



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

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1966 BUDGET PROPOSALS

The Minister of Finance, Hon. H.R. Lake, included some tax proposals in his 1966 Budget. They will not have the force of law until validating legislation is passed.

Here are brief details.

Incentives Extended

The following incentives which would otherwise expire at 31 March 1967 are to be extended to 31 March 1968.

- The 150 per cent deduction for export market and tourist promotion expenditure.
- The special and initial depreciation allowances of 20 per cent.
- The deduction of "class B" farm development expenditure beyond the usual £400 limit.

Incentives Suspended

The 10 per cent investment allowances on plant and machinery have been held to be partly responsible for the present upsurge in imports. The Minister announced the suspension of the allowance but said that the Government will re-examine the position next year in the light of the balance of payments situation at that time.

There are two exceptions —

- The allowance will apply where a firm contract to purchase plant and machinery was entered into before 17 June 1966.
- The West Coast allowance which is to continue but at the reduced rate of 10 per cent.

Livestock Incentive

The Government and the Agricultural Production Council have collaborated on a scheme intended to provide a direct tax incentive related to increases in livestock. The scheme is expected to materially assist in meeting the long range targets set by the Agricultural Development Conference.

Briefly the main provisions of the scheme are

- Entry is optional
- On entry a livestock base will be established. This will be the greater of the livestock numbers carried at the end of either of the two preceding accounting years.
- Subsequent increases over this base will be shown at a NIL standard value for tax purposes. Taxable income will be deferred to the extent of the difference between the NIL and the usual standard values of the increased livestock.

1966 Budget Proposals Continued.

- When the farmer sells or otherwise disposes of the whole of his livestock, for instance on retirement or death, the full market value will become taxable income, subject to the usual spreading provisions.
- The scheme will first apply to livestock increases in the 1967 accounting year.

Export Incentive

Amendments are to be made to the scheme which allows a deduction for the value of increased export sales. These are designed to eliminate certain existing anomalies.

- A uniform 15 per cent deduction from income will be allowed to exporters for all qualifying increases in export sales.
- The base for calculating export sales is to be the first three of the five years immediately preceding the income year.

The changes are to apply to 1966/67 exports.

New Zealand/United Kingdom Double Tax Agreement

The Minister announced that the new Agreement was signed on 13 June. It will have legal effect in the near future when Orders In Council are promulgated in both countries. The application of the Agreement will in general be from 1 April 1965.

Other Tax Adjustments

- The 10 per cent rebate is to be continued for a further year.
- A widening of the law relating to deductible expenditure is proposed for the current year which will permit a deduction for subscriptions, fees and levies directly related to a taxpayer's employment, but limited to £10 per annum.
- Some changes to the special exemption for life insurance premiums paid are also proposed.
 - The limitation of payments to 20 per cent of assessable income is to be removed.
 - The range of qualifying policies is to be widened. The extension will include eligible policies on the lives of a taxpayer's wife and children.
 - The overall limits of either £250 or £325 per year remain unchanged.
- Separated and divorced persons are to be brought in line with widows and widowers for the special allowance of £78 where there are dependent children and tax payment in full would cause hardship.

1966 Budget Proposals Continued

- Companies may at present deduct donations made to Universities for research within certain limits. The range of qualifying donations is to be widened to include those made to bodies approved by the National Research Advisory Council. This change applies immediately and only requires approval of a body by the council.
- a further basis for valuing trading stock is to be written into the law to cover cases where special factors such as obsolescence have reduced values below cost.
- It is hoped that legislation will be introduced this year to liberalise and simplify the existing provisions for charging excess retention tax.

Taxation Review

Mr Lake also announced that a committee of independent experts is to be set up to review the whole field of central Government taxation, both direct and indirect. The committee will be assisted by a full time secretariat drawn from Inland Revenue and Customs Departments and the Treasury.

The review is to commence as soon as possible and the Minister will announce further details later.

REFUNDS FLOWING FASTER

151,014 refunds have been made so far this year as against 131,433 at the same time last year.

This increase of 20,000 shows that more people are putting in their returns early to get their refunds and we are dealing with them faster.

Do you think you are entitled to a refund?

If you haven't filled in your tax return yet don't hesitate. Our staff will be happy to help if you have any difficulty.

UNITED KINGDOM : NEW ZEALAND DOUBLE TAX AGREEMENT SIGNED

In Public Information Bulletin No. 30 we told you of the progress which had been made in the new double tax Agreement talks between the United Kingdom and New Zealand.

The new Agreement was signed recently and will come into effect when both countries have passed Orders-in-Council - probably towards the end of June.

We will give you details of the text of the Agreement in a later bulletin.

PURPOSE OF LOAN DECIDES IF INTEREST DEDUCTIBLE

Interest paid on a loan is deductible when the money borrowed is used to produce assessable income.

Test of Deduction

Remember the test we use is – what was the *purpose* for which the money was borrowed. If used to produce assessable income, the interest is deductible.

Sometimes when assets are charged with statutory debts, such as death duty, loans to meet the debts and thus enable the assets to be retained are raised on the security of the assets. In these cases the interest is deductible to the extent that the assets retained produce assessable income.

If you need further details our staff will be pleased to help you.

FORMAL SHARE TRANSFERS ARE NOT ALWAYS NEEDED

When you buy or sell shares through a sharebroker, formal share transfers need not be executed for every transaction.

This means that

- when buying, he can buy a number of parcels to get the holding you require, or
- when selling a parcel of shares, your sharebroker can split the parcel and sell it in several lots,

without the need for you to be a party to the execution of a share transfer for every purchase or sale.

Stamp Duty Unchanged

Buying shares through a sharebroker without formal share transfers does not alter the stamp duty payable. Sharebrokers supply us with statements showing such share dealings. They pay the stamp duty on the transactions and recover it later from the purchasers of the shares.

FLOOD RELIEF FOR FARMERS IN AUCKLAND AND NORTH AUCKLAND

The Minister of Finance has announced that the relief provisions of section 103A of the Land and Income Tax Act 1954 will be given to farmers affected by recent flood conditions in the

- Auckland Provincial areas of Manukau, Raglan, Waikato, Waipa, Matamata, Piako, Hauraki Plains, Thames, Coromandel, Ohinemuri and Tauranga Counties, and.
- North Auckland Provincial areas of Whangarei County; the Okaihau and Mataraua Ridings of Bay of Islands County; and the Taheke, Waihou and Horeke Ridings of Hokianga County.

Section Applies

The section applies in any case in which the Commissioner of Inland Revenue is satisfied that a farmer has been forced to sell live-stock because of shortage of fodder or other factors arising from the flooding and has had to defer buying replacement stock until the first or second year after the sale.

It also applies

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

Assessment of Income Deferred

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

Queries Answered

The local tax office will be happy to answer any enquiries on the procedures to be followed when lodging a claim.

CLEANING CONTRACT PAYMENTS ARE LIABLE TO WITHHOLDING TAX

We are often asked whether tax should be taken off payments made to cleaning contractors. The answer is "Yes – they are withholding payments". They include payments for

- cleaning office, business, institutional or other premises;
- cleaning windows;

AND

- cleaning or laundering plant, vehicles, furniture, furnishings, fittings or equipment.

Rate of Tax

Withholding tax at the rate of 1s. 6d. for each complete £ should be deducted from these withholding payments –

Except

- when the work is done for a householder in or around his own home.

OR

- when the contractor is a limited company

OR

- when the contractor produces a current certificate of exemption issued by the tax office.

Any Questions?

If you want to know more about withholding payments, your local tax office will be happy to answer your questions. Ask for a copy of the pamphlet "PAYE Instructions for Employers".

ARE YOUR EMPLOYEES TAX DEDUCTIONS RIGHT

Our PAYE Inspectors find that the most common reason for incorrect tax deductions is the accidental use of wrong codes.

For example

- employee's code shows "S", tax deducted at code "S1"
- employee's code shows "M1", tax deducted at code "S1"

Here is how employers can help their employees and themselves. Check each employee's tax code against his tax deductions to make sure that the deductions are being made at the correct code.

How check will help

Employers will find that tax deduction errors discovered early in the tax year can be put right with less work and inconvenience than those which are found later.

"Taxation must not lead men into temptation, by requiring trivial oaths, by making it profitable to lie, to swear falsely, to bribe or take bribes – Taxation must not take from individuals what rightly belongs to individuals.

Henry George – 1839/1897.
The Condition of Labour.

QUESTIONS AND ANSWERS

Two Jobs – One Return

Q. I had two jobs last year. Do I have to put in a tax return for each? I had no other income.

A. *"No". Show your total income in one return. Enter all your income even if you have mislaid some of your certificates. Your total income should be included in the one return form. In your case you should use the green IR 5 tax return.*

Separate Returns for Husband and Wife

Q. My wife worked last year. Do I put her income in my tax return?

A. *Your wife's income should not be included with your income in your return. But it may be necessary to show the amount of her income on page 2 of the return when you are working out your exemptions. If her income was between £157 and £311 you will be entitled to a partial wife exemption. You can work out the exemption on page 2 by deducting her income from £312. Your wife should put in a separate return if necessary.*

Housekeeper Employed to Look After Children

Q. My wife and I are both working. We employ a housekeeper who "lives in" and does general household duties as well as caring for our two children. Am I entitled to a housekeeper exemption?

A. *On the facts you have given you do not qualify for the housekeeper exemption. A married person who is not separated is entitled to the exemption only when the housekeeper has to be employed because of any mental, or physical infirmity or disability of the husband or wife*

AND

- *the housekeeper is a woman employed in the home or elsewhere to have the care and control of any child*

– for whom a family benefit is payable,

OR

– who is under 18 years of age at the 1 April,

OR

– who suffers from any mental or physical infirmity or disability which affects the child's ability to earn his own living

OR

- *when it is necessary to employ a woman to look after the taxpayer's home*