



INLAND REVENUE DEPARTMENT

**PUBLIC INFORMATION BULLETIN**

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No. 13

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## TAX ON SECONDARY INCOME – HOW THE RATES ARE FIXED

Some taxpayers believe the rate of tax on secondary employment of 4s. 3d. in the £1 is too high.

### Fact overlooked

They overlook the fact, however, that 4s. 3d. in the £1 is the minimum rate of tax payable by any taxpayer who is liable to both ordinary and social security income tax. The secondary rate of tax deduction is therefore correct in the majority of cases because the taxpayer's primary income will have absorbed the special exemptions to which he is entitled. In these cases, the balance of the taxpayer's income is subject to tax at the minimum rate of 4s. 3d. in the £1 (i. e. 1s. 6d. social security income tax and 2s. 9d. ordinary income tax). Short payment will occur in cases where the taxable income (i.e. income after deducting special exemptions) exceeds £500. These cases are adjusted when returns of income are furnished after the end of the year.

### Adjustment obtainable

However, there are cases (e. g. itinerant worker, or where special exemptions exceed income) where overpayment will occur through the deduction of 4s. 3d. in the £1. In these circumstances the taxpayer may apply to his local tax office for a special tax code certificate. The object of this is to fix a rate of tax based on current earnings which will result in no more tax being deducted at the source on secondary wages than is necessary. If the taxpayer does not choose to apply for a special tax code he may file a return of income after the end of the income year and have the position adjusted.

### HOW TO GET A SPECIAL TAX CODE CERTIFICATE

If the secondary tax rate is too high (or too low) the Department will issue a special tax code certificate upon receipt of an application from you giving the following details—

- (a) total weekly earnings from your primary and secondary employers;
- (b) the tax code operating with your primary employer;
- (c) the approximate period you expect to earn your present rate of income.

This information may limit the period for which the special tax code certificate is to operate.

### SECONDARY EMPLOYMENT TAX – EXPLANATORY CHART

Here is a chart which illustrates the position. It demonstrates how the secondary employment rate operates where the rate is correct (Case 1), where there is short payment (Case 2) and where there is overpayment (Case 3).

#### NOTES ON SELECTED CASES

*Case 1* Taxpayer had established a tax code of M2 with his primary employer (job A) from whom he earned £16 each week. He also received each week £3 and £2 respectively from jobs B and C.

*Case 2* Tax code same as in Case 1, Taxpayer earned £25 each week from primary employment. Jobs B and C brought in £6 and £4 10 0 respectively each week.

*Case 3* Taxpayer has a coding of M4 in his primary employment (job A) from which he earns £15 each week. He also receives each week £2 12 6 and £3 11 6 respectively from jobs B and C.

Details	Case 1	Case 2	Case 3
Total earnings from jobs A, B and C      TOTAL 1	£21 0 0	£35 10 0	£21 4 0
Tax deductions on total earnings assuming it was earned from primary employment      TOTAL 2	£ 2 4 8	£ 6 1 0	£ 1 17 5
Total tax actually deducted using PAYE Tables for primary and secondary jobs.      TOTAL 3	£ 2 4 11	£ 5 6 3	£ 2 5 10
Difference between "Total 2" and "Total 3"	£ 0 0 3+	£ 0 14 9-	£ 0 8 5+
Position may be remedied by special tax code on secondary income at following rate		5s 9d in £1	3s in £

**PAYMENT OF PROVISIONAL TAX RELAXED —  
MINISTER'S STATEMENT**

The Minister of Finance has pointed out that although the 1964 Budget proposals are subject to confirming legislation, those recommendations of the Ross Committee that have been approved by Government will be implemented in respect of Provisional Tax payable for the year ended 31 March 1965. The basis of payment of Provisional Tax will apply to ALL provisional taxpayers including PAYE companies.

The relevant recommendations are—

1. The first instalment of provisional tax due on 7 August will be 1/3rd (instead of 1/2) of the total provisional tax payable.
2. The second instalment of provisional tax due on 7 February 1965 will be the balance of provisional tax payable.
3. Primary producers with balance dates later than 31 March who derive more than half their CASH income after 7 February may pay provisional tax in THREE EQUAL INSTALMENTS falling due on—
  - ★ 7 August 1964
  - ★ 7 February 1965
  - ★ 7 May 1965
4. Taxpayers will be permitted to estimate or re-estimate their income for provisional tax purposes right up to the time of payment of the final instalment of provisional tax.
5. Penalties for under-estimation will be liberalised and simplified in respect of provisional tax payable for 1965 and future years."

Taxpayers who wish to pay on the "3 instalment" basis should, before or at the time of paying the first instalment, advise the Department of what they elect to do.

This advice should show—

- ★ Balance Date
- ★ Statement that
  - (i) more than half the income is received from primary production;
  - (ii) at least half the gross cash income is *regularly* received after 7 February.

Where an election is not made, the provisional tax should be paid in two instalments as in 1. and 2. above.

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**HELP FOR AGE BENEFICIARIES IN PART-TIME JOBS  
SPECIAL TAX CODE CERTIFICATE  
AVAILABLE IF PAYE TOO HIGH**

Age beneficiaries who undertake employment on a part-time basis or for short periods during the year, often have more tax deducted than is required. They are thereby denied the use of this money until after the end of the income year when a return is made and the tax adjusted.

To assist people in these circumstances the Department will issue a **Special Tax Code Certificate**, on application. The use of such a certificate has the effect of reducing the amount of tax deducted each pay period so as to produce the approximate amount that would be payable if the income was earned evenly over the year.

Those wishing to avail themselves of this scheme should contact their nearest Tax Office where full information will be given.

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## ESTATE DUTY REDUCED BUDGET PROPOSALS EXPLAINED

### BUDGET ANNOUNCEMENT

In the course of his 1964 Budget Statement the Minister of Finance, the Hon. H. R. Lake, announced reductions in estate duty which, it was hoped, would be an incentive to increase production. These reductions are being put into effect immediately and will be validated by legislation during this session of Parliament.

**The date from which the new Scale of Rates will apply.**

The new rates of estate duty will apply to the estates of *all persons who die on or after 25 June 1964*.

### The Reductions effected by the new Scale of Rates

Under the new scale of rates the non liability limit has been raised from £2,000 to £4,000. This will mean that estates of a value not exceeding £4,000 will not be liable for any estate duty at all.

In the range of estates between £4,000 and £48,000 the existing rates have been reduced but estates of £48,000 or more will continue to be charged with duty at the rates which were introduced in 1961.

### EXAMPLES OF THE REDUCTIONS EFFECTED

#### Where Estate is Left to Widow

Value of Estate	Duty Under 1961 Scale	Duty Under New Scale	Reduction in Duty
£	£	£	£
4,000	Nil	Nil	Nil
5,000	Nil	Nil	Nil
10,000	Nil	Nil	Nil
15,000	376	286	90
20,000	1,200	960	240
30,000	3,600	3,060	540
40,000	6,538	6,160	378

#### Where Estate is Left to Widower

Value of Estate	Duty Under 1961 Scale	Duty Under New Scale	Reduction in Duty
£	£	£	£
4,000	Nil	Nil	Nil
5,000	Nil	Nil	Nil
10,000	450	300	150
15,000	1,253	953	300
20,000	2,250	1,800	450
30,000	5,000	4,250	750
40,000	8,172	7,700	472

## Where Estate is Left to Adult Children

Value of Estate	Duty Under 1961 Scale	Duty Under New Scale	Reduction in Duty
£	£	£	£
4,000	120	Nil	120
5,000	200	50	150
10,000	900	600	300
15,000	1,880	1,430	450
20,000	3,000	2,400	600
30,000	6,000	5,100	900
40,000	9,340	8,800	540

A complete table showing the rates which will apply on or after the 25th June appears below. Further copies of this table can be obtained on request from the office of any District Commissioner of Stamp Duties. Persons holding the Information Pamphlet issued by the Department in June 1964 on "Estate Duty in New Zealand" should note the changed rates.

**SCALE OF RATES OF ESTATE DUTY FOR ESTATES  
OF PERSONS DYING ON OR AFTER 25 JUNE 1964**

Net Value of Estate in Steps	Basic Duty on Net Value of Estate	Plus Duty on the Excess Between Steps at Following Rates	Net Value of Estate in Steps	Basic Duty on Net Value of Estate	Plus Duty on the Excess Between Steps at Following Rates
£	£		£	£	
Less than 4,000	Nil	5%	36,000	7,200	39%
5,000	50	7%	38,000	7,980	41%
6,000	120	9%	40,000	8,800	43%
7,000	210	11%	42,000	9,660	45%
8,000	320	13%	44,000	10,560	47%
9,000	450	15%	46,000	11,500	49%
10,000	600	17%	48,000	12,480	43%
11,000	770	19%	51,000	13,770	45%
12,000	960	15%	54,000	15,120	47%
14,000	1,260	17%	57,000	16,530	49%
16,000	1,600	17%	60,000	18,000	51%
18,000	1,980	19%	63,000	19,530	53%
20,000	2,400	21%	66,000	21,120	55%
22,000	2,860	23%	69,000	22,770	57%
24,000	3,360	25%	72,000	24,480	59%
26,000	3,900	27%	75,000	26,250	51%
28,000	4,480	29%	80,000	28,800	53%
30,000	5,100	31%	85,000	31,450	55%
32,000	5,760	33%	90,000	34,200	57%
34,000	6,460	35%	95,000	37,050	59%
		37%	100,000	40,000	40% on excess

## HOW TO WORK OUT THE INVESTMENT ALLOWANCE ON NEW PLANT AND MACHINERY

The Minister of Finance stated in his Budget,

"When taken in conjunction with the special and normal depreciation charge on ordinary plant, the investment allowance will enable 30% of the total cost of the plant to be written off in the first year of use and 60% over the first four years."

The following example shows the actual application of this statement on new agricultural and manufacturing plant and machinery--

Ordinary plant (subject to 10% d.v. ordinary depreciation) Cost		£1,000
<i>1st year</i>		
Investment allowance 10% on cost <u>£100</u>		
Special depreciation 10% on cost (4 year basis)	£100	
Ordinary depreciation 10% on cost	100	200
		£800
<i>2nd year</i>		
Special depreciation 5% on cost	£ 50	
Ordinary depreciation 10% on £800	80	130
		£670
<i>3rd year</i>		
Special depreciation 3% on cost	£ 30	
Ordinary depreciation 10% on £670	67	97
		£573
<i>4th year</i>		
Special depreciation 2% on cost	£ 20	
Ordinary depreciation 10% on £573	57.3	77.3
		£495.7

In the first year the total allowance is 30% comprised of 10% investment allowance plus 20% special and ordinary depreciation. At the end of the fourth year the asset is reduced by special and ordinary depreciation to just under 50% of its original cost and the 10% investment allowance brings the total to 60%.

Investment allowances are not written off in the taxpayer's books – they are an adjustment item in his return.

### DEPRECIATION ALLOWANCE ON ASSETS DESTROYED – POSITION EXPLAINED WHERE INSURANCE RECOVERED

Where an income-earning asset, which is insured, is destroyed the insurance recovered is not considered a sale for tax purposes.

Therefore, where an amount recovered under an insurance claim is in excess of the written down value no adjustment will be made, for tax purposes, to recover depreciation allowed in earlier years. In these circumstances, however, ordinary, special or initial depreciation will not be allowed on the asset in the year in which it was destroyed.

Where the amount recovered is less than the written down value an allowance for depreciation will be allowed in the year the destruction took place. The allowance will be limited to either—

- ★ Depreciation at departmental scale rates or,
- ★ An amount equal to the difference between the written down value of the asset for tax purposes, and the insurance recovered, whichever is the smaller.

## NO TAX IN SOME CASES ON PROCEEDS FROM VOLUNTARY LABOUR PROJECTS OR WORKING BEES

Some organisations, themselves exempt from tax, contract for their members to undertake work and apply the proceeds for the purposes of the organisations.

The income will be exempt from tax provided the following principles are satisfied—

- \*The organisation itself arranges the contract with the principal and undertakes to carry out the work.
- \*The organisation arranges with its members to do the work. The members are then working for the organisation and not the principal.
- \*The members do the work, without remuneration, in their spare time and not as part of their ordinary occupation or employment.
- \*The organisation receives payment direct from the principal.

Tax should not be deducted because the members do not receive remuneration for the work performed.

These arrangements for labour projects and working bees should not be confused with cases of a person or persons undertaking work personally and directing the employer to pay the proceeds direct to a charitable or other organisation. In such instances because the organisation does not make the contract with the employer and the employees are not working for the organisation, the income remains the income of those doing the work and is subject to tax.

## MORE ABOUT REMUNERATION TO SHAREHOLDERS (SECTION 139). SIMPLIFIED FORM OF INQUIRY

The new approach to the application of Section 139 was set out in Public Information Bulletin No. 12.

To assist companies in supplying the required information for the financial year ended 31 March 1964, a special form IR 4A has been designed.

When completed the form should be attached to page 2 of the company's return form (IR 4). Supplies of both forms are available from any District Tax Office.

The text of the form will be incorporated in the 1965 Company return form (IR 4).

## INDEX TO BULLETINS

Included with this Bulletin is an alphabetical index to the items in the Public Information Bulletins issued up to and including Number 12. From time to time up-dated copies of the index will be produced and issued.

## QUESTIONS AND ANSWERS

### DONATIONS AND SCHOOL FEES

**Question:**

In your information pamphlet "Donations and School Fees" reference is made under the heading "Church Offerings" to the deductibility of these where receipts are made out in "Your Wife's Name".

From this I assume that perhaps only in donations to churches may receipts be made out in the wife's name.

May I enquire whether this provision is also applicable to any other approved donations?

**Answer:**

A husband may claim as a special exemption donations received to his wife where the wife has no income in her own right or less than the exemptions to which she is entitled.

### EXPORT MARKET DEVELOPMENT EXPENDITURE

**Question:**

Our firm proposes to send a New Zealand employee to an overseas country to which we hope to export goods. This man's job will be to solicit business. Is the cost involved allowable as a deduction?

**Answer:**

The cost of the employee's fares, plus accommodation and sustenance whilst overseas, but excluding entertainment costs would qualify for the additional deduction.

From 1 April 1963 the proportion of the employee's salary attributable to his performance of services outside New Zealand will also qualify for the additional deduction.

If the person performing the services is an employee/director of the taxpayer company, the same position as set out above will apply.

Where the person soliciting the business is not an employee/director, but is a *director* of the taxpayer company or an associated company, the expenses would not qualify for the additional deduction up to 31 March 1963. From 1 April 1963 the payment made to that director would qualify *only* if the director is in business as a business consultant, market research consultant or advertising agent and the payments are made to him in the ordinary course of conducting that business.

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### "THE PLATELAYER"

... then there was the clerk in one District Office who addressed a query to a taxpayer whose residential address was unknown but occupation was shown as "platelayer, New Zealand Railways".

"C/o The Refreshment Branch

New Zealand Railways

....."

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## READY REFERENCE TO FORMS YOU MAY USE

This table shows the forms produced for the use of taxpayers or their agents in support of claims and incentives together with forms for miscellaneous purposes.

These forms will be supplied, on application, by any District Tax Office.

Item	Form No.	Attached to
Special Depreciation Schedule	IR 39	IR 3, 4 or 5A
Claim for Investment Allowance and Special Depreciation	IR 39A	IR 3, 4 or 5A
Claim for Increased Deduction for Fertiliser and Lime	IR 48	IR 3, 4 or 5A
Incentive Deduction for Increased Export	IR 320	IR 3, 4 or 5A
Wages Paid to Spouse	IR 129	IR 3
Statement of Income-Life Insurance Agents	IR 44D	IR 3
Remuneration Paid – Section 139	IR 4A	IR 4
Application for Snow Loss Reserve	IR 47	–
Application by Students for Special Tax Code Certificate	IR 24	–
Form of Declaration	IR 130	–
Schedule of Casual Employees	IR 12B	IR 68
Schedule of Shearing Contractors' Employees	IR 12C	IR 68
Schedule of School Children Employed	IR 12D	IR 68

### TAX CALENDAR FOR AUGUST TO OCTOBER 1964

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. <ol style="list-style-type: none"> <li>1. Salary or Wages and Investment Income – use IR 3 form.</li> <li>2. Business or Farming Income – use IR 3 form and IR 3B or IR 3F insert.</li> <li>3. Companies and Clubs – use IR 4 form.</li> <li>4. Estates and Trusts – use IR 5A form.</li> </ol> <p style="margin-left: 40px;">Interim Return – use IR 5B form.</p>
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. Last day for furnishing returns due on 7 August.
September 20	Pay August Tax Deductions.
October 7	Pay Land Tax for 1964.
October 20	Pay September Tax Deductions.