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A GENERAL VIEW OF THE DEPARTMENT

This article provides a brief outline of the Department as a prelude to a series of articles dealing with more specific aspects of the Department's functions.

THE ORIGIN OF THE DEPARTMENT

The Inland Revenue Department is a Department of State constituted by the Inland Revenue Department Act 1952 to attain unified control of the Land and Income Tax Department and the Stamp Duties Office, which were previously separate Departments, and to facilitate the interchange of information which is of value to both. The former separate identities have been preserved to the extent that there are still two separate Divisions - the Taxes Division and the Duties Division. Unified control, however, vests in the Commissioner of Inland Revenue who is responsible to Parliament, through the Minister of Finance, for the efficient and economical administration of the Department and the administration of the Inland Revenue Acts and Regulations which relate to the assessment and collection of the taxes and duties mentioned in the next paragraph.

THE REVENUES ASSESSED AND/OR COLLECTED

The Department is responsible for the assessment and/or collection of the following revenues -

Taxes Division

- Land tax, income tax (comprising ordinary income tax and social security income tax) and excess retention tax. (Legislation: Land and Income Tax Act 1954 and amendments).
- Film hire tax. (Legislation: Part V of the Finance Act 1930, as amended by Part IV of the Finance Act 1954 - to be read in conjunction with the Cinematograph Films Act 1961 and amendments).
- Social Security Charge. (Legislation: Part IV of the Social Security Act 1938 and amendments).

Duties Division

- Stamp duties, lottery duty, totalisator duty, dividend duty, stakes duty. (Legislation: Stamp Duties Act 1954 and amendments).
- Estate duty and gift duty. (Legislation: Estate and Gift Duties Act 1955 and amendments).
- Amusement tax. (Legislation: Amusement Tax Act 1960 and amendments).

UNCLAIMED MONEYS

The administration of the Unclaimed Moneys Act 1908 and amendments and Section 72 of the Law Practitioners Act 1955 is vested in the Commissioner of Inland Revenue. Correspondence on this subject should be addressed to the District Commissioner of Taxes at Wellington, quoting the reference "U.M."

INTERNAL STRUCTURE

Problems arising from expansion led to the adoption of a policy of decentralisation which commenced in 1945. There are now 28 District and Sub-Offices comprising 8 combined Taxes and Duties Division District Offices with 4 combined Sub-Offices,

6 separate Taxes Division District Offices with 4 Sub-Offices and 6 separate Duties Division District Offices. These District and Sub-Offices are under the control of a District Commissioner of Taxes and/or Stamp Duties for each area. Physical amalgamation is not yet complete owing to shortage of suitable accommodation.

DELEGATION OF COMMISSIONER'S POWERS AND DUTIES

Of necessity, the Commissioner's administrative responsibilities are executed by a process of delegation of a great proportion of the powers and duties conferred on him by the taxation legislation to certain other officers, both in Head Office - including a Board of Deputies comprising the Chief Deputy Commissioner of Inland Revenue as chairman and the two Deputy Commissioners of Inland Revenue as members - and in the District Offices throughout New Zealand.

FUNCTIONS OF HEAD AND DISTRICT OFFICES

In general terms, the functions of Head Office and the District Offices include the following -

Head Office : Overall planning, organisation and administration of the Department; consideration of taxation principles and application of the penal provisions; development of taxation policy; consideration of economical and financial effects of taxation and legislation; investigation of international tax systems and taxation proposals; control accounting; estimation of revenue and expenditure; decisions on complex tax problems.

District Offices : The assessment and/or collection of the relevant taxes and duties; detection of evasion.

An outline of the organisation, procedures and problems of District Offices will be given in one of the later articles.

STAMP DUTY ON PURCHASES OF OWN-YOUR-OWN FLATS

During the course of its election campaign the National Party announced that from the 1 December 1963 the initial purchaser of a flat who is required to purchase an undivided share of the land would be assessed with stamp duty on his proportionate share of the land only.

This concession is being put into effect immediately and the necessary validating legislation will be introduced in the next session of Parliament. In the meantime the following notes are set out for guidance -

Concession closely allied to existing legislation:

The concession is closely allied to the existing concession provided by Section 77A of the Stamp Duties Act 1954 for purchases of newly erected dwellinghouses and will operate in a similar manner.

Scope of the Concession:

The concession applies where an undivided share of land is transferred for valuable consideration and is accompanied by an agreement which gives the purchaser a right of exclusive use and occupation of one of the flats erected or to be erected on the land.

Definition of "flat" for purposes of Concession:

For this purpose a flat is taken as meaning a separate residence in a building or buildings erected or to be erected on the land solely as separate residences for each of more than one family. The building or buildings may include the usual appurtenances (e.g., wash-houses or garages) but must not include other substantial improvements (e.g., shops, offices, etc.)

Purchaser must have first use of flat:

The flat must not have been lived in prior to the sale.

One Concession allowable:

The concession cannot be granted more than once in respect of any particular flat.

Date of sale for purposes of Concession:

The concession will not apply if the date of sale is prior to the 1 December 1963. For this purpose the date of sale is taken as the date of execution of the instrument or earliest instrument of agreement of sale or, where there is no such instrument, the date of the instrument of transfer.

Evidence required in support of application:

Where the concession is sought the purchaser must supply to the Department a statutory declaration covering the following -

- . That under an agreement of sale (or Memorandum of Transfer as the case may be) which is dated he purchased from (vendor's name) an undivided share in the land described as (description in agreement or Transfer)

- That the building erected on the land is for separate residences only and that the only other improvements effected on the said land are (state briefly)
- That by virtue of the purchase he acquires the right of exclusive use and occupation of a separate residence in the said building, being (specify)
- That such separate residence has not at any time prior to the sale been resided in by any person
- That the unimproved value of the land as shown on the district valuation roll, a copy of which is annexed, is £.....

DEPRECIATION ALLOWANCES ON BUILDINGS AND INNER FIXTURES

This article sets out the relevant rates of depreciation which, in general, the Commissioner of Inland Revenue will approve on the above items and highlights the salient distinguishing features where inner fixtures are erected by the owner or by a lessee.

DEFINITIONS

The "building proper" and "inner fixtures" are classified as follows -

- "Building Proper" - This is made up of the structure of the building, viz., outer walls (including linings, outer doors, shop fronts and windows), interior bearer walls, foundations, roof, ceiling, floors, cellar, chimneys, drainage, sewerage, stairways, plumbing, water and power supply.
- "Inner Fixtures" - These consist of partitions, inner doors and windows, shelving, fixtures and fittings, lockers and the like.

These definitions are most important and if always kept in mind they simplify most problems associated with this topic.

BUILDING PROPER

(Expenditure incurred by either the owner or lessee)

CAPITAL EXPENDITURE

Capital expenditure on the building proper will, in general, qualify for the appropriate building rate of depreciation with no deduction for the loss involved in the event of demolition or partial scrapping.

An exception is made in respect of premises or part thereof - other than hotels - where a lessee has incurred capital expenditure on installations which are not part of the normal requirements of the building but which are necessary for the particular needs of his business, for example, extra hand basins and additional electrical services for a hairstressing salon. In these circumstances the capital expenditure will qualify for depreciation at the rate of 20 per cent d.v. with an allowance for any loss on scrapping.

ALTERATIONS

Alterations and extensions to the building proper (as distinct from repairs) also qualify for depreciation at the appropriate building rate with no deduction for loss on scrapping.

Where alterations of a capital nature involve the improvement of some part of the building proper the Commissioner will generally allow a claim for notional repairs for the estimated cost of restoring that part of the building to its original condition provided, of course, the section repaired was in need of repair.

Example: A taxpayer incurs expenditure in modernising his shop front. As defined above the shop front is part of the building proper. Therefore, the cost of modernising it must be capitalised to buildings account. Depreciation at building rates would be allowed. A claim for notional repairs could be considered in relation to the work undertaken to the extent that the old shop front was in need of repair.

INNER FIXTURES

EXPENDITURE INCURRED BY OWNER

NEWLY ACQUIRED OR ERECTED BUILDING

At time of erection or acquisition:

Inner fixtures installed by the owner of the building at -

- . the time of construction or acquisition of a newly erected building, or
- . within a reasonable time of first occupancy

become part of the building proper for depreciation purposes. In other words all initial expenditure incurred by an owner in making the building fully operative, whether for himself or for use by lessees, is regarded as the original cost of the building.

Under this approach movable partitions (see following definition) are also treated as part of the building proper if installed in a newly erected or newly acquired building by the owner. In this context "movable partitions" means movable non-structural partitions which are complete units within themselves and available for shifting merely by removal of several screws which may be fixed to a floor or ceiling.

At a subsequent date:

Subsequent expenditure on extensions of inner fixtures in a newly erected building, i.e., after the initial period of ownership, must be capitalised. It will qualify for depreciation at the rate of 10 per cent d.v. plus an allowance for any loss on scrapping that may be incurred subsequently. However, where alterations merely involve the rearrangement of inner fixtures the cost is deductible under the second proviso to Section 113 of the Land and Income Tax Act 1954.

ON ACQUISITION OF A SECOND HAND BUILDING

Where a taxpayer purchases a second hand building all existing inner fixtures are treated as part of the building and qualify for depreciation at the appropriate rate. Subsequent expenditure on extensions, even where incurred immediately after acquisition, should be capitalised but will qualify for depreciation at the rate of 10 per cent d.v. plus an allowance for loss on scrapping. If the expenditure relates merely to rearrangement of existing inner fixtures, the removal and other incidental costs may be claimed as repairs and maintenance.

EXPENDITURE INCURRED BY LESSEE

Capital expenditure - including expenditure on extensions - whether incurred in a new or old building should be capitalised. It will qualify for depreciation at the rate of 20 per cent d.v. plus an allowance for any loss on scrapping. Alterations involving rearrangement of (say) partitions may be allowed in full in the year incurred under the second proviso to Section 113 of the Land and Income Tax Act 1954.

EXTENSION, RE-ARRANGEMENT OR REPLACEMENT OF INNER FIXTURES

(Expenditure incurred by either the owner or lessee)

The question often posed is whether expenditure incurred on replacing, altering or extending inner fixtures should be claimed in full as not increasing the capital value of the building as a whole or should be capitalised as additions. This question is, to some extent, one of degree; each case falling to be decided on its merits. The following paragraphs indicate in a general way the Department's approach towards the problem -

EXTENSIONS

Where there is an appreciable extension to inner fixtures it is considered the correct treatment is to capitalise the whole of the expenditure and not just the amount applicable to the extension. Depreciation at the rate of 10 per cent d.v. (owner) and 20 per cent d.v. (lessee) will be allowed. Where there is doubt as to what constitutes an appreciable extension call and discuss the problem with an officer of the Department.

In these circumstances if the original expenditure on the inner fixtures replaced had been capitalised to inner fixtures account (as distinct from buildings account) a claim for the loss on scrapping the original inner fixtures would be considered. On the other hand, where the original expenditure has been capitalised to buildings account a claim for the loss involved in the event of the partial scrapping of inner fixtures will generally not be considered.

RE-ARRANGEMENTS OR REPLACEMENTS

Where the expenditure incurred represents replacements or rearrangements of existing inner fixtures - even though a substantial part of the old materials is lost in the alterations - without any appreciable increase in the length or size of the inner contents the expenditure generally would be allowed in full. This would also cover demolition and erection of whole rooms and offices provided there was no appreciable extension. However, the matter would in the latter circumstances, require consideration in the light of the overall expenditure and in relation to the value of the building. In other words, the question of "degree" as referred to above.

COMPLETION OF SUPPLEMENTARY RETURN FORMS

In the past additional work has been placed upon practitioners and other agents because the Department has required completion of Supplementary Return of Business or Professional Income (IR 3B) and Supplementary Return of Farming Income (IR 3F) in those cases where detailed annual accounts are also prepared. This requirement has been relaxed by the introduction of the following new arrangement -

THE NEW ARRANGEMENT

Commencing with returns of income for the year ending 31 March 1964 it will not be necessary for practitioners and other agents to complete IR 3B or IR 3F where detailed annual accounts are furnished together with the information required in blocks 1 and 2 (IR 3B) and blocks 1, 2 and 3 (IR 3F).

PRINTING ERROR IN FORM IR 3F

There is a small printing error in the 1964 print of the Supplementary Return of Farming Income (IR 3F). Instructions in the vertical block on the front right hand side refer to "blocks 1 and 2 overleaf". The instruction should read "blocks 1, 2 and 3 overleaf". Block 3 covers payments by husband (or wife) to wife (or husband) and as continued approval of a deduction of this nature is dependent on completion of the block, practitioners and other agents should ensure this point is not overlooked.

SPECIAL AND INITIAL DEPRECIATION

This topic was previously considered in Public Information Bulletin No 4 and the following information is supplementary thereto.

The Department has been asked whether the amended procedure whereby companies may claim special and initial depreciation without the amounts being written off in the company's books of account applies ~~to the balance~~ of a claim for special depreciation where the original application made on form IR 39 was lodged prior to the year ending 31 March 1964 with the spread extending into subsequent years, e.g., 10% claimed in 1963 with balance to be claimed over 1964, 1965 and 1966 at rates of 5%, 3% and 2% respectively.

The answer is that companies which otherwise comply with the necessary conditions may obtain the deduction without writing off the balance of special depreciation allowable in 1964, 1965 and 1966 in the books of account.

1964 TAX CALENDAR

February 7	Due date for payment of (1) Income Tax for year ended 31 March 1963 (2) Second Instalment of Provisional Tax for year ending 31 March 1964
February 20	Pay January Tax Deductions
March 7	Last day for payment of taxes due 7 February
March 20	Pay February Tax Deductions
March 31	Ensure employees have lodged Tax Deduction Certificates for year commencing 1 April
April 20	Pay March Tax Deductions Deliver Tax Deduction Certificates for the year ended 31 March 1964 to employees
May 7	Returns of Land held at Noon on 31 March 1964 due (use form IR 2)
May 15	Deliver to Inland Revenue Department, Reconciliation of Tax Deductions and Tax Deduction Certificates for the year ended 31 March 1964
May 20	Pay April Tax Deductions
June 7	Returns due from those whose income is entirely from salary and wages and superannuation (other than Universal Superannuation) and not more than £30 interest for year ended 31 March 1964 (use form IR 5)
June 20	Pay May Tax Deductions
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 (1) Salary and Wages and Investment Income (use Form IR 3) (2) Business Income (use Form IR 3 and insert IR 3B) (3) Farming Income (use Form IR 3 and insert IR 3F) (4) Companies and Clubs (use Form IR 4) (5) Estates or Trusts (use Form IR 5A) (6) 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 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
November 7	Last day for payment of Land Tax due October 7
November 20	Pay October Tax Deductions
December 20	Pay November Tax Deductions