



INLAND REVENUE DEPARTMENT

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TAX PLANNING – COMMISSIONER GOING OVERSEAS

Next month the Commissioner of Inland Revenue, Mr L.J. Rathgen, leaves New Zealand for a short but intensive trip overseas.

The purpose of his visit is to get first hand, up to date knowledge of –

- the workings of tax systems of other countries;

AND

- changes and trends in tax policies.

He is making this trip because we want to –

- be progressive in our approach to tax matters;

This is most important because previously we have had to rely on overseas Acts and text books to try and appreciate modern thinking in tax and here one needs the atmosphere and political setting in which overseas legislation is made.

- take full advantage of overseas educational facilities;

This trend is increasing overseas, for instance, in the Harvard School of Taxation in the past 3 years 120 representatives from 40 countries have taken a full year's course in taxation and its role in the modern state.

Mr Rathgen has many subjects which he will personally look into.

The main items are –

- changes possible to get greater clarity, simplicity and effectiveness in tax laws and administration;
- levels of tax and scale of rates;
- company/shareholder taxation;
- depreciation methods;
- tax incentives;
- work flow systems;
- problems of management;

The Commissioner leaves for the United States of America on 1 September. After meeting with tax officials there he goes on to Canada for similar talks. On the journey home he is to meet Japanese tax men and will arrive back here on 21 October.

We plan to let you know some of the interesting aspects of Mr Rathgen's trip and his findings in later Public Information Bulletins.

HOW TO WORK OUT TAX ON HOLIDAY PAY

A number of employers have asked us to explain –

- for what pay periods should holiday pay be taxed

AND

- how to work out the tax on holiday pay.

When Employees can get Holiday Pay

Employees may get holiday pay in the following circumstances –

- Normal Annual Holidays
- Holiday entitlement when services terminate.
- Holidays taken when business closes for annual vacation period, for example Christmas or Easter.
- Pay taken instead of holidays.

For What Pay Periods Should the Tax be Taken Off

Holiday pay and statutory holidays are treated as part of the week in which they fall. They are entered in wage records as though the employee was at work on each of the days concerned.

If the holiday pay is based on 1/25th of the wage earned during the year excluding overtime, the amount due should be worked out and then divided into daily amounts based on the weekly wage entitlement. For example if the weekly wage, excluding overtime, was £20 the daily rate would be £4 and this figure should be treated as the daily pay until the full amount has been absorbed.

How the Tax is Worked Out

This paragraph tells you how to keep your wage records and deduct tax. In all examples the employee is coded 'S' and earns a weekly wage, excluding overtime, of £20 – £4 a day. His "pay period" is from Monday to Friday.

KEY

H	Employee on Holiday Pay
S	Day is a Statutory Holiday
/	Employee actually at work
-	Employee not at work

Example 1. Statutory Holiday falls during Annual Holidays

Your employee takes 10 days' annual leave plus a statutory holiday which in this example is Queen's Birthday, 5 June.

W/E	1st Day	2nd Day	3rd Day	4th Day	5th Day	6th Day	Sun.	Wages	Paye	Net Wages
9/6	S.	H.	H.	H.	H.	-	-	20.0.0.	2.17.3.	£17.2.9.
16/6	H.	H.	H.	H.	H.	-	-	20.0.0.	2.17.3.	£17.2.9.
23/6	H.	/	/	/	/	-	-	20.0.0.	2.17.3.	£17.2.9.

Example 2. Services of Employee Terminated

Your employee worked Monday and Tuesday then terminated his services. He was due 6 day's holiday pay. These are shown in your wage records as though they were days of employment. The tax deduction certificate on form 1R 12 is also filled in to show the last day of employment as the day on which holiday pay ceased.

W/E	1st Day	2nd Day	3rd Day	4th Day	5th Day	6th Day	Sun.	Wages	Paye	Net Wages
26/9	/	/	H.	H.	H.	-	-	20.0.0.	2.17.3.	17.2.9
3/10	H.	H.	H.	-	-	-	-	12.0.0.	1. 3.1..	10.16.11.

HOW TO WORK OUT TAX ON HOLIDAY PAY Cont'd

Example 3. Employer Closes Down for Annual Vacation.

This example covers a firm closing for three weeks over the Christmas period—date of closing Friday, 20 December, resuming Monday, 13 January. Employees entitled to ten days holiday.

In the example below the employee has exhausted his statutory and holiday pay on Wednesday, 8 January. As work does not resume until the following Monday, he will not be paid for Thursday and Friday. Wages and tax deductions for this week are therefore based on three days' pay.

At this period of the year it is common to pay an annual or Christmas bonus. Treat the bonus as an extra emolument and enter separately in the wage record. Tax at the secondary rate, of 4/3 in the £.

W/E	1st Day	2nd Day	3rd Day	4th Day	5th Day	6th Day	Sun.	Wages	Paye	Net Wages
27/12	H.	H.	S.	S.	H.	-	-	20.0.0.	2.17.3.	£17.2.9.
			<i>Includes Christmas and Boxing Day</i>							
3/1	H.	H.	S.	H.	H.	-	-	20.0.0.	2.17.3.	£17.2.9.
			<i>Includes New Years Day</i>							
10/1	H.	H.	H.	-	-	-	-	12.0.0.	1. 3.1.	£10.16.11.
27/12			<i>Bonus</i>					20.0.0.	4.5.0.	£15.15.0.

Example 4. Employee Keeps on Working During Holidays.

Your employee takes a cash payment instead of holidays and continues to work through the period of what would have been paid absence. In such cases treat the holiday pay as the *primary* employment and the additional work and wages as *secondary* employment.

The employee is first paid for the week in which he is working. Showing the same date he is then paid the *total* sum due for holiday pay and taxed at primary rates based on two weeks at £20 a week, that is, £40 Tax. £5.14.6. As he then continues to work through the next two weeks the amount earned is regarded as secondary employment and taxed at 4/3 in £1.

W/E	1st Day	2nd Day	3rd Day	4th Day	5th Day	6th Day	Sun.	Wages	Paye	Net Wages
9/6	/	/	/	/	/	-	-	20.0.0.	2.17.3.	£17.2.9.
9/6			<i>Holiday Pay</i>					40.0.0.	5.14.6.	£34.5.6.
16/6	/	/	/	/	/	-	-	20.0.0.	4.5.0.	£15.15.0.
23/6	/	/	/	/	/	-	-	20.0.0.	4.5.0.	£15.15.0.

DROUGHT RELIEF FOR FARMERS

The Minister of Finance, the Hon. H. R. Lake, has said that farmers affected by the drought in the following areas will get relief under section 103A of the tax Act: -

COUNTY	SURVEY DISTRICT	SURVEY BLOCKS
Hawkes Bay	Moeangiangi	7, 9, 10, 11 and 12.
Wairoa	Moeangiangi	3, 4 and 8
	Mohaka	12
	Waihua	2, 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15 and 16
Hutt (Makara area)	Belmont	2, 5 and 6
	Port Nicholson	1, 2, 3, 4 and 5.
	Paekakariki	5, 8 and 11

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

FARM INCOME EQUALISATION DEPOSITS

It is very pleasing to find that farmers, and their agents, are making use of the farm income equalisation scheme. We have said a lot about the scheme in earlier Bulletins - how it works and how deposits should be made at the local tax office.

On one point we seek your help. Some farmers and their agents, we find, are making equalisation reserve deposits to the credit of the Public Account at the Bank of New Zealand. As the Reserve Bank has a special account for these deposits, extra work is created in having them transferred from the BNZ.

You can help us by making your deposit at the tax office. We in turn will pay it direct to the Reserve Bank.

P. S. Don't add exchange to the deposit cheque you send the tax office.

MORE ABOUT THE SPECIAL TAX REBATE FOR SOME EMPLOYED PEOPLE

Last month we told you about the special rebate for some employed people.

One of the conditions necessary to get the rebate was that the income for the 1965 income year exceed £1,300. Some people have asked us if employed people with incomes up to £1,300 also get the rebate. The tax law already allows them to keep the benefits which come to them through the working of the PAYE tax system. The special exemptions for the extra pay period are such a benefit and we prepare refunds and notices of assessment for these people in a way which allows them to keep it.

We know that some people, for example public servants who were paid through the Central Pay Service and were employed for the full year, will have had more than 52 weekly, 26 fortnightly or 13 fourweekly pay days for the 1965 income year. Some of them may wonder why we want an individual application. The reason is that we have already issued refunds to some who will be entitled to the special rebate and we haven't sufficient details now to identify them quickly. An application now will make sure of an early refund as soon as the authorising legislation has been passed.

PLAQUE IN THE INTERNAL REVENUE SERVICE BUILDING

WASHINGTON D.C.

ON THIS SITE, ON MAY 1, 1961,
PRESIDENT JOHN F. KENNEDY SPOKE
TO INTERNAL REVENUE OFFICIALS AND
BECAME THE FIRST CHIEF EXECUTIVE
TO VISIT THIS BUILDING.

ON THAT OCCASION, HE SAID: "I HOPE
YOU WILL IMPRESS UPON THE AGENTS
OF THE INTERNAL REVENUE SERVICE
HOW MUCH WE ARE DEPENDENT UPON
THEM, ON THEIR COURTESY, ON THEIR
EFFICIENCY, ON THEIR INTEGRITY, ON
THEIR FAIRNESS."

IN HIS MEMORY, AND WITH THE RESOLVE
TO FULFILL HIS EXPECTATIONS, THIS
PLAQUE IS RESPECTFULLY DEDICATED.

Mortimer M. Caplin
MAY 1, 1964

ALLOWANCES TO FARM EMPLOYEES – TAX POSITION EXPLAINED

In Public Information Bulletin No. 19 we told you how some allowances to farm employees were taxed, but we did not tell you what the farmer could deduct when he provided these allowances.

We continue the discussion in this article by giving you the "deduction angle". The "taxing angle" is also repeated so that you have the complete picture.

To start with when we speak of:

- An "*outside employee*" we mean one who is not related to the employer or to the major proprietor of the farming business. An unmarried member of the farmer's family working full time for the farmer may be regarded as an "outside employee".
- A "*part proprietor employee*" includes –
 - a shareholder/employee of a farming company who owns 20% or more of the share capital.
 - a beneficiary employee of a farming estate with a 20% or greater interest in the estate.
- A "*related married employee*" is one who is married and is a relative of:
 - a farmer – this applies when the farmer carries on business on his own.
 - a principal partner in a farming partnership.
 - a principal beneficiary in a farming estate.
 - a principal shareholder in a farming company.

EXPENSES THE FARMER CAN CLAIM

The farmer can claim against his income the cost of providing employees with stores and rations or a free house. The rules for arriving at the cost are:

Stores and Rations Supplied to "Outside Employees"

Records Kept

When an accurate record is kept the cost of rations supplied to "outside employees" may be claimed as a business expense.

If the stores and rations are bought with those for the farmer and his family, apportionment of the total cost needs to be made to find the amount he can claim. An apportionment on a "per person per week" basis will be accepted provided:

- An accurate record of the total cost of stores and rations is kept,

AND

- Items of personal expenditure not normally shared with employees who are not members of the farmer's family, are excluded.

If the detailed record gives a reasonable result the "per person" basis established in one year could be used in future years. In some circumstances, however, we may ask that full records be kept.

ALLOWANCES TO FARM EMPLOYEES (Cont'd)

Records Not Kept

When no accurate record is kept of the cost of:

- Total stores and rations bought,

OR

- The employee's personal rations

the claim is limited to £1 per week for each employee.

**Stores and Rations Supplied to "Related Married Employees " :
" Part Proprietor Employees "**

If the farmer supplies stores and rations to these employees he may claim the cost as a deduction.

Free House Supplied to Employees

The farmer may claim:

- Depreciation.
- Outgoings, such as repairs and maintenance .

HOW ALLOWANCES RECEIVED BY FARM EMPLOYEES ARE TAXED

When food and lodgings, stores and rations are supplied without charge to an employee they represent taxable benefits to him. The value of the benefit is added to his gross wages and PAYE tax deducted from the total.

Food and Lodgings Supplied to "Outside Employees"

The Commissioner has fixed the weekly value to the "outside 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. 0d.	£2 0. 0d.
Food only	15. 0d.	£1 10. 0d.
Lodging only	5. 0d.	10. 0d.

NOTE:

- This formula does not include cases when a free house is supplied – see below.
- The generally accepted meaning of lodging is "occupying part of another's house". It includes living in a hut, whare or other accommodation which falls short of a house for personal use.
- If the farmer chooses to "keep" a member of the family employed on the farm and not claim for the cost, the value of the board and lodgings would not be assessed to the employee concerned.
- No adjustment is necessary if the taxable benefit to the "outside" employee on this basis is less than the deduction claimed by the farmer.

ALLOWANCES TO FARM EMPLOYEES (Cont'd)

Stores and Rations Supplied to "Related Married Employee": "Part Proprietor Employee"

If the farmer supplies stores and rations to these employees and claims the cost as a deduction, then the full cost will be assessed to the "related married employee" or "part proprietor employee" as a benefit allowance.

Freehouse Supplied to "Outside Employee"

For tax purposes the rental value of a free house supplied to an employee has not been fixed at one amount to apply in all cases. The duty to assess the value is placed on the employer. The value assessed should be realistic bearing in mind the value of the house and its remoteness from town. One basis which is often used is to consider the rentals of comparable houses in the nearest centre and then reduce that figure for remoteness. The value assessed should be fair and reasonable to both the employee and the revenue.

A rental value of £1 per week is suitable in the majority of cases but in special circumstances where the accommodation is above or below the average standard, this value should be varied upwards or downwards. For example, a farm manager occupying a high standard dwelling could possibly be assessed with a rental value up to £3 per week. These values quoted are only a guide and should not be regarded as necessarily appropriate to all cases.

Free House Supplied to "Related Married Employees": "Part Proprietor Employees"

Rules for fixing the value of a free house for shareholder/employees in private companies have been set out in Public Information Bulletin No. 12. Similar considerations apply with "related married employees." and "part proprietor employees."

FARMING PARTNERSHIPS AND PARTNERS

- A working partner in a partnership is in a different legal position to a shareholder/employee in a private company. In the latter case the shareholder is an employee of the company, in the case of the partnership the partner is not an employee but he is a part proprietor. If a partnership incurs expenditure on personal living costs of a partner such expenditure will not be deductible by the partnership and will be added to the partner's share of the partnership profits.
- The full value of the benefits – the actual charge to the partnership accounts (other than depreciation and normal maintenance of the dwelling) – is to be treated as private expenditure on behalf of the partner benefiting from the expense. This applies to such items as stores, meat, fuel, 3/4 of private power, private use of free car.
- Depreciation and repairs and maintenance on the dwelling occupied by the partner, are treated in a different way. As in the case of a sole farmer, only 1/4 of depreciation, repairs and maintenance and domestic power is allowed. The balance of the depreciation, if written off, and of the repairs and maintenance will be disallowed as a deduction and will be added to the partnership income. In general the balance of partnership income would then be divisible in the normal partnership proportions, but if the partners prefer to charge the amounts so added back to the individual partner occupying the dwelling the Department would not object.

ALLOWANCES TO FARM EMPLOYEES (Cont'd)

- It will be noted that in the case of a partner he is not assessed with any value in respect of the dwelling occupied by him. The adjustment made is the disallowance to the partnership of the appropriate proportion of the expenditure.

Partner with Minor Interest in Partnership

Where any working partner – and/or his wife – has only a minor interest in a partnership – not than 20% – he will be regarded as an "outside employee". In such cases the normal rules relating to outside employees will apply unless he is a "related married employee" in relation to the principal partner. The figure of 20% is not rigid and is intended as a guide. Other cases of small interest where the partner is regarded as being primarily an employee will be considered on their merits.

TAX RELIEF FOR FARMERS WHEN LIVESTOCK SOLD – NOT AVAILABLE IN SOME CASES

In the "Farmers Tax Guide" and on page 8 of the Farming Supplement No. 1 in Bulletin No. 24 we tell how a farmer may get tax relief –

- when there has been an abnormal sale of livestock,
- OR
- when livestock is sold on his retirement from farming.

The law says that this relief can be given only when

- the income for the year of sale exceeds the average farming income for the 3 previous years,
- AND
- the increase was due to an abnormal sale of livestock for which standard values were used.

These conditions apply whether the difference between standard values and the sale prices of the livestock sold is spread–

- over the year of sale and the 3 previous years.
- OR
- on election in the event of retirement, over the year of sale and the 3 following years.

If a farmer retires early in his accounting year, the sale of his livestock may not increase the income for that year above the average farm income for the 3 previous years. This is because he has not had the income from the full year's farming cycle. When this happens the tax Act does not allow either spread to be made available to him

SOME FARM EMPLOYEES LIVING IN REMOTE AREAS NOT TO PAY TAX ON SCHOOL BOARDING ALLOWANCES

Some farmers in remote areas pay their employees an allowance to help meet the cost of boarding school children away from home.

The farmer can of course claim the payment as a business expense.

The allowance is tax-free to the employee, provided –

- it is for children of farm employees living in remote areas;

AND

- a boarding allowance is paid by the Education Department for the child or children concerned;

This lets us know that the child or children have to board away from home to get education.

AND

- the employer actually pays a boarding allowance as such.

This will be in addition to the allowance paid by the Education Department.

The tax-free limit is the smallest of –

- the allowance actually paid,

OR

- the extent to which it is used by the employee to pay his child's or children's board,

OR

- £75 a child with a maximum of £225 when there are three or more children.

This new arrangement does not apply when there is a close relationship between the employer and employee, for instance, when the farmers grandchildren are involved. The reason is that because of –

- family ties,
- financial prospects,

OR

- inheritance

a son or daughter would live and work in the area in any case and the incentive to stay would not be greatly influenced by tax free allowance.

SHORT CUT IN MAKING A CLAIM FOR ADDITIONAL DEDUCTION FOR FERTILISER AND LIME

Here is a simple way to fill in form IR 48 for the 1965 year, provided a claim was made in 1964 and details were given in that year of the cost of lime and fertiliser applied from 1959 to 1964.

From the total cost of fertiliser and lime applied during the 1959 to 1963 years take off the amount for 1959 then add the 1964 figure. The answer is the total cost for the base period in the 1965 claim.

This example shows how the details appear on the IR 48:

CALCULATION OF DEDUCTION

Step 1. Enter cost of fertiliser or lime PURCHASED AND APPLIED in the year of claim. (See note 3 (a))		£ 400	A
Step 2. Enter cost of fertiliser or lime APPLIED during the—			
BASE PERIOD: 31/3/19			
1959-63 " 1000	19	£	(See note 3 (b))
Less 1959 " 200	19	£	
" 800	19	£	
Plus 1964 " 300	19	£	
		£	
	TOTAL	£ 1100.	B
Step 3. Calculate AVERAGE COST (divide B in Step 2 by the number of whole income years in the base period). (See note 4)	Calculate here: £ 1100	÷ 5	= £ 220.
			C
Step 4. Find EXCESS COST over AVERAGE COST by deducting C from A			= £ 180.
			D
Step 5. Divide D by 2 to get incentive deduction (see note 5 re tax saving)			= £ 90.
Step 6. Claim incentive deduction in return and attach this form to page 3 of return.			

The Commissioner thanks R.B. Swann & Co. Ltd. for this useful suggestion.

Such suggestions help us to improve our service to the public.

WHEN DETAILS OF DEVELOPMENTAL EXPENDITURE ARE REQUIRED

In Public Information Bulletin No. 9 we said,

- When developmental expenditure is claimed, show only the cost of the work done.
- If the land is sold within 5 years from the date of purchase show:
 - Details of, and when, the work was done;
 - The cost;
 - Description and area of land developed.

The supplementary return form, IR 3F, was printed before the above was announced so please disregard paragraph 2 of part 4 of 'Notes for Guidance' on the back of that form.