

Things You Need to Know About Tax Debts

No one likes tax debts, but in reality, tax debts do exist and can place you in a very stressful situation if you do not manage them properly. For example, penalties, interest and costs could well double the size of your tax debts and can result in your tax debts mounting up very quickly. Therefore, once you encounter a tax debt issue with the Inland Revenue Department (IRD), you need to resolve the issue(s) as quickly as possible.

Here are some things you need to know when you are trying to resolve tax debt issue's with the IRD:

1. First of all, you need to establish a contact as early as possible and try to deal with *an individual* within IRD. It is prudent for you to ensure all communication is in writing. Position yourself as the facilitator of the solution, not as part of a continuing problem.
2. After you establish a contact with IRD, now it is time for you to make full and frank disclosure to the IRD, addressing the problem in context, not in isolation. Do not rush into a proposal/agreement with IRD to try to get a quick resolution of the tax problems, as you need to properly understand your financial position and realistic future cash flows. You have a duty of care to ensure the credibility of the underlying plan on which any repayment proposal is based.
3. The next step is to develop a comprehensive proposal which you or the trading entity can commit to in the context of its trading prospects. The proposal needs to present the broader context of the financial position and future cash flows of the business so that IRD fully understands the context in which the proposal is made.
4. In terms of the proposal, do not put up a half-hearted proposal expecting to be negotiated up. The first shot should be the best shot, which should explain clearly why this is the best you can do.
5. Bare in mind that it is essential to always record the agreement, especially if the agreement has been progressively reached through a chain of correspondence over time.

6. Lastly, what IRD will often look at in a debt collection situation depends on a number of factors, including but not limited to your compliance history, the reason or circumstances giving rise to the debt, the quantum of arrears and make up, your attitude (proactive?) and expectations, a pattern if any, and if you are trading as a company, trading trust etc whether the entity is viable going forward and what the position may be for other creditors and so on.

Negotiation including agreeing on settlement payment(s) with the IRD is not a normal commercial arrangement. For example, when you present all the information, you need to be careful to avoid *over* communication. Therefore, you need a professional, who has an understanding of the rules that govern the IRD's decision making rationale and the ability to put together a proposal which has the best chance of being acceptable within those rules.

Queen City Law is able to assist you with such matters and IRD investigations and is also often able to assist you negotiate settlement arrangements you can live with if the matter is placed in the hands of Crown Law on behalf of the Revenue.

Disclaimer: This publication is necessarily brief and general in nature. You should seek professional advice before taking any further action in relation to matters dealt with in this publication.

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