OFFICE OF THE COMMISSIONER OF INLAND REVENUE

Public Information Bulletin

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Income tax tables

1971 TABLES

The 1971 Income Tax Tables for Individuals (IR177) and Companies (IR183) are now available from--

The Government Printing Office,
Publications Branch,
Private Bag,
WELLINGTON.

They cost $1.25 each.

The IR177 tables for individuals show the tax for each $1 of income up to $15,750 and include the 3⅓% surcharge.

There is an error on page 39 the tax on $9,000 should be $6,277.50 not $6,227.50

1972 TABLES

The 1972 Income Tax Tables for Individuals are being prepared by the Government Printer and will be available as soon as possible.

TAX TABLES IN 1971 IR3 RETURN FORM

Because we had to include two sets of tables – one for calculating terminal tax at 1971 rates of tax and one for calculating 1972 provisional tax on balances above $2,500 at 1972 rates of tax – we were unable to cover as broad a range of tax on individual balances as we would have liked.

1972 PROVISIONAL TAX

If the 1971 taxable balance is not more than $2,500 you can use the 1971 terminal tax table to work out 1972 provisional tax as there is no difference in the rate of tax up to that level. However, if the 1971 taxable balance is more than $2,500 you may use the separate table provided to work out 1972 provisional tax at 1972 rates.

If you prefer you can pay 1972 provisional tax on the basis of the 1971 terminal tax. We teli you more about this on page 8.

1971 Budget Proposals

The Minister of Finance, the Hon. R. D. Muldoon, announced the following tax proposals in the 1971 Budget. They will not become law until validating legislation is passed.

INCOME TAX

Surcharge to be Removed

The surcharge on individual income tax will not be extended. This means that as originally announced the 10% increase on PAYE tax deductions will cease on 31 July 1971 and the surcharge on annual assessments for the year ending 31 March 1972 will remain at 3⅓% for the full year.

New PAYE tax tables which come into use from 1 August 1971 will be available shortly. See Commissioner's statement on page 7.

Mining

To bring mining companies more into line with the taxation of companies generally, it is proposed that they be assessed on the basis of the actual income derived instead of by reference to the dividends declared. In respect of mining income, however, the normal company rate of 50% will be replaced by a concessional rate of 33⅓%. The companies will also be entitled to write off all exploration and development costs up to a defined stage in the production process, as and when they are incurred.

These changes will first apply to the income year which began on 1 April 1971.

Convertible Notes

Any issues of convertible notes made by a New Zealand company, whether private or public, after 10 June 1971 will qualify as loan capital and the interest payable on the notes will be deductible for income tax purposes by the company. There will be no change in the provision that such notes are required to be converted within 5 years.

Incentives

The following incentives will be extended

Incentives	*Proposed New Expiry Date 31 March*
Special Depreciation Allowance on– –plant and machinery –buildings for employee accommodation –new farm buildings, and –certain facilities in hotels	1973
Investment allowance on plant and machinery used– –in manufacturing –for farming or agricultural purposes –for fishing	1973
West Coast Investment Allowance	1973
Development Expenditure – –on farm land, or –incurred by rock oyster or mussel farmers	1973
Increased Exports	1977
Export Market Development and Tourist Promotion Expenditure (including self-employed taxpayers)	1975
Additional Depreciation on capital expenditure to achieve hygiene in meat export slaughter-houses or packinghouses.	1975
Special Depreciation for meat freezing and processing companies on cool storage buildings	1975
Special Depreciation on buildings for approved tourist accommodation projects	1975

LOTTERY DUTY

As from 1 April 1971 lottery duty will be payable only by the Golden Kiwi and Mammoth lotteries.

ESTATE DUTY

When a deceased's dutiable estate includes significant mineral or petroleum interests, payment of the relevant duty may be deferred particularly where at the time of death potentially profitable ventures are not yet income producing.

Depreciation - changes and new rates approved

DEPRECIATION – CHANGES AND NEW RATES APPROVED

The following depreciation rates have been approved

Item	Depreciation Rate
Carpets in hotel and tavern bars	33⅓% D.V. subject to being separately identified in books of account.
Concrete "squeeze-crete" pump units	25% D.V.
Swimming pools ◆ generally ◆ mineral water	 1% C.P. 2% C.P.

These new rates apply from and including the year ended 31 March 1971.

Companies mining specified minerals

COMPANIES MINING SPECIFIED MINERALS–

The Minister of Finance, the Hon. R. D. Muldoon has declared the following minerals to be qualifying minerals for the purposes of assessing tax under section 152 of the tax Act–

- silica in lump form used only in the production of silicon metal or ferro silicon
- aluminous refractory clays and fireclays containing over 30% alumina in the fired state
- sillimanite, kyanite and andalusite
- alumina minerals such as bauxite, gibbsite, diaspore and corundum.

Application of lower tax rates

Here is the text of a press statement issued by the Commissioner Mr D. A. Stevens on 11 June 1971.

"Taking off the present surcharge on individual income tax at the end of July has a twofold effect.

Firstly, for taxpayers whose income is taxed at the source, it means that–

- PAYE tax table deductions will be at the reduced rate without surcharge for the pay periods which commence after 31 July 1971 and for any pay period which straddles that date. A payment made after 31 July for a pay period which ended on or before that date should have tax deductions at the old rate.
- The tax deductions on secondary employment income and the flat rate PAYE deductions for shearers or casual agricultural workers will similarly be freed from the surcharge in respect of pay periods which commence after 31 July 1971 or which straddle that date.
- Lump sum bonuses, arrears of wages and deductions from various withholding payments paid on or after 1 August 1971 will have tax deducted at the various rates free of surcharge irrespective of the period to which they relate."

The new PAYE tax deduction tables are being printed and will be sent to employers as soon as possible.

These new PAYE tables incorporate for the first time, without the addition of any surcharge, the lower tax rates operating from 1 April 1971.

"Secondly, for taxpayers who get annual assessments–

- The surcharge for the year ending 31 March 1972 will be the same as for the 1971 tax year. It will remain at the 3⅓% which is equivalent to the 10% on PAYE tax deductions between 1 April and 31 July 1971.
- Provisional tax on farming, business, professional and investment incomes will therefore continue to be surcharged at 3⅓% for the 1972 tax year. This ensures that the amount paid as provisional tax will bear the correct relationship to the tax on income for the year ending 31 March 1972. The 3⅓% surcharge which applies to 1971 and 1972 tax rates is incorporated in the 1971 terminal tax and 1972 provisional tax tables in the 1971 IR3 tax return form."

Are you having trouble working out your 1972 provisional tax

If you are having problems working out your 1972 provisional tax it could be because of the changes in tax rates.

IF YOU PREFER TO USE YOUR 1971 TERMINAL TAX FIGURE AS YOUR 1972 PROVISIONAL TAX, YOU MAY DO SO.

Any adjustment will be made when your 1972 terminal tax is assessed.

NEW TAX RATES FOR 1972

Provisional tax is normally based on the terminal tax of the previous year. However, this year new rates of tax applying from 1 April 1971 will generally give some reduction in your 1972 tax if your income after deducting special exemptions – total A in your return – is more than $2,500.

HOW TO WORK OUT PROVISIONAL TAX AT 1972 RATES

If you wish to use the lower rates in calculating 1972 provisional tax, you should work out the tax from the 1972 tables included in the 1971 IR3 return form.

If your 1971 income includes remuneration from which PAYE tax deductions were made, or Universal Superannuation, or dividends, we now tell you what further adjustments you should make for these types of income.

Remuneration from which PAYE Tax Deductions Were Made

Your 1971 tax deduction certificates will show the amount of tax deductions calculated on the basis of 1971 rates. When you are calculating your 1972 provisional tax, you will need to deduct from the total tax calculated at 1972 rates an estimated amount to cover PAYE tax deductions on your 1971 remuneration using 1972 rates. To do this, deduct the total of your personal exemptions claimed in your tax code from the total of your 1971 remuneration and on the balance of the remuneration calculate the amount of tax to be deducted using the 1972 tables. Please refer to example below to show how this is done.

Universal Superannuation

Deduct $54 if you have derived Universal Superannuation in the 1971 year.

Dividend Rebate

There is no dividend rebate for 1972 if your taxable income (Total A in the 1971 return form) is $4,000 or more. If the taxable income is under $4,000 calculate the rebate as shown in the 1972 panel in the 1971 return form. If you have dividend income you may find that the 1972 figure is higher than your 1971 terminal tax. If this is the case then you can use the 1971 figure for your 1972 provisional tax, but if you do you could be faced with a larger 1972 terminal tax liability in your end-of-year assessment.

Example – How to Calculate 1972 Provisional Tax at 1972 Rates

1971 Income–

Salary and Wages		$8,646
Rent		2,160
Dividends		646
		$11,452

1971 Exemptions–

Personal	$275	
Wife	275	
2 Children	270	
Insurance	162	982
	Taxable Income	$10,470

1971 Tax on Taxable Income	$4,822.98
Less Dividend Rebate	228.49
	$4,594.49
Less PAYE Deductions	3,016.71
1971 Terminal Tax	$1,577.78
1972 Tax on taxable income of $10,470 –	$ 4,081.98
Less estimated PAYE Deductions at 1972 Rates –	2,767.46 *
1972 Provisional Tax (in whole $)	$1,314.00

* These are the estimated PAYE tax deductions on salary and wages of $8,646 less exemptions (M2 Code) of $820 which leaves a taxable balance of $7,826. To work out the 1972 PAYE deductions take the tax on $7,826 from the 1972 tables provided.

Tax Payable by Trustees or Overseas Tax Paid

If an allowance was made in your 1971 tax return for this type of tax, deduct the same amount from your 1972 provisional tax figure.

SHOW 1972 PROVISIONAL TAX FIGURE ON FRONT OF RETURN

When you have worked out your 1972 provisional tax please show it on the front of your 1971 return on the line below the "Back Pay Rebate" panel.

Payroll tax on private companies

What are "Chargeable Wages"?

"Chargeable wages" for payroll tax include all remuneration such as directors' fees, bonuses, salary and wages and benefit allowances regardless of treatment for PAYE purposes.

In some private companies there will be no employees other than shareholder/employees or directors. The latter may pay provisional tax on their total income from the company and the company will not pay any PAYE tax deductions. In other cases, the private company will have other employees but the amount paid to these throughout the year will be less than $7,800 with no liability for payroll tax until remuneration is paid or credited to the shareholder/employees or directors.

We now tell you how to deal with these two types of cases.

Remuneration to Shareholder/Employees in Private Companies With No Other Employees

If the total amount paid to shareholder/employees, or directors, exceeds $7,800 for the year to the 31 March, there will be a liability for payroll tax. If no tax deductions have been paid throughout the year, this is what you should do to account for payroll tax.

- Ask at the tax office for a book or a number of pay-in slips, IR65 and

- Pay the payroll tax at any tax office or post office with savings bank facilities by the 20th of the month following the month in which the "chargeable wages" were paid or credited to the shareholder/employees' current account.

- If under a practice already established for income tax purposes, the remuneration is deemed to be paid or credited as at the 31 March or the balance date of the company, the remuneration should also be deemed to be paid or credited on that date for payroll tax purposes. This could be relevant in relation to deduction of the $7,800 exemption allowed for payroll tax purposes and may require a supplementary annual payroll tax return for an earlier year.

Where a company does not account for PAYE deductions on the remuneration because the shareholder pays PAYE tax himself as a provisional taxpayer, we suggest you tell the tax office when applying for the pay-in slips. This will save your company the time and trouble of having to reply to the reminders we issue each month to employers who have apparently missed a payment of PAYE tax deductions without giving a reason.

Combined Remuneration Of Ordinary And Shareholder Employees May Make Private Company Liable To Payroll Tax

An employer has to pay more than $7,800 chargeable wages in a year ending 31 March ($650 a month) before he is liable to payroll tax. A private company's wage bill for ordinary employees may not be high enough for there to be a payroll tax liability until the remuneration of a shareholder is paid or credited to his current account. The payroll tax need not be paid until this remuneration is paid or credited.

The balance of the monthly exemption of $650 not used up from previous months may be set off against the total ''chargeable wages'' paid for the month the shareholder/employee's remuneration is paid or credited. If there is likely to be an unused balance of the $650 exemption for any of the following months, we suggest you talk the matter over with the local tax office and get an adjustment for this at the same time so your company will not have to wait for an end-of-year refund.

Period to 31 March 1971

Payroll tax first applied from 1 August 1970. For the year ended 31 March 1971, therefore, only remuneration for the eight months from 1 August 1970 is liable for payroll tax and exemption for that year is $5,200. If remuneration to shareholder/employees is deemed to be paid or credited as at 31 March 1971 pursuant to established practice and relates to the whole year to that date, only the proportion applicable to the period from 1 August 1970 is liable to payroll tax. This is dealt with in P.I.B. 57 and P.I.B. 60.

If you are still not clear on any point please do not hesitate to ask for help at any tax office. The staff will be happy to help you.

Employers – have you sent in your reconciliation statements

Reconciliation statements were due by 15 May on either an IR68P or IR68.

IR68P

If you are liable to pay payroll tax, use the combined reconciliation IR68P.

IR68

If you have to account for PAYE tax deductions only, use the IR68.

This year we expect to receive over 150,000 reconciliations but many have not come in.

Employees' Refunds Delayed

Because you cannot give your employees their tax certificates until you complete your reconciliation you could be holding up their tax refunds.

Early Follow-up

We will be checking soon on those outstanding. If you have not filed your reconciliation, please do so now.

Employers' contributions to lump sum superannuation schemes – maximum deduction increased

The maximum amount allowable as a deduction to employers for their contribution to a lump sum superannuation fund has been increased from $500 to $700.

The increase applies for the year ended 31 March 1971 (or equivalent balance date) and future years.

How your wife's earnings affect your tax

In P.I.B. 55 we showed how a wife's income affected her husband's tax. There has been considerable interest in the item so we have decided to reissue it.

Some married taxpayers believe that because of tax it is unprofitable for a wife to continue working once her income for the year reaches $375. They think that as soon as a wife's income reaches $375 the husband immediately loses the whole of the wife exemption. This is incorrect as a partial wife exemption could be allowed. It is true that you may not claim exemption for your wife in a tax code if her income will exceed $375 for the year. However, if your wife's income for the year will be between $375 and $650 you can either–

- ask at the tax office for a special tax code if you wish to get an immediate adjustment, or
- claim the partial exemption in your tax return after the 31 March.

What To Claim In Your Tax Return

The wife exemption for an income year is $275 reduced by $1 for every complete $1 her income exceeds $375.

If your wife's income for the income year is –

- $375 or less you can claim the full exemption of $275 in your tax return.
- Between $375 and $650 claim a partial exemption worked out by taking your wife's income away from $650.
- Over $650 you get no special exemption for your wife.

When Wife's Income More Than $650 You Pay No More Extra Tax

You may think that the more income your wife earns the greater the tax you have to pay on your income. This is not true when the wife's income exceeds $650. Although the husband loses the wife exemption it costs him the same amount of extra tax regardless of whether her income is $1,000 or $4,000 as can be seen in the examples below.

Overall Gain In Joint Income When Your Wife Is Working

Although you may personally pay more tax when your wife's income exceeds $375 the increase in your joint incomes more than compensates. In other words any additional income that your wife gets in excess of $375 will always exceed the total of any extra tax you may pay (through the loss or partial loss of the wife exemption) and any tax that your wife pays on the additional income.

The personal exemption of $275 is allowed to your wife if her income exceeds that amount. If her income is less she has no tax to pay.

Husband's Income	*Wife's Income*	*Husband's Tax*	*Wife's Tax*	*Combined Income After Tax*	*Overall Gain of Combined Income After Tax*
$	$	$	$	$	$
4,000	Nil	827	–	3173	–
4,000	250	827	–	3423	250
4,000	500	873	18	3609	436
4,000	1000	931	69	4000	827
4,000	2000	931	287	4782	1609
4,000	4000	931	931	6138	2965

Life insurance exemption

In Public Information Bulletin 60 page 5, we said that the maximum exemption for life insurance premiums and superannuation contributions had been increased from $500 to $700 for a taxpayer "who is a contributor to an employer-subsidised superannuation fund".

This should have read "who is a contributor to the Government Superannuation Fund or who is a member of an employer-subsidised superannuation fund".

Shares or share options to employees

Tax Position Explained

Is your company considering granting employees the option of purchasing shares at less than their market value? Some companies think that if they do this their employees would be taxed on the difference in values as additional remuneration in all cases. This is not correct. Some restrictions which are placed on dealing with these shares may be taken into account in valuing the shares. These may reduce or eliminate the benefit otherwise assessable. We tell you about this.

Benefit Not Taxed if Shares have to be Handed Back

If the shares are required to be handed back–

- by the employee when he retires, or
- leaves the employment, or
- by his executors on his death,

for a consideration no more than the employee originally paid for them, there is no liability for tax except, of course, on any dividends received.

Other Restrictions on Disposal can Affect Value of Benefit

The general position is that if the employee can deal with the shares in any way he chooses immediately after acquiring them or after a period which is less than 8 years, this restriction is to be ignored for tax purposes and the employee in such case would be assessed on the difference between market value at the date he acquires them and the price actually paid by him. However, if the terms of issue of the shares provide that he cannot deal with the shares for a period of not less than 8 years, except only that if he leaves the employment or dies the shares must be handed back at the price paid for them, this restriction can be taken into account for valuation purposes. Normally, it would be expected that this restriction would be taken as entirely eliminating any taxable benefit, but the Department may need to look at cases where there are special circumstances.