



PUBLIC INFORMATION BULLETIN

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TAKING THE DEPARTMENT TO THE PEOPLE

PERSONAL ASSISTANCE FOR TAUMARUNUI TAXPAYERS

During this month and again in August two officers from the Hamilton district tax office will visit Taumarunui for two days to allow people to discuss tax problems in person.

For people who cannot call during normal office hours, evenings will be worked. Primarily this service is to cater for salary and wage earners, elderly people and others who prepare their own returns, although any taxpayer or agent who seeks information will be assisted.

This experiment in public relations is intended to gauge the demand for personal contact by taxpayers in towns not serviced by an office of the Department. Should it prove successful, the service will be extended to other towns.

HAVE YOU A COPY OF THESE INFORMATION PAMPHLETS

The following information pamphlets are currently on display at your local tax office -

- . Donations and School Fees
- . Salary and Wage Earners PAYE Taxation
- . How to complete your Return Form IR 5
- . Special Exemptions
- . How to fill in your IR 3 Return of Income
- . Export and Tourist Promotion Incentives
- . Estate Duty in New Zealand
- . Depreciation Allowances
- . Universal Superannuitants PAYE Taxation
- . Overseas Income

These pamphlets give you up-to-date information on tax matters. We suggest that company secretaries and personnel officers of large employers, i.e., local bodies, freezing works, harbour boards and so on, would find a supply of the appropriate pamphlets useful for issue to staff.

IT PAYS FOR YOUR WIFE TO KEEP WORKING AFTER HER INCOME REACHES £156

Many married couples believe that for tax purposes it is unprofitable for the wife to continue working once her income for the financial year has reached £156. The belief is that as soon as the wife's income reaches £156 the husband immediately loses the whole of the special exemption for his wife. This is incorrect. While the husband should use tax code 'S' (or the equivalent 'S1', 'S2', etc., according to the number of children or other dependants) when he knows or believes his wife's income will exceed £156, or to change his code from 'M' to 'S' for the remainder of the year when her income reaches £156, these actions may not deprive him of a partial exemption for his wife.

The exemption allowable for a dependent wife is £156 reduced by £1 for every complete £1 by which her income exceeds £156. Thus no exemption is left when her income exceeds £312. This means that if your wife's income is less than £156 you are entitled to the full exemption. If her income is between £156 and £312 you are entitled to a partial exemption but you should file a return of income to obtain the allowance.

It is true that in some cases where a taxpayer has retained code 'M' for all the year he may be faced with a liability for further tax when it transpires that his wife earned more than £156 and he is not entitled to the whole of the exemption previously allowed in his tax code. However, there will still be a financial gain when the combined incomes of husband and wife are compared with the total tax payable.

Here is an example which shows the benefit gained if your wife keeps on working after her income has reached £156 -

- Notes (1) The rates of tax and the special exemptions allowed are those in force for the income year 31 March 1964.
- (2) The husband's income remains constant at £850, and the only special exemptions allowed are the personal and the wife (where applicable) exemptions.

	Income	Tax	Income After Tax	Wife Exemption Applicable	Overall gain in combined incomes
Husband	£850	£87	£763	£156	
Wife	£156	£ 4	£152		
<u>TOTAL INCOME</u> After Tax			£915		
Husband	£850	£100	£750	£62	
Wife	£250	£ 11	£239		
<u>TOTAL INCOME</u> After Tax			£989		£74
Husband	£850	£109	£741	NIL	
Wife	£500	£ 34	£466		
<u>TOTAL INCOME</u> After Tax			£1207		£292

ARE PROCEEDS FROM LIFE POLICY
TAKEN OUT BY EMPLOYER
PART OF EMPLOYEE'S ESTATE

Public Information Bulletin No. 8, which makes reference to life and accident insurance policies, deals with the income tax angle only: not estate and gift duty.

However, when a company takes out and maintains a policy on the life of an employee (but not as a condition of employment) and the company, on the death of the employee, receives the proceeds as beneficial owner with full discretion as to disbursement, the moneys will not, as the law now stands, form part of the employee's estate for estate duty purposes.

ANNUAL REPRINT OF INCOME TAX ACT NEW SERVICE PROVIDED

Every year in future the Land and Income Tax Act will be reprinted with up to date amendments.

The 1964 reprint is now available. It includes all amendments made up to the end of the 1963 session of Parliament, including those made by the Land and Income Tax Amendment Act (No. 2) 1963. The reprint costs 27/6d at retail shops of the Government Printer. There are shops at Auckland, Hamilton, Wellington, Christchurch and Dunedin.

A separate index for the 1964 reprint is being prepared and will be available without charge at the Government Printers' shops. The Bulletin will announce when this is ready. Future reprints will contain an index.

The decision to reprint the Act stems from representations made by Professor T.R. Johnston, Professor of Accountancy at the University of Auckland. He stressed that the annual reprint would have great advantages for members of the accountancy and legal professions and also would be valuable to students and all those engaged in teaching and instructional work on taxation law. The Commissioner thanks Professor Johnston for his helpful and constructive suggestion.

ASSESSMENT OF BENEFICIARY DIRECT (SECTION 155A)

SIMPLIFIED PROCEDURE FOR TRUSTEES

When a trustee has obtained a beneficiary's permission, the Department will assess that beneficiary direct on estate income, instead of through the trustee, as in the past.

This is done on the understanding that the trustee will explain to the beneficiary his obligation to pay provisional tax and furnish returns of income.

If a beneficiary defaults or the arrangement proves unsatisfactory to a beneficiary the Department will look to the trustee for payment.

ERROR IN FORM IR 320

There is an error at the foot of Form IR 320 (application for deduction for increased exports). In the explanatory notes (paragraph 2(b) (iii)) $\frac{E}{T}$ should read $\frac{F}{T}$.

Taxpayers and their agents are asked to ensure this point is not overlooked when completing the form.

The error will be corrected in existing stocks of the form.

RETURNING OVERSEAS INCOME FOR NEW ZEALAND TAX PURPOSES

ALTERNATIVE ARRANGEMENT OFFERED TO TAXPAYERS

Taxpayers with overseas income for an overseas income year which differs from their New Zealand taxation year may elect to return that income as if it were derived to their New Zealand balance date. This alternative arrangement is available for the income year ended 31 March 1964 (or equivalent balance date) and future years.

It is emphasised that in the year of changeover you will return no more than twelve months' overseas income. Credit for overseas tax paid on the overseas income returned in the year of changeover will be allowed on the actual overseas income returned for New Zealand tax purposes, or, if necessary, on a proportionate basis when less than twelve months' overseas income is returned for that year.

Alternative Arrangement

The main features of the alternative arrangement are -

1. It will eliminate (after the first year) apportionment of overseas income and overseas credit, thus simplifying procedures.
2. The same rules as now apply for determining the income year to which a New Zealand balance date relates will also apply to determine to which New Zealand year the overseas income relates.

Thus, when the overseas income year ends between 1 October and 31 March, the income derived during that year would be included in the return for the taxpayer's New Zealand year corresponding with the following 31 March. When the overseas income year ends between 1 April and 30 September, the income will be related to the taxpayer's New Zealand year corresponding with the preceding 31 March.

3. The arrangement is offered by the Department on the understanding that once adopted it will be followed consistently in returns of income for all subsequent years.

How the changeover will be achieved

The changeover will be achieved in either of two ways -

- (a) When the end of the overseas income year is a later date than the taxpayer's New Zealand balance date, overseas income for the "transitional period" will be ignored so as to ensure that only twelve months' overseas income is returned in the year of changeover. See example 1.
- (b) When the end of the overseas income year is an earlier date than the taxpayer's New Zealand balance date, less than twelve months' overseas income will be included in the New Zealand tax return for the year of changeover. See example 2.

When a taxpayer has a New Zealand balance date between the 1 October 1963 and the 30 September 1964 and has adopted the alternative arrangement, overseas income derived from one of the following countries during that country's financial year is deemed to have been derived during the New Zealand year ended 31 March 1964:

Japan, U.S.A. and most Northern Hemisphere countries	Balance Date	31 December 1963
South Africa	Balance Date	28 February 1964
Britain	Balance Date	5 April 1964
Australia	Balance Date	30 June 1964

Note

Most taxpayers in receipt of income from the United Kingdom are already returning their income from this source on the alternative basis. As a general rule the income of the United Kingdom financial year ended 5 April has been accepted by the Department as income of the preceding New Zealand financial year ended 31 March.

Similarly a number of taxpayers deriving income from the United States of America have been returning U.S. income for the U.S. financial year ended 31 December as income of the following New Zealand financial year ended 31 March.

In both these instances, therefore, no further adjustment is necessary.

Example 1

Taxpayer with Australian income balances in New Zealand as at 31 March. Up to and including 1963, Australian income was also calculated to 31 March, but in 1964 the taxpayer accepts the Department's offer and brings in, for New Zealand tax purposes, the Australian income derived during the full Australian tax year ending 30 June 1964 as income derived in his New Zealand income year ending 31 March 1964. In this case, Australian income derived in the period 1 April 1963 to 30 June 1963 (i.e. the "transitional period") would be ignored for New Zealand tax purposes. It would be omitted entirely from his New Zealand return and he would include for the 1964 and subsequent years, the Australian income for the full Australian income year ending 30 June. The credit allowed for Australian tax would be the Australian tax paid on the income actually included in his return limited, of course, to the New Zealand tax on that income.

Example 2

Taxpayer's balance date 30 September. U.S.A. income for the U.S.A. tax year ending 31 December 1964 will be returned as income derived during the taxpayer's financial year ending 30 September 1965. The necessary adjustments will then be as follows:-

- (A) U.S.A. income for the nine months' period 1 January 1963 to 30 September 1963 would have been assessed as income derived during the taxpayer's New Zealand income year ended 30 September 1963, i.e. tax year ended 31 March 1963.
- (B) U.S.A. income derived during the period 1 October 1963 to 31 December 1963 (i.e. 3 months' income only) would be returned as income derived during the taxpayer's New Zealand income year ending 30 September 1964, i.e., tax year ending 31 March 1964. Credit allowed for U.S.A. tax would be based on the lesser of the U.S.A. tax and the New Zealand tax on that 3 months' income.
- (C) U.S.A. income derived during the full U.S.A. tax year ending 31 December 1964 would be returned as income derived during the taxpayer's New Zealand income year ending 30 September 1965, i.e., tax year ending 31 March 1965.

FARM DEVELOPMENT EXPENDITURE NEW OPTIONS FOR FARMERS

The Commissioner has announced that farmers may exercise one of three options in respect of all irrigation pumps, pump housing, irrigation and water pipelines installed during the year ended 31 March 1964 (or equivalent balance date) and succeeding years. The options are -

(1) Claim on the existing basis which is that the cost of -

- (i) pumps
pump housing, and
pipelines laid on top of the ground

form part of the plant and are depreciable at the rate of 10% d.v. (plus special depreciation and investment allowance where applicable).

(ii) pipelines laid under the ground qualify for a deduction as development expenditure, subject to any limitations on the allowable amount of that type of development expenditure which may be imposed by Section 119 of the Land and Income Tax Act 1954, or

(2) Claim the TOTAL costs of pump, pump housing and pipelines as development expenditure, subject of course, to any limitations on the allowable amount of that type of development expenditure, which may be imposed by Section 119, or

(3) Capitalise the TOTAL costs of pump, pump housing and pipelines, and claim depreciation at the rate of 10% d.v., plus special depreciation and investment allowance where applicable.

Note - The options in (2) and (3) to all pipelines installed by farmers apply irrespective of whether the pipelines are -

- (a) permanent or temporary
- (b) fixed or movable
- (c) laid on top of or underneath the ground

Once a farmer has elected which of the above options he will exercise in a particular year in respect of expenditure on irrigation pumps, pump housing and pipelines he may not subsequently vary that option on that particular expenditure.

However, he is at liberty to adopt any of the other options in respect of any such expenditure incurred in succeeding years.

QUESTIONS AND ANSWERS

Wife's Income for Wife Exemption Purposes

- Q. Does workers' compensation paid to a wife constitute income in her own right for special exemption purposes?
- A. Although workers' compensation is exempt income to the wife it nevertheless comes within the term "wife's income in her own right" for special exemption purposes to the husband.

Increased Exports

- Q. Is poultry classified as "animal" for the purposes of the increased exports incentive section?
- A. Poultry comes within the definition of animals and sales of poultry are therefore excluded from the benefit of the deduction re increased exports.

Scientific Research Equipment

- Q. There is an accelerated allowance of depreciation for scientific research plant and machinery. How wide or narrow a meaning is to be placed on the term "scientific research"? Is it also meant to cover what is termed "Industrial research"?
- A. The term will be applied in the same broad manner as it is for the purpose of Section 126 of the principal Act which permits a deduction of expenditure for scientific research directly relating to the trade or business of the taxpayer. It will therefore include "industrial research" insofar as it directly relates to the trade or business of the taxpayer.

Donations and School Fees

- Q. A widower is obliged to place his children in an orphanage run by a religious order where, in addition to keep, they also receive tuition. Although he is not obliged to pay for the children's maintenance at the orphanage he does in fact pay £3 per month for each child. How is this total contribution of £36 per annum for each child to be apportioned in allocating the contribution for the purposes of the £25 and £50 maximum exemption for donations and school fees?
- A. If there is a set or recognised charge for tuition, that amount or the amount contributed (whichever is the smaller) will qualify subject to the overall maximum of the £50 exemption.

If there is no set or recognised charge for tuition, the orphanage should be asked to allocate the contributions equitably between tuition and board. The amount allocated to tuition would then qualify for exemption.

Deduction for Increased cost of Fertiliser and Lime purchased and applied in 1964 accounting year

- Q. If a person owns two or more properties for all or part of the base period as well as 1964, is each property to be treated separately when calculating the additional deduction for increased fertiliser and lime applied in 1964? If so, what will be the position if the income and expenditure for both farms is incorporated in one set of accounts?

- A. The basic factor in considering the claim for fertiliser and lime applied to the land of the taxpayer is the cost of fertiliser and lime applied to that land in the base period. If all the land is owned for the full base period, as well as the year of claim, no difficulty arises. The average total cost of fertiliser and lime applied to all the land in the base period would form the base period average, which will be compared with the total cost of fertiliser and lime purchased and applied to all the land in 1964, to determine the extent of any excess.

On the other hand, if land is bought or sold during the base period, different considerations apply and the Department will consider each area separately. To do otherwise would result in the base period average being increased if one property was sold, and decreased if one property was bought during or after the base period. If the figures for two or more areas are incorporated in the same accounts, apportionment will be made on an area basis unless the taxpayer (or his agent) can show that such a basis is inequitable. Costs relating to one property are unable to be transferred to another property for the purposes of the section.

Gift Duty

- Q. On the 1 May 1964 I made a gift to my nephew. When does the twelve months for aggregation of gifts for duty purposes end: is it the following 31 December (i.e. the end of the calendar year) or the following 31 March (i.e. the end of the financial year)?
- A. It is neither. It is the twelve months ending on the anniversary of the date of gift - in this instance, 1 May 1965.

Farm Development Expenditure

- Q. Is the cost of altering the contour of land for farming and agricultural purposes an allowable deduction as farm development expenditure?
- A. The cost of bulldozing hills into swamps to eliminate the need for drainage work or to obtain a more workable grade and surface for bringing land into production comes within the ambit of the development expenditure legislation and is deductible in full.

THE CHEERFUL OPTIMIST

"Everyone should pay taxes with a smile" but when I tried it they wanted cash.

TAX CALENDAR

JULY - SEPTEMBER 1964

JULY 20

Pay June Tax Deductions

AUGUST 7

Due date for payment of first instalment of provisional tax for the year ending 31 March 1965.

Furnish returns of income for the year ended 31 March 1964 -

- Salary and Wages and Investment Income (use form IR 3)
- Business Income (use form IR 3 and insert IR 3B*)
- Farming Income (use form IR 3 and insert IR 3F*)
- Companies and Clubs (use form IR 4)
- Estates or Trusts (use form IR 5A)
- Interim Return (use form IR 5B)

AUGUST 20

Pay July Tax Deductions

SEPTEMBER 7

Last day for payment of first instalment of provisional tax for the year ending 31 March 1965

SEPTEMBER 20

Pay August Tax Deductions

* Public Accountants and other agents need not complete form IR 3B or form IR 3F where detailed annual accounts are furnished together with the information required by blocks 1 and 2 (IR 3B) and blocks 1, 2 and 3 (IR 3F)