



OFFICE OF THE COMMISSIONER OF INLAND REVENUE

Public Information Bulletin

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New Tax Office for Porirua

A new tax office to serve the Porirua area will open on the 18th December.

The new office will be in Pember House, Hagley Street, Porirua, phone PRO-74249.

WHY OFFICE OPENED

The opening of the new office is a further step in our policy of taking tax to the people. Decentralisation of the Department's functions not only makes it more effective but also provides a better service and offers job opportunities for the people of the area.

NEW SERVICE FOR WELLINGTON REGION

Some rearrangement of taxpayers' records within the Department will result from the opening of the new office. Any accountant or taxpayer will now be able to call at any office of the Department in the region and discuss their tax problems irrespective of where their tax records may be held. If desired the tax records can be made available at a particular office merely by phoning ahead and making an appointment.

If you have a tax problem, use the service we offer. Our staff will be pleased to help you.

New Address for Head Office

The Head Office of the Department has moved to -

The DLO Building,
Dominion Life Arcade,
Victoria Street,
Wellington.

- ♦ The new telephone number is 40-070
- ♦ The postal address remains

P.O. Box 2198,
Wellington

NO CHANGE FOR WELLINGTON DISTRICT OFFICE

Our Wellington District Office continues to occupy the building on the corner of Taranaki and Manners Streets.

The address and telephone number are unchanged.

Trading Stocks - Parts and Accessories Motor Industry - Basis for Valuing

Trading stock is valued, under section 98 of the tax Act, at the option of the taxpayer, at -

- Cost,
- Selling price,
- Replacement value, or

Where obsolescence or other special circumstances are present such lower value as is first agreed with the Department.

BASIS FOR MOTOR TRADE

To take into account factors such as obsolescence special methods of valuation of trading stock apply in respect of parts and accessory inventories held by both the wholesale and the retail trades.

Here are the details -

There are two formulae which have been approved.

Formula A

Period In Stock	How To Value
In stock -	Value at -
♦ 1 year or less	-Cost
♦ Over 1 year and up to 2 years	-Cost less 33 $\frac{1}{3}$ %
♦ Over 2 years " " 3 years	- " " 66 $\frac{2}{3}$ %
♦ Over 3 years	-No value remaining

Trading Stocks - Parts and Accessories Motor Industry - Basis for Valuing - Continued

Formula B

Period In Stock	How To Value
In Stock -	Value At -
♦ 1 year or less	-Cost
♦ Over 1 year and up to 2 years	-Cost less 25%
♦ Over 2 years and up to 3 years	-Cost less 50%
♦ Over 3 years and up to 4 years	-Cost less 75%
♦ Over 4 years	-No value remaining

Taxpayers who carry on the following businesses may use Formula A for their qualifying inventories.

Types Of Business	Qualifying Inventories
Motor vehicle assemblers	Warehouse inventory motor vehicle parts and accessories.
Motor vehicle master agents and franchise dealers	All motor vehicle parts and accessories inventories.
Motor vehicle sub agents of master agents.	Inventories of any franchise motor vehicle parts and accessories.
Wholesalers of motor vehicle parts	Inventories of motor vehicle parts held pursuant to a franchise agreement.

Taxpayers who carry on the following businesses may use Formula B for their qualifying inventories.

Types Of Business	Qualifying Inventories
Manufacturers or assemblers of automotive components	Warehouse inventories parts and accessories.
Importers or distributors of automotive components	Inventories of parts held pursuant to a franchise agreement.

Composite Inventories

Where automotive components (e.g. generators, instruments) are carried for machinery other than motor vehicles and the stock records can be clearly separated between parts for automotive components and those for machinery components then taxpayers may use Formula A for the automotive parts and Formula B for the machinery parts. However, where it is not possible to separate the stock, Formula B should be used to value all of the qualifying parts inventory.

USE CORRECT FORMULA IN NEXT TAX RETURN

If your stock has been valued on the wrong basis please change your method of valuation when furnishing your next tax return.

If you have inventories which qualify for valuation under one of the formulae and are not taking advantage of that formula you should discuss the matter with the nearest tax office.

OTHER TAXPAYERS HOLDING MOTOR VEHICLE PARTS AND ACCESSORIES STOCKS

All other taxpayers holding these stocks should value their stocks at -

- Cost, or
- Selling price, or
- Replacement value.

Payment of Tax Deductions - Use of Money Transfer System

Employers will recall that earlier this year we asked whether they would like to use the money transfer system for payment of PAYE tax deductions.

The response to the questionnaire showed that the big majority of employers do not wish to make their monthly payments through this system. We have therefore decided not to introduce it at the present time.

Progressive Write-Down in Standard Values of Livestock On New Farms

Questions and Answers

WHAT IT MEANS

- Q.** What is the effect of a progressive write-down in standard values?
- A.** Most farmers adopt a standard value for their livestock. Instead of writing down the value of their livestock from cost price to a standard value in the year in which they are purchased, farmers on new farms can spread the write-down over two or three years. This allows the farmer to level out his income in the early years.

FORM OF APPLICATION

- Q.** How do I apply for a progressive write-down in the standard value of my new livestock?
- A.** You should apply in writing advising what your final standard value will be.

You can apply either -

-Before you send in the return of income for the tax year in which the stock were purchased, OR

-With the tax return.

SPREADING PERIOD

- Q.** What is the spreading period?
- A.** The cost price may be maintained for up to 3 years. Once the write-down commences it should take place over no more than 3 consecutive years.

ADJUSTMENTS AFTER THE SPREADING PERIOD

Q. Can further adjustments be made to the standard value, either up or down, after the spreading period?

A. This depends on the facts in each case --

- ♦ Increase in standard value

The standard value of the livestock may be increased without prior approval provided the market value is not exceeded. If you do this you should attach a letter or note to your tax return giving the reasons for the change.

- ♦ Reduction in standard value

The standard value may be reduced provided --

- There are good and sufficient reasons for the write-down, and
- The adjustment is not made for the purpose of avoiding tax.

In this case you should write to us and tell us of the new standard value proposed before sending in your return of income for the year.

PURCHASE OF ADDITIONAL LAND AND STOCK

Q. Can a farmer who purchases another farm and herd progressively write down to standard value the new herd on the new farm?

A. Yes. The progressive write down applies to existing farmers who purchase additional property -- whether adjoining or not -- and livestock.

SHAREMILKER TRANSFERS TO LARGER PROPERTY

Q. Can a sharemilker who already owns a herd and then transfers to a larger property progressively write-down to standard value the additional herd purchased to farm the larger property?

A. Yes.

FATHER SELLS INTEREST IN LIVESTOCK TO SON

Q. When a father sells an interest in livestock to a son at full market values is the son entitled to a progressive write-down?

A. Yes.

Relief for Farmers

Affected by Adverse Events

The provisions of section 103A of the tax Act will be applied to farmers affected by –

- ♦ Drought conditions throughout the summer of 1971 in the Waimarino county.
- ♦ Drought conditions in parts of Canterbury. The areas affected are:

Relief Committee	Survey District	
Mid-Canterbury	Shepherd's Bush Spaxton Rangitata Wakanui Rakaia Westerfield	Alford Corwar Hinds Coldstream South Rakaia Ashburton Hutt
North and Central Canterbury	Akaroa Ashley Ellesmere Heathcote Mount Herbert Paparua Waimairi Wairewa	Amuri Cheviot Eyre Malvern Oxford Rangiora Waipara

- ♦ Flooding on 12–13 June in South Otago. The areas affected are those in the following survey districts –

North Molyneux North Tuakitoto Tokomairiro Inchelutha Akatore	South Molyneux South Tuakitoto Kaitangata Clutha Clarendon Mungatua
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- ♦ The presence of Bovine Tuberculosis in the Buller-Inangahua area.

The areas affected are –

–All that part of the Buller County south of Corbyvale

–All that part of the Inangahua County west of the Victoria Range.

WHO GETS RELIEF

Section 103A will apply to any case where the Department is satisfied that a farmer had been forced to sell livestock because of shortage of fodder or other factors arising from an 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.

Dairy Industry Stabilisation Regulations 1972 - When Retained Income is Liable for Tax

EFFECT OF REGULATIONS

The Dairy Industry Stabilisation Regulations 1972 -

- Restrict the amount to be paid to suppliers for the 1971/72 season to 50¢ per pound of milkfat.
- Require the co-operative dairy company to invest the surplus arising from the above limitation in Government securities.

Some dairy companies will notionally allocate, or credit, part of their frozen surpluses to dairy farmers who were suppliers during the 1971/72 season, for the purpose of payment at a later date.

WHEN TAXABLE

The supplier is not liable to pay tax on amounts notionally credited in his name. These amounts are not assessable for income tax until the tax year they are actually received by the supplier, or are capable of being uplifted.

Life Insurance - Premiums Paid in Advance when Going Overseas

People leaving New Zealand sometimes pay their life insurance premiums in advance. A payment in advance is not a premium and can only be allowed as a special exemption in the income year in which the premium becomes due.

The allowance of a special exemption for these premiums depends on whether you -

♦ **Leave New Zealand for less than 15 months**

In this case New Zealand tax is payable on the world income received. Life insurance premiums paid before leaving New Zealand are allowable as a special exemption against the world income received in the year they fall due.

♦ **Leave New Zealand permanently**

There are two rules -

-In the year of departure - Payments for premiums relating to the tax year in which you leave New Zealand are allowable as a special exemption in that year.

-Following years - No deduction for life insurance premiums relating to the tax years following departure is allowable against New Zealand income.

Increased Export Incentive - Newsprint now Qualifies

Newsprint exported after 31 October 1972 qualifies for the increased export incentive. The same rules apply as for other qualifying items.

Staff Insurance Schemes

Some employers operate insurance schemes which are not part of approved superannuation funds.

Policies taken out for the benefit of employees may be -

- ♦ Temporary (or term) life insurance policies, or
- ♦ Personal accident and sickness policies, or
- ♦ Endowment and whole-of-life assurance policies.

These may be group policies covering a number of employees or separate policies for each employee.

This chart shows how these schemes are treated for income tax -

Policy	Employee Receives Proceeds	Employer Receives Proceeds
<p>Temporary or term life insurance and personal accident policies</p>	<p>-premiums deductible by employer, and generally free of tax to employee</p> <p>-proceeds generally exempt, but death benefits paid form part of deceased employee's dutiable estate</p>	<p>-premiums deductible by employer, and -proceeds taxable in year received</p> <p>-deduction, up to amount of proceeds, allowable for payments to dependants or personal representatives of the deceased employee</p>
<p>Endowment and whole-of-life assurance policies</p>	<p>-premiums deductible by employer, and</p> <p>-assessable to employee as an "extra emolument" but may be allowed as a special exemption</p> <p>-proceeds are free of tax when lump sum received</p>	<p>-premiums not deductible by employer, and</p> <p>-proceeds assessable to employer when policy is on life of a key staff member to fill a hole in profits or to protect employer against loss of profits</p> <p>-when proceeds taxable, accumulated premiums are offset in year received</p> <p>-lump sum proceeds are generally not assessable to employer if policy held primarily for investment.</p>

Depreciation - New Rates Approved

The following depreciation rates have been approved.

Item	Depreciation Rate
Effluent Pipelines -Attached to plant	10% D.V.
Grain Silos ♦ With built in drying, loading and unloading machinery ♦ With separate drying, loading and unloading machinery -Silos -Plant associated with silo	10% D.V. Plus Special Depreciation and Investment Allowance Erected on farms Either - Treat as Plant and claim 10% D.V. plus Special Depreciation and Investment Allowance Or Treat as a Building and claim 5% D.V. plus Special Depreciation and Supplementary Depreciation Erected for business other than farming -5% D.V. plus Special Depreciation and Investment Allowance 10% D.V. plus Special Depreciation and Investment Allowance.
Livestock Saleyards ♦ Constructed after 1 April 1971 ♦ Constructed after 1 April 1931 ♦ Constructed before 1 April 1931 ♦ Additions -If part of existing yard -If virtually a new yard	2% C.P. Spread over remaining years (Assume useful life of 50 years) Example Yard constructed 25 years ago - remaining life 25 years - depreciation 4% C.P. 10% C.P. Spread over remaining life of yard 2% C.P.
Moulding Boxes - Foundry Industry	33 $\frac{1}{3}$ % D.V.
Paintings and Prints - Other than originals or limited issues	20% D.V.

Are You on our Mailing List

If you are not already receiving Public Information Bulletins on a regular basis we can arrange for them to be posted to you.

All you need to do is to ask your tax office to place your name on the mailing list for future issues.