INFORMATION SERVICE

HEAD OFFICE WELLINGTON

INLAND REVENUE DEPARTMENT

PUBLIC INFORMATION BULLETIN

No. 21 APRIL 1965

MORE ABOUT THE FARM INCOME EQUALISATION SCHEME

The Minister of Finance, the Hon. H.R. Lake has announced that Government has approved, in principle, a voluntary farm income equalisation scheme. The scheme was recommended by the Agricultural Development Conference. Confirming legislation will be introduced during the next session of Parliament.

What The Scheme Can Do

The scheme will –

- enable farmers to iron out rates of tax due to rises and falls in incomes;
- encourage farmers to put aside part of their incomes in good years and to use this money for farm development in years when farm incomes fall;
- help to remove a cause of inflation and therefore help to maintain a more steady rate of economic growth.

Scope Of The Scheme

The scheme will apply to the income of any farming or agricultural business carried out on land in New Zealand. It will include such businesses as –

- market gardeners,
- orchardists,
- apiarists,

AND

- nurserymen

Deposits Accepted Now

In anticipation of the legislation, deposits will be accepted immediately for the income year ended 31 March 1965 or equivalent balance date. Special provisions will be built into the legislation for deposits to be accepted from farmers whose financial year ended before 31 March 1965.

Main Features Of Scheme

These are considered in the following paragraphs.

DEPOSITS

- *How Much A Farmer Can Deposit*

  Voluntary deposits of amounts up to 25 per cent of assessable farm income may be made with the local tax office. The smallest deposit that can be made is £100 unless 25 per cent of the assessable farm income is less than £100. A series of deposits may be made for an income year limited in total to 25 per cent of assessable farm income.

- *When Can Deposits Be Made*

  Deposits for an income year may be made either,

  (a) during that year,

OR

  (b) up to one month after the due date for filing a tax return or within 6 months after balance date, whichever is the earlier. The Commissioner may extend this time to meet special cases.

- *No Deposits in year of Voluntary withdrawal*

  Deposits may not be made during the same income year in which a *voluntary* withdrawal has been made. However, *arbitrary* refunds made after the 5 year maximum period of deposit will not stop farmers from making deposits in that year.

- *Where To Lodge Deposits*

  Deposits should be made at the local tax office which will in turn pay them into a special account at the Reserve Bank.

- *No Interest Will Be Paid*

  No interest will be paid on deposits. They will be frozen by the Reserve Bank. This is in line with Wool Proceeds Retention Deposits and Snow Loss Reserves.

- *Deposits Are Deductible*

  The deposit will be deductible from the income of the year for which deposit is made.

REFUNDS

- *How Much Can Be Withdrawn*

  In general, the smallest amount which will be refunded is £100. An exception would be when the balance of a farmer's account is less than £100. There are special rules for refunds in event of the farmer's death or his retirement from farming. These are mentioned later.

- *When Can Deposits Be Withdrawn*

  Normally a farmer may withdraw his deposit after 12 Months. However, the Commissioner may allow him to withdraw sooner if, for instance, holding the deposit caused hardship.

- *General Rules For Withdrawal*

  Withdrawals for an income year may be made either,

  (a) During that year;

OR

  (b) Up to one month after the due date for filing a tax return or within 6 months after balance date, whichever is the earlier The Commissioner may extend this time to meet special cases.

Refunds will be made on the "first in first out" basis.

- *Withdrawals Are Assessable Income*

  A refund is treated as assessable income in the year for which it is made.

- *Refunds On Retirement From Farming*

  When a farmer retires from farming any deposits remaining in his reserve account will be refunded. These will be assessed in the year of retirement unless he elects to have them assessed wholly or partly in the year or years for which they were made.

- *Refunds on Farmer's Death*

  These will be made to the trustees on the same basis as refunds on retirement from farming.

- *Refunds After Amounts Deposited For 5 Years*

  Any deposit remaining 5 years after the end of the year for which it was made will be refunded. The amount will be treated as assessable income in the income year in which the refund is made.

Queries Answered

The local tax office will answer any inquiries about this subject.

REFUNDS OF TAX DEDUCTIONS OVERPAID MADE EASIER FOR EMPLOYERS

Overpayments of Tax Deductions sometimes show up on annual reconciliation. The back of the Reconciliation Statement IR 68, has space for the employer to explain how the overpayment arose.

Previously, employers who made a statement on the IR 68 were asked to give a further written explanation. In certain cases this was then verified by a PAYE Inspector.

Following talks with the New Zealand Society of Accountants this procedure has been simplified.

A refund will now be made without further enquiry when the reason for the overpayment is fully explained, either –

- on the back of the IR 68

OR

- in a covering letter.

However, as an alternative, an employer may elect to have the overpayment carried forward instead of refunded. If he decides to do this, he should get in touch with the local tax office.

UNITED KINGDOM PENSIONERS RESIDENT IN NEW ZEALAND

TAX POSITION EXPLAINED

Since the 6 April 1965 the United Kingdom tax authorities have been making deductions of British income tax from British pensions and annuities derived by New Zealand residents. In the past these people paid only New Zealand tax on such income; it was exempt from British tax.

The change comes with the ending of the double tax Agreement with the United Kingdom. New Zealand now has only a secondary right to tax the pensions and annuities New Zealand residents get from Britain.

Under our general tax law a New Zealand resident is assessed with New Zealand income tax on his world income. Credit is, however, given for any overseas tax paid. This is explained below.

Here is the tax position, as far as it is known at present, on pensions and annuities flowing from Britain to New Zealand residents –

- The income will be taxed in Britain
- Recipients may apply to the British tax authorities for any personal reliefs or allowances which they may be entitled to under British tax law. It will be necessary to write to the British tax authorities on this matter. Forms may be obtained from the Chief Inspector (claims),Seafield House, Waterloo Road, Liverpool 21, England to whom enquiries may be made.
- The income will also be taxed in New Zealand but credit limited to the smaller of

  (a) the British tax paid on the pension or annuity

OR

  (b) the New Zealand tax on that income, will be will be allowed in the assessment.

  This means the pensioner will pay New Zealand tax on the pension or annuity only when the New Zealand tax on that income is more than the British tax on the same income.

In most cases it will be impossible to work out the New Zealand tax on this income until a tax return is put in for the income year ending 31 March 1966 and the Commissioner has made arrangements to help these people.

Here they are –

- Taxpayers who get a British pension or annuity should omit that income when working out the 1966 provisional tax they have to pay.
- Taxpayers who previously filled in an IR 56 and made monthly payments of New Zealand tax on their British pension or annuity should cease to do so.
- The overall tax position will be adjusted after the end of the year, ie 31 March 1966, when a new Zealand tax return together with evidence of the British tax paid is sent in to the local tax office.

Local tax offices have written to pensioners telling them of this arrangement.

Taxpayers who get British pensions are invited to call and discuss the matter at the local tax office, where the staff will be pleased to help them. If a pensioner cannot go to the tax office one of the staff will, if asked, come and explain the position.

TAX CHANGES FOR OVERSEAS RESIDENTS WHO GET PENSIONS FROM NEW ZEALAND – MINISTER'S STATEMENT

On the 2 April 1965 the Minister of Finance the Hon. H.R. Lake reminded people of changes in our tax laws which will affect overseas residents who get income from New Zealand.

Here is the Minister's statement

> "One of the main changes is the elimination of all special exemptions from absentee individuals except when they are personally present in New Zealand and earning income from personal services. The general rule in these cases will be that they will be entitled to proportionate special exemptions based on the number of weeks they have been paid for their services.
> The Government appreciates that the new basis may create hardship especially in relation to superannuation payments made from New Zealand to overseas residents. A new tax table for deduction of tax from these payments comes into operation today.
> This tax table applies to pensions and superannuation payments made to residents of countries, other than the United States, with which New Zealand does not have a double tax agreement.
> As from today the double tax Agreement with the United Kingdom expired.
> Government is examining the position to see what steps may properly be taken to alleviate hardship that may otherwise be suffered by overseas pensioners and superannitants."

PROGRESS REPORT ON THE SCHOOL OF TAXATION

No doubt you have heard of our School of Taxation in Wellington and you may have asked "why does the Inland Revenue Department need a school?"

Why We Have The School

There are many reasons for the school. We need tax officers with a wide knowledge of tax work. This means our staff must understand the principles of income, tax, law, accountancy, estate and gift duty and stamp duty.

At the school our students will cover a wide field in 40 weeks of study and practice. An important part of their study is the human relations aspect of management, especially the social and personal factors which influence the administrator's behaviour. In short they are learning how to get on with people.

The Syllabus

Here is the syllabus –

English	Public Administration and Management
Elements of Accountancy	Principles of Income Tax
Principles of Law	Principles of Stamp and related Duties
Social Accounting	Associated Law
Public Finance	

Each student is given 8 – 10 hours' homework per week and will produce a thesis on some aspect of taxation, by the end of the school year.

Who May Apply To Attend The School

Any of our staff, male or female, who are under 25 years of age who have been with us for 2 – 3 years may apply to attend this school. Next year we hope that some young women will be selected.

GIFT BY VOLUNTARY RELEASE OR REDUCTION OF A DEBT – POSITION EXPLAINED

The voluntary release or reduction of a debt is a gift for the purposes of the Estate and Gift Duties Act 1955. On this subject, people often want to know –

- when a particular debt has been effectively released or reduced,

AND, IF SO

- the date when the gift is complete

This article explains these points in a general way.

General Rule

In general, a voluntary release or reduction of a debt is effective in law only if made by deed. The date of the gift is the date on which the deed is executed.

This means the writing off of a debt in a creditors books of account is not, in itself, an effective release.

Statutory Alternatives

Alternative methods to effectively release or reduce a debt are provided by statute in the following cases.

- *To Reduce A Mortgage Over Land*

  Under the Property Law Act 1952 and the Land Transfer Act 1952 a mortgage over land, whether registered or not, may be *reduced* by executing a memorandum of variation either endorsed on or annexed to the mortgage.
  The form of memorandum is set out as Form F in the Second Schedule to the Land Transfer Act.
  If this method is used the date of gift is the date the memorandum is executed.

- *To Release A Mortgage Over Land*

  Under the Property Law Act 1952 a mortgage over land, whether registered or not, may be *released* by executing a memorandum of release, either endorsed on or annexed to the mortgage.
  The form of memorandum is set out in the Fifth Schedule of the Property Law Act.
  If this method is used the date of the gift is the date the memorandum is executed.

- *Bill Of Exchange / Promissory note*

  A debt secured by a bill of exchange or promissory note may be *released*

  (a) When the holder unconditionally renounces in writing his rights against the acceptor or maker.

  OR

  (b) When the bill or note is intentionally cancelled by the holder, or his agent

  This course is set out in sections 62 and 63 of the Bills of Exchange Act 1908.

GIFT BY VOLUNTARY RELEASE OR REDUCTION (Cont'd)

- *Release Of Debt Under Judicature Act*

  A debt may be *released* under the provisions of section 92 of the Judicature Act 1908. That section states .... "an acknowledgement in writing by a creditor, or by any person authorised by him in writing in that behalf, of the receipt of a part of his debt in satisfaction of the whole debt shall operate as a discharge of the whole debt, any rule of law notwithstanding ..... "

Stale Debts

When a creditor allows a debt to remain outstanding until, through lapse of time, it cannot be collected by normal legal action the debt is treated for duty purposes as if it had been released by the creditor. This is provided by section 42 (1) (d) of the Estate and Gift Duties Act 1955.

TAX ON KNOW-HOW AND ROYALTIES

FURTHER EXAMPLES

PUBLIC INFORMATION BULLETIN NO 20

The following example should be substituted for that appearing on page 5 of Public Information Bulletin No 20.

The example should now read –

Gross payment	£4000
less	1000
net income	£3000
withholding tax on gross payments	£ 600
Annual tax on net income	£1125
less credit for withholding tax	600
payable in annual assessment	£ 525

The basic rate of ordinary income tax for non-resident companies is 1/- higher on each £ of income than the basic rate for resident companies and not merely an overall 5% added to the tax assessed.

Here is an example to illustrate this point

Assessable income	£3000
Ordinary income tax at basic rate for resident companies	£ 750
Add 5% of £3000	150
Total Ordinary Income Tax	£ 900
Add Social security income tax on £3000	225
Total tax payable	£1125

NOW A SIMPLER IR 3 TAX RETURN

FOR 1965

On page 9 of Public Information Bulletin No 20 we talked about the simple salary and wage-earner return forms IR 5 and IR 5W. We realise too, that it may not always have been easy for the provisional taxpayer to fill in his tax return. However, this year we are hoping it will be much easier. The 1965 IR 3 tax return is –

- set out in an easy-to-understand narrative form

AND IS

- free from the many instructions that were on this form in the past.

We think it will be a time-saver for those who have to fill it in.

The instructions that were on the earlier IR 3 tax returns have been put into our information pamphlets – in particular the "How to fill in your IR 3 tax return" and "Special Exemptions"pamphlets. They are available to help you fill in your tax return should you have any difficulty; or you can call at the local tax office where our staff will be pleased to help.

Don't forget our public assistance drive commencing in May is to help you with your tax problems. Be sure to make full use of this service.

Here are some special points about the new IR 3.

NOW EASY TO WORK OUT PROVISIONAL TAX

The new form gives a short and simple method for working out provisional tax which allows taxpayers

- to claim a deduction for partial special exemptions. This was not possible when working out the tax on the basis of a tax code.

AND

- to use the actual PAYE deductions shown in the tax return as a set off against the amount of tax worked out. This is instead of using the tables provided in the form to find the required amount as in the past.

A Small Problem

Although most problems have been overcome by this new method there may be a few taxpayers who, because of their particular circumstances, will find that the amount of provisional tax worked out on the new basis includes some tax which formerly would have been paid in an end of year assessment. For instance –

- a person on a substantial salary or wages plus directors fees,or a bonus treated as an extra emolument together with provisional income.

OR

- a person with withholding payments and some provisional income whose PAYE tax deductions will not meet the income tax payable on his withholding income.

may find themselves in this position.

NOW A SIMPLER IR 3 TAX RETURN FOR 1965 (Cont'd)

An Alternative Method

To help taxpayers in these or similar circumstances the Commissioner announces that they can, as an alternative, work out provisional tax on the following basis –

Using the tables in the IR 3 tax return

- work out the total tax on taxable balances *including* provisional income,
- work out the total tax on taxable balances *excluding* provisional income;
- The difference is the amount of provisional tax to pay.

Help Given

If you have any difficulty in working out your provisional tax the local tax office will be pleased to help you.

HOW TO RETURN NON-ASSESSABLE INCOME

Some people have asked where this income should be entered on the IR 3 tax return.

Because only a small number of taxpayers get non-assessable income there is no specific space on the form for it. However those taxpayers who have non-assessable income to return for the year ended 31 March 1965 should list it on a separate sheet of paper and attach it to their tax returns.

The most common types of non-assessable income for the 1965 income year is bonus issues of shares which are made from pre 1958 profits and come under section 144B of the tax Act.

ALLOWANCES ON COVERED STOCK YARD

A new trend on farms is to cover existing or new stock yards with a roof of permanent materials, The roof is usually built as, and remains a separate asset from the fencing in the yards.

As the roof is a separate asset, the cost should be capitalised and ordinary and initial depreciation claimed on the same basis as for other farm buildings. At the taxpayer's option special depreciation may be claimed instead of initial depreciation.

In the case of new stock yards the cost of fencing the yard may be claimed as development expenditure.

A CHANGING PRODUCT

"Taxes are a changing product of earnest efforts to have others pay them."

Louis Eisenstein
"The Ideologies of Taxation"

MORE ABOUT THE FERTILISER AND LIME INCENTIVE

SOME DIFFICULTIES OVERCOME

Because of –

- an early balance date,
- shortages of fertiliser and lime,
- inclement weather,
- contractors being unavailable to apply the manure,

OR

- any similar circumstances,

some farmers will not get the full advantage of the fertiliser and lime incentive deduction in their 1964 or 1965 accounting year.

Commissioner Extends Qualifying Period

To help these farmers the Commissioner announces that when the full topdressing programme for 1964 or 1965 was not completed because of any one of the factors given above, the qualifying period will be transferred to the 1965 or 1966 year as the case may be.

The farmer is given the opportunity of qualifying for the deduction in each of the 2 years provided the fertiliser and lime is actually purchased and applied in those years.

CHANGES IN THE "BASE PERIOD" CONCEPT

Under section 34 of the 1964 Amendment Act the base period for working out the increased allowance is limited to 1 year, instead of 5 years as previously, in some cases.

New Businesses

When a taxpayer in the 1963 or 1964 income year

- buys a farm,

OR

- forms a limited company,

OR

- buys land from a partnership in which he was a partner,

OR

- takes a partner to farm land previously farmed by him,

a new business is created for the purpose of this incentive.

The Effect is

- *If the taxpayer bought an existing farm during the 1963 or 1964 year*

  The additional deduction will be based on the excess cost of fertiliser and lime purchased and applied by him during the 1964 year over the aggregate cost of fertiliser and lime applied by him and/or the previous owner during the full 1963 year.

- *If the taxpayer bought a new farm during the 1963 year*

  The additional deduction will be based on the excess cost of fertiliser and lime purchased and applied during the 1964 accounting year over the cost of fertiliser and lime applied by him during his 1963 accounting year.

- *If the taxpayer bought a new farm during the 1964 year*

  The full cost of the fertiliser and lime purchased and applied during that accounting year will qualify for the additional 50 per cent deduction.

UP-TO-DATE POSITION OF LOSSES NOW GIVEN

In the past business taxpayers who showed a loss for the income year were generally sent a tax assessment only when an adjustment to tax already paid or an amendment to the loss shown was required.

So that taxpayers may know the up-to-date position of losses to be carried forward we will now send an assessment notice or a letter when –

- a loss is shown in the tax return. This will confirm the loss available to be carried forward to the next year,
- a further loss is shown in the next income year,
- a balance of a loss is to be carried forward in a later income year.

The matter was raised by Mr L. N. Ross, a Public Accountant of Auckland during an address which he gave at a recent conference of District Commissioners. The Commissioner thanks Mr Ross for his constructive suggestion.

ADDITIONAL DEPRECIATION ALLOWANCES

Since issuing the information pamphlet "Depreciation Allowances" IR 260 in February 1965 the Commissioner has made the following changes and additions. The new rates will generally apply in the year ended 31 March 1965 and future years. They will be included in the next reprint of the IR 260.

* (C.P. denotes Cost Price: D.V. denotes Diminishing Value)

ITEM	RATE *
Schedule A.	
Add	
Buildings generally: Steel and glass with aluminium cladding	1% C.P.
Poultry colony houses made of wooden frames iron roof, netting sides and heavy netting base.	10% C.P.
Change	
Grandstands (all materials – except above – other wooden buildings on racecourses) double above rates.	
to read	
Grandstands (all materials). also other wooden buildings on racecourses.	Double normal building rates
Take Out	
Grandstands – steel and glass with aluminium cladding	1% C.P.
Schedule D.	
Electro magnet machine (meat industry)	20% D.V.
Microwave Therapy sets	20% D.V.
Ultrasonic therapy equipment	20% D.V.

FLOOD RELIEF FOR FARMERS

The Minister of Finance the Hon. H.R. Lake. has announced that the provisions of section 103A of the Land and Income Tax Act 1954 will be applied to farmers affected by the flood conditions in the following areas of the Bay of Plenty : –

Whakatane County

SURVEY DISTRICT	SURVEY BLOCKS
Rangitaiki Upper	3 and 4
Whakatane	1, 4, 5, 8, 9, 12 and 13
Waimana	1, 2, 3, 7 and 8
Galatea	2, 4, 5, 6, 7, 9, 10, 11, 13 and 14.

Opotiki County

SURVEY DISTRICT	SURVEY BLOCKS
Opotiki	3, 7 and 11.

Public Information Bulletin No 19, page 6, tells how the section works and should be read together with this item.

HAVE YOU A COPY OF THESE INFORMATION PAMPHLETS

The following information Pamphlets have been reprinted and you can get them from your Tax Office, and Post Offices.

- PAYE TAXATION FOR SALARY AND WAGE EARNERS
- PAYE TAXATION FOR UNIVERSAL SUPERANNUITANTS
- HOW TO FILL IN YOUR IR 5 RETURN OF INCOME
- HOW TO FILL IN YOUR IR 3 RETURN OF INCOME
- SPECIAL EXEMPTIONS (This incorporates the previous pamphlet on 'Donations and School fees')
- DEPRECIATION ALLOWANCES
- EXPORT AND TOURIST PROMOTION INCENTIVE
- INVESTMENT ALLOWANCE
- OVERSEAS INCOME
- GIFT DUTY IN NEW ZEALAND
- ESTATE DUTY IN NEW ZEALAND

These pamphlets make full use of charts and diagrams,. They have been written in simple language and tell you how to get the Special Exemptions, Depreciation and Incentive Allowances to which you are entitled.

Remember, if you're in any doubt about your tax affairs, call at, 'phone or write to your local tax office. The staff will be pleased to help you.