



OFFICE OF THE COMMISSIONER OF INLAND REVENUE

Public Information Bulletin

CONTENTS

No.63 SEPTEMBER 1971

INCOME TAX TABLES.....	3
COST OF CONVERSION TO METRIC MEASUREMENTS.....	3
SMALL VENTURE - "HOBBY " OR "BUSINESS".....	4
INCREASED EXPORTS INCENTIVE - MORE GOODS QUALIFY	6
ESTATE AND GIFT DUTY - VALUATIONS OF OVERSEAS SECURITIES	6
FARM INCOME EQUALISATION - DEPOSITS FROM ESTATES WITH LIFE TENANTS	7
DEPRECIATION CHANGES - NEW RATES APPROVED.....	8
INTEREST - BASIS OF RETURNING AS INCOME.....	8
LOOSE TOOLS - ALLOWANCE FOR RENEWAL OR REPLACEMENT INCREASED	9
COMPANY'S LIABILITY FOR TAX ON PREMIUMS PAID TO FOREIGN INSURER	10
DONATIONS BY COMPANIES.....	10
RELIEF FOR FARMERS AFFECTED BY ADVERSE EVENTS	11
TAX CALENDAR 1971 - 1972.....	14

Income tax tables

1972 TABLES

1972 Income Tax Tables for Individuals (IR177) are now available at Government Book Shops or can be obtained direct from—

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

They cost \$1.25 each.

The Income Tax Tables for Companies (IR183) which came into force on 1 April 1969 are still current.

WITHHOLDING TAX RATES NOT SHOWN IN WEEKLY TAX TABLES

The weekly tax tables applying from 1 August 1971 have been distributed to employers. We have been asked why the rates of tax on withholding payments are not shown in the tables. The reason is that these are given on the back of the Tax Deduction Certificate IR13 which is the form to be completed for these types of payments.

Cost of conversion to metric measurements

New Zealand is to convert to the metric system of weights and measures by the end of 1976. The change has already started.

For tax purposes the costs of conversion are treated as follows—

- ♦ If a machine is converted, the cost may be claimed in the year of conversion or at the option of the taxpayer added to the book value of the machine and depreciation claimed at scale rates.
- ♦ If a machine is scrapped, the loss will be allowed as a deduction in the year of scrapping.

Small venture - "hobby" or "business"

Quite often we have to consider the tax treatment of profits and losses from small ventures. In Public Information Bulletins 50 and 51 we dealt with the question of when racing and trotting breeders should be regarded as carrying on a "business" or merely indulging a "hobby". In this issue we deal with other situations in which this question can arise. Just some we have to consider are—

- (a) farmlets of a few acres bordering taxpayers' private residences.
- (b) boat owners receiving a small amount for fish sales but incurring outgoings on their boats each year considerably in excess of the receipts.
- (c) owners using assets such as boats largely for private purposes but also claiming they are available for hire, the hire charges usually being considerably less than the outgoings and depreciation.

In all these cases two basic questions arise—

Is a business carried on—

- ♦ Are the operations such that they can be said to be a business undertaking, the profits or losses from which are to be taken into account for tax purposes, or
- ♦ Should they be disregarded for tax purposes as being only the indulgence of a hobby or carried on in such a small way that receipts merely defray expenses incurred in holding the property for purposes other than business operations.

Are the expenses deductible—

- ♦ Accepting that the operations are such as to constitute carrying on a business, what outgoings are properly allowable for tax purposes in arriving at the profit or loss.

What is a business undertaking

The tax Act defines a business as "including an undertaking carried on for pecuniary profit." This has been interpreted as meaning that the operations must be carried on to such an extent or in such a manner that it could reasonably be expected that they would result in a profit. While the fact that the operations in one year, particularly in the initial stages, result in a loss would not in itself take them out of being a business undertaking, consistent losses could point to an activity which would not be classed as a business. On these tests clearly the cases referred to in (b) and (c) above would not come within the term "business" and those in (a) would depend on their particular facts.

What outgoings are allowable—

Assuming the operations are such that they can be accepted as being a business undertaking for tax purposes, there remains the question of whether all the outgoings should be allowed as being incurred in producing the gross income. For instance, for farming operations we do have rules for allowing such items as the proportion of—

- ♦ depreciation and other outgoings on the farmer's own residence, and
- ♦ depreciation and running costs of the farmer's car to cover its use for farming purposes.

However, it was always intended that these rules would only apply when the operations were of some size and the farmer was employed more or less full time on the farm. Obviously, the same rules should not apply in the case of a farmlet of a few acres around the taxpayer's private residence and when he has employment elsewhere, spending only a short time each week on the farming operations. Here, it would be unrealistic to say that the residence was used in any way for farming purposes or that his car was used to the extent of the normal proportions which are allowed when extensive farming operations are carried out.

Circumstances do vary considerably from case to case and each case must, of course, be decided on its own facts. However, if you are not sure on any point get in touch with your nearest tax office. The staff will be pleased to help you.

Increased exports incentive - more goods qualify

Under recent Orders in Council the following goods qualify for the increased exports incentive.

- ♦ foetal calf serum
- ♦ guinea fowls, pheasants, and carcasses of such birds
- ♦ lambs caeca denatured and processed to a dry state.

Exporters of these goods qualify for the incentive allowance commencing with the tax year that began on 1 April 1970.

Estate and gift duty - valuations of overseas securities

Because of Reserve Bank Exchange Control Regulations there are certain circumstances under which overseas securities may not be sold for New Zealand currency. In these cases the overseas value should be used in valuations because the only market available is the overseas market.

Sharebrokers have been asked to show in their valuations—

- ♦ The overseas market price, and
- ♦ The New Zealand market price, or that there is no New Zealand market for that security.

If both values are shown it is the New Zealand values which should be totalled. If the valuer certifies that the security is only eligible for sale outside New Zealand the overseas value should be adopted.

Farm income equalisation - deposits from estates with life tenants

We have been asked if we will accept farm income equalisation deposits from estates with life tenants.

Deposits Accepted from Trustee

The tax Act allows any taxpayer engaged in any farming or agricultural business to make deposits to the fund. The trustee, as distinct from the life tenant, is the taxpayer engaged in the farming business.

The Commissioner has said that deposits will be accepted from a trustee. Depending on the income from which made, the deposit will reduce—

- ♦ the income of the life tenant, or
- ♦ the income assessable as trustees' income

in the year to which the deposit relates. This will establish whether the income is assessed as income of the life tenant, or as trustees' income when the deposit is refunded.

Stock Dealing not a Farming or Agricultural Business

Farming ranges from breeding just for progeny, to buying stores, fattening and selling. It does not include livestock dealing when a taxpayer buys and sells livestock and does not hold them for any length of time.

As the farm income equalisation scheme only applies to taxpayers "engaged" in any farming or agricultural business we are unable to accept deposits by taxpayers who are solely stock dealers.

Interest - basis of returning as income

We have been asked whether interest should be returned on a "cash" or on a "receivable" basis. Our answer is-

Taxpayers in the Business of Lending Money

Taxpayers in the business of lending money should return interest on a receivable basis. That is, include interest due but unpaid at balance date but do not include the accrued part of interest not yet due.

Taxpayers not in the Business of Lending Money

Taxpayers not in the business of lending money may return the interest on either a cash or receivable basis, provided a consistent basis is adopted.

Depreciation changes - new rates approved

The following depreciation rates have been approved.

Item	Depreciation Rate
Bulk freight containers	20% D.V. for refrigerated containers
	15% D.V. for other bulk freight containers.
Tannery buildings affected by acid.	4% C.P.

Loose tools - allowance for renewal or replacement increased

For tax purposes instead of allowing depreciation we grant three options to business taxpayers. They may adopt either—

- ♦ Replacement Only
- ♦ Annual Revaluation
- ♦ Standard Values

Where the Replacement Only method is being used the allowance for renewal or replacement of loose tools has recently been increased from \$60 to \$100 for any one item. The arrangement is now—

- ♦ There should be a basic stock of loose tools which is permanently capitalised but not depreciated.
- ♦ This basic stock consists of loose tools costing less than \$100 for any one item.
- ♦ The cost of replacing an item in the basic stock where the cost is less than \$100 may be claimed as a deduction in the year incurred.
- ♦ If the basic stock is increased, the extra items are additions and the cost of these should be capitalised but not depreciated.

Company's liability for tax on premiums paid to foreign insurer

Under section 198 of the tax Act a New Zealand company which takes out insurance, other than life, with an insurer not carrying on business in New Zealand, is liable as agent for the foreign insurer for tax of 5 percent of the gross premium payable. Details of any insurance which is liable to this tax should be shown in the panel on page 4 of the Company Return (IR4).

This section does not apply to insurance on goods being imported into New Zealand on a C.I.F. quotation, that is, the price includes the cost of goods, insurance and freight to the port of delivery. In the 1972 return form the panel will be amended to show that this type of insurance should not be included.

Donations by companies

The Minister of Finance, the Hon. R. D. Muldoon, has announced that donations made by companies to the—

- ♦ Intellectually Handicapped Children's Society—
donations specified for the medical research activities of the society.
- ♦ Auckland Medical School for Chair of Forensic Medicine
- ♦ Hackett Memorial Trust.
- ♦ National Multiple Sclerosis Society of New Zealand Inc.

will qualify for deduction up to the overall limit of 5% of the companies' income. Any gifts in excess of \$5,000 will require the prior approval of the Minister of Finance in order to qualify for deduction.

Relief for farmers affected by adverse events

The Minister of Finance, the Hon. R. D. Muldoon has announced that the provisions of section 103A of the tax Act will be applied to farmers affected by—

- ♦ Flooding in early January 1971 in Taranaki. The areas affected are—

Area	Survey Districts	
Stratford	Huiroa	Ngaere
	Ngatimaru	Omoana
	Tarakawa	Mahoe
Inglewood	Huiroa	Moa
Central Taranaki	Upper Waitara	Taurakawa

- ♦ Flooding in Mid-March and Mid-April 1971. The areas affected are—

Relief Committee	Survey District
Hikurangi	Hukerenui
	Purua
Whangarei Heads	Taranga, Ruakaka, Taiharuru, Whangarei
Taipuha-Waipu	Mareretu-Papaoa Riding of Otamatea County
	Waipu Riding of Whangarei County

- ♦ Drought conditions last summer. The areas affected are—

Area	Survey District	
Lawrence	Tuapeka East	
	Tuapeka West	
	Waitahuna West	
Maniototo	St. Bathans	Naseby
	Maniototo	Upper Taieriside
	Loganburn	Blackstone
	Kyeburn	Gimmerburn
	Upper Taieri	Idabum
	Swinburn	Rock and Pillar
	Serpentine	

Relief for Farmers Affected by Adverse Events – Continued

Area	Counties	
Kaitaia	Parengarenga Reinga Muriwhenua Houhora	Opoë Rangaunu Karikari Mangataniwha Mangonui
Kerikeri	Kerikeri Kaeo	Omapere Kawakawa
Raglan	Pirongia Alexandra Newcastle Rangiriri	Kauhia North Karioi Whangaroa Awaroa
Te Awamutu	Wharepapa Mangaoranga	Mangatautari
Waitomo	All Waitomo Otorohanga County (Waipa, Paewhenua, Honukiwi, Kio Kio Ridings)	
Taumarunui	Taumarunui	
Northern Rangitikei and Wanganui	Rangitikei Wanganui Waitotara	
Relief Committee	Survey Districts	
Northern Rangitikei and Wanganui	Wairoa Omahine Momahaki	
Area	Counties	
Manawatu	Kiwitea Pohangina Manawatu (Sandon, Mt. Stewart, Waiotahi and Camarvon Ridings) Horowhenua (Tokomaru Riding)	

Area	Counties	
North and Central Canterbury	Amuri	Waipara
	Tawera	Ashley
	Kowai	Oxford
	Eyre	Rangiora
	Waimairi	Malvern
	Paparua	Heathcote
	Akaroa	Mount Herbert
	Wairewa	Halswell
	Springs	Ellesmere
	Selwyn	
	Ashburton	
Mid Canterbury		

The Minister said that section 103A would apply to any case where the Commissioner was satisfied that a farmer had been forced to sell livestock because of shortage of fodder or other factors arising from the adverse event and the purchase of replacement stock had to be deferred until the first or second year after the year of sale.

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 livestock is replaced.

Public Information Bulletin No. 55 tells you more about relief offered on a forced sale of livestock. If you are not sure whether you can take advantage of the section ask at your local tax office.

The staff will be pleased to help you.

Tax calendar 1971-72

If one of the dates falls during a weekend or on a public holiday it is automatically extended to the next business day.

SEPTEMBER 7	<ul style="list-style-type: none">♦ Last day to pay provisional tax due 7 August.♦ Last day to send in return due 7 August.
SEPTEMBER 20	Last day to pay August tax deductions and August payroll tax.
OCTOBER 7	Due date for payment of 1971 land tax.
OCTOBER 20	Last day to pay September tax deductions and September payroll tax.
NOVEMBER 7	Last day to pay land tax due 7 October.
NOVEMBER 20	Last day to pay October tax deductions and October payroll tax.
DECEMBER 20	Last day to pay November tax deductions and November payroll tax.
JANUARY 20	Last day to pay December tax deductions and December payroll tax.
FEBRUARY 7	Due date for payment of— Terminal tax for year ended 31 March 1971, and second instalment of provisional tax for year ended 31 March 1972.
FEBRUARY 20	Last day to pay January tax deductions and January payroll tax.
MARCH 7	Last day to pay tax due 7 February.
MARCH 20	Last day to pay February tax deductions and February payroll tax.