



INLAND REVENUE DEPARTMENT

PUBLIC INFORMATION BULLETIN

No. 15

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TAXPAYERS ARE PEOPLE COMMISSIONER'S STATEMENT TO STAFF

In recent Public Information Bulletins you may have read about our public relations campaign and seen the extracts from the Commissioner's report to the Minister of Finance which appeared in Public Information Bulletin No. 14 at page 2.

Following that report the Commissioner stressed the principle objectives of the campaign in a message to all staff.

Here is the Commissioner's message:

TO ALL STAFF

TAXPAYERS ARE PEOPLE

"We are trying to help people—

by removing the mysteries of taxation;

by giving an information service to aid them in their dealings with us, and in understanding taxation;

by liberalising our rulings and procedures.

We are making—

a planned, sustained and determined effort to do away with unreasonable and petty small-minded interpretations of both the law and our instructions.

We want you—

to handle cases with speed, with reasonableness and with every possible courtesy and consideration. You must not strain the law purely in order to protect the revenue.

This message is the very foundation of our efforts to improve Public Relations. It has appeared in a report to the Minister and in an Information Bulletin and should be constantly in mind."

Signed: L. J. Rathgen
Commissioner

2 October 1964

DEPRECIATION RECOVERED AND OFF-SET AGAINST COST OF REPLACEMENT ASSET – POSITION EXPLAINED WHEN ASSET REPLACED WAS USED PARTLY FOR BUSINESS PURPOSES

Some taxpayers are aware that depreciation recovered on the sale of an asset may be off-set, for tax purposes, against the cost of its replacement. Most cases where this provision applies are straight forward, but some difficulty is experienced when the asset replaced was used partly for business and partly for private purposes. This item explains the procedure in those circumstances.

Commissioner's Discretion

Under the provisions of the Land and Income Tax Act relating to the recovery of depreciation the Commissioner may "... permit an amount equal to the total of the deductions which would otherwise be disallowed ... to be applied in reduction of the cost" (of the replacement asset).

The amount available to be off-set against the cost price of the replacement asset is the excess of the selling price of the asset over its depreciated value. This is of course limited by the proportion to which the asset is used for business purposes.

An Example

A taxpayer purchased a car for £800, and one quarter of the depreciation is applicable to private use. Two years later the car is sold and a replacement bought. The position would be:

| | | |
|--------------------------------------|-------------|--|
| Cost price | £800 | |
| Depreciation written off at 20% D.V. | <u>288</u> | ($\frac{3}{4}$ (i.e. £216) as a deduction for tax purposes. $\frac{1}{4}$ to drawings). |
| Book value | 512 | |
| Sold for | <u>712</u> | |
| Depreciation recovered | <u>£200</u> | |

Of the amount recovered only $\frac{3}{4}$ (i.e. £150) is available to be offset as this is the proportion of the depreciation which "would otherwise be disallowed".

TAX ALLOWANCE FOR FEES TO CHILDREN'S PLAY CENTRES

The Commissioner is pleased to advise that fees paid for children attending PLAY CENTRES may be treated as "donations" for tax purposes.

You may claim these as a special exemption in your tax return, subject of course, to a yearly limit of £25.

P.S. Don't forget to attach the receipts from the Play
Centre to your tax return.

TAX ON PENSIONS – POSITION EXPLAINED

Generally pensions are subject to both ordinary and social security income tax. However, some pensions are tax free, while Universal Superannuation is subject only to ordinary income tax.

Tax Free Pensions

These pensions are wholly exempt from both taxes:

- Pensions or allowances granted by New Zealand Government to disabled members of the armed forces, or to the wives, widows or other dependents of disabled or deceased members. (Under the War Pensions Act 1954).

Note: Long service army pensions are not exempt.

- Any *additional* retiring allowance paid to a contributor to the Government Superannuation Fund who is medically unfit for further duty or any *additional* annuity paid to a widow (or widower) or dependents of a contributor killed or injured in the execution of duty. (Section 37, Superannuation Act 1956).

Note: The basic retiring allowance or annuity as the case may be is liable for both taxes.

- Any other pension or allowance granted by the Government of any *other country* for any war, or for any disablement or disability suffered while serving in the Armed Forces or Police Force.

Note: Long service pensions are not exempt.

- All pensions paid from the social security fund **except** Universal Superannuation.
- Pensions paid as compensation by the Federal Republic of Germany to victims of National Socialist persecution.

Pensions liable to ordinary income tax but exempt from social security income tax

- Universal superannuation.

Taxable Pensions

These pensions are subject to both ordinary and social security income tax:

- All pensions (except those referred to above) paid for past services.
- Overseas Pensions

Pensions from overseas paid to residents in New Zealand are generally subject to New Zealand tax. Where tax has also been paid in the country of origin, credit for the overseas tax paid will be allowed against the New Zealand tax payable. This credit, however, will be the lesser of the New Zealand tax payable on the pension or the overseas tax paid.

National Provident Fund Pensions

Pensions from the National Provident Fund are paid in the following cases:—

1. Pension schemes undertaken by private firms on a contributory basis.
2. Pension schemes of Local Authorities, National Airways, Primary Producer Boards and similar institutions.
3. Pensions to persons who have assumed their ex-employers liability for contributions on leaving that employment.
4. Superannuation for self-employed persons.
5. Pensions to persons on whose behalf another has paid the contributions, e.g. contributions paid by parent on behalf of a child.
6. Pensions to persons who directly contributed to the fund.

Pensions payable in 1., 2., and 3. are treated as salary and wages and subject to tax deductions at source.

The other cases mentioned are not payable for past services. They are treated as income other than salary or wages and subject to payment of provisional tax.

Commutation of Pension

A person may receive a lump sum payment in commutation of part of the pension or superannuation. In these circumstances the amount so received is a capital payment and exempt from tax. The remainder of the pension is taxable in the normal way.

TAX ON PENSIONS – EXPLANATORY CHART

| TAX FREE PENSIONS | PENSIONS EXEMPT FROM S.S.I.T* | PENSIONS SUBJECT TO S.S.I.T.* AND O.I.T.** |
|---|---------------------------------|---|
| <p>Pensions or allowances paid under Section 37 of the Superannuation Act 1956.</p> <p>Pensions paid as compensation by the Federal Republic of Germany to victims of National Socialist persecution.</p> <p>Social security pensions except Universal Superannuation.</p> <p>War pensions paid under War Pensions Act.</p> <p>War or disability pensions for injuries suffered while serving in the Armed Forces or Police Forces</p> | <p>Universal Superannuation</p> | <p>Overseas pensions unless exempted under specific legislation. Credit is allowed for any overseas tax paid. This is the lesser of the New Zealand tax on the pension on the overseas tax paid.</p> <p>Pensions from the National Provident Fund.</p> <p>Pensions from staff superannuation funds.</p> |

* S.S.I.T. – Social Security Income Tax.

** O.I.T. – Ordinary Income Tax.

PROVISIONAL TAX – HOW IT WORKS

In countries which are using a PAYE system it has generally been considered not practicable to apply it to one class of taxpayer and not to others.

In this country it is not considered right that the salary or wage earner should be the only class of taxpayer who has to pay his tax as he earns his income. Provisional tax which is paid on provisional income is complementary to the PAYE tax deductions which are made from salary or wages.

These taxes place all individual taxpayers in the position where their tax is paid as income is earned.

Not Tax in Advance

Provisional tax is not, as some people seem to think, an advance tax, but provides for tax to be paid in the same year as the income to which it relates. By the time each instalment of provisional tax is payable a proportionate part of the year's income will have been received.

Incomes Liable to Provisional Tax

Provisional tax is payable on all "provisional income" which is defined in the Income Tax Assessment Act 1957. Briefly, the main types of provisional income are—

- Business and professional income.
- Farming income.
- Interest and investment society dividends in excess of £30.
- Rents and royalties.
- Company dividends received by persons other than companies.
- Universal superannuation.
- Pensions other than for past services.
- Annuities.
- Overseas income (except Non-Resident Withholding income).
- Shares in estates, trusts or partnerships.
- Remuneration of shareholder/employees of private companies.

How Provisional Tax is worked out.

Payment of your provisional tax may be based on any one of the following four options:—

- (a) The assessable income for the preceding year.
- (b) On an Interim Return.
- (c) An estimate of a lesser amount than the assessable income for the preceding income year.
- (d) An estimate of a greater amount than the assessable income for the preceding income year.

After you have elected which of the options you wish to use you should self assess your provisional tax as shown in the tax return.

Even although your provisional tax is based on one of the four options above you may re-estimate your income at any time up to the time of the last instalment of provisional tax.

Payment of Provisional Tax.

Except for certain primary producers, provisional tax is payable in two instalments; by 7 September and 7 March.

One-third of your provisional tax is payable by 7 September. Except in those cases mentioned in the next paragraph the balance of two-thirds is payable by 7 March.

If you--

- get more than half of your assessable income from primary production, and
- have a balance date later than 31 March, and
- can show that at least half of your gross cash income is regularly received after 7 February,

You may pay your provisional tax in three equal instalments by 7 September, 7 March and 7 June.

If these circumstances apply to you, you may of course, estimate and re-estimate your income up to the date of payment of the last instalment. Payment of provisional tax by instalments sets out the principle of PAYE as by the date the instalment is due a like proportion of the year's income has been received.

Annual "Square-Up"

After the end of the income year you can "square-up" your tax account by filing a tax return with the local tax office. The tax office will assess the amount of tax you should pay on your income. This tax is called "terminal tax" and the PAYE tax you have paid is set off against it. If your PAYE tax exceeds your *terminal tax* the overpayment will be refunded. If there is more tax to pay the Department will send you an assessment notice giving details of when to pay.

FARM DEVELOPMENT EXPENDITURE – ADDITIONAL DEDUCTION FOR COST OF FERTILISER STORAGE BINS

The Commissioner is pleased to announce that the cost of erecting bins for the bulk storage of fertiliser on farms is allowable as Farm Development Expenditure.

The deduction is allowable whether the fertiliser is to be spread by surface sowing or aerial topdressing. It is treated as a cost in the preparation of the land for farming or agriculture.

INCOME FROM PERSONAL EFFORT HOW IT IS TAXED

Income from personal effort may fall into one of three categories for tax purposes. Here are rules which help classify that income into one of those categories for the purpose of finding out the amount of tax to be deducted at source.

SALARY AND WAGES

When there is a "Master – Servant" relationship between the employer and employee, payments for personal services are treated as salary, wages or extra emolument. Tax worked out from the PAYE tax deduction tables, is deducted from your income by your employer who pays it to the Department on your behalf.

Note: An "extra emolument" is a payment covering a period for which salary or wages has already been paid, for example, a retrospective wage increase.

Some Payments Not Salary or Wages

If the terms of your employment require you to supply materials for the job or employ labour to help you, the income you receive is NOT salary or wages. It will come within one of the groups described below.

WITHHOLDING PAYMENTS

The types of payment which are treated as withholding payments are listed in the Income Tax (Withholding Payments) Regulations. A short list of the classes of payment and the rate of tax in the £1 is set out in the "PAYE Tax Tables and Instructions for Employers" (IR 184) which you can get from your local tax office.

How They Are Taxed

Tax is deducted at special flat rates fixed by the Regulations from all withholding payments unless the recipient has a certificate from the Department exempting him for deductions. The tax deduction is generally based on the gross figure without allowing for expenses, which may be claimed in your tax return.

Four Guide Rules

"Withholding payments" do not include a payment which is essentially salary or wages even although there may be a class of payment with a similar description in the regulations. Here are four rules which are given as a guide to help you decide whether your income is—

- salary or wages

OR

- a withholding payment.

Rule 1 When a fixed salary is paid, any additional payment whatever its description should be treated as salary or wages. This means that if you received £29 regular salary and £10 commission from the same employer, in the same week, the full amount should be treated as salary. On the other hand if you received only commission it should be treated as a withholding payment.

Rule 2 If you are engaged in piecework and your income is based on production but paid solely for personal services the payment should be treated as salary or wages. However, if you employed labour or used your own plant to do the job the payment should be treated as a withholding payment.

Rule 3 Fees and honoraria referred to in the Regulations will be treated as withholding payments even if paid exclusively for personal services UNLESS the recipient receives a fixed salary as in rule 1.

Rule 4 Directors' fees are withholding payments in all circumstances UNLESS you are a shareholder-employee in a private company and as such are treated as a provisional taxpayer.

If you are in any doubt about the distinctions between salary or wages and a withholding payment your local tax office will be pleased to help you.

BUSINESS INCOME

If your income from personal effort is not classed in one of the two groups mentioned or is not taxed at time of receipt it is treated as provisional income for tax purposes. In these circumstances you should pay provisional tax.

DEPRECIATION ALLOWED ON DWELLING USED FOR BUSINESS PURPOSES

If you are in business you may claim a deduction for part of the depreciation and other expenses on your residence if:-

- A specific portion is set aside as a study or business office
- AND
- Work is carried out there.

This deduction will be allowed even if you have an official place of business elsewhere.

You should make your claim to your local tax office and show:-

1. Amount of depreciation you are claiming and how it is arrived at.
2. Other outgoings and amounts.
3. Number of rooms set aside for office or study.
4. Total number of rooms in your residence.

AN EXAMPLE OF CO-OPERATION

An important feature of our public relations campaign is to make staff aware of the need to be courteous and effective in answering queries over the telephone. Special training is being given to staff who will be used in this work.

Another Feature

Another feature of our NEW LOOK is the need to meet the public in a co-operative and friendly way; to be liberal in our thinking so as to appreciate the taxpayer's point of view.

An Object Lesson

These features were recently impressed on staff members in a practical way by the following example of co-operation:-

An officer of the Inland Revenue Department gave a talk on the subject of public relations and the telephone.

- The POST OFFICE loaned a film which was used as a training aid.
- The film was shown on a projector loaned by the STATE SERVICES COMMISSION.
- The screen was loaned by a PRIVATE INDIVIDUAL and
- The talk given in a hall made available by a LOCAL BODY.

Finally, the audience was a mixed one from employees of the Inland Revenue Department and the Local Body.

The Commissioner thanks all responsible for this constructive effort towards improving public relations in the Department.

DROUGHT RELIEF FOR FARMERS

The Minister of Finance has announced that the provisions of Section 103A of the Land and Income Tax Act 1954 will be applied by the Inland Revenue Department to farmers in the-

THAMES COUNTY

Public Information Bulletin No. 14, page 7, explains how the Section works and should be read together with this item.

ADDITIONAL DEPRECIATION ALLOWANCES

Since issuing the Information Pamphlet "Depreciation Allowances" (IR 260) the Commissioner has approved the following additions.

These items will be included in the next print of the IR 260.

*(C.P. denotes Cost Price – D.V. denotes Diminishing Value – S.V. denotes Standard Value.)

| ITEM | RATE * |
|--|---------------|
| Schedule A | |
| **Car Ports – Purchased outright and used for business or rental purposes. | 2½% C.P. |
| Hired by constructors to householders | 5% D.V. |
| Fowlhouses – Wooden framed | 5% C.P. |
| Structure for shading tomato plants | 5% C.P. |
| Schedule B | |
| Fuel tanks (not underground) & Tank stands | 10% D.V. |
| Schedule C | |
| Ice skating rink plant | 15% D.V. |
| Schedule D | |
| Roller skates | 20% D.V. |
| Schedule E | |
| Ice skates | 33½% D.V. |
| Sole knives – Footwear industry | 50% D.V. |
| Schedule F | |
| Plastic pots for growing tomato plants | 2s. each S.V. |

** The type of car port concerned consists of galvanised steel stanchions and galvanised iron roof. The structure is bolted to a concrete foundation, is portable and can be removed at any time.

QUESTIONS AND ANSWERS

COST OF TRANSPORTING EMPLOYEE'S CHILDREN TO SCHOOL

Question

A farmer client provides the transport to and from school for his farm employee's children. Is he entitled to claim the cost against his farming income?

Answer

The Commissioner states that a deduction is allowable for taxation purposes, for payments or costs of this nature, provided the claim does not include the cost of sending the farmer's own children to school. In these circumstances an adjustment should be made.

When the farmer provides the transport himself for the employee's children, the petrol costs and other motor expenses are deductible in full against the farming income. Similarly, if the farmer contributes directly towards a transport service for employee's children on a modified bus system, the cost of the contributions is allowable as a farm expense.

EXPORT INCENTIVE ALLOWANCE – SECTION 129B

Question

To facilitate Customs and Reserve Bank procedure our company carries out the invoicing and other formalities relating to the exports of an associate company. Will exports accruing to the associate qualify it for the export incentive allowance?

Answer

The associate company will be regarded as the "exporter" for the purposes of section 129B of the Land and Income Tax Act 1954 and will qualify for the Export Incentive Allowance provided the goods are not excluded by the section.

Question

Would exports of dried milk powder qualify for the increased exports incentive allowance?

Answer

As dried milk powder comes within the category of "animal products including dairy produce", it is specifically excluded by the legislation and does not qualify for the Export Incentive Allowance.

READY REFERENCE TO DUTIES DIVISION FORMS

This table shows the forms produced for the use of taxpayers or their agents in connection with Estate Duty, Gift Duty and Amusement Tax.

| FORM IR NUMBER | DESCRIPTION AND PURPOSE |
|----------------------|---|
| ESTATE DUTY | |
| 601 | Form 1. Summary of cash. |
| 601A | Certificate to accompany Form 1. |
| 602 | Form 2. Schedule of Furniture, effects, jewellery |
| 603 | Form 3. Inventory of farm stock, vehicles etc. |
| 604 | Form 4. Summary of private business interests |
| 605 | Form 5. Policies of Assurance. |
| 606 | Form 6. Schedule of loans made by deceased. |
| 607 | Form 7. Schedule of stock, shares, bonds, etc |
| 607A | Certificate to accompany Form 7. |
| 608 | Form 8. Schedule of Real property, rents, etc. |
| 609 | Form 9. Schedule of other assets. |
| 610 | Form 10. Schedule of gifts. |
| 611 | Form 11. Joint Interests. |
| 612 | Form 12. Interests accruing on death. |
| 613 | Form 13. Schedule of unsecured debts. |
| 614 | Form 14. Schedule of secured debts. |
| 620 | Questionnaire to accompany Estate Accounts. |
| 632 | Administrators' statement. |
| 633 | Corrective statement. |
| 638 | Form of Bond. |
| GIFT DUTY | |
| 635 | Gift statement. |
| AMUSEMENT TAX | |
| 666 | Statement by Racing Clubs. Form F. |
| 712 | Amusement Tax weekly return. |
| 713 | Amusement Tax daily return. |
| 720 | Amusement Tax Statement of receipts and payments. |
| 725 | Amusement Tax Application for exemption. |

These forms are available from any Duties Division Office of this Department.

WHAT'S IN A NAME?

A Special exemption is allowed in full for a child born at any time during the income year – even on 31 March.

A taxpayer whose son was born on that date was so elated by the combination of circumstances that he felt the occasion worthy of commemoration and named his son—

"JUSTIN TIMEOTHY"

**COST OF REPLACING PROTECTIVE CLOTHING
NOW ALLOWABLE**

A deduction may now be claimed by taxpayers in business for the cost of replacing protective clothing.

The initial cost of the clothing on starting up in business is not however allowable

Examples of expenditure which may be claimed would be the replacement cost of overalls and sandshoes to a painter or gumboots to a farmer.

PUBLIC INFORMATION BULLETIN No. 16

This Bulletin will contain notes on the Land and Income Tax Amendment Act, 1964.