



PUBLIC INFORMATION BULLETIN

No. 12

July 1964

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A MAJOR STEP FORWARD - A SIMPLIFIED TAX FORM

The Department hopes to have achieved a major breakthrough in its aim to simplify tax procedures by producing a Special Assistance Tax Form (IR 14) for use by elderly people and others on small incomes who through disability do not feel able to fill in the usual return of income form. The use of the form may also be extended in other specific cases, for example, the case of an immigrant who has language difficulties.

The form will ask such persons to show in a simple way their

- . INCOME
- . EXEMPTIONS

It does not call for -

- . CALCULATION OF TAX
- . PAYMENT OF TAX when making the return.

The Department will advise the amount of any tax to pay and when to pay it.

If more information is needed or some item requires to be made clear the Department will get in touch personally and offer all the help needed to finalise the matter.

1964



IR 14

INLAND REVENUE DEPARTMENT

SPECIAL ASSISTANCE TAX FORM For ELDERLY or DISABLED PERSONS on Small Incomes

YOU MAY USE THIS FORM IF YOU HAVE DIFFICULTY IN FILLING IN THE USUAL TAX RETURN

L. J. RATHGEN
Commissioner of Inland Revenue.

Surname (Print) Mr Mrs Miss	Christian or First Names (Print)
Postal Address	Telephone Number
YOUR INCOME FOR YEAR ENDED 31 MARCH 1964	YOUR EXEMPTIONS AND DEDUCTIONS FOR THE YEAR ENDED 31 MARCH 1964
Write details below	DO NOT FILL in this side if your INCOME was UNDER £468
Salary and Wages (Give name of employer) Pin Tax Deduction Certificates here	Name of wife or husband
£	Show her or his Income (if any) for the year
£	Amount £
Universal Superannuation	Housekeeper—show name and amount paid
£	£
Other Superannuation or Pension (Give name of payer) Pin Tax Deduction Certificates here	Children supported by you Show names and ages
£	£
£	£
Interest from	Other relatives supported by you Show names and amount contributed
£	£
£	£
Dividends from	Donations and school fees to
£	£
£	£
£	Pin receipts here
Other Income—state kind	Insurance premiums on your life and payments to National Provident or a superannuation fund
£	£
£	£
£	£
£	£
NOTE:—If you have entered Rents here show on back of this form how this amount is made up.	£
ALL MY INCOME IS SHOWN ABOVE	Send to the District Commissioner of Taxes at your nearest Tax Office. He will let you know if you have any tax to pay.
Signed:	Date: / /

REGULAR OVERSEAS TRAVEL: A NEW APPROACH

A company's business necessitates regular overseas trips. The Department will be happy to discuss any way of reducing to a minimum information in support of claims for tax purposes.

The Commissioner suggests that the representatives of such companies contact the local Tax Office and arrange what details need be supplied. Generally, where there is an established pattern of travel the Department will be satisfied with the following:-

- . Name/s of person/s travelling.
- . Reason for trip.
- . Total cost of trip.
- . Estimated amount (if any) applicable to holiday and other private purposes.

The question sometimes arises whether expenses on overseas travel, although wholly for business purposes, may not be deductible through being of a capital nature. The Department gives this interpretation - where an overseas trip is taken within the existing "structure" of an established business, or is only a moderate extension of that business, the cost will generally be regarded as deductible (unless it is clear that the expense of the trip is mainly of a capital nature).

Examples of this new approach are:-

- (i) A trip is undertaken by a taxpayer, who already has a number of established agencies, to contact existing principals. During the trip he secures further agencies. Claims in such cases would be allowed if it were considered that there was only a moderate extension of the established "structure" of the business.
- (ii) An established business sends its works manager or engineer overseas to make a general survey of new machines, new processes, factory layout and so on. The claim would be allowed if the trip was not made to buy a specific machine. If it was, the cost of the trip should be capitalised as part of the cost of the machine and depreciation claimed at the specified rate.
- (iii) Trips undertaken to:-
 - . Establish new markets, or selling agencies; or
 - . Grant licences to manufacture overseas,will generally qualify for deduction.

INCIDENTAL TRAVEL COSTS QUALIFY FOR ADDITIONAL 50% DEDUCTION FOR EXPORT MARKET DEVELOPMENT

When the nature of an overseas trip is such that fares, accommodation or sustenance will qualify as costs of export market development, any items incidental to these expenses may also be considered as qualifying.

There has been uncertainty whether personal and baggage insurance, taxi fares and tips may be claimed

- Personal and Baggage Insurance

The Commissioner has ruled that personal and baggage insurance is an accepted normal expense associated with fares for overseas travel and may qualify for the additional deduction.

- Taxi Fares

The legislation refers merely to fares and does not confine the deduction to air fares or boat fares. It can therefore be interpreted as including taxi fares and internal travel expenses incurred both in New Zealand and overseas in the course of the trip.

- Tipping

Tipping is an accepted custom in practically all overseas countries and, in fact, it is difficult to obtain any degree of service without tipping such employees as porters, stewards, waitresses, taxi drivers and so on. Such tips are in effect an integral part of the cost of fares, accommodation and sustenance, and qualify for the additional 50% deduction.

BROADER INTERPRETATION - REMUNERATION TO SHAREHOLDERS IN PROPRIETARY COMPANIES

The Minister of Finance included the following passage in his 1964 Budget statement -

"A reappraisal has been made by the Commissioner of Inland Revenue of the administrative rules regarding excessive remuneration paid by proprietary companies to shareholders, directors, or their relatives.

"As a result it has been decided that the provisions of the section would not be invoked where the shareholder, director or relative is an adult employed substantially in the running and management of the business and the remuneration paid is not influenced by relationships within the company or its shareholding. Amending legislation to clarify the position will be introduced this session."

The administrative rules to which the Minister referred have been in operation since the beginning of this calendar year. They have considerably restricted the area in which the section is operating.

Moreover, in the limited area in which Section 139 is now operating, the Commissioner says there will be no objection to reversing entries being made in the books of a company to which the section has been applied. In other words, if the employee repays, or his account with the company is debited, with any amount deemed to be excessive under the section, that amount will not be deemed to be a dividend in his hands.

NEW APPROACH TO SHARE VALUATIONS

The Commissioner has given Inspecting Officers of the Department new instructions for the internal administration and allocation of share valuations. These instructions are in force.

Here is the text of the Commissioner's letter to the New Zealand Society of Accountants and the New Zealand Law Society.

"You will be interested to learn that I have formulated and arranged for the immediate implementation of a new set of instructions for the internal administration and allocation of share valuations. In the instructions, I have restated that the Department's programme of objectives of service, understanding and effectiveness applies to all facets of the Department's work, and therefore equally to the valuation of shares.

"The rules formulated have in mind a more flexible approach to valuations on the part of Departmental valuers, a training and re-orientation programme, more personal control on the part of Senior Inspectors, a better allocation of work commensurate with experience and delegated powers to more senior and experienced Inspectors to finalise without reference.

"I am confident that this new approach will streamline administration of this aspect of the Inspectors' duties, enhance still further our public relations programme and provide for better understanding and accord.

"I know that in making these changes I will have the whole-hearted co-operation of the profession and that on both sides there will be a friendly atmosphere of give and take in the true spirit of negotiation.

"I would be most grateful if you would arrange for some prominence to be given this notification, and if you consider it worthwhile, arrange for copies of this letter to be circulated to branches of the Society."

Signed: L.J. Rathgen
Commissioner
July 1964

ADDITIONAL DEDUCTION FOR FERTILISER AND LIME - WHEN A FARMER FORMS A COMPANY

If a farmer formed his farming business into a limited liability company during the year ended 31 March 1964, and is the principal shareholder, the base period used in calculating the additional deduction is the same as if the company had not been formed.

Money spent by the farmer on fertiliser and lime during the period prior to the date of incorporation of the company will be treated, for the purposes of calculating this deduction, as if it were expenditure of the company.

TRAVELLING EXPENSES BETWEEN TWO PLACES OF BUSINESS - POSITION EXPLAINED

You may claim travelling expenses actually incurred by you in the production of assessable income. Normally travelling expenses incurred in travelling between your home and your place of business are not deductible for tax purposes being in the nature of private expenditure. Actual travelling expenses between two places of business will however be allowable as a deduction provided -

- . you are actively engaged in both businesses, and
 - . your presence in both places is necessary to earn your income. Further when you live and have a place of business in one town and also have a place of business in another town the cost of travel between -
 - . the first place of business and the second, and
 - . your home and the second place of business
- is deductible.

This principle was laid down in the reported case of *A v Commissioner of Inland Revenue*, 6 Australia and New Zealand Income Tax Reports, page 47.

CALCULATING THE FAIR RENTAL VALUE OF A COMPANY DWELLING OCCUPIED BY A SHAREHOLDER EMPLOYEE

100A

Where a shareholder/employee occupies a dwelling, bought or built by his firm, and pays less than the full rental value or no rent at all, the Department has to consider whether he is in receipt of a taxable benefit.

To ensure uniformity a calculation is made and is used as a starting point to discuss what is a fair rental. It is emphasised that this calculation is a guide only and is by no means a rigid rule. Before deciding if there is any benefit involved the Department will be happy to consider any representations the company or the shareholder/employee may make.

The calculation and some variations are set out below:

PRIVATE COMPANIES

OTHER THAN FARM DWELLING

The total of:-

- . 3% of cost price - including cost of land
- . Depreciation at normal rates
- . Repairs and Maintenance - average or estimated
- . Rates and Insurance

FARM DWELLING

Three quarters of the total of:-

- . 3% of cost price - excluding cost of land
- . Depreciation at normal rates
- . Repairs and Maintenance - average or estimated
- . Insurance

The cost of the land and the rates payable are not included in the calculation for farm dwellings as the area occupied by the dwelling is, usually, small compared with the area of the farm, and the amount apportioned would be trivial.

If in considering the calculation the amount produced seems excessive the following additional factors are taken into account to make any further reduction to the rental value:-

- . Remoteness as it affects additional capital cost as well as rental value,
- . Age of the dwelling,
- . If the house was on the land when purchased, it may be a more substantial one than was required.
- . Any other reason peculiar to the community.

Example

A shareholder/employee of a farming company occupies, rent free, a dwelling built for £5,000 (excluding land). Insurance is £20 and estimated cost of annual repairs and maintenance is £30. The calculation would give a rental value of -

. 3% of £5,000		£150
. Depreciation @ 2%	=	100
. Estimated repairs	=	30
. Insurance	=	20
		£300
LESS one quarter		75
		£225
LESS remoteness (say)		125
Rental value		£100

PUBLIC COMPANIES

Where a senior executive is provided with a substantial dwelling the following calculation is used as a starting point to calculate a fair rental value:

- 3% of cost - including land,
- 5% of cost of furniture (if provided),
- Repairs and maintenance - estimated or average,
- Rates and insurance.

The following factors will also be considered before reaching a decision as to the fair rental value.

- Has the executive any say in the choice of accommodation?
- Is he required, by his position in the company, to occupy far more pretentious premises than he would have selected for his own use?
- Is he generally required to entertain, and perform other duties in the house for the benefit of the company?
- Is he required to reside in a remote area?

HOW TO GET ADVICE ON INCOMPLETE OR HYPOTHETICAL TRANSACTIONS

In line with the Department's efforts to be helpful in taxation problems the Commissioner has reviewed the attitude to questions of a general nature or concerning uncompleted or hypothetical transactions.

Where the question posed is of a general or hypothetical nature, but the

- . Issues involved are clear, and
- . Interpretation of the particular point is established

the information requested will be given.

Similarly, full information will be given on uncompleted transactions when

- . The taxpayer's name is supplied
- . The proposed course of action defined
- . The Department's attitude is established.

This is qualified to the extent that it is given on the basis of present law and the facts as advised by the enquirer.

Advice on uncompleted transactions will have particular reference to matters where the Act requires the Commissioner "to be satisfied", etc. Such an instance would be when a company is proposing to make a distribution from what it considers to be tax free reserves.

STRAIGHTER RUN FOR RACING CLUBS

Making the formal declaration, before a Justice of the Peace or a solicitor, on the front of form IR 666 has been discontinued as unnecessary, inconvenient and time consuming.

The statement will be accepted if it is signed as correct by the appropriate officer of the racing club.

Until the new print of the form IR 666 is available the Commissioner will accept statements with Clause 4 amended as shown below -

4. That the aforesaid statements marked "A" "B" and "C" also contain full and true statements of the amounts of totalisator duty dividend duty and stakes duty respectively payable in respect of the said race meeting.

~~And I make this solemn declaration conscientiously believing the same to be true and by virtue of the Oaths and Declarations Act 1957.~~

Declared at _____
_____ this _____ day of _____
_____ one thousand nine hundred and _____
_____, before me,

Justice of the Peace
or Solicitor.

LOOKING AT OURSELVES

In recent Public Information Bulletins you may have read some of the "howlers" received from taxpayers. Here are some that have stemmed from within the Department -

- . A farmer claiming depreciation on a topdresser was advised "Your claim has been disallowed as the Act does not permit depreciation on private furniture".
- . Another farmer claiming on a hydraulic ram had the claim disallowed because "special depreciation cannot be claimed on livestock".

Perhaps you have had an unusual or amusing communication from the Department. Send it in then, so we can remedy the position (if need be) or publish the incident. In this way you will have an opportunity of bringing our faults home to us. Here is a letter which was sent to a dry stock farmer and his reply:

"Dear Sir,

I have been reviewing your records for the past five years and am at a loss to understand why there has been no natural increase from your wethers. Could you please explain the reason for this.

Yours faithfully,

for District Commissioner of Taxes"

"Dear Sir,

Thank you for your letter asking me about the natural increase from wethers. I would like you to know that I have been farming now for 26 years and so far I have been unable to find the answer to your query. I would be delighted if you could help.

Yours faithfully,"

QUESTIONS AND ANSWERS

INCREASED EXPORTS

- Q. My firm supplies goods to overseas ships and aircraft. Do these sales qualify for additional deduction as Increased Exports?
- A. Sales of qualifying goods will be eligible for the deduction. However, the section specifically excludes such items as dairy produce, meat, wool, etc., and their respective by-products, so sales of those types of goods will NOT qualify for the additional deduction.

DEPRECIATION CLAIM

- Q. My firm has recently centralised all operations in a newly completed building. This has required removal and re-installation of machinery, some of which qualifies for a special depreciation allowance. As we are required to capitalise the removal and re-installation costs can special depreciation be claimed on this additional expense?
- A. As the costs have been capitalised, both ordinary and special depreciation may be claimed.

SPREADING THE COST OF FERTILISER AND LIME

- Q. I am a farmer and intend to take my son into partnership with me. Would this be a case where the "cessation of business" provisions apply?
- A. The section refers to "that business". If the farming business continues to be carried on on the same land, it will be treated as being the same business although under different control and the "cessation of business" provisions will not be applied. You will be entitled to carry forward the unexpired portion of the cost against your share of the partnership income in the remaining years covered by the election. No portion of the cost of fertiliser and lime applied before formation of the partnership will be allowed against your son's share of partnership income.

To avoid confusion, the balance of the unexpended portion of the cost at the time the partnership is formed should be claimed by you in your own personal return, and not in the partnership return.

COMPENSATION FOR T.B. CONDEMNED CATTLE

- Q. Some of my dairy herd have been destroyed as they were infected with T.B. I received compensation for the animals slaughtered and also payments over a period of three months for loss of production. Should I include these amounts in my return?
- A. The payment of compensation is assessable income in the year that the animals were destroyed.

The payments to cover the loss of production are to be returned as income over the period to which they relate. Where two financial years are involved the amount should be apportioned on a time basis.

SMALLER TOWN ENQUIRY SERVICE

Public Information Bulletin No. 11 mentioned an experiment in public relations whereby two officers from the Hamilton office of this Department visited Taumarunui for two days to allow people to discuss tax problems in person.

At this stage it is not possible to say whether regular visits will be maintained. However, the results certainly justify an extension of this type of service to other areas. All District Commissioners are examining ways and means of establishing a service centre in at least one town in their district. Calls on public accountants are also envisaged.

Full details will be given in future Bulletins.

INDEX TO 1964 REPRINT OF ACT NOW AVAILABLE

The index to the 1964 reprint of the Land and Income Tax Act 1954 and amendments is now available at retail shops of the Government Printer.

The index will be supplied free with each copy of the Act purchased.

Persons who have already purchased copies of the reprint may obtain a copy of the index free, on application to the shop where they purchased the Act.