



OFFICE OF THE COMMISSIONER OF INLAND REVENUE

# Public Information Bulletin

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# New functions for our Masterton office

Recent changes in the functions of our Masterton District Office will have an effect on some taxpayers in other areas.

## Why the changes were made

Last year because of the growth in the Wellington region we opened a new tax office in Lower Hutt. By doing this we were able to—

- ◆ Give Hutt Valley residents a better service.
- ◆ Bring back from Masterton to Wellington, records for Wellington taxpayers whose surnames begin with the letters S – Z. These had been dealt with in Masterton for some years.
- ◆ As an alternative function in the Masterton office, to centralize records for those classes of taxpayers or types of taxes which can best be dealt with on a national basis.

## What records will be in Masterton

The records for Masterton district taxpayers will still be held in the Masterton office and as well the office will have—

- ◆ Clubs, Societies and Associations.
- ◆ Building Societies.
- ◆ Racing and Trotting Clubs.
- ◆ Armed Forces Personnel.
- ◆ Overseas Civil Servants.
- ◆ Members of Parliament.
- ◆ Judges of the Supreme Court.
- ◆ Film Rental Companies.
- ◆ Visiting Theatricals and Visiting Sportsmen.
- ◆ Land Tax.      ◆ Unclaimed Moneys.      ◆ Film Hire Tax.

## What this will mean

By holding the tax records listed above in one office, we hope to be able to offer a specialized service. Our trained staff will be able to help out with any problems.

## Who to write to

If you are affected by this change and wish to make any enquiry, please get in touch with—

District Commissioner,  
Inland Revenue Department,  
Private Bag,  
Masterton.

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# Employers - completion of tax deduction certificates simplified

If you pay an employee a not-taxable allowance, show only his gross taxable earnings in his tax deduction certificate. In next year's certificates we will be telling employers to exclude not-taxable allowances from the gross earnings panel.

## **Shearers and Shearing Contractors**

In P.I.B. 53, we set out how to complete the certificate when an allowance for combs and cutters is paid to a shearer. This showed the gross amount paid less the not-taxable allowance.

In future we will accept certificates which show either-

- ◆ the gross taxable earnings only, or
- ◆ the gross amount paid less the not-taxable allowances.

However, if only one amount is shown in the gross earnings panel we will assume that the not-taxable allowances have been deducted.

## Can you help

Among the many thousands of taxpayers whose records are held in our various offices, there are quite a number with similar names.

Sometimes we lose a lot of time in associating correspondence, payments and returns with the right file.

All this can lead to mistakes which upset our aim of giving you prompt, efficient service.

We would be grateful if when you are writing, sending payments or returns to the Department, either for yourself or on behalf of someone else, you clearly show the full christian or first names, surname and address of the taxpayer concerned.

# PAYE tax on bonuses

We have been asked to publish an item on the liability of bonuses for PAYE tax. Our pamphlet "PAYE Tax Guide for Employers" explains how to tax bonuses but for convenience we restate the position.

Bonuses whether paid in cash or otherwise are liable for tax.

There are two classes of bonuses for PAYE purposes;

- ♦ Annual or Special bonuses paid once a year.
- ♦ Regular bonuses, such as production or incentive, which are paid more than once a year.

## Annual or Special Bonuses

These are treated as extra emoluments and taxed at the secondary rate of 21 cents in the \$.

## Regular Bonuses

When taxing regular bonuses the bonus is added to the salary or wages already paid for the same pay period covered by the bonus and the tax is recalculated.

A simple method of recalculating the tax is:

### Monthly bonus relating to more than one pay period—

Add bonus to wages already paid for same pay periods covered by bonus.

|  |          |
|--|----------|
| Example - monthly bonus paid -                     | \$       |
| Ordinary wages paid during month                   | 180.00   |
| Bonus for same month                               | 80.00    |
| Total pay for month                                | \$260.00 |
| Using monthly tables tax on \$260 is               | 48.96    |
| Less tax on \$180 ordinary wages using same tables | 26.34    |
| The difference is tax on bonus                     | \$22.62  |

Use the same method if the bonus is paid two, three or four-weekly, but use the two, three or four-weekly table as applicable.

**Bonus paid for a period of more than one month--**

|  |                  |
|--|------------------|
| For example if a three monthly bonus is paid--                                 | \$               |
| Salary or wage paid for 3 months   | 900.00           |
| Bonus paid for same period   | <u>150.00</u>    |
| Total paid for 3 months  | <u>\$1050.00</u> |
| Using monthly tables tax on $\frac{1}{3}$ of total, \$350 is                   | 79.73            |
| Using same tables, deduct tax on $\frac{1}{3}$ of salary or wages paid, \$300. | <u>61.75</u>     |
| Tax on bonus for 1 month   | \$17.98          |
| Tax on bonus for 3 months  | <u>\$53.94</u>   |

## Donations by companies

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

- ♦ New Zealand Institute of International Affairs.
- ♦ New Zealand Neurological Foundation.
- ♦ National Children's Health Research Foundation.

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.

# Setting up or moving a business - what costs may be allowed

Because of the widened scope of section 111 of the tax Act which deals with expenditure or loss incurred in the production of assessable income, and other provisions of the Act, we have taken a fresh look at the allowance, for tax purposes, of the expense in -

- ♦ Establishing a new business.
- ♦ Transferring a business to a new site.
- ♦ Holding a site preparatory to building or rebuilding.

The Commissioner of Inland Revenue, Mr D.A. Stevens, has laid down new guide lines which will apply from and including the income year ended 31 March 1971. They are -

## **Expenditure in establishing a new business**

- (1) The business may claim for-
  - (a) The initial costs of advertising for, training and employing staff before starting.
  - (b) Wages of engineers and others engaged in testing machinery before start-up.
  - (c) The cost of materials consumed in testing.
  - (d) Legal costs in borrowing money.
  - (e) Rates and interest on the property from the year in which the property was first used by the firm or the date construction of a building on the property was commenced.
- (2) The business may charge to asset account and depreciate accordingly-
  - (a) Architects' and consultants' fees - charge to Buildings.
  - (b) Cost of the firm's staff engaged in construction of premises and installation of plant up to the point machinery is ready for testing.
- (3) The business will not be allowed a deduction for-
  - (a) Formation expenses, such as legal expenses incurred in respect of share capital, or the Memorandum and Articles of Association.
  - (b) Rates or interest on a property on which construction of a building was not commenced during the year.

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**Cost of removal and transfer of a business to a new site in New Zealand**

If the business moves to a new site a deduction may be claimed for—

- (a) Cost of transferring staff.
- (b) Cost of moving stock.
- (c) Cost of transferring plant. This would include, for instance—
  - ◆ Dismantling the various parts; temporary removal of part of a building wall so that the machines can be taken out of the building;  
—all wages and other items involved.
  - ◆ Packing, use of containers, fork lifts and other similar equipment.
  - ◆ Transportation to other site.
  - ◆ Unpacking at new site; temporary building wall removals to allow the plant into the premises; assembling and start-up;  
—all wages and other items involved.

This deduction will generally be allowed in the year incurred but the Department reserves the right to spread the deduction over the year incurred and up to four succeeding years when the amount involved is large, say, more than \$2,000.

**Cost of holding a site preparatory to building or rebuilding**

Rates or interest on a property held for building or rebuilding purposes will first be deductible in the year construction commences. However, an allowance may be made if casual income has been received from the property or the old building but limited to the amount of that income.

If you need more information on these points, please do not hesitate to ask at the nearest tax office.

## Filling in withholding payment certificate IR13

If you make a withholding payment please take care to show the year in which the payment is made in the space provided at the top of the form.

This will ensure that the payee returns the income in the correct year.

# 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—

- ♦ Grass grub infestation in the Whakamaru Survey District.
- ♦ Drought conditions last summer. The areas affected are—

| Area      | Survey District |                 |
|-----------|-----------------|-----------------|
| Manawatu  | Port Nicholson  | Belmont         |
|           | Paekakariki     | Akatarawa       |
|           | Rimutaka        | Pencarrow       |
|           | Kaitawa         | Waitohu         |
|           | Waiopahu        |                 |
| Wairarapa | Palliser        | Huangaroa       |
|           | Onoke           | Waiohine        |
|           | Haurangi        | Tiffen          |
|           | Wairarapa       | Otahaua         |
| Nelson    | Wangapeka       | Owen            |
|           | Wai-iti         | Gordon          |
|           | Tadmor          | Howard          |
|           | Motupiko        |                 |
|           | <b>Counties</b> | <b>Parishes</b> |
| Northland | Whangarei       | Tauraroa        |
|           | Hobson          | Okahu           |
|           | Otamatea        | Ruawai          |
|           |                 | Omaru           |
|           |                 | Tokatoka        |

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.



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# Holiday workers - a special tax code evens out tax deductions

Will you be one of the many students, housewives or pensioners taking a holiday or part-time job soon?

If you have not worked all the year the PAYE tax taken off your earnings may be higher than you need pay.

## **A special tax code certificate levels out tax**

If you want an adjustment now instead of having to wait until after 31 March 1972 for a refund, get a special tax code certificate from your local tax office.

## **How to get a special tax code**

Call at or write the local tax office and tell them –

- ♦ Your full name and address.
- ♦ Your employer's name.
- ♦ Your expected weekly earnings.
- ♦ Your total income since 1 April 1971.
- ♦ How long you expect to work.
- ♦ Your tax code.

The tax office will work out your special tax code and give you a certificate to give your employer.

## **School children**

Primary or secondary school students need not fill in a tax code declaration (IR12) for their holiday employers if their total income for the year will not be more than \$275.

However, if the employer is not sure that the income of the child will be below \$275 for the year he should ask the student to get a special tax code certificate from the tax office.

# Overseas dividends - are they taxable in New Zealand if they are exempt overseas

We have been asked what is the New Zealand tax liability on overseas dividends when the dividend notices describe them as being exempt from tax. This applies particularly to dividends declared by Australian mining companies.

Under our tax law, overseas dividends derived by a New Zealand resident are liable for income tax in the same way as New Zealand dividends. Therefore, although overseas dividends paid out of income may be specifically exempted from tax in an overseas country they would be liable for New Zealand tax in the hands of the New Zealand shareholders.

However, if the dividends were paid out of a capital realisation there may not be any liability for New Zealand tax.

If you are not sure whether your dividends are taxable please check with your local tax office.