



PUBLIC INFORMATION BULLETIN

Office of the Commissioner of Inland Revenue

Wellington

*Well, well – the world must turn upon its axis,
And all mankind turn with it, heads or tails,
And live and die, make love and pay our taxes . . .*

– Byron

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BULLETIN
No. 32

MAY
1966



**USE OUR AGENCY SERVICE
GET YOUR TAX QUERIES ANSWERED**

Last year we had a public assistance campaign to help salary and wage-earners to : -

- Understand their tax rights,
- and
- get refunds of tax overpaid
- and
- fill in tax return forms

That campaign was so successful that we are having another this year **IN MAY AND JUNE**

During May and June we will open agency offices for a day or two in : -

- small towns
- large department stores.
- and
- post offices

As was done last year we will again visit factories, freezing works and other big employers to answer employees tax queries and to help them fill in their tax returns, and thus get their refunds quicker

Agency Offices

Agency offices to help salary and wage-earners will be opening during the period 16 May to 10 June. Look for notices in your local shops, in your newspaper and in your cinema for when and where our agency office will be in your town.

Wider Service

Although our assistance campaign is mainly to help salary and wage earners and retired people we will also be available to answer queries from employers, farmers, business and professional men. We want you to know we are not letting up on our efforts to improve public understanding in the tax field. **Other ways which we use to help you are through our information pamphlets, bulletins and lecture services.**

SOME RESEARCH FELLOWSHIPS ARE TAX FREE

Each year certain students and research workers in New Zealand are granted research fellowships and we have been asked if the fellowships are taxable.

Two classes

Research fellowships fall into two classes for tax purposes. One class is taxable under the law – the other is not.

THEY ARE TAXABLE WHEN –

- awarded to a research worker for his services in carrying out research. In these circumstances the grant is similar to a salary.

THEY ARE NOT TAXABLE WHEN –

- awarded to students * to enable them to get training or tuition at an educational institution. In these circumstances the grant is similar to a scholarship or bursary.

* Students include graduates studying for higher degrees or further qualifications.

LET'S HAVE YOUR RECONCILIATION STATEMENT – IR 68

Some employers may unwittingly be holding up their employee's refunds.

In March we sent employers a reconciliation statement to be filled in and returned by 15 May. But not all those forms are in yet.

If your reconciliation statement hasn't been sent in please let us have it soon. You'll help us as well as your employees.

HELP FOR FIRMS SETTING UP A STAFF SUPERANNUATION FUND?

Firms setting up a staff superannuation fund often ask us.

- what do they need to do to get the fund approved for tax purposes

and

- how much of their contribution towards the fund can they claim as a business expense.

Some time ago to help these people we issued an information pamphlet called "Staff Superannuation Funds". The rules governing the approval of the funds are fully covered in the pamphlet. We would like as many as possible of those concerned to read it. We suggest that you pick up a copy at your local tax office.

The Commissioner thanks Mr John Eriksen, Consulting Actuary, of Wellington for suggesting this item.

LATEST REPRINT OF TAX ACT NOW AVAILABLE

The 1966 reprint of the Land and Income Tax Act includes all amendments up to the end of the 1965 session of Parliament and has a complete index.

Copies are now available from the Government Printer's retail shops at Auckland, Hamilton, Wellington, Christchurch and Dunedin. The price is 34s a copy.

INVESTMENT ALLOWANCE FOR WEST COAST SOUTH ISLAND EXTENDED

The Minister of Finance Hon H.R. Lake, has now approved all trades and industries in the West Coast, South Island redevelopment region as redevelopment projects. This means the 20% West Coast investment allowance can be gained on –

- All new or secondhand * agricultural and manufacturing plant and machinery.
- All new buildings or extensions of buildings for business purposes irrespective of the type of business.
- New or secondhand * plant or machinery for use in any trade or business except the retail trade.
- All new or secondhand * motor vehicles except cars and station wagons, unless the cars and station wagons are registered as passenger service vehicles.

* A secondhand asset will qualify only when no previous owner of the asset has been granted the allowance.

The prior approval of the Minister is still needed for secondhand buildings and for any assets which do not come within the categories above.

How to Claim the Allowance

If your assets qualify under the Minister's approval and meet the other necessary requirements claim the investment allowance in your tax return in the year the assets are first used in your business. To get the allowance fill in form IR 39B, and attach it to your tax return.

A Pamphlet to Help You

If you want to know more about the West Coast investment allowance get a copy of our information pamphlet "*Investment Allowance*" from your local tax office or your Post Office.

MORE DEDUCTIONS FOR COSTS OF EDUCATING EMPLOYEES' CHILDREN IN REMOTE AREAS

TRANSPORTING EMPLOYEES' CHILDREN TO SCHOOL

Some employers in remote areas contribute towards the cost of transporting their employees' children to school. The employer can claim such expenditure as a business expense.

Claim actual cost only

Naturally any claim is limited to the *actual* cost. If you receive a conveyance allowance from the Education Department, the part of the allowance relating to your employee's children should be taken off in working out the amount to be claimed.

No claim for your children

The cost of transporting your own children to school is not allowable. This is private expenditure which is not directly related to producing assessable income. If you use your car to take your own and your employees' children to school, you will need to apportion the running expenses and depreciation on a per head basis to work out what to claim.

Other transport used

If you contribute directly to an association or company which provides school transport, claim the amount applicable to your employees' children.

PAYMENTS TOWARDS SCHOOL BOARDING FEES

In Bulletin No. 25 at page 11 we tell how farmers in remote areas can get a deduction for payments made to employees to help meet the cost of boarding school children away from home.

The deduction is available to all other employers in remote areas who help their employees in this way.

Your local tax office can give full details of this deduction.

QUESTIONS AND ANSWERS

Provisional Tax

- Q. I am self-employed. Why do I have to pay provisional tax?
- A. *The basis of a PAYE tax system is that tax is paid in the same year as you get your income. In New Zealand as in most other countries tax can be either PAYE tax deductions which are made from salary or wages or provisional tax which is paid on business income, rents and investment income. You may recall that when we discussed PAYE in New Zealand in Bulletin No 24 we said in fairness to all, the provisional tax payer had to be included, not only to give him the benefit of the remission year but also so that either he or his widow would not have to face up to almost two year's tax on retirement or in the event of his death. Of course, the provisional taxpayer too gets the advantages we have already talked about for the employed taxpayer .*

Universal Superannuation and Provisional Tax

- Q. I started getting Universal Superannuation some months ago and have just learned that I have to pay provisional tax on it. Can you tell me why I have to pay it? My wages are £15 a week and tax is taken off them by my employers.
- A. *Universal superannuation is the only social security benefit which is taxable. It is legally liable for ordinary income tax but not social security tax. As tax is not taken off by the Social Security Department, provisional tax is payable on it. We give reasons why provisional tax is payable on this income in the answer above.*

Withholding Tax on Annuities Paid to Overseas Beneficiaries

- Q. In Bulletin No. 29 you discussed withholding tax on payments to overseas beneficiaries. What is the position if under a will an annuity is paid to such a person?
- A. *The nature of the estate income from which the annuity is paid is preserved in the annuity. If it is paid from income made up of interest, dividends, royalties or know how payments from a New Zealand source deduct withholding tax. Don't deduct the tax if the annuity comes from these sources outside New Zealand.*

Tax Offices in Northern and Central Region

- Q. I have read with interest your article on regional control in Bulletin No. 31. Could you please tell me which tax offices are in the Northern and the Central region?
- A. *Certainly. Here is a simple table.*

<i>Central Region</i>		<i>Northern Region</i>	
Gisborne	New Plymouth	Auckland	Tauranga
Lower Hutt	Palmerston North	Hamilton	Te Aroha
Masterton	Wanganui	Rotorua	Whangarei
Napier	Wellington		

HOW TO APPORTION EXPENDITURE ON INCOME PRODUCING BUILDINGS

If you are an Accountant, Architect or Builder, you may have been asked to apportion money spent by a client on repairing, renovating or altering a building between capital and revenue expenditure for tax purposes.

We have recently had talks with the New Zealand Society of Accountants and the New Zealand Institute of Architects and, as a result, have prepared a hand out which

- sets out the principles to be followed in making the apportionments;
- lists items commonly found in claims for repairs, maintenance and depreciation on buildings and contents;
- indicates which costs are deductible; and
- gives the rates of depreciation on non-deductible items.

You can get a copy of the hand-out at your local tax office.

New Points in Hand out

MODERNISATION OF SHOP FRONTS

We have always regarded a shop front as part of the "*building proper*". This is still the position. But when a shop front is modernised to take account of changing business conditions the taxpayer instead of capitalising the cost to Buildings Account may now at his option, capitalise the cost to a separate asset account and depreciate it at

- 10 per cent on original cost

OR

- spread it over the remainder of a non renewable lease
– as appropriate.

INNER PARTITIONS OF BRICK AND CONCRETE

Pulic Information Bulletin No. 26 includes in the definition of "*Building Proper*" – inner walls of brick or concrete. Particularly in older buildings there could be many interior walls which though of brick or concrete construction are indistinguishable in their functions from partitions or temporary walls in more modern buildings. When such walls have been erected and classified as "*inner partitions*" prior to 1965 the classification will not be disturbed for depreciation purposes. Irrespective of the classification demolition costs of these walls during a scheme of re-arrangement may be regarded as expenditure on inner fixtures and deducted accordingly.

HOW TO APPORTION EXPENDITURE ON INCOME PRODUCING
BUILDINGS (Cont'd)

FLOOR COVERINGS

These do not come within any of the categories referred to above. Coverings such as carpets, underfelt, feltex, linoleum and vinyl tiles are all subject to depreciation at the rate of 20 per cent diminishing value. More permanent floor coverings such as parquet flooring are depreciable at 10 per cent diminishing value. In all cases normal repairs and minor replacements should be charged to revenue but wholesale replacement should be capitalised with loss on disposal of old floor covering.

The Commissioner thanks the New Zealand Society of Accountants and the New Zealand Institute of Architects for their suggestions and for the valuable part they played in the recent talks.

PIB No. 32 - May 1966 - Supplement

See also subsequent
Special bulletin published by
Dept in 1967 reproduced in
pages 409-908 + 409-910,
CCH NZ Electronic Tax
Library (in ^{PIB} folder 44
PIB 38)

Expenditure On Buildings: Apportionment For Tax Purposes

Frequently architects and accountants are asked to make an apportionment for tax purposes between revenue and capital expenditure on repairs, alterations, renovations and additions to buildings.

Following discussions between representatives of architects and public accountants and officers of this Department the Commissioner of Inland Revenue has set out the principles to be followed in making apportionments of this nature.

The first step in any apportionment is to divide the total into expenditure on

1. Ancillary plant - such as lifts, heating and cooling systems, sprinkler systems.
2. Inner fixtures - These consist of all partitions - except those constructed of brick and concrete - inner doors and inner windows, shelving, fixtures and fittings, lockers and the like.

See also Note (i) under "Other Points" on page 3.

3. 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.

After this basic division is made expenditure coming within each of the three divisions should then be apportioned between:

- (a) Revenue expenditure
- (b) Capital expenditure

having regard to the principles applicable to items coming within that division.

These principles are discussed below and are summarised in chart form at the end of this statement.

A. Ancillary Plant

- (a) Charge to Revenue Expenditure
 - Repairs and maintenance of existing equipment.
 - Alterations not amounting to significant improvement.
- (b) Capital Expenditure
 - Installation of new equipment.
 - Replacement of a whole new asset.
 - Major alterations to the extent that they are an improvement.

Notes:

- (i) When an old asset is replaced the loss on disposal may be claimed as a deduction.
- (ii) Often the original lifts, heating systems, etc., will have been treated in the past as part of the building proper itself. In these cases the loss on disposal may be claimed having regard to depreciation at building rates previously allowed. The value of the building for future depreciation will also require adjustment.
- (iii) Ordinary depreciation on capital expenditure in this category is allowable at ten per cent DV for both owners of the building and lessees (i.e. in a case when the lessee incurs the expenditure on the ancillary plant). Special depreciation may also be claimed.

B. Inner Fixtures

Apportionment of expenditure so far as the owner of the building is concerned will depend to some extent on whether the original inner fixtures were treated as part of the "building proper" or as separate "inner fixtures".

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

- As part of the building proper
- OR
- As a separate asset, depreciable at ten per cent DV with adjustment on sale or discard.

1. "Inner Fixtures" treated as part of Building Proper

This would apply to the owner of the building only.

(a) Charge to Revenue Expenditure

Repairs, demolition costs, alterations, rearrangements, replacements not involving significant improvement.

(b) Capital Expenditure

- Additions and extensions.
- Replacements of inner fixtures involving major improvements.

Depreciation may be written off at 1 - 2 1/2 per cent as appropriate or ten per cent if a separate asset account is created - see B2 below.

2. "Inner Fixtures" treated as a separate asset

(a) Charge to Revenue Expenditure

Repairs, demolition costs, alterations, rearrangements, minor replacements.

(b) Capital Expenditure

- Additions and extensions.
- Major replacements. Claim loss on disposal of old asset.

Depreciation on new asset ten per cent DV and twenty per cent DV (lessees).

C. Building Proper

(a) Charge to Revenue

- Repairs.
- Replacements of whole part provided not more expensive materials than old. If in more expensive materials claim notional cost of replacing in old materials and 'capitalise' excess.
- "Notional Repairs" - see note to (b) below.

Note: The claim for repairs and replacements should under general principles relate only to expenditure to make good deterioration since acquisition by present owner -

see note (ii) under "Other Points" below.

(b) Capital Expenditure

- All alterations, extensions or improvements except of trivial amounts.

Note: When alterations embracing a defective part of a building are carried out the notional cost of restoring the defective part may be charged as a revenue deduction leaving the balance only of the costs of alterations to be capitalised.

Other Points

(i) Inner Partitions of Brick and Concrete

The definition of "Building Proper" on page 1 includes inner walls of brick or concrete. This recognises the fact that modern trends are that partitions are now of lighter and more readily removable materials and it is more realistic to treat partitions of brick and concrete, erected in the future, as part of the "Building Proper". However, where any such walls have been erected and classified as "Inner Fixtures" prior to 1965 the classification will not be disturbed for depreciation purposes in future in respect of these walls. But, irrespective of whether classified as "Inner Fixtures" or "Building Proper" the demolition costs of such walls during a scheme of rearrangement may be regarded as expenditure on "Inner Fixtures" and deducted accordingly.

(ii) "Dilapidation Repairs"

This term relates to expenditure on buildings immediately following purchase. Work of a major nature to repair dilapidations which occurred during the previous ownership should be capitalised. The work is regarded as an addition to the purchase price to the new owner. The longer the period between purchase and the time the work is done the larger will be the proportion of such repairs which will be properly attributable to the new owner's occupancy and therefore deductible. As a guide after three years the question of "dilapidation repairs" may generally be ignored except such substantial items as replacement of roof, foundations, etc. Similarly when a building is taken over in a reasonable state of repair and the repairs and maintenance carried out are no more than the normal recurring expenditure which is normally incurred such as painting, etc., they would be allowed as a direct charge to revenue.

(iii) Modernisation of Shop Fronts

A shop front has always been regarded as part of the "building proper". This is still the position. However, where, as frequently occurs, a shop front is modernised to take account of changing business conditions the cost involved may, at the option of the taxpayer, be either -

- (a) Capitalised to Buildings Account and depreciated at 1-2 1/2 per cent as appropriate.

OR

(b) Capitalised to a separate asset account and depreciated at

(i) ten per cent on original cost

OR

(ii) spread over the remainder of a non renewable lease - as appropriate.

(iv) Floor Coverings

These do not come within any of the categories referred to above. Coverings such as carpets, underfelt, feltex, linoleum and vinyl tiles are all subject to depreciation at the rate of twenty per cent DV. More permanent floor coverings such as parquet flooring are depreciable at ten per cent DV. In all cases normal repairs and minor replacements should be charged to revenue but wholesale replacement should be capitalised with loss on disposal of old floor covering.

General

If the step by step method of apportionment set out above is followed, namely allocation of the expenditure to the three broad divisions of assets and then allocation of the expenditure between capital and revenue in each division, it should facilitate the work considerably.

It should also avoid the necessity of referring claims back to accountants and architects for more detailed information.

****EDITORIAL NOTE:** The table contained on page 5 of PIB No. 32a (Supplement), has not been reproduced.**

Schedule of Items Commonly Found in Section 113 Claims:

- (1) **Bars in hotels** - In general treat as part of the building proper. However, where a hotel classifies the bars as inner partitions and the bars are not built into the floors (as is common practice these days) but are capable of being dismantled, and re-erected or rearranged.
- (2) **Bedside lamps** - Charge to furniture and fittings. Depreciate twenty per cent DV.
- (3) **Bottle Store** - Depending on type of construction, may be structural alteration or qualify for ten per cent (twenty per cent in leased premises).

- (4) **Blinds, Canopies, Venetian Blinds** - Capitalise to furniture and fittings. Depreciate twenty per cent DV - Drapes and curtains remain - replacement only.
- (5) **Bore (water) or Mineral Water Bore (bath etc.)** - The cost of sinking and lining the bore is capital (loss on bore abandoned is revenue) and should be charged to a separate non-depreciating account. Cost of pumps, pipelines, baths, etc., should be capitalised to plant account.
- (6) **Braces to strengthen building** - Structural alteration. Depreciate at building rates.
- (7) **Built-in Furniture, Shelves, etc.** - Ten per cent (owned premises), twenty per cent (leased).
- (8) **Burglar Alarms** - Wiring, bells and installation. Capitalise ten per cent.
- (9) **Cartage** - This cost follows the allocation of the material carried, e.g., cartage on bricks for structural alterations is capitalised to buildings.
- (10) **Ceilings** - If the building had no ceilings before, the cost should be capitalised to buildings account. Once installed, ignoring dilapidation repairs, etc., the expenditure including complete replacement) to maintain the ceilings in repair is a revenue charge. If the work goes beyond this, any excess of the actual cost over estimated cost of merely repairing the old ceiling would be a capital addition to buildings. Common items found are -
- (a) Erection of a false ceiling. If this is in lieu of repairs to the original ceiling allow notional repairs on the old ceiling.
 - (b) Replacement with different type of ceiling. Cost up to cost of replacing in previous type is revenue; balance capitalise as additions to buildings.
 - (c) Removal (to get at rotted joist, etc.) and replacement; revenue if the repair of the joists is also revenue.
- (11) **Cellar** - Consider -
- (a) Plastering - additions to buildings if not plastered before.
 - (b) Replastering - revenue.
 - (c) Extension - capitalise to buildings. Include excavation as part of cost.
 - (d) Alteration to accommodate beer tanks - maybe structural or (if cost such as making hole to allow entrance of tanks and then making wall good again) chargeable to plant account as part of installation costs.
- (12) **Counters** -

- (a) Built in) ten per cent (owned premises)
- (b) Moveable) twenty per cent (leased)
- (13) **Demolitions** - Consider the asset demolished and the reason. Cost of demolition of a building is capital. The definition of "Building proper" includes inner walls of brick or concrete. Particularly in older buildings there could be many interior walls which, though of brick or concrete construction, are indistinguishable in their functions from partitions or temporary walls in more modern buildings. While there is no change for depreciation purposes for walls of this nature, demolition costs of these walls during a scheme of rearrangement may be regarded as expenditure on inner fixtures and deducted accordingly. Cost of demolition to allow repairs, e.g., demolition of a wall damaged through fair wear and tear, is a revenue charge. Wharves, slipways and similar semi-permanent erections are classified as being in the nature of buildings and the same rules apply.
- (14) **Doors and Doorways** -
- (a) Cutting new doorway is a structural alteration unless it is in the nature of an alteration to inner fixtures.
- (b) Cost of replacing street and other doors is revenue, but consider whether an improved type of door may be fitted, e.g., old wooden door replaced by steel roller shutter type. The question of notional repairs then arises.
- (c) Installation of doors where none before. If the usual exterior doors necessary for completion of the building treat as additions to building.
- (d) Cost of altering windows (e.g., setting back at altered angle and construction of island windows) involving alterations to exterior walls are structural alterations and should be included in "building proper".
- (e) Construction of cart dock; this usually involves such work as removal of pillars, construction of canopy, etc., and such alterations are structural.
- (f) Cost of tiling a foyer is structural but a claim for notional repairs may be made in respect of the capitalisation of any original floor, the cost of re-tiling would be revenue subject to improvements (based on relative present day costs of old and new types of materials as used).
- (15) **Drainage, Sewerage** - Costs are normally part of the cost of building and installations and extensions should be capitalised as such. Claims are now arising in respect of old sewerage connections consisting of sewer, sump, and ejector pump where the sewerage from a building was accumulated in a sump and then pumped into the sewer. These arrangements are obviously obsolete and a claim for replacement is

allowable as a revenue charge. Watch for extensions and installations of drains of greater capacity, etc., and apportion between capital and revenue accordingly. It will commonly be found that with more extensive building over the past fifty years, a sewer or drain which earlier served a property is now required to be lengthened considerably to take the increased load from perhaps two or three points instead of one as before.

(16) Contribution to temporary sewerage scheme -

The Health Authorities have refused to allow the further installation of septic tanks in some districts.

In an area where a Metropolitan scheme is not scheduled for completion for several years, one Borough Council has erected its own sewerage treatment plant as a temporary measure. The Council plant will, however, be absorbed in the Metropolitan scheme but it will not be necessary to scrap existing pipes, etc. Permanent piping has been laid with connections available at the boundary of any property. The owner of the property makes his own arrangements (to approved standards) to connect his buildings at the boundary. A fee equivalent to the cost of installing a septic tank is charged by the Council to make the connection.

One firm which requested that the contribution of £575 to join the temporary scheme be written off over the following three years was advised that this expenditure was specifically excluded as a deduction under section 112(a) of the Land and Income Tax Act 1954.

A contribution to a Local Authority to join up with a sewerage scheme is expenditure laid out for an enduring advantage and is not deductible.

(17) Electrical Work -

- (a) Conversion DC to AC - and consequential rewiring - allow as repairs on the grounds of obsolescence but watch for installation of heavier mains, switchboards, etc., and that the DC mains have been actually discarded. However, a liberal view should be taken of what are heavier mains, switchboards, etc.
- (b) Watch for extensions to wiring, larger switchboards, etc., particularly on installation of lifts and machinery and capitalise to buildings account.
- (c) Fluorescent lights, Tubes treated as plant; wiring, etc., as additions to buildings. Allow as repairs estimated cost of replacing in old type. Honeycomb type reflectors - treat as plant.

(18) Fire or Earthquake precautions -

Regulations in some areas require that no person shall be than fifty feet from a means

of egress. If a building in the past was not, by any reasonable standard adequately serviced, then the cost of providing a reasonable service should be capitalised to buildings. Elaboration of the service would be a capital charge also. For example, in an hotel, it is only reasonable that the occupant of every room should be able to gain safety immediately. If he could not the cost of providing him with an adequate escape is clearly capital.

It has been found in some buildings that there is no connection between fire escapes on the first and second floors. The cost of the ladder to join them is capital. Regulations require two ladders, one at each end of horizontal escapes (to join them at both ends.) The provision of the second ladder is also capital. Each case depends upon the facts and it will be found convenient to break down the total cost into -

- (a) Provision of draught doors - capital.
- (b) Enclosing lift or stairways in fire resistant material - capital.
- (c) Provision of exterior escapes where none existed before - see above.
- (d) Provision of new interior escapes - see above.

Consider other factors also, e.g., conversion of the building from a storehouse to offices. More persons occupy the building and more elaborate fire escapes than provided would be a charge to capital.

(19) **Floor Coverings -**

Coverings such as carpets, underfelt, feltex, linoleum and vinyl tiles are all subject to depreciation at the rate of twenty per cent DV. More permanent floor coverings such as parquet flooring are depreciable at ten per cent DV. In all cases normal repairs and minor replacements should be charged to revenue but wholesale replacement should be capitalised with loss on disposal of old floor covering.

(20) **Foundations -** Except for normal repairs, all cost should be capitalised to buildings.

(21) **Gutters and Down Pipes -** As for Foundations above.

(22) **Hand Basins -** Cost of installation (plumbing, basins, etc.) should be capitalised to buildings. The walls, if any, erected round the basins would qualify for ten per cent or twenty per cent on the DV. Cost of removal from one point of a building to another is revenue.

(23) **Heating systems -** Usually hot water or hot air. Cost of installation should be capitalised to plant. On repair claims watch for -

- (a) installation of better type of pipe (copper in place galvanised iron, heavier gauge pipe) or of pipes greater diameter;

- (b) extensions.
- (24) **Improvement to land** - Capital expenditure - During a quiet period and to ensure continuity of work for its own skilled tradesmen a company employed its staff on the removal of a mound of rock from the company's yard.
- The expenditure resulted in a permanent improvement to the company land and the labour costs were disallowed as being part of the capital expenditure incurred. It was clearly not an expenditure exclusively incurred in the production of income for the income year.
- (25) **Lavatories** - As for hand basins.
- (26) **Lawns** - Cost of laying, etc., should be added to land account. No loss on abandoning.
- (27) **Levelling Section** - Same treatment as lawns.
- (28) **Lift** - On installation, cost of lift was usually included in buildings account. On establishing a separate cost for this asset depreciation may be allowed at plant rates. Where cost was included in buildings, the calculation of loss on demolition causes difficulty. It is necessary to estimate the original cost and to depreciate this at schedule rates (for buildings) for the period in use. The cost of altering a lift to comply with fire precautions enclosing sides, etc., - is capital expenditure. Other alterations to the lift itself, including outer and inner gates, are treated as alterations to plant; alterations to the shaft as alterations to building. Cost of demolishing old lift and making good the roof, shaft, etc., after removal is a revenue charge but cost of replacement of lift by a ramp would be a structural alteration.
- (29) **Lockers and similar built-in amenities** - In general, qualify for ten per cent (owner) or twenty per cent (lessee) per annum on the diminishing value.
- (30) **Loss on assets (other than buildings) demolished** is a separate calculation and not part of the dissection. Provided the loss is due to fair wear and tear or obsolescence which occurred during the taxpayer's ownership in production of his assessable income, the loss may be deducted. Loss on buildings is capital for depreciation purposes - reduce buildings account by cost of building.
- (31) **Moveable Furniture** - Desks, counters, etc., should be capitalised and depreciation can be claimed at twenty per cent per annum on the DV.
- (32) **Murals** - In general murals would fall within the definition of "inner partitions" The cost should be capitalised and allow depreciation at ten per cent (owner) or twenty per cent (lessee) as the case may be.
- (33) **Parapet** cover to prevent leaks. Add to cost of building but allow as repairs the costs which would have been incurred in repairing the. damage done by the leaks.

- (c) Cost of raising roof, or lowering, to new level or altering design - structural - capitalise to buildings.
- (44) **Septic Tank** - Capitalise cost to buildings account.
- (45) **Shelter trees (other than farmers)** - Capitalise cost to land account.
- (46) **Shelter trees (farmers)** - Allowable section 120 Land and Income Tax Act 1954.
- (47) **Shop Front** -
- A shop front has always been regarded as part of the "building proper". This is still the position. However, where, as frequently occurs, a shop front is modernised to take account of changing business conditions the cost involved may, at the option of the taxpayer, be either -
- (a) Capitalised to Buildings Account and depreciated at 1 - 2 1/2 per cent as appropriate.
- OR
- (b) Capitalised to a separate asset account and depreciated at -
- (i) Ten per cent on original cost or
- (ii) spread over the remainder of a non-renewable lease - as appropriate.
- (48) **Shower Boxes** - Same treatment as lockers.
- (49) **Signs** - Removable signs (e.g., neon, etc.) are treated as plant. Cost of hoardings to be capitalised. Allow claim for annual maintenance plus loss on discarding.
- (50) **Skylights** - Cost should be capitalised to buildings account.
- (51) **Sprinkler system** - Capitalise to plant account.
- (52) **Stairs** - Cost is normally an addition to buildings, but if of obviously temporary construction and not part of the structure, e.g. access to storage platforms, small cellar, etc., may qualify for ten per cent (owner) or twenty per cent (lessee) per annum on the diminishing value.
- (53) **Street Entrances** closed to comply with by-law. The cost of closing this entrance would be revenue.
- (54) **Strengthening building** to carry machinery, including costs of testing, consulting engineer's fees, etc. Capitalise to building but in some instances where it can be shown that the long use of machinery has weakened the structure - the cost may be revenue. It has also been ruled that the cost of foundations installed specifically to

carry machinery is part of the cost of the machinery and should be capitalised to that account.

- (55) **Strongroom** is part of the building and cost should be capitalised. Cost of removal to new position is revenue.
- (56) **Subdividing Rooms** - the structure of the building not being altered - capitalise to buildings and allow depreciation at ten per cent (owner) or twenty per cent (lessee) as the case may be.
- (57) **Tiling** e.g. round bar or in foyer - cost should be capitalised to buildings if new. Notional repairs on old floor are allowable.
- (58) **Trap door** - Cost should be capitalised to buildings.
- (59) **Trees (other than farmers)** - Capitalise cost to land account.
- (60) **Trees (farmers)** - Allowable section 120 Land and Income Tax Act 1954.
- (61) **Ventilation system** - Capitalise to plant account.
- (62) **Verandah** - Cost should be capitalised to buildings account. If old obsolete pillar type is replaced by the more expensive, suspension type capitalise the cost less an allowance, as notional repairs, of the cost of replacing in the old type. Local bodies are now requiring the removal of the old pillar type which is claimed to be a traffic hazard, and the intention appears to be to treat the cost somewhat along the lines of fire precautions expenditure and allow a deduction of the total cost other than the estimated increase in the capital value of the building. In practice, it was found that where an old pillar type verandah in a well worn condition was replaced at a cost of approximately £1100, architects estimated that the building increased in value by about £670 and a deduction was allowed on the balance.
- (63) **Walls** - Cost of erection should be capitalised to buildings account where the wall is an exterior wall of main bearer interior wall, i.e if, without that wall, the building would be damaged by strain, etc. Other walls qualify for ten per cent or twenty per cent per annum on the diminishing value.
- (64) **Water Tower and Tank** - Capitalise to buildings account.
- (65) **Wells** - See under (5) Bores.
- (66) **Windows** -
 - (a) construction - capitalise to buildings.
 - (b) replace damaged window with new window of same type - revenue.
 - (c) replace wooden frames with metal - capitalise to buildings after allowing as

notional repairs estimated cost of replacing in wood.

- (d) replace fixed type with louvres, etc. - as for (c) above.
- (e) removal of windows and making good the walls capitalise to buildings.
- (f) windows inside a building, e.g., between offices, qualify for ten per cent or twenty per cent per annum on the diminishing value.
- (g) **Tinting Windows - Cost of**

Outside windows are part of the building proper. The original cost of the tinting is capital expenditure and depreciable at building rates.

Any subsequent treatment of the same windows would be on revenue account and allowable as a deduction.

- (67) **Yard** - Capitalise cost of levelling, sealing, etc., to land account and allow repairs only.

Issued by the Inland Revenue Department

May 1966

PIB No. 31 - April 1966

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