealand (NZ) and Hong Kong (HK) to give effect to the automatic exchange of information between NZ and HK, in compliance with the G20 and OECD global standard. The protocol will allow the New Zealand competent authority to disclose information to the Office of the Ombudsman in the investigation of complaints against the administrative actions of the New Zealand Inland Revenue Department.

For more information, refer to the Minister of Revenue's [media statement](#).

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