



## PUBLIC INFORMATION BULLETIN

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## THE DEPARTMENT HELPS YOU TO CLAIM DEDUCTIONS

Recently there has been some interesting discussion in the press on whether the Department should tell taxpayers when they have not claimed deductions to which they are entitled.

The Commissioner's instructions to all his officers are that in such cases they must notify the people concerned.

The difficulty is, of course, that it is not always apparent from the returns that taxpayers have not claimed allowances and this is one of the reasons apart from the desire to give better service to the public, that pamphlets, brochures and public information bulletins are now being provided.

If you have a problem or are in doubt in any matter do not hesitate to call or contact your local tax office.

The staff are there to help you.

## ADJUSTMENTS TO INCOME OF RELATIVES (SECTION 106) DEPARTMENT WILL EXPLAIN ITS BASIS OF CALCULATION

Where a taxpayer employs a relative or is in partnership with a relative, the Department is obliged by Section 106 of the Land and Income Tax Act 1954 to consider the matter and make such adjustment as it considers necessary for tax purposes, to the remuneration or share of profit paid to the relative.

If the section has been applied in your case you, or your adviser will now be given on request the basis on which the income has been re-allocated for income tax purposes.

Taxpayers and their advisers will thus be provided with information which will help them to decide whether the re-allocations are fair and reasonable having regard to the respective contributions of the partners by way of services, capital or otherwise and assist them in formulating any objections they may wish to make.

## MORE DEPRECIATION ALLOWANCES NOW GIVEN WITHOUT A FULL BOOK-KEEPING SYSTEM

It is generally preferable that claims for depreciation for tax purposes be written off under a system of double entry books and be supported by copies of the annual accounts attached to the return of income.

The Department does not insist however, on depreciation claims being supported by double entry accounts in the case of individual taxpayers in respect of buildings or in respect of what may be called a "single asset".

In the past a single asset has been considered as one which if taken away from the taxpayer would preclude him from earning his income and claims for depreciation were accepted, unsupported by double entry accounts only where this definition was satisfied.

The Department has decided however, to widen considerably the concept of a single asset and the following paragraphs give the main features of the amended procedure which will apply generally for the 1964 and future income years.

### Scope of Amended Procedure

If you have depreciable income producing assets (irrespective of the number) you may claim depreciation, without supporting double entry accounts, in respect of one asset (in addition to buildings) which you select, provided the claim is supported by an asset account. In other words, a taxpayer with several business assets in addition to buildings could claim depreciation on the buildings and on one of the other assets without supporting double entry accounts. If however, he wants to claim depreciation on two or more assets (apart from buildings) he must, as previously, maintain a set of double entry accounts.

### Definition of single asset

The term refers to a single unit, including any attachments applicable exclusively thereto, which cannot be attached or transferred to a similar unit and which require to be disposed of with the unit itself. For example, a taxpayer engaged in a carrying business and who owns a truck, a four-wheel trailer and stock sides could not claim these assets as a single unit; rather he would have to select "a unit" e.g. the truck.

It should be noted that the term will not apply to a group of assets coming within the same classification for depreciation purposes, but only to one selected unit of the group. For example, a carrier owning a fleet of trucks must select one truck to come within the ambit of the new concept of depreciation on a single asset basis.

### Apportionment of claim between business and private use

Claims in respect of an asset qualifying under the above but used only part time for business purposes will be accepted on the new single asset basis provided -

- (a) an asset account is maintained in respect of the asset (other than buildings) selected, and
- (b) an apportionment between business and private use is made.

### An asset account must be maintained

The allowance, as in the past, is dependent upon an asset account being maintained and a copy furnished with the annual Return of Income.

### Companies are excluded from the arrangement

The new procedures do NOT apply to companies.

### Illustrations of cases where new concept will apply

- Typical cases where the new concept will apply are: jobbing builders, carpenters, plumbers in business on their own account (or similar tradesmen) and shearers.
- Depreciation on the "single asset" basis will be allowed to individual partners using assets in the partnership business, e.g. individual partners in firms of solicitors, accountants and so on.
- Where the taxpayer is engaged in two or more separate and distinct businesses or income sources, e.g. a rented property and a small business, a "single asset" may be selected for each business.

## LIFE AND ACCIDENT POLICIES - POSITION EXPLAINED WHERE EMPLOYERS INSURE EMPLOYEES

It is not uncommon in the commercial world for an employer to insure employees against occupational risks (e.g. accident, physical impediment) to which they are subjected and to protect himself against possible loss of profit because of the death or injury of key personnel. The types of contract commonly entered into are accident and life insurance policies and the following is a general discussion on the taxation implications of this trend.

For convenience we shall consider the topic under the headings,

- Accident Insurance,
- Temporary or Term Life Insurance, and
- Life Insurance.

### Accident Insurance.

In general, an accident insurance policy is effected for a limited period - generally of one year or less.

If the premiums are paid by the employer they are a deductible item of expenditure in the year in which they are paid. Any proceeds received by him under such policies are assessable in full in the year of receipt. However should the employer pay the proceeds or any portion of them to the estate or dependants of an employee, in the event of his death, the amount paid, but limited to the amount of the proceeds, will be deductible. In these circumstances the amount received by the trustees of the estate or the dependants of the deceased employee represents an ex-gratia payment by the employer and is not liable to tax.

Where the contract provides that proceeds are payable to the employee or his relatives the premiums paid by the employer represent additional remuneration to the particular employee. The premiums represent a bonus in his hands and should be subject to PAYE deductions as an "annual bonus". The employee may, however, claim the premium paid as a special exemption (i.e. life insurance) provided the policy provides for a lump sum capital payment on the death of the assured. Once again the premiums paid by the employer are a deductible item of expenditure in the year in which they are paid.

### Temporary or term life policies

Temporary or term life policies are a type of insurance taken out for a limited period beyond one year - generally a five to ten year period - and no amount is payable under the policy unless the event assured against (i.e. the death of the employee) eventuates within that period.

Where proceeds of policy are payable to employer

Premiums paid are a deductible item of expenditure if paid by the employer and the proceeds, if received by him, are assessable in full in the year of receipt subject to a set-off, up to the amount of the proceeds, of any payment made to the trustees of the estate or the dependants of the deceased employee. In other words, for taxation purposes, this type of insurance is treated in the same way as accident insurance.

Where proceeds of policy are payable to employee and/or his relatives

In these circumstances the Department will treat the premiums paid in the same way as accident insurance.

Life Insurance  
Proceeds payable to employer

Where a life insurance policy is taken out by the employer on the life of an employee, the premiums are not deductible as and when paid. A distinction is therefore made between life assurance and accident insurance policies. The life insurance premiums are not deductible for the reason that they create an asset, and therefore constitute capital expenditure. As the law stands at present any proceeds under this type of policy will be assessable only where it was taken out on the life of a key servant to fill a hole in, or otherwise to indemnify the employer against loss of profits. Whether the proceeds are assessable falls, therefore, to be decided on the facts of each case having regard to the purpose for which the policy was taken out, the manner in which the proceeds were applied or available to be applied and any relevant legislation at the time.

In the circumstances where the proceeds of a life policy are assessable, the accumulated premiums paid during the term of the policy will be allowed as a deduction against those proceeds in the year those proceeds are received.

Note that where the policy is held purely as an investment any surplus on maturity is, generally, not assessable.

Proceeds payable to the employee and/or his relatives

Premiums paid in whole or in part by an employer on the life of an employee, where the policy is the property of the employee are deductible by the employer and assessable to the employee. The premiums represent a "bonus" and as such should be subject to tax deduction as an "annual bonus". The employee is entitled to claim the premium as a deduction by way of special exemption.

PLANT AND EQUIPMENT LEASED UNDER  
AGREEMENTS WITH PURCHASING CLAUSES  
AND OTHER SPECIAL CLAUSES

1. The position has recently been considered where motor vehicles or other plant and equipment are leased under agreements which include a clause that the lessee has the option or, in some cases, is obliged to purchase the asset at a certain named figure at the expiry of the lease.

In these cases the Department will allow the payments as deductions to the lessee as and when incurred provided the amount fixed as the purchase price in the agreement is not less than the amount calculated by applying scale rates of depreciation (including special depreciation where applicable) over the term of the lease to the value of the asset at the commencement of the lease.

On the other hand if the purchase price fixed in the lease agreement is less than the written down value obtained by applying scale rates of depreciation the Department would have to consider whether some portion of the payments made for "hire" should be disallowed as being in substance part of the purchase price of the asset. The onus would then rest on the lessee to establish that the previous payments did represent real hire paid for the use of the asset. The position with other types of lease agreements is as follows -

2. Service or Maintenance Lease

In these cases the lessor assumes the liability for all expenses and would be entitled to claim those expenses (including depreciation) incurred in deriving the rental income. The lessee would be entitled to claim a deduction for the amount of hireage paid - subject to adjustment in the lessee's return for any private use of the vehicle. The remarks in paragraph 1 concerning a lease with an option or obligation to purchase are also relevant.

3. Net Lease

This is a lease where the main characteristic is that the customer assumes responsibility for all operating expenses except depreciation - the position is the same as for a service or maintenance lease mentioned above in paragraph 2.

4. Finance Lease

In this type of lease the lessee is responsible for all operating expenses, including depreciation with varying provisos built into the lease concerning the adjustment of the salvage value of the asset when it is sold on the expiry of the lease.

The position is the same as in 2 and 3 above with the additional provisions that:

- (a) If the selling price exceeds the book value at date of termination of the lease, any excess hireage refunded to the lessee would be adjustable under Section 94 of the Land and Income Tax Act 1954.
- (b) If the selling price is less than the book value any additional amounts payable by the lessee would be deductible by him and is income in the hands of the lessor in the year in which the asset is actually sold.

5. Rates of Depreciation

The scale rates of depreciation permitted by the Department will be applied in respect of the lessor's claim for depreciation on assets hired.

6. Treatment in Books of Account

At the time of granting the lease the lessor must transfer the asset from trading stock account to the relevant fixed asset account at cost.

## CORRESPONDENCE

Letter received by Department -

"Dear Sir,

My mother in law received your assessment. This is to tell you she is now deceased.

Thanking you"