



OFFICE OF THE COMMISSIONER OF INLAND REVENUE

Public Information Bulletin

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NEW PAYE TAX TABLES

In a statement following the presentation of the 1972 Budget the Minister of Finance, the Hon. R. D. Muldoon, gave more details about the proposed tax changes and amended tax tables now issued to employers.

Here is a summary of Mr Muldoon's statement.

REASONS FOR NEW TAX TABLES

The two provisions in the Budget necessitating the new tax tables are -

- ♦ The abolition after 30 June of tax exemption for dependent children, and
- ♦ The 10% reduction in most rates of PAYE tax deductions from 1 July onwards.

ONLY 3 CODES IN NEW TABLES

All children and dependent relatives have been eliminated from the tax codes and PAYE tables. The new tables contain only 3 codes -

- ♦ "M" - married with dependent spouse or employing a house-keeper.
- ♦ "S" - single or spouse with independent income.
- ♦ "No Declaration" - no tax code declaration completed.

Mr Muldoon pointed out that the cutting down of the tax deduction tables should be a simplification for all employers.

AMENDMENT BILL PROVIDES FOR CHANGE

In most cases no further action is required by employees. The Land and Income Tax Amendment Bill provides for the change of all existing "M" and "S" codes with numbers after them (indicating numbers of dependants) to simple "M" and "S" codes in line with the new tables.

In a small number of cases, however, taxpayers have been issued with special tax codes to take into account special circumstances personal to the taxpayer. Some of these may need reviewing.

ADJUSTMENT IN END-OF-YEAR ASSESSMENT

Claims for dependent relatives other than children for whom a family benefit is payable will be adjusted in the end-of-year assessment and most taxpayers may prefer a substantial adjustment in this manner.

However, if any taxpayer wants an immediate benefit in PAYE tax deductions he should get in touch with his local tax office. They will issue an appropriate special tax code.

NEW PAYE TAX TABLES - Continued

EFFECT ON PROVISIONAL TAXPAYERS

Mr Muldoon also made it clear that the Budget proposals could have an effect on all taxpayers deriving farming, business or investment income who were required to pay 1973 provisional tax. The proposals that could affect the provisional tax liability are -

- ♦ The reduction in the annual rates of personal tax on incomes derived during the year ending 31 March next by 7½ percent.
- ♦ The allowance of the whole of the annual reduction from the first instalment payable by 7 September.
- ♦ The reduction in the special exemption for dependent children to \$35 a child for the 1973 income year.
- ♦ An increase in the dividend rebate.
- ♦ Tax deductions at time of payment from Universal Superannuation.

The 1972 tax return forms for provisional taxpayers, which make provision for the calculation and payment of 1973 provisional tax, were printed and distributed well in advance of the Budget announcements. As a consequence the method of calculating the total amount of provisional tax shown in the return forms and the amount payable as the first instalment did not cover the changes announced.

DEPARTMENT PREPARING A SPECIAL HANDOUT

The Minister said that the Inland Revenue Department was preparing a special handout to advise the new position. This will shortly be available at post offices and tax offices.
(A sample is reproduced later in this bulletin).

RETURNS ALREADY FURNISHED

Mr Muldoon said that a number of provisional taxpayers would have already furnished their 1972 returns and calculated their provisional tax for 1973. In some cases they would have paid the first instalment of provisional tax.

These and other taxpayers who have not yet furnished their 1972 returns may prefer to adopt their 1972 liability for terminal tax as their 1973 provisional tax and pay one-third as the first instalment, as provided in the 1972 return form. This will be quite acceptable to the Department.

WHAT IS PROVISIONAL TAX

The Minister pointed out that provisional tax, as the name suggests, was payment on account. The final tax liability for the year would be determined when the 1973 tax return was furnished.

Mr Muldoon said taxpayers could be assured that the Department would adopt a reasonable attitude regarding the calculation of provisional tax. They would not make any minor adjustments to what the taxpayers calculated as their provisional liability.

PAYE TAX TABLES NOW AVAILABLE

New PAYE tax tables to be used from the first complete pay period after 1 July 1972 have been printed and are now available from all tax offices and post offices.

Tables Available

- IR184A - Weekly)
 - IR184B - Fortnightly)
 - IR184E - Threeweekly)
 - IR184C - Fourweekly)
 - IR184D - Monthly)
 - IR184G - Shearers)
 - IR184S - Absentees)
- These tax tables also include tables for -
- Secondary Employment.
 - Extra Emoluments.
 - Casual Agricultural Employees. (These tables are unchanged).

Weekly PAYE tax tables have already been issued to employers. Any employer who has not received the new tables or who uses other than weekly tables should get in touch with the tax office.

MORE ABOUT 1973 PROVISIONAL TAX

YOU DON'T NEED TO RECALCULATE

As is said in the Minister's statement, summarised in item 1 of this Bulletin, 1973 provisional tax is really a payment on account and your 1973 tax liability will be finally determined when you furnish a return for that year.

If you prefer to leave the 1973 tax changes to be taken into account when you put in your 1973 tax return, that is all right with us. All you need to do is to work out your 1973 provisional tax as shown in your 1972 tax return and use this amount as your 1973 provisional tax. Pay one-third as your first instalment.

HANDOUT (IR3P) NOW AVAILABLE

The Minister of Finance in his statement also referred to a handout being prepared by this Department. This is reproduced at the end of this item and copies are now available at tax and post offices. It should be read together with the 1972 IR3 return form. Of course only those who want to take account of the changes need use it.

HANDOUT GIVES TWO OPTIONS

If you do wish to take into account the 1973 tax changes the handout sets out two ways of working out your 1973 provisional tax.

The first option is the easier. It takes into account the reduced tax rates and also adjusts for the change in the dependent child exemption. The second option makes adjustments for changes in the dividend rebate, the fact that PAYE tax is now deducted from Universal Superannuation and the additional allowance for donations and school fees. However, even if some of these things affect your tax liability you may still use the simpler first option if you wish. Remember provisional tax is only a payment on account and the final tax liability will be determined when your 1973 return is furnished.

Example of Option 1

Here is an example, using Option 1, of a provisional tax calculation for a married man with 2 children and a taxable balance of income to be taxed of \$3,900.

1972 tax payable on \$3,900 (Total Z from 1972 return form)	\$ 984.78
*Add adjustment for child exemption (2 X \$28)- See table on handout (IR3P)	\$ 56.00
Total tax	\$1,040.78
Less 10% adjustment for tax rebate	\$ 104.07
Total provisional tax payable	<u>\$ 936.71.</u>

*Not required if the taxpayer has income from salary or wages and has claimed for his children in his 1972 tax code.

Only one-quarter of the total tax need be paid for the first instalment.

Why One Quarter

Normally one-third of the provisional tax is payable as the first instalment. However, this year one of the tax changes is a 7½% reduction from basic tax rates and the full year's reduction may be taken from the first instalment of provisional tax. The tax tables supplied with the 1972 IR3 tax return include a temporary surcharge of 3½%. Taking one-quarter of the provisional tax at these old rates gives exactly the same result as taking one third of the provisional tax at basic rates and then deducting the full 7½% rebate for the year.

HOW WE WILL ASSESS 1973 PROVISIONAL TAX

Whatever calculation method you choose we will follow it when assessing the provisional tax for the year. If you just pay an amount of provisional tax and don't show how you worked it out we will assume you are not taking the tax changes into account and will use your 1972 tax as your 1973 provisional tax. However, if this is not so please get in touch with us.

TRUSTEES CAN USE SAME BASIS

If you are a trustee paying provisional tax on behalf of beneficiaries in an estate or trust you also have the option of using the old rates of tax or of working out the tax on the new basis. You may need to work out the tax separately for each beneficiary and, if you use the new basis, attach a provisional tax calculation (Form IR3P) for each beneficiary to the IR5A return form.

ESTIMATED INCOME

If you are estimating your 1973 provisional income you can either use the 1972 return form and work out your tax at the old rates or you can use the second option on the handout and work out your tax on the new basis. The notes on the handout tell you how.

MORE ABOUT 1973 PROVISIONAL TAX - Continued

FIRST INSTALMENT WHEN RETURNS DELAYED

If you have an extension of time and will not have your return in by 7 September 1972 you need to pay one-third of the provisional tax you paid for 1972 without taking into account the tax changes. However, if you consider your 1973 income will be less than 1972 you may estimate your income and, if you wish, take into account the 1973 tax changes.

HOW TO PROVIDE FOR ADDITIONAL DEDUCTIONS

The handout tells you how to take into account the new rates and exemptions in working out your provisional tax. It does not cover the further deductions to be allowed for tax purposes, such as payroll tax or the increased and extended investment allowance. You may estimate your provisional income for 1973 if you consider that taking into account these further allowances and all other factors your 1973 income will be less than 1972.

SHORT CUTS FOR ACCOUNTANTS

Accountants and agents wanting to take the tax changes into account need not use the handout (IR3P) unless they wish. However, it is essential that the amount worked out as the full 1973 provisional tax is entered on the return form. They can also either work out the tax for the first instalment taking the changes into account or pay that instalment on the basis of last year's tax and then adjust the provisional tax liability on the second instalment.

We will be sending accountants a tax table based on the new rates, that is, a reduction of 7½% from the basic rate, to help in working out 1973 provisional tax and later 1973 terminal tax.

The new table can be used together with the 1972 tax tables from the return form instead of using the options in the handout. They give an easy way to work out each instalment of 1973 provisional tax and obtain the benefit of the whole of the reduced tax rate in the first instalment.

Here is how we suggest you use the two tables -

- ♦ First adjust the income to be taxed to take into account the tax changes. For example, add \$100 for each child for whom a family benefit is payable - not needed when salary and wages derived.
- ♦ Then read the tax on the adjusted income to be taxed using the 1972 tax table.
- ♦ Take one-quarter of this tax - this is the first instalment payable by 7 September 1972.
- ♦ Next read the tax on the same income using the new 1973 tax table and take away the amount of the first instalment - this is the second instalment payable by 7 March 1973.



Land and Income
Tax Act 1954

1973 PROVISIONAL TAX

To be read with 1972 IR 3 tax return

- Because of tax changes this year, you have options for calculating your 1973 provisional tax.
- **HOWEVER**, before you read all this form remember that provisional tax is really a payment on account.
- This form gives two options but you may ignore them and simply use the method set out in your 1972 tax return.
- Whatever method is used, your **actual** 1973 tax will give effect to the tax changes.
- If you want to take account of the tax changes shown overleaf use Option 1 or Option 2 below.

OPTION 1 uses the reduced rates of tax for 1973 but also takes account of increased tax arising from the change in the dependent child exemption.

Enter Total Z from your 1972 tax return \$

Add - Tax adjustment for each child exemption using Table below (but see also **Note 1** overleaf) \$

e.g. Total A \$3,000, 3 children : Adjustment is 3 X \$28 = \$84

Tax Adjustment	TOTAL A FROM 1972 RETURN				
	\$1 - 1,000	\$1,001 - 2,000	\$2,001 - 4,000	\$4,001 - 12,000	over \$12,000
	\$8	\$21	\$28	\$40	\$51

TOTAL F \$

Take away - Adjustment for tax rebate - 10% of Total F (**Note 3** overleaf) \$

1973 PROVISIONAL TAX TOTAL G \$

1st INSTALMENT - Pay ¼ of TOTAL F by 7 SEPTEMBER 1972 (**Note 4** overleaf) \$

2nd INSTALMENT - Pay Total G less 1st instalment by 7 MARCH 1973 \$

OPTION 2 gives effect to all tax changes.

Enter Total A from 1972 tax return TOTAL C \$

Add - \$100 for each child exemption claimed (but see also **Note 1** overleaf) \$

Take away - Universal Superannuation (if any) shown in panel 2 of your 1972 tax return (Tax will be deducted at time of payment of the benefit) \$

- Any additional claim for qualifying donations and school fees in excess of \$100 but not greater than \$200 \$

TOTAL D \$

- Enter tax on Total D using 1972 tax table in 1972 return form \$

Take away - Any credit on your 1972 tax return for-

- PAYE deductions (Total B from tax return) \$
- Tax payable by trustees \$

TOTAL E \$

Take away - Any credit for-

- Dividend Rebate (**Note 2** overleaf) \$
- Back Pay Rebate \$
- Tax Paid Overseas from panel 7 of your 1972 tax return \$

TOTAL F \$

Take away - Adjustment for tax rebate - 10% of TOTAL E (**Note 3** overleaf) \$

1973 PROVISIONAL TAX TOTAL G \$

1st INSTALMENT - Pay ¼ of TOTAL F by 7 SEPTEMBER 1972 (**Note 4** overleaf) \$

2nd INSTALMENT - Pay Total G less 1st instalment by 7 MARCH 1973 \$

ATTACH THIS FORM TO YOUR 1972 TAX RETURN. IF YOUR RETURN HAS ALREADY BEEN FURNISHED, COMPLETE NAME AND ADDRESS AND SEND THIS FORM TO THE TAX OFFICE WHERE YOUR RECORDS ARE HELD.

REMEMBER - No need to fill out or send in this form if you elect to pay provisional tax as set out in your 1972 tax return.

SURNAME (Print): Mr Mrs Miss	CHRISTIAN OR FIRST NAMES (Print):
ADDRESS to Which Notices are to be sent:	

NOTES FOR OPTIONS

Note 1 - No adjustment required for dependent child for whom no family benefit is payable. Also no adjustment if part of your 1972 income was from salary or wages subject to PAYE deductions.

Note 2 - If your income includes dividends and Total D is less than \$8,000, work out your dividend rebate here-

- (a) Where Total D is \$4,000 or less claim smaller of tax on Total D or 10% of net dividends \$
- (b) Where Total D is between \$4,000 and \$8,000 claim the smaller of
 - 10% of the taxable dividends. \$
 - OR
 - 10% of the difference between Total D and \$8,000 \$
- (c) Where Total D exceeds \$8,000 - no rebate.

Note 3 - The tax tables supplied with the 1972 tax return (IR3) include a temporary surcharge of 3½%. A reduction by 10% will closely approximate the 1973 tax rates, but if you wish to be precise you may take away 10.48%.

Note 4 - The tax tables supplied with the 1972 tax return (IR3) include a temporary surcharge of 3½%. Taking one quarter of the provisional tax calculated at these old rates gives exactly the same result as taking one third of your provisional tax at basic rates and deducting the 7½% rebate for the full year from that one third. (See second point in tax changes below).

1973 TAX CHANGES ARE-

- **Dependent Child Exemption** - To be reduced from \$135 (or \$140 for each child after the fourth) to \$35 for each child for the 1973 tax year. The Dependent Relative exemption stays at its previous level and will include any child in respect of whom no family benefit is payable.
- **7½% Rebate** - The basic tax rates will be reduced by 7½% for the 1973 tax year, and the full year's rebate may be deducted from the September 1972 instalment of provisional tax.
- **Dividend Rebate** - The dividend rebate will apply up to a taxable income of \$8,000. (See Note 2 above for working out).
- **Universal Superannuation** - This benefit will now be subject to tax deductions at the time of payment.
- **Charitable Donations and School Fees** - The overall exemption is to be increased from \$100 to \$200 for 1973.

GENERAL NOTES

- 1. Estimated Income**
If you are estimating your 1973 income, use the 1972 return form or Option 2 overleaf to work out your 1973 provisional tax. If you use Option 2, show at Total C the balance of your estimated income after taking off the total of your special exemptions as shown in your 1972 tax return.
- 2. Late Returns**
If you furnish your return after 7 September under extension of time arrangements, pay as your first instalment of 1973 provisional tax, one-third of the amount you paid as 1972 provisional tax.
- 3. Provisional Tax Too High**
If you received back pay or had secondary employment in 1972, your calculation of 1973 provisional tax may be too high. If you wish to adjust for this, please refer to page 29 of the pamphlet "How to Fill in Your IR3 Return of Income" or to the local tax office.

THE STAFF OF THE TAX OFFICE WILL BE PLEASED TO HELP YOU COMPLETE THIS FORM.

A. R. Shearer, Government Printer, Wellington, New Zealand 1972

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PROVISIONAL TAX TOO HIGH BECAUSE OF SOURCE DEDUCTION PAYMENTS

Generally, your 1972 terminal tax is used as the basis of your 1973 provisional tax. However, the 1972 terminal tax and therefore the 1973 provisional tax may have been increased because PAYE tax deductions did not fully account for tax on salary or wages or other remuneration in the 1972 year. This could happen, for example, when back pay or secondary income was derived. If you consider your 1973 provisional tax is too high because of this you may reduce it to the amount correctly payable. To find this amount—

- ◆ Work out the gross tax you would have paid if your only income for 1972 had been the income from which PAYE tax deductions were made.
- ◆ In doing this, use the total of your special exemptions as entered on page 2 of your 1972 return form to arrive at your taxable balance of assessable income.
- ◆ Use the 1972 tax tables in the 1972 return form to work out the gross tax payable on this balance.
- ◆ Take this amount away from the gross tax payable on your total income.
- ◆ The balance will be the amount of provisional tax payable.

Here is an example—

Facts—

- ◆ Married man - no children
- ◆ Salary \$8,500 - PAYE tax deducted \$2,724.80
- ◆ Income liable for provisional tax \$200.
- ◆ Provisional tax liability using normal calculation \$201.62.

Here is how the provisional tax liability is worked out by the alternative method.

Tax Calculation on Total Income

Salary	\$8,500		
Provisional	<u>200</u>		
	\$8,700		
Less special exemptions	<u>550</u>		
	\$8,150	Tax	\$2,926.42

Tax Calculation on Salary only

Salary	\$8,500		
Less special exemptions	<u>550</u>		
	\$7,950	Tax	\$2,827.67

Provisional Tax payable			<u>\$ 98.75</u>
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Remember, even if you work out your provisional tax in this way you can still use the new tax rates and other optional adjustments provided for on the IR3P handout.

NEW INCOME TAX RATES FOR COMPANIES – BASIS OF CALCULATION

New company tax tables cannot be made available until the necessary legislation is passed.

However, companies wishing to make provision for tax in their accounts may use the new rates for this purpose. The rates for resident companies are—

- (1) On that amount of income which does not exceed \$6,250 – 20 cents in the dollar increased by .002 cents in the dollar for each dollar of income.
- (2) For each dollar in excess of \$6,250 – 45 cents in the dollar.

PAYING PROVISIONAL TAX

“Provisional” companies may also use the new rates when paying 1973 provisional tax if they so desire. If it is wished to also take advantage of the 1973 tax provisions affecting companies, for instance, the deduction of payroll tax, the company’s income should be estimated. Remember that when estimating the company’s income all factors which might affect the income should be taken into account, not only the Budget changes.

EXTENSIONS OF TIME FOR TAX RETURNS

The tax Act requires returns of income for 'provisional taxpayers' to be furnished by the 7 August, but we give a general extension of time to the 7 September. If your balance date is after 7 July, you have 2 months from the balance date to put in the return. These general provisions do not, of course, apply to salary and wage earners with no income other than small investment income - their returns need to be furnished by 7 June.

You may prepare a number of returns for other taxpayers and we will consider giving you extensions of time beyond these dates if certain arrangements are complied with. If you think you will want extensions of time for any of your clients and do not know the terms of these arrangements, you should get in touch with the local office as soon as possible - certainly before 30 November next.

Company Tax Returns

The date by which company tax returns are to be furnished is also 7 August or two months from balance date, whichever is the later.

We have always asked that priority be given to the furnishing of company returns. It was therefore disappointing to find that last year some 23,000 company tax returns were still outstanding at 30 November. This is indeed serious as it amounts to approximately 31% of the total company returns to be furnished annually to the Department. Bearing in mind that the due date for payment of most company tax is 7 February we must regard 30 November as the latest date for furnishing company returns except where there are special circumstances justifying more delay. Remember, we still have to process the returns and issue the assessments before 7 February and if the returns are not in sufficient time before that date for this to be done, we are forced to issue default assessments. This, of course, means extra work for you as well as for us.

Because of this serious position, we are again issuing a reminder to all companies which furnished their 1971 returns after 30 November 1971 and even when an extension of time was given last year. In view of the importance of the matter, the letter will be addressed to the Managing Director personally at the registered office of the company.

PRIVATELY PRINTED RETURN FORMS

To help reduce costs of copying returns of income some firms who prepare quite a number of tax returns for clients have asked if they may produce their own return forms.

Regulations do provide for this to be done and the Commissioner has indicated that he will accept privately printed return forms provided the reproductions -

- ◆ Do not show the firm's name other than as an address for the service of notices.
- ◆ Are exact copies of the official forms for the particular income year.
- ◆ Closely match the official form in colour.
- ◆ Are on equal, or better quality paper than the official form.
- ◆ Bear the taxpayer's original signature.
- ◆ Are folded in the same manner as the official forms.

If you are interested in producing your own return forms discuss the matter with or send details to your nearest tax office. They will advise you.

SUBSCRIPTIONS TO PUBLIC RELATIONS OFFICES NOW DEDUCTIBLE

Subscriptions paid by firms to public relations offices run by Local Bodies and which are reasonably related to the business carried on by the firm may be deducted for tax purposes, under the widened scope of deductions now permitted under section 111 of the tax Act.

The ruling does not apply to donations, which remain not deductible.