



INLAND REVENUE DEPARTMENT

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	Pages
• ARE YOU INTERESTED IN A BUSINESS ON THE WEST COAST	2
• DROUGHT RELIEF FOR OTAGO FARMERS	6
• HOW TO KEEP YOUR TAX DEDUCTION RECORDS SQUARE IF NO WAGES PAID FOR MONTH	6
• SPECIAL EXEMPTION NOW ALLOWED TO TAXPAYERS WHO CARE FOR WARDS OF THE STATE	7
• DOUBLE ENTRY ACCOUNTS NOT REQUIRED DEPRECIATION ON CONTENTS OF A DWELLING	7
• FARM DEVELOPMENT EXPENDITURE AND THE FARMING ESTATE	8
• POST DATED CHEQUES TO PAY TAX DEDUCTIONS	8
• HOW ALLOWANCES RECEIVED BY FARM EMPLOYEES ARE TAXED	9
• MORE DONATIONS ALLOWABLE AS A SPECIAL EXEMPTION	10
• SHARE VALUATION PROBLEM	10
• DO YOU GET INCOME FROM AN "OWN - YOUR - OWN" FLAT OR OFFICE	11
• HOW TO GET YOUR BULK SUPPLY OF RETURN FORMS	12
• LOST INNOCENCE	12

ARE YOU INTERESTED IN A BUSINESS ON THE WEST COAST

If you are in business anywhere in New Zealand and want to expand it or start a new one why not go to the West Coast of the South Island.

Worthwhile tax incentives are available if you do and by taking advantage of them you can help yourself and the West Coast.

AN ANNOUNCEMENT

Specific Approved Projects Automatically Qualify

The Minister of Finance has announced that *all manufacturing and agricultural activities* in the defined West Coast re-development region are approved as re-development projects for the purposes of the investment allowance on capital expenditure for new plant or machinery.

This Means That

- Any person engaged in these activities in the region *will automatically qualify* for the 20% investment allowance on capital used to buy new plant or machinery
- For the *farmer or agricultural contractor* that the allowance is *immediately available* on a new tractor or truck.
- For the *manufacturer* that the allowance is generally available on new plant or machinery bought for the factory or office.

This is twice the amount that can be claimed on such assets bought for a business situated elsewhere in New Zealand.

It means that over the life of the asset up to 120% of the cost can be written off.

Other Activities And Buildings Need Approval

Approval of the activity as a re-development project is required in every other case not falling within the terms of the Minister's announcement.

This Means That

- All non-manufacturing or non agricultural activities require specific approval of the Minister of Finance before the investment allowance can be gained on items of *plant or machinery*.
- All activities even though approved as re-development projects require specific approval of the Minister of Finance as to the amount of investment allowance to be deducted on *buildings*.

Second-hand Assets Too

You can get the 20% allowance on second-hand buildings, plant and machinery too provided a previous owner has not claimed it on those assets.

What Is The Redevelopment Region?

This is where economic development is needed most and comprises

- the counties of
 - Inangahua
 - Grey
 - Buller
 - Westland
- the Boroughs of
 - Brunner
 - Greymouth
 - Hokitika
 - Kumura
 - Ross
 - Runanga
 - Westport

What Is A Redevelopment Project?

It is an undertaking, scheme or work approved by the Minister of Finance as a redevelopment project which will be of importance in redeveloping the region. All manufacturing and agricultural activities have been declared approved projects.

Qualifying Expenditure

In general you will get the 20% investment allowance on the cost of new and second-hand assets. Here is a list of the qualifying and non-qualifying assets –

Qualifying Assets	Non-qualifying Assets
New plant, machinery and buildings,* bought or installed, built or extended on or after 11 July 1963 and before 1 April 1967	Motor cars or station wagons, unless they are passenger service vehicles, as defined in the Transport Act 1962.
Second-hand plant, machinery and buildings,* bought, installed or extended on or after 1 April 1964 and before 1 April 1967.	Blocks bolsters core boxes dies driers flasks gauges jigs lasts matrixes moulds patterns saggers stereotypes templets
These assets are to be owned and used by the taxpayer making the claim on a redevelopment project in the region. *Approval of Minister is needed to get these allowances.	Tooling unless the items are depreciable at departmental scale rates and cost more than £30 Hand tools and loose tools Any Unit costing less than £30

How To Get The Allowance

If you have an agricultural or manufacturing business in the region you can claim the allowance on qualifying plant and machinery by filling in form IR 39B, which you can get at the local tax office. Attach this form to your tax return in support of your claim.

If you have other types of business or want to get the allowance on buildings and extensions prior approval is needed. Send these details to the local tax office –

- the type of business
- the capital expenditure likely to be involved
- the purpose for which the asset(s) will be used
- whether it is replacement of another asset
- the extent of similar business activities in the area
- how you think the business or project will help redevelop the region, i.e. provide employment, cheaper goods and so on
- any other details you think may help.

The Minister of Finance will then be asked to look at your case.

What's In It For You

Let's assume you float a manufacturing company in the West Coast redevelopment region. By spending £100,000 on qualifying assets you could slash company tax on £40,000 income by more than half. Here's how it works.

Building erected for £30,000. Plant and machinery installed for £70,000.

Net profit before gaining allowance £40,000	Tax thereon	£19,460
Net profit after getting allowance £20,000	Tax thereon	9,460
Tax saving		<u>£10,000</u>

In any other place in New Zealand the tax saving on the purchase of such assets would be only £3,500 instead of the £10,000 shown above.

More Incentives

Some other tax incentives you may claim if you set up business on the West Coast are explained in the charts overleaf. Your local tax office can tell you more about these incentives on request.

How It Works	What To Claim	How To Claim
Certain items of capital expenditure of a developmental nature are deductible in full. Farmers may elect to defer the deduction of the expenditure, or any part of it, for a period of up to four years from the year of expenditure.	The following items of expenditure: eradication and extermination of pests; clearing land of timber, stumps, scrubs or undergrowth; destruction of weeds; preparation of land for farming; draining swamps and low-lying land; constructing access roads or tracks, dams, stopbanks, irrigation or stream diversion channels, preventing or combating erosion constructing airstrips, sinking bores, constructing fences and so on.	In return of income for year, or years, nominated in election. The election (in writing) should be attached to the return for the year in which the expenditure is incurred.

• Fertiliser incentive

How It Works	What To Claim	How To Claim
The farmer may set off the cost of the fertiliser, or any part of it, for a period of up to four years from the year incurred, thus enabling him to offset the early expense against later increased income. First applied for year ended 31 March 1964.	Depending on the election made, the expenditure may be claimed in any one of the four years succeeding the year incurred or spread equally or unequally, between any two or more of these years.	In year or years nominated in election. <i>NOTE:</i> <i>the election (in writing) should be sent to the local Tax Office with the Annual Return of Income</i>

• Depreciation Incentives

How It Works	What To Claim	How To Claim
<p>• <i>Initial Depreciation</i></p> <p>A 20% depreciation allowance on the cost of buildings acquired or erected, for employee accommodation on or after 1 April 1961 and before 1 April 1966 and first used for that purpose during the income year.</p>	The full 20% is deductible in the year the building is first used unless optional claim for special depreciation is made (see below)	In return of income for year in which assets first used. Claims should be supported by the details set out on the supplementary return forms IR 3B and IR3F or page 4 of form IR 4.
<p>• <i>Special Depreciation</i></p> <p>20% depreciation is allowable on plant or machinery (excluding certain motor vehicles) acquired, installed, or extended on or after 1 April 1960 and before 1 April 1966.</p>	<p>(i) On assets costing less than £400: 20% allowance in year asset first used.</p> <p>(ii) On assets costing between £400 - £1,000: 1st year 10% 2nd year 10%.</p> <p>(iii) On assets costing over £1,000: either 6%, 5%, 4%, 3%, and 2% in consecutive years; or 10%, 5%, 3% and 2% in consecutive years.</p> <p>If election made, special depreciation instead of initial depreciation may be claimed on employee accommodation erected or acquired on or after 1 April 1962.</p>	Claim allowance or proportion thereof in return of income for each respective year. The first year's claim should be supported by a completed form IR 39. (IR 39B if claiming both the investment allowance and special depreciation) available at the Local Tax Office

● **Research Incentives**

How It Works	What To Claim	How To Claim
<p>● <i>Accelerated Depreciation On Research Equipment</i></p> <p>Cost of plant machinery, and equipment acquired, installed, or extended on or after 1 April 1963 for scientific purposes directly relating to the business may be written off over five years.</p>	<p>Depreciation, at a rate to write off the assets over five years.</p>	<p>Deduction should be written off in proper and complete accounts and a copy of the profit and loss account and balance sheet forwarded with the annual return of income.</p>
<p>● <i>Scientific Research</i></p> <p>A deduction of the cost of scientific research directly relating to the trade or business carried on by the taxpayer except on assets on which depreciation has been claimed.</p>	<p>The amount expended</p>	<p>In the annual accounts for the years concerned.</p>

● **Export Incentives**

How It Works	What To Claim	How To Claim
<p>● <i>Export Market Development</i></p> <p>An additional 50% deduction for income tax purposes for certain qualifying expenditure which must also be ordinarily deductible.</p>	<p>The following items of expenditure qualify (including fares, accommodation, and sustenance spent on trips overseas) research on marketing, packaging, and producing new lines; advertising, securing publicity; securing business; free samples; tenders and so on.</p> <p>NOTE: certain items qualify for additional deduction if incurred between 1 April 1962 and 31 March 1966; others if incurred between 1 April 1963 and 31 March 1966</p>	<p>Ordinary deduction: in annual accounts in year incurred</p> <p>50% incentive allowance: claim on return form.</p>
<p>● <i>Increased Exports</i></p> <p>When the value of goods exported during the year has increased by comparison with the average value of goods exported during a "base period" of three years, the proportion of net profit attributable to the increased exports is an allowable deduction.</p>	<p>The proportionate amount of net profit arising from increased exports when compared with export sales for the base period.</p>	<p>Use the Department's application form IR 320 to work out the deduction. A completed IR 320 should accompany return of income in which this incentive is claimed.</p>

DROUGHT RELIEF FOR OTAGO FARMERS

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

Palmerston, North Otago and Strath Taieri areas of Otago affected by the recent drought.

Section Applies

Section 103 A will apply to any case in which the Commissioner of Inland Revenue is satisfied that a farmer has been forced to sell livestock because of shortage of fodder or other factors arising from the drought and has had to defer purchase of replacement stock until the first or second year after the sale.

It also applies

- when stock sold because of the drought is later replaced by breeding,
- AND
- when stock sold in the ordinary course of business cannot be replaced until the first or second year after the year of sale because of the drought.

Assessment of Income Deferred

Under the section the assessment of income arising from the forced sale of livestock is deferred from the year of sale to the year in which the livestock is replaced

When replacement livestock is bought in the same income year as the sale occurs, the charging of the purchase price and the write down to standard values at the end of the year will generally cancel out the extra income arising from the sales

Queries Answered

The local tax office will answer any inquiries about this decision and of the procedures to be followed when lodging a claim.

HOW TO KEEP YOUR TAX DEDUCTION RECORDS SQUARE IF NO WAGES PAID FOR MONTH

Each month reminders are sent to employers who have apparently missed a payment of tax deductions.

Many employers say in reply that no wages were paid in the month concerned. However we have no way of knowing this without enquiring. To save employers the time and trouble of replying to notices in these cases a "NIL" Tax Deduction remittance slip (IR66) may be prepared and sent in at the time payment would normally have been made.

The procedure applies only to those employers who normally pay wages each month.

SPECIAL EXEMPTION NOW ALLOWED TO TAXPAYERS WHO CARE FOR WARDS OF THE STATE

The Commissioner is pleased to announce that taxpayers who, as foster parents, care for wards of the state for the Child Welfare Division may claim a dependent relative exemption for each child for the income year which started on 1 April 1964.

Who Will Qualify

This new ruling applies to people who bring up children in their own homes. It does not apply to those who care for children in Family Homes established by the Child Welfare Division.

What To Claim

When the *intention* is to care for a foster child for a period of 12 months or more the full exemption of £78 will be allowed. In those cases when it is only intended to look after a child or children temporarily an apportionment will be made. The basis of the apportionment is one twelfth of the exemption for each month or part month each child is cared for. This means that if a person undertook to look after a child for 3½ months he would get a special exemption of £26, (i.e. 4/12 of £78).

1965 Claim

Claims for the 1965 income year may be made in the 1965 tax return.

Tax Codes - 1966

A salary and wage earner, caring for a child permanently, may claim the exemption in his tax code declaration (IR 12) for the income year which starts on 1 April 1965. People who care for children, temporarily, may

- make the claim in their tax return or
- apply for a special tax code certificate at the local tax office.

DOUBLE ENTRY ACCOUNTS NOT REQUIRED DEPRECIATION ON CONTENTS OF A DWELLING

The Commissioner has announced that when a taxpayer gets rent from a "single unit" only, depreciation on the full contents of that "unit" may be claimed without double entry accounts. In this context "single unit" means one dwelling let as a whole or one flat, when, for instance, a house has been divided into two flats, one occupied by the owner and the other let.

The contents of the dwelling or flat let should be grouped in classes and depreciated at the appropriate Departmental scale rate.

The scale rates for the normal contents are :-

- | | |
|---|---|
| ● Furniture - Floor coverings - Blinds | 20% Diminishing value |
| ● Refrigerator - Washing Machine - Dishmaster - Wastemaster - Other electric appliances | 10% Diminishing value |
| ● Crockery - Linen - Blankets - Drapes | Replacement cost only for damage or breakages during tenancy. |

If during a temporary or permanent absence overseas or in New Zealand a taxpayer lets his own house or flat in addition to a "single unit" he may claim depreciation on the contents of both dwellings without double entry accounts.

FARM DEVELOPMENT EXPENDITURE AND THE FARMING ESTATE

SECTIONS 119, 119A, 119B, 119C and 119D of the Land and Income Tax Act, 1954, provide that "any taxpayer engaged in any farming or agricultural business on any land in New Zealand" may claim Farm Development Expenditure.

In most farming estates the business is carried on by the trustees. It follows, therefore, that Development expenditure can be claimed only against trustees income. If there is no trustees income in the income year, or if there is a trustees loss, the usual rules governing the carry forward of losses apply to permit the loss to be set off against future trustees income.

In some cases, however, Development expenditure may be claimed against Beneficiaries income.

Here are some examples -

Life Tenant in Business on Own Behalf

When a life tenant, in terms of the will, has the free use, income and enjoyment of an estate *and* carries on the business on his own behalf, Development expenditure may be claimed against his income.

Life Tenant Bears Cost of Expenditure

When the expenditure is actually charged in the accounts to the life tenant *and* the cost is borne by the life tenant, Development expenditure may be claimed against his income.

This will *not* apply, however, if -

- The trustees intend to refund the amount at any time in the future, either directly or indirectly
- The amount is borne by the life tenant merely as a loan or advance from accumulated income.

Beneficiary with Vested Interest in Capital of Estate

When a beneficiary has a vested interest in the capital of the estate the cost of Development expenditure may be set off against his income.

POST DATED CHEQUES TO PAY TAX DEDUCTIONS

Some Public Accountants have mentioned a problem which has arisen in accounting for the tax deducted by several of their clients.

A common practice is to complete an IR 66 and draw a cheque for the month's deductions immediately after the last pay day for the month. However for various reasons the cheque is not sent until the 20th of the month. The Accountants are concerned at the possibility of over-looking the payment or of making it late.

To assist Practitioners the Department will accept post-dated cheques with the completed IR 66's at any time up to the date for payment of the month's deductions.

HOW ALLOWANCES RECEIVED BY FARM EMPLOYEES ARE TAXED

Board And Lodging Supplied By Employer

When board and lodging is supplied without charge to an employee it represents a taxable benefit to him.

The Commissioner has fixed the value per week of board and lodging supplied to an employee as follows.

Details of allowance	Single man or married man not accompanied by wife and/or children	Married man accompanied by wife and/or children
Food and lodging	£1 0 0	£2 0 0
Food only	15 0	£1 10 0
Lodging only	5 0	10 0

"Employee" includes a member of the farmer's family employed full time.

Notes

- (a) This formula does not include cases when a free house is supplied. - see below.
- (b) The generally accepted term of lodging is "occupying part of another's house". It would include living in a hut, whare or other accommodation which falls short of a house for personal use.
- (c) If the farmer chooses to "keep" the member of the family employed on the farm and not claim for the cost of rations, the value of the board and lodging would not be assessed to the employee concerned.

Free House Supplied To Employee

The rental value of a free house, supplied to an employee, has not been fixed for tax purposes. The benefit is assessable to the employee but should be fair and reasonable, taking into account

- the nature and location of the house AND
- the benefit to the employee.

It is left to the employer to decide the value of this taxable benefit. A method often used is to take the rental of a similar house in the nearest town and then reduce that figure to allow for remoteness.

Once a rental value has been fixed for an employee in a particular house, it need not be charged while he lives there, unless special factors warrant a review. However, when the house is occupied by a new employee, the value should be reviewed.

In practice a rental value of £1 a week is suitable in most cases. If the accommodation is above or below the average standard of employee accommodation in the area, this amount may be varied. For instance, a farm manager occupying a high standard dwelling, could be assessed with up to £3 a week.

The method of fixing the value of a free house supplied for shareholder-employees of private companies is set out in Public Information Bulletin No 12.

POSITION OF PARTNERS/MANAGERS

Board And Lodgings

In a partnership the partner/manager is not an employee - he is a part proprietor. If the partnership pays the living cost of the partner/manager it cannot deduct the expenditure and this should be added to the manager's share of the profits. This applies to such items as stores, meat, fuel three-quarters of private power and private use of free car.

House

Claims for depreciation and repairs and maintenance on a dwelling occupied by a partner may be treated differently. One-quarter is allowed as a deduction. The balance would be added to the partnership income, generally to be divided in normal partnership proportions, but if the partners prefer to charge the amounts to the partner living in the dwelling this Department will not object.

Manager With Minor Interest

When a working partner, with his wife, has less than a 10 per cent interest in a partnership he will be treated as an "outside employee" for fixing the value of food and lodging and/or free house supplied and the rules above will apply. However the 10 per cent figure is only a guide. Cases when the interest is more than 10 per cent will be considered on their merits.

MORE DONATIONS ALLOWABLE AS A SPECIAL EXEMPTION

Classes of donations allowed as a special exemption were shown in Public Information Bulletin No. 3.

Since then the Commissioner has announced that donations to the following causes will qualify -

- BIRTHRIGHT (WAIKATO) INC.
- GREYMOUTH CIVIC CENTRE INC.
- 'MARCH OF MEDICINE' APPEAL
By Royal Australasian College of Physicians.
- 'MILK FOR MILLIONS' APPEAL
- NEW ZEALAND COUNCIL FOR EDUCATIONAL RESEARCH
- NEW ZEALAND CRIPPLED CHILDREN'S SOCIETY
- NEW ZEALAND JOURNAL OF EDUCATIONAL STUDIES
- NEW ZEALAND WORKER'S EDUCATIONAL ASSOCIATION INC.
- NEW ZEALAND OPTOMETRICAL ASSOCIATION
"SPECIAL EDUCATIONAL FUND"
- PAYMENTS TO SCHOOL COMMITTEES } Activity Fees Are Not
PARENT/TEACHERS ASSOCIATIONS } Allowable.
- YOGA INSTITUTE OF NEW ZEALAND - Membership Fee Not
Deductible.

subject to the

- Production of receipts
- AND
- Maximum deduction of £25 for any one year.

SHARE VALUATION PROBLEM

COMPETITION SPONSORED BY NEW ZEALAND ACCOUNTANTS STUDENTS FEDERATION

The Commissioner and his officers have been pleased to help the Accountants Students Federation in preparing a problem combining many important features of share valuations.

The problem is published in the February 1965 issue of the Accountants Journal. The competition is open to members of the Federation and takes the form of a share valuation and report there on.

We hope the competition will attract the interest, not only of the students, but of all concerned with share valuations.

DO YOU GET INCOME FROM AN "OWN-YOUR-OWN" FLAT OR OFFICE ?

You can claim expenses if you occupy an "own-your-own" office or get income from letting or leasing an "own-your-own" office or flat. Usually the Company formed to own the building levies its shareholders for their share of the rates, insurance, maintenance and other outgoings. The levy is aimed at breaking even on the expenditure so that no profit or loss is made and the shareholders occupy their premises at cost.

Sometimes the levy includes a charge for depreciation but when it does not the owner-occupier can still make a claim at the appropriate rate on his share of the cost of the building.

As it is not usual to fix the 'cost of land' separately from 'cost of building' the Department will for a Depreciation claim accept a calculated 'cost of building' based on the formula.

$$\frac{\text{Government Valuation of Improvements}}{\text{Total Government Valuation}} \times \frac{\text{Total Cost}}{1}$$

When capital improvements are made later the cost should be added to the cost of the building for calculating depreciation. The 'cost of building' so calculated will then be apportioned to each owner-occupier in the proportion that his shareholding bears to the total shareholding in the company.

Here is an Example

"A" Building Limited with a capital of £60,000 and four equal shareholders owns a four storey "own-your-own" block of offices.

The cost of the land and building was not apportioned. The levy to pay for outgoings covered only cash expenditure and the shareholders wish to claim depreciation in their own returns of income.

Government Valuation is

Unimproved value (land)		£ 8,000
Improvements (building)		£40,000
Capital Value		£48,000

The "building cost" on which to claim depreciation is

$$\begin{array}{rcl} \text{Improvements} & \frac{\text{£40,000}}{\text{£48,000}} & \times \text{Cost } \frac{\text{£60,000}}{1} \\ \text{Capital Value} & & \\ & & = \text{Building Cost } \text{£50,000.} \end{array}$$

Each shareholder's claim for depreciation is

$$\frac{\text{£50,000}}{4} \times \frac{\text{appropriate building rate}}{1}$$

"owner-occupied" flats will not qualify for an allowance of expenses and depreciation because they are not used to produce income.

HOW TO GET YOUR BULK SUPPLY OF RETURN FORMS

Printing of the 1965 Return Forms and Tax Deduction Certificates is well under way. Land Tax Returns (IR 2) are now available from any District or Sub Office.

Public Accountants and other known users will get an order form (IR 258) inviting them to order their yearly requirements of -

- Return Forms
- Tax Deduction Certificates
- Incentive Deduction Claim Forms
- Interest tickets
- Dividend tickets
- Advice of provisional tax remitted.

The orders will be filled as soon as the forms required come to hand from the Printers.

Any other users who wish to take advantage of this order scheme should approach their local tax office.

LOST INNOCENCE

When the modern child hears the story of Cinderella he is likely to ask "When the pumpkin turns into a golden coach, is that regarded as straight income or capital gains."

Canadian Tax Foundation.