



INLAND REVENUE DEPARTMENT

# PUBLIC INFORMATION BULLETIN

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## INTRODUCTION

- This month the Bulletin contains explanatory notes on the legislation brought in by the various Amendment Acts.
- The explanatory notes will be of interest mainly to accountants and solicitors. The notes should be read together with the relevant Amendment Acts which may be bought at the Government Printer's bookshops in Auckland, Hamilton, Wellington, Christchurch and Dunedin.
- If you want more information on any particular section, please get in touch with the nearest tax office. The tax office will also supply, on request, a copy of the working notes issued to the staff. These notes, with examples, give more detailed information on the Amendment Acts.

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## INCENTIVES FOR THE FISHING INDUSTRY

### Claims for investment allowance

On page 7 of this Bulletin you can read about the investment allowance incentive for taxpayers in the fishing industry.

Taxpayers claiming the allowance in their 1965 tax returns need to fill in form IR 39A in support of the claim even although the present print has no details of the new incentives.

The next print of form IR 39A will show those details.

### Higher depreciation rates

The following new depreciation rates will be allowed to taxpayers in the fishing industry.

The rates will apply from 1 April 1964.

ASSET	DEPRECIATION RATE
* Fishing Vessels – registered.	
– Hull, including fixed gear and refrigeration rooms	10% D.V.
– Deck machinery, winches and motors.	15% D.V.
– Main engine	20% D.V.
Fish Processing Buildings	4% C.P.
Fish boxes – wooden and, Fish containers – plastic	Optional – replacements only, or – standard values, or – annual revaluation

\* Vessel accounts need to be analysed under the above headings. These separate accounts will simplify adjustments when assets with varying effective lives are disposed of.

### 1965 Tax Returns

In 1965 accounts and tax returns which have already been prepared, depreciation on the above assets may have been claimed on the old basis. Depreciation at the new rates will be allowed for 1965 without a full set of amended accounts, provided adjustments are shown in the 1966 accounts. Some details will, however, be needed to support the claim in 1965, for example, an analysis of the vessel account and the depreciation allowable at the new rates.

## DEPRECIATION ALLOWANCES ON INNER FIXTURES IN BUILDINGS

The Commissioner recently reviewed the rates of depreciation allowable on "inner fixtures" in buildings. The changes, options and new rules set out below will apply to "inner fixtures" bought or built in the taxpayer's 1965 financial year.

Classification of and depreciation rates for buildings and "inner fixtures" bought or built before 1965 are unaltered. These details were given in Public Information Bulletin No. 7.

### MAIN CHANGES

#### For Owners of Buildings

- No distinction will be made between "inner fixtures" bought or built with the building and "inner fixtures" added later
- Owners may at their option, treat "inner fixtures" either as separate assets or as part of the "building proper".

#### For Both Owners and Lessees of Buildings

- Profits on sale of "inner fixtures" representing depreciation which has been written off at the rate of 10% D.V. (owner) or 20% D.V. (lessee), will be assessed. Any losses on sale or discard will be allowed as a deduction.
- Replacement costs of complete "sections" – that is a complete inner wall – of inner partitions already depreciated at the rate of 10% D.V. (owner) or 20% D.V. (lessee), are to be capitalised. Any profit or loss on the replaced portions will be adjusted.
- All inner walls in brick or concrete will be treated as part of the "building proper" and not as "inner fixtures." See definition below.

### REVISED RULES

#### Definitions

The definitions of "building proper" and "inner fixtures" to apply from 1965 are :

- "Building proper" – This is made up of the structure of the building, viz, outer walls – including linings, outer doors, shop fronts and window, interior bearer walls, inner fixtures of brick or concrete, foundations, roof, ceiling, floors, cellar, chimneys, drainage, sewerage, stairways, plumbing, water and power supply.
- "Inner fixtures" – These consist of *all* partitions – *except those constructed of brick and concrete* – inner doors and windows, shelving, fixtures and fittings, lockers and the like.

Classification of assets in use prior to 1965 will not be disturbed.

## DEPRECIATION ALLOWANCES ON INNER FIXTURES (Cont'd)

### New rules for owners

#### "Inner fixtures"

The previous distinction between "inner fixtures" bought or built with the building and fixtures added later, has gone.

All "inner fixtures" bought or built in 1965 and future years may be treated by the owner at his option either :

- As a separate asset, depreciable at 10% D.V. with adjustment on sale or discard

If this basis is used, the costs of normal repairs alterations, rearrangement and minor replacements will be allowed in full in the year incurred. Minor replacements are interpreted as being less than a complete inner wall. Any other replacements and all extensions are to be capitalised and depreciated at 10% D.V. with adjustments on sale or discard.

OR

- As part of the "building proper", depreciable at building rates with no adjustment on sale or scrapping.

If this basis is used, the costs of repairs, alterations, rearrangement and *all* replacements will be allowed in full in the year incurred.

The options above may also be used for "inner fixtures" in second hand buildings bought in 1965 and in later years. Generally, the tax office will rely on the purchaser and vendor to allocate a reasonable portion of the selling price to the "inner fixtures", but when necessary, the tax office will determine the cost of the "inner fixtures".

#### "Building proper"

Normal repairs and replacements of parts of the "building proper" will be allowed as and when incurred. Generally, alterations and extensions are to be capitalised and depreciated at building rates.

### New rules for lessees

The definitions and rules above also apply to lessees except that :

- They have no option to treat "inner fixtures" either as separate assets or as part of the "building proper"; and
- The rate of depreciation on "inner fixtures" is 20% D.V. with adjustment on sale or discard.

### GENERAL EFFECT OF NEW RULE

The effect of the new rule is that partitions and other assets coming within the definition of "inner fixtures" built or extended in commercial and industrial buildings in 1965 or in later years will qualify for the new depreciation rates. This definition will include such items as partitions, bars and shelving in hotels.

## LAND AND INCOME TAX AMENDMENT ACT 1965

### SECTION 1 – Short title

#### Application of Act

SECTION 2 – Except when otherwise provided, this Act applies to tax on income for the year that commenced on 1 April 1965.

### PART I (Taxation of bonus issues from income sources)

Part I of the Act consists of sections 3 to 9 inclusive

#### Main features

- Bonus issues from income sources will not be a dividend and will not be taxable in the shareholders hands.
- Such bonus issues will be subject to a bonus issue tax at the rate of 3s 6d in £1. This tax is paid by the company making the issue.

SECTION 3 – Inserts a new Part VI B into the principal Act – sections 172 O to 172 U inclusive.

*Section 172 O* – Applies the bonus tax to all resident companies except petroleum mining companies. The latter companies are subject to a special method of assessment which has its own treatment of bonus issues.

*Section 172 P* – Imposes bonus issue tax for the year of assessment commencing on 1 April 1965 and for later years.

*Section 172 Q* – Imposes the tax liability on the company making the bonus issue.

*Section 172 R* – Provides that the tax will be payable for the year of assessment following the year in which the bonus issue is made. This rule applies whether the company is a PAYE or subsisting company.

*Section 172 S* – The due date for tax is set at 7 February in the year for which the tax is payable.

*Section 172 T* – Gives the Commissioner power to charge further bonus issue tax if a company distributes the capital of the bonus issue within three years from the time of the original capitalisation.

*Section 172 U* – Generally applies other parts of the principal Act to bonus issue tax, that is, the making of assessments, objections, refunds, and so on.

SECTION 4 – “Bonus issue”, is defined as a capitalisation from income sources made on or after 11 June 1965 by the issue of shares or by crediting unpaid capital on shares.

The following bonus issues are to remain exempt from dividend and bonus issues tax when they :

- Restore lost capital.
- Are from capital sources.
- Are from writing up assets, except goodwill.
- Are from share premium reserves.

*SECTION 5* – Amends the term “dividend” as a result of the bonus issue tax provisions.

*SECTION 6* – Repeals section 144B of the tax Act. The section expired on 31 March 1965.

*SECTION 7* – Ensures that for excess retention tax purposes a privately controlled company will not be at any disadvantage because of the introduction of the bonus issue tax.

A bonus issue made will be regarded as a distribution made by the company for excess retention tax purposes. A bonus issue received will not have to be distributed to avoid the payment of excess retention tax.

*SECTION 8* – Adds to the first schedule to the principal Act the basic rate of bonus issue tax of 3/6 for each £1 of issue.

*SECTION 9* – Preserves for non-resident companies the exemption from tax previously allowed for certain capitalisations from pre-1965 profits. However should any subsequent assessment be necessary it will be made under the new bonus issue tax provisions.

## **PART II** **(Amendments to the principal Act)**

Part II of the Act consists of *sections 10 to 32* inclusive.

*SECTION 10* – Removes the need to get the approval of the Minister of Finance to a tax free dividend distribution from a share premium reserve.

*SECTION 11* – Is linked with *section 36*. Returns of income for the 1966 income year are to be filed by 7 June 1966 by salary and wage-earners who also derive not more than £50 of investment income. These taxpayers will not be required to pay provisional tax on their investment income.

*SECTION 12* – Abolishes a special committee which considered objections to arbitrary assessments of income tax. In future such objections will be heard by the Board of Review or the Supreme Court.

*SECTION 13* – Widens the circumstances in which a taxpayer may claim a special exemption for a housekeeper. The exemption is allowed when :

- A widowed, divorced or unmarried taxpayer employs a housekeeper to have the care and control of children.
- Married persons employ a housekeeper because of the infirmity or disability of either spouse.
- Separated or deserted spouses employ a housekeeper to care for children so the spouse can earn a living.
- When an incapacitated single person, widow or widower employs a housekeeper to tend the house and care for the person.

The maximum exemption remains at £156.

*SECTION 14* – Continues to exempt racing stakes from income tax. Previously this exemption was included in the Stamp Duties Act.

**SECTION 15** – Provides tax incentives for the Forestry Industry. At present the cost of planting and developing forests is capitalised under the cost of bush method. This cost is deductible from income when the forests are cut.

The section allows a company to deduct the planting and development costs against any assessable income in the year incurred. The old and new provisions are alternative and a company may choose to combine both methods. Expenditure may, of course, be deducted only once and not under both methods. *Section 15* is also alternative to the provisions of the Farm Forestry Act 1962.

**SECTIONS 16, 17, 20, 22, and 25** – Extend the incentive deductions for special depreciation, initial depreciation, investment allowances, farm development expenditure and export market development expenditure for a further year, to 31 March 1967.

**SECTION 18** – Provides incentives for the fishing industry. The 10% investment allowance is applied, from 1 April 1964, to plant and machinery used in freezing, curing or processing fish, including shellfish and crustaceans. The allowance is also extended to refrigerated vehicles designed and used exclusively for the transport and delivery of fish.

**SECTION 19** – Provides incentives for the mining and forestry industries. The 10% investment allowance is extended from 1 August 1963 to include plant and machinery used in forests, in mining, or in quarrying. The extension also includes plant used to process the material mined or quarried for later use or sale.

Plant and machinery used by mining companies assessed under *sections 152 or 153* of the tax Act are excluded from the allowance, because these companies are subject to a special method of assessment.

**SECTION 21** – Sets out further incentives for the fishing industry.

The 10% investment allowance will apply from 1 April 1964 to plant and machinery acquired for exclusive use in a fishing business carried on in New Zealand. This will include fishing beyond New Zealand territorial waters provided the fish are landed in New Zealand.

New and secondhand fishing vessels and gear are included, and also the cost of structural alterations to fishing vessels. Items of equipment which are essentially consumable are excluded from the allowance. The allowance will apply once only to a secondhand vessel.

**SECTION 22** – Extends the incentive deduction for farm development expenditure to 31 March 1967.

The section also:

- Includes as farm development expenditure the cost of power and telephone lines incurred after 1 April 1965, and
- Extends the period for spreading forward farm development expenditure from four to five years.

**SECTION 23** – At present a taxpayer may only claim special and initial depreciation on farming assets and farm development expenditure if he is personally engaged in the farming business.

The section allows a deduction of depreciation or development expenditure when the owner of freehold land or of a leasehold interest in land, leases the land but still incurs qualifying expenditure. A condition of the section is that the land continue to be used by the lessee in a farming business. If the lessee does not, the owner will not qualify for the incentive deductions.

*SECTION 24* – Allows a company to deduct from assessable income donations of money made to a university for research which is important to the general economy of New Zealand.

The deduction in any year will be limited to the smaller of £500 or 5% of the company's assessable income.

Gifts made on or after 11 June 1965 will qualify.

*SECTION 26* – Offers an incentive to the mining industry to stimulate capital investment.

From 1 April 1965 a taxpayer who makes a payment towards any amount unpaid on his shares in certain mining companies will be allowed to deduct 1/3 of the amount from his assessable income.

The mining companies concerned are those whose sole or principal source of business is mining in New Zealand for any of the minerals listed in *section 30* of this Act or for petroleum. The company must also be assessable under either *section 152* or *section 153* of the tax Act.

*SECTION 27* – Extends the incentives allowed to forestry companies.

The section will allow a forestry company to deposit income from thinning the forest in a reserve account without payment of tax in the year the income is earned. The deposit will be assessable income in the year of withdrawal. The withdrawal can be tax free if spent on deductible expenditure.

For convenience, the appropriate parts of the income equalisation scheme will be used to implement deposits and withdrawals under this scheme.

*SECTION 28* – Deposits under the snow loss reserve scheme will not be accepted after 17 September 1965. Refunds of existing deposits may still be applied for under the original conditions of the scheme.

*SECTION 29* – Introduces the farm income equalisation scheme as *sections 136 B to 136 K* of the principal Act. Details have been announced in the Public Information Bulletin No. 21 and deposits have been accepted for the year ended 31 March 1965.

*Section 136 B* – Sets out the definitions. The important definitions are:

**Maximum Deposit**

Is 25% of the assessable income of a farming or agricultural business before taking into account any income spreading under special tax legislation, including the equalisation provisions.

There is power to increase this percentage in particular years by Order in Council.

**Specified Period**

Applies to both deposits and refunds. It is the shorter of a period ending six months after balance date, or from balance date to a date one month after a taxpayer is required to file his tax return.

In practice the longest period after balance date will be six months and the shortest, three months.



*Section 136 C* – Sets out the conditions for making deposits:

- Deposits may be made by a taxpayer who carries on a farming or agricultural business on land in New Zealand.
- Deposits are, in general, made for the income year in which the deposit occurs.
- Deposits made during the “specified period” for any year may, by written election, be related to the year before the year of deposit.
- Deposits will not be accepted by the Commissioner for any year for which a withdrawal has been made.
- Deposits are to be made to the tax office for lodgment at the Reserve Bank. No interest is paid on the deposit.
- Deposits are to be in minimum amounts of £100 or an amount which will bring total deposits for the year to 25% of assessable income.
- Deposits or the excess of a deposit which exceed the 25% limit will be automatically refunded.
- Deposits are protected against assignment or charge except in the case of bankruptcy or a company winding up.

*Section 136 D* – Gives authority for a taxpayer to deduct his deposits, up to a 25% maximum, against his assessable income in the year for which the deposit has been made.

*Section 136 E* – Deals with refunds of deposits made:

- Refunds may be made on written application.
- Refund of any deposit is generally not allowed until 12 months after the date of that deposit.
- Refunds may be authorised by the Commissioner at an earlier date in special circumstances.
- Refunds become income in the year of application except when the specified period applies and election is made to have the income assessed in the preceding year.

*Section 136 F* – Sets out special provisions for refunds of deposits when a taxpayer retires from farming or an agricultural business:

- The tax office will refund any deposits automatically.
- The refund will be assessable income in the year of retirement.
- As an alternative the taxpayer may elect to have all or part of the refund treated as income in an earlier year, or years, to the extent that the deposit was made in the earlier year.
- This election may be made at any time within the period allowed for furnishing the return of income for the year of retirement.

*Section 136 G* – Provides for refunds of deposits on the taxpayer's death:

- In general the provisions are the same as those on the retirement of the taxpayer.
- The trustees have a further right of election to spread the deposit or part of it forward into any of the three years after death, but limited to the balance of the original 5 year period of maximum deposit.
- Under this further election the amount spread forward will remain deposited under the scheme.

*Section 136 H* – Provides that if a taxpayer becomes bankrupt the tax office will refund any deposits to the Official Assignee. These refunds will be income prior to the commencement of bankruptcy proceedings.

*Section 136 I* – Provides that on the winding up of a company the tax office will refund deposits as soon as notice of winding up is received. Refunds will be income prior to the commencement of the winding up.

*Section 136 J* – The maximum period of deposit, is five years after the deposit is made. The tax office will then automatically refund any remaining deposits.

This refund will be income in the year the refund is made. The general rule that a taxpayer may not make a subsequent deposit for a year for which a refund is made, does not apply in these circumstances. The taxpayer may re-deposit the refund or make other deposits for the same year.

*Section 136 K* – This section states that refunds are made in the same order as the original deposit. It also provides that refunds are to be in minimum amounts of £100.

*SECTION 30* – This section rewrites *section 152* of the principal Act which provides a special method of assessment for companies whose business is the mining for any of the minerals listed in the section. Amendments in the rewritten section are:

- Additions to the list of qualifying minerals.
- Provision for further minerals, shown to be important to the economy of New Zealand, to be added by notice in the Gazette.
- Capital paid up in moneys worth, such as property, will qualify for the special purposes of the section. Previously, only capital paid up in cash qualified.

*SECTION 31* – Is a further extension of the forestry incentives and is closely allied to *section 15* of this act. There will be special circumstances which prevent a company from carrying on a forestry business in its own name and make it necessary to do so through a subsidiary company which it controls. This section allows the parent company to deduct development expenditure incurred by the subsidiary to the extent that it is reimbursed by the parent company.

This provision will give the parent company the same incentive allowance as if it had been able to develop the forest in its own name.

*SECTION 32* – Is a routine amendment following an alteration to the classification of pay period taxpayer made last year. Qualifying income is increased from £1,040 to £1,300.

**PART III**  
**(Amendments to Income Tax Assessment Act 1957)**

Part III of the Act consists of *sections 33 to 36* inclusive.

*SECTION 33* – Extends the circumstances when a housekeeper may be claimed as a dependant for tax code purposes. This extension follows *section 13* of this Act.

*SECTION 34* – Extends dependency of a relative for tax code purposes from 1 April 1966. From that time a relative may be claimed as a dependant provided the income of the relative does not exceed £300 and the other necessary qualifications apply.

*SECTION 35* – Corrects an anomaly in PAYE procedures which occurs when an employee whose income exceeds £1,300 has an extra pay period in an income year.

A rebate is to be allowed in the annual assessments for the tax worth of the special exemptions allowed in working out the tax deduction for the extra pay period.

*SECTION 36* – From the year commencing 1 April 1966 any employed taxpayer who also derives assessable investment income up to £50 will not be required to pay provisional tax on his investment income. The tax will be payable in an end of year assessment made after the tax return has been filed.

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**LAND AND INCOME TAX (ANNUAL) ACT 1965**

*SECTION 1* – Short title.

*SECTIONS 2, 3 and 4* – Fix the rates of land tax, ordinary and social security income tax and excess retention tax for the year commencing 1 April 1965. These rates continue the 10% (maximum £100) ordinary income tax rebate for individuals, and the land tax rebate of 50% of the tax assessed.

*SECTION 5* – Fixes the rate of bonus issue tax for the same year at the rate of 3/6 in £1.

## ESTATE AND GIFT DUTIES AMENDMENT ACT 1965

This Act came into force on 10 June 1965 and applies to the estates of all persons dying on or after that date.

*SECTION 1.* Short title and commencement.

*SECTION 2.* Increases to £15,000 the value of the succession of a widow for which an exemption will be given and increases the exemption for a widower to £7,000.

The effect of the increased exemptions is shown below.

When whole estate passes to widow.

<i>Value of Estate</i>	<i>Duty Before 10.6.65</i>	<i>Duty from 10.6.65</i>	<i>Saving</i>
£	£	£	£
15000	286	Nil	286
20000	960	600	360
25000	1888	1452	436
30000	3060	2550	510
40000	6160	5500	660
50000	10138	9338	800
60000	14400	13500	900

When whole estate passes to widower

<i>Value of Estate</i>	<i>Duty Before 10.6.65</i>	<i>Duty from 10.6.65</i>	<i>Saving</i>
£	£	£	£
7000	60	Nil	60
10000	300	180	120
15000	953	763	190
20000	1800	1560	240
25000	2904	2614	290
30000	4250	3910	340
40000	7700	7260	440
50000	12006	11472	534
60000	16500	15900	600

### Pamphlet revised

A revised edition of the pamphlet "ESTATE DUTY IN NEW ZEALAND" is being printed and copies will be available at all district offices in November 1965.

## STAMP DUTIES AMENDMENT ACT 1965

This Act which came into force on 17<sup>th</sup> September 1965, makes miscellaneous amendments to the Stamp Duties Act 1954.

*SECTION 1.* Short title.

*SECTION 2.* In the past, when shares of a value of £20 or less were sold, sharebrokers had the option of stamping share transfers with conveyance duty by affixing and cancelling adhesive stamps or of having the transfers stamped by the Stamp Duties office. This section extends the option to accountants and solicitors.

"Accountant" means a member of the New Zealand Society of Accountants including a person licensed by the Society under *section 32A (1) of New Zealand Society of Accountants Act 1958*.

*SECTION 3.* reduces the totalisator duty payable by racing clubs. Each club will pay duty at the rate of 2½ per cent on the first £50,000 a racing year – instead of £20,000 – of gross investments on the totalisator. Duty of 5 per cent will be payable on investments in excess of £50,000 – previously £20,000. This section came into force on 1 August 1965.

*SECTION 4.* abolishes stakes duty. This section also came into force on 1 August 1965 and applies to all race meetings held on or after that day.

*SECTION 5.* raises the limit of the exemption from lottery duty from £500 to £750.

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## EXTRA TIME TO MAKE FARM INCOME EQUALISATION DEPOSITS

Farmers are to have extra time in which to make deposits for the first year of the farm income equalisation scheme.

The Land and Income Tax Amendment Act 1965 which was passed on the 17 September, provides for the scheme to operate for the income year ended 31 March 1965 or corresponding accounting year. The extra time is to enable deposits to be made for that year.

The normal period for making deposits is the shorter of up to six months after balance date or up to one month after the date when the farmer's return is required by the Act to be filed with the tax office. For many farmers this period expired before the Amendment Act was passed.

Because some farmers have been reluctant to make deposits until the law was enacted they have lost the right to deposit for the 1965 income year and it has been decided to extend the period in which these deposits may be made.

For farmers with balance dates up to 30 June 1965 the period is extended to 31 October 1965.

For those with balance dates falling from 1 July 1965 to 30 September 1965 the period is extended by one month, that is, four months after balance date, instead of three months.

This is a special arrangement for the 1965 income year only and is aimed at giving farmers a reasonable time after the scheme became law in which to make deposits.