



Public Information Bulletin

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GOODS AND SERVICES TAX AMENDMENT ACT 1987

INCOME TAX AMENDMENT ACT (NO. 2) 1987

LAND TAX AMENDMENT ACT 1987

GOODS AND SERVICES TAX AMENDMENT ACT 1987
INCOME TAX AMENDMENT ACT (NO.2) 1987
LAND TAX AMENDMENT ACT 1987

The Taxation Reform Bill (No. 3) 1987 was introduced to Parliament on Budget Night (18 June 1987). It was passed through all of its stages by Parliament on 19 June. Immediately following passage it was split into three separate Acts being:

- . The Goods and Services Tax Amendment Act 1987
- . The Income Tax Amendment Act (No. 2) 1987
- . The Land Tax Amendment Act 1987

These 3 Acts received the Governor General's assent on 22 June. They give effect to some of the announcements made in the Budget as well as several other taxation measures.

The Budget announcements given effect include:

- . Increasing the threshold for the tax credit schemes of family support and guaranteed minimum family income,
- . Increasing the specified exemption level in respect of National Superannuitant Surcharge,
- . Prevention of double deduction of losses incurred by dual resident companies.

Other measures included are:

- . Farming and forestry taxation changes with respect to bailments and valuations of livestock, the claw back provisions, and other minor changes,
- . Changes in the accrual tax treatment of income and expenditure following the further review by the Consultative Committee,

- . Setting the annual rates of income tax for the 1987/88 income year and land tax on land held as at noon on 31 March 1987.
- . Several GST changes,
- . Other miscellaneous and minor amendments.

This explanatory document is divided into four parts.

Part I will explain all GST amendments.

Part II contains explanation on the Income Tax amendments. This has been subdivided into topics where more than one section is involved, e.g., farming, accruals.

Part III explains the land tax amendments.

Part IV explains the amendments to the Special Farm and Fishing Vessel Accounts

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IT = INCOME TAX AMENDMENT ACT (NO. 2) 1987
LT = LAND TAX AMENDMENT ACT 1987

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PART I GOODS AND SERVICES TAX AMENDMENT ACT 1987

Section 1 - Short Title

This section provides for this Act to be referred to as the Goods and Services Tax Amendment Act 1987. While the Act does not contain a general application date the provisions of this Act, except sections 2(2), 3(4), 4(1) and 6(2), are to be read as though they came into force on 22 June 1987 when the Act received the Governor-General's assent, and apply to supplies made on or after that day.

Sections 2(2), 3(4), 4(1) and 6(2) have different application dates (refer to the comment on those sections for details).

Section 2 - Interpretation

Unconditional Gift

This section makes an amendment to the definition of the term 'unconditional gift', which is contained in section 2(1) of the principal Act.

An 'unconditional gift' is a payment made by a person to a non-profit body, where that payment does not result in the supply of goods and services.

There was concern that when a non-profit body received a grant from the Government and there was no supply of goods and services to the Government, that it was an unconditional gift and not subject to GST. It is the intention that these payments by the Government be subject to GST.

To ensure that payments made by the Government to non-profit bodies are subject to GST, the legislation has been amended to provide that such payments can not constitute unconditional gifts.

This amendment applies to all payments made by the Government from the introduction of GST, i.e., 1 October 1986.

Subsection (1) amends the definition of the term 'unconditional gift' to exclude any payments made by the Government or a public authority.

Subsection (2) provides for the amendment to retrospectively apply from 3 December 1985, when the GST Act came into force.

Section 3 - Meaning of the Term Supply

This section makes 3 amendments to section 5 of the GST Act 1985. These amendments relate to

- (a) The general liability to GST of goods sold in satisfaction of a debt.
- (b) (i) Goods sold in satisfaction of a debt where those goods were acquired before 1 October 1986.
- (ii) Goods and Services retained by a registered person upon ceasing to be registered where those goods were acquired before 1 October 1986.

Part A - General liability to GST of Goods Sold in Satisfaction of a Debt

Section 3(1) of the Amendment Act amends section 5(2) of the Goods and Services Act 1985.

Section 5(2) of the GST Act provides that where a good acquired or produced by a registered person in the course of a taxable activity is taken and subsequently sold by another person in satisfaction of a debt owed by that registered person, that forced sale is deemed to be a taxable supply and is subject to GST. The person who seizes and subsequently sells the good is required to furnish any required returns and account for any GST.

This type of supply commonly arises where a mortgagee or a bailiff sells a good in satisfaction of a debt. Under the previous legislation the mortgagee or bailiff was required to determine whether the debtor was a registered person and whether the good being sold formed part of the debtor's taxable activity. This caused practical difficulties for the mortgagee or bailiff in that it may not have been possible to determine the status of the good being sold (i.e., whether it is subject to GST or not), particularly where the debtor was not available to be questioned or refused to supply the information. This left the mortgagee or the bailiff to guess the status of the supply.

Section 5(2) of the GST Act has been redrafted to remove any uncertainty that existed in determining the status of the good being sold. The section now provides that all such forced sales in satisfaction of a debt by a mortgagee or bailiff are subject to GST unless the person whose good is sold furnishes to the person, exercising the power of sale, a statement in writing that the supply of that good is not a taxable supply and giving the reasons why.

It is therefore possible under this amendment that a good sold in terms of section 5(2) will be taxable even if it is owned by a non-registered person or does not form part of a taxable activity, if that person has not furnished the required statement.

This amendment applies to all supplies made on or after the assent date of this Amendment Act (22 June 1987).

Section 5(2) has also been redrafted to ensure that supplies of such goods are subject to GST irrespective of whether they were acquired before or after 1 October 1986.

Part B - (i) Goods Sold in Satisfaction of a Debt Where Those Goods Were Acquired Before 1 October 1986

- (ii) Goods and Services Retained by a Registered Person Upon Ceasing to be Registered Where Those Goods were Acquired Before 1 October 1986

Subsections 3(2) and 3(3) amend respectively subsections 5(2) and 5(3) of the GST Act 1985.

Subsection 5(2) of the GST Act 1985 is concerned with the sale of goods, which form part of a registered person's taxable activity, and are sold by another person in satisfaction of a debt owed by the registered person. This forced sale is deemed to be a taxable supply and is therefore subject to GST. The person who seizes and subsequently sells the goods is required to furnish any required return and account for any GST.

Subsection 5(3) of the Goods and Services Tax Act 1985 is concerned with the retention of assets, forming part of a taxable activity, by a registered person upon cessation of their registration. This subsection deems a taxable supply of those assets to have occurred and output tax must be accounted for on the retained assets.

An amendment was required to ensure that the wording of these two subsections clearly reflected the intention that these subsections should apply to all goods, irrespective of when they were acquired or produced by the currently registered person. This ensures uniform application to all goods whether they were owned by the registered person prior to the introduction of GST and/or the registration of their taxable activity. It has always been the Department's interpretation that the deemed supplies which occur under 5(2) and 5(3) are taxable, irrespective of the status of the goods and the owner at the time of acquisition. The deemed supply is a completely separate transaction; consumption is now occurring and should be taxed.

Subsection 3(2) removes the words "acquired or produced" in subsections 5(2) and 5(3) of the GST Act and replaces them with the phrase "applied on or after the 1st day of October 1986". Therefore, this amendment provides that where goods are sold in satisfaction of a debt, and those goods were part of the taxable activity of the debtor at the time of sale, then a deemed supply of those goods takes place.

This amendment is deemed to have come into force on the 3rd day of December 1985 (the date of assent to the Goods and Services Tax Act 1985) and therefore applies to all such supplies made on or after 1 October 1986. It should be noted that this amendment only applies from 1 October 1986 to date of assent of the GST Amendment Act 1987 (22 June 1987). This is because section 3(1) of the Amendment Act repeals the original subsection and replaces it with the new subsection discussed in Part A above. This concept that section 5(2) applies to all goods irrespective of the date of acquisition or production is still applicable under the new subsection 5(2).

Subsection (3) of section 3 removes the words ", being goods or services in relation to which a deduction pursuant to section 20(3) of this Act has been made,". This removes the concept that the asset must have been acquired or produced during the course of a taxable activity. As long as the assets are part of the taxable activity at the time of cessation of that activity, there is a deemed supply, irrespective of when the asset was acquired or produced and for what purpose it was originally obtained and used.

This amendment is deemed to have come into force on the the 3rd day of December 1985 (the date of assent of the Goods and Services Tax Act 1985) and therefore applies to all such supplies made on or after 1 October 1986.

Section 4 - Value of Supply of Goods and Services

Section 4 amends section 10 of the principal Act. That section sets out the rules for valuing supplies of goods and services.

Section 10(12) provides the method for valuing the supply of services that occurs when a person places a bet on a race. The value of the supply for a bet is the sum of the deductions made under sections 42 and 97 of the Racing Act 1971. These deductions are made from the investment pool for each race before the dividend payable to the punter is determined.

The deductions fall into two classes; totalisator duty, and the various levies collected for the Racing Clubs and the New Zealand Racing Authority (NZRA). The levies are taxable charges as they are imposed by registered persons, e.g., the Racing Clubs,

TAB, and the NZRA. These were increased to take account of GST. In contrast, the totalisator duty (consolidated fund revenue) when deducted from the betting pool is GST exclusive. This was not automatically increased for GST.

Section 10(12) of the GST Act 1985 provides that the total GST liability in respect of the investment pool is calculated as one-eleventh of the total deductions made, including totalisator duty.

As the levies deducted had increased to take account of GST, this calculation correctly determined the GST liability in respect of these levies. Although the totalisator duty itself is not a charge for services, it should be subject to GST when built into the final price of any produce or service, i.e., gambling. However, the legislation provided that a liability for GST arose as a result of the duty being treated as a GST inclusive amount, and the legislation had to be amended to recognise this fact.

The main amendment to section 10(12) gives effect to a treatment of betting on races that is consistent with the treatment of other types of gambling, such as lotteries. In those cases the Government duty forms part of the determination of the consideration for the supply.

It is expected that GST returns will be furnished on the current basis by the Racing Clubs and to a lesser extent the TAB, until 31 July 1987.

Due to section 10 (12) being amended the Racing Clubs and to a lesser extent the TAB may request reassessments of their GST returns which relate to races held during the period 1 October 1986 to 31 July 1987.

The method of calculating the reassessments is fairly complex, so a separate TPC dealing with the calculation of these reassessments will be issued shortly.

The other amendments are consequential to amendments made to the Racing Act 1971.

Consequential Amendments

Section 4(1) inserts a new subsection (12A) into section 10 of the GST Act. The new subsection ensures that totalisator duty is increased by the rate of GST for the purposes of calculating the consideration for a supply of services under section 10(12). This amendment will apply to bets placed on races held on or after 1 August 1987.

Section 4(2)(a) amends subsection (12) as a result of the insertion of the new subsection (12A). Sections 4(2)(b) and 4(2)(c) delete the references* to subparagraphs (i) and (ii) of section 42(1)(e) and (f) of the Racing Act 1971. These

subparagraphs have been removed from the Racing Act, so were redundant in the GST Act. The amendments made by section 4(2) of the Amendment Act 1987 apply from the general application date of this Amendment Act.

Section 5 - Special Returns

Section 5 amends section 17 of the GST Act.

Section 17 provides that where a supply is made in terms of section 5(2) of the GST Act, the person selling the goods is required to furnish a special return in the prescribed form to account for the GST on the supply.

The amendments to section 17 are consequential to the amendment to section 5(2) of the principal Act as inserted by section 3(1) of the Amendment Act. The term "registered person" where it appears is no longer appropriate and has been replaced with the word "person". This is because section 5(2) no longer applies only to a registered person. Also the registration number of the person whose good is sold is only to be shown if that person is registered.

The amendments to section 17 apply to returns furnished in respect of all section 5(2) supplies made on or after the assent date of this Amendment Act.

Section 5 amends section 17(1) of the principal Act as follows:

- (a) The word "registered" is omitted where it first appears.
- (b) The words "if registered", are inserted before the words "registration number" in paragraph "(a)(ii)".
- (c) The word "registered" is omitted in paragraph "(c)".
- (d) The word "registered" is omitted where it last appears.

Section 6 - Adjustments

Section 6 amends section 21(1) of the Goods and Services Act 1985.

Where an asset which is used principally for making taxable supplies is used in a non-taxable activity, section 21(1) of the GST Act 1985 requires a registered person to account for output tax on the minor private or exempt use of that asset.

An amendment was required to ensure that the wording of this section clearly reflected that this section should apply to all goods, irrespective of when they were acquired or produced by the currently registered person. It ensures uniform application to

all goods whether or not they were owned by the registered person prior to the introduction of GST and/or their registration. It has always been the Department's interpretation that the non-taxable use of goods is a deemed supply under section 21(1) and is taxable. It must be remembered that such a deemed supply is completely unrelated to the status of the goods and the owner as at the time of acquisition. The deemed supply is a completely separate transaction; consumption is now occurring and should be taxed.

Subsection (1) replaces the words "acquired or produced" with the word "applied". This emphasises the concept that as long as the good is applied principally in the taxable activity then an adjustment must be made for any lesser use of that asset in a non-taxable activity. A supply is still deemed to occur.

Subsection (2) deems this amendment to have come into force on the 3rd day of December 1985 (the date of assent to the GST Act 1985) and therefore applies to all such supplies on or after 1 October 1986.

Section 7 - Assessment of Tax

This section makes 4 amendments to section 27 of the principal Act. These amendments provide:

- (a) For the Commissioner, in certain circumstances, to make an assessment in respect of a return furnished under section 17 of the principal Act.
- (b) That the person whose goods were sold in terms of section 5(2) of the GST Act is liable for the tax assessed where this person furnished an incorrect statement required under section 5(2).
- (c) That a copy of the assessment is to be issued where an assessment is made in respect of a return furnished under section 17 of the principal Act.
- (d) That Parts III, IV, VI and X of the GST Act 1985 apply in respect of the assessments made.

Part A - The Commissioner to Make an Assessment in Respect of a Section 17 Return

Section 27 provides for the Commissioner to make an assessment of tax in various circumstances in relation to a taxable period return. The Commissioner may make an assessment where-

- (a) There is a default in furnishing a return; or
- (b) The Commissioner is not satisfied with any return; or

- (c) The registered person is not satisfied with any return made in respect of a taxable period; or
- (d) Any non-registered person purports to charge tax on supplies.

An assessment is only made where any one of these 4 circumstances applies. Generally, an assessment is not made where a registered person furnishes a return and makes a payment. GST is basically a self-assessed tax. An objection can not be made to a return unless an assessment is made by the Commissioner.

However, where a section 17 return is furnished in respect of a section 5(2) supply (a good sold in satisfaction of a debt), this legislation did not provide for the person selling the goods to be able to request an assessment and thereby object. This is because section 27(1) of the principal Act referred to returns in respect of a taxable period. Further, it did not allow the person whose goods were sold pursuant to section 5(2) to request an assessment and then make an objection.

Therefore section 27 has been amended by inserting a new subsection (1A) to provide that the Commissioner is able to make an assessment of tax in respect of a section 17 return (form GST 121) which is required to be furnished together with the GST charged where a good is sold in satisfaction of a debt (section 5(2) supply). This amendment allowing an assessment to be made applies where-

- (a) There is a default in furnishing a section 17 return; or
- (b) The person who furnished the return is not satisfied with the return; or
- (c) The person whose goods were sold in satisfaction of a debt is not satisfied with the return furnished; or
- (d) The Commissioner is not satisfied with any section 17 return.

This amendment allows an assessment to be made by the Commissioner in respect of a section 17 return furnished or required to be furnished thereby giving the right of objection. An objection can be made either by the person who sold the goods or the person whose goods are sold. In most cases the person who sold the goods is liable to pay any tax outstanding and is entitled to any refund arising from the assessment.

A significant difference from section 27(1) is that the person whose goods were sold in terms of section 5(2) is entitled to request the Commissioner to issue an assessment in respect of the section 17 return furnished. This is because this person has a vested interest in the supply so the supply by them is deemed to

be a taxable supply. Therefore, if the supply has been incorrectly charged with tax because of the statement required by section 5(2) not being furnished, this person is able to supply the correct information in respect of the supply.

Part B - Person Liable to Pay Tax Assessed Where Section 5(2) Statement Incorrect

Under this new section 27(1A) the person who sold the goods is liable to pay any tax assessed even though this person acted on the basis of the statement furnished in terms of section 3(1) of the Amendment Act. This would happen where the person whose goods were sold furnished a written statement stating that goods were not taxable. On that basis the person selling the goods would not have charged GST and therefore would not have furnished a section 17 return. However, if at a later date the Commissioner determined that the sale was taxable, the Commissioner would be able to make an assessment of the tax payable in terms of section 27(1A) and the person who sold the goods would, other things being equal, be liable to pay.

Therefore, to protect this person section 27 is further amended by inserting a new subsection (1B). This amendment provides that the person whose goods were sold in satisfaction of a debt is liable to pay the tax assessed in respect of an assessment. This will apply in respect of a section 17 return when the Commissioner makes an assessment because of default in furnishing the return or the Commissioner is not satisfied with the return and the person required to furnish the return holds the written statement required by section 5(2) that is incorrect. The person whose goods were sold and the person who sold the goods are able to object to the Commissioner's assessment.

Part C - Copies of Assessments Issued to Other Persons

Section 7(2) amends section 27(3) of the GST Act 1985.

Section 27(3) provides for the Commissioner to send the notice of an assessment to the person liable to pay the tax. The amendment rewrites this provision to allow the Commissioner to send the notice of the assessment to the person liable to pay the tax and a copy to the other party where the assessment is made under either subsection (1A) or (1B). This means that when an assessment is made in terms of section 27(1A) the notice of assessment is sent to the person who sold the goods and a copy is sent to the person whose goods were sold. Alternatively, when an assessment is made in terms of section 27(1B) the notice of assessment is sent to the person whose goods were sold and a copy to the person who sold the goods. This then allows both parties to know of the existence of an assessment, thereby giving them an opportunity to object.

Part D - Application to Other Parts of the Act

Subsection (3) of section 7 amends section 27(6) of the GST Act 1985.

This amendment provides that subsections (1A) and (1B) apply to Parts III, IV, VI and X of the GST Act 1985. This allows a person to be deemed a registered person even though they may not be registered.

These amendments apply from the date of the Governor General's assent, being 22 June 1987.

Section 8 - Limitation of Time for Assessment or Amendment of Assessment

Section 31 of the GST Act is amended by section 8 of this Act. Section 31 prescribes the limitation of time for an assessment to be made or altered by the Commissioner where a person has furnished a return in respect of a taxable period. The period to make an assessment or alter an assessment is limited to 4 years from the end of the taxable period in respect of which the return was furnished or the assessment was made. However, where the Commissioner is of the opinion that the person has knowingly or fraudulently failed to make a full disclosure of the facts necessary to determine the amount of tax payable for any taxable period, the Commissioner may make an assessment or alter an assessment at any time. As this section refers to a return in relation to taxable periods it does not apply to a return or assessment made in respect of a section 17 return.

Section 8(1) of the Amendment Act amends section 31 by inserting a new subsection (1A). This subsection applies where a person furnishes a return pursuant to section 17 or is assessed for tax pursuant to section 27(1A) or (1B). It limits the Commissioner from making an assessment or altering an assessment after the expiration of 4 years from the end of the month in which the sale was made pursuant to section 5(2) or the assessment was made.

Section 8(2) rewrites section 31(2) to allow the Commissioner to issue an assessment or alter an assessment at any time in respect of any taxable period return furnished or return furnished pursuant to section 17. This applies where the Commissioner is of the opinion that the person has knowingly or fraudulently failed to make a full disclosure of the facts necessary to determine the amount of tax payable.

This amendment to section 31 applies to all assessments made on or after the date of assent of this Amendment Act.

Section 8(2) repeals subsection (2) and substitutes a new subsection to allow the Commissioner to make or alter an assessment at any time in respect of any taxable period return or return furnished pursuant to section 17. This applies where a person knowingly or fraudulently fails to disclose all the facts necessary to determine the amount of tax payable for any taxable period or return furnished pursuant to section 17.

This amendment applies from the date that the Governor General gave his assent, being 22 June 1987.

Section 9 - Cancellation of Registration

This section amends section 52 of the GST Act 1985 which sets out the rules for the cancellation of GST registrations.

Section 52(1) provided that a person must remain registered for at least two years before being allowed to apply for cancellation of their GST registration unless all of their taxable activities have ceased. The purpose of the minimum two year registration period was to prevent persons from registering for a short period of time, claiming input tax credits, and then cancelling their registration.

The amendment removes the requirement that a person must remain registered for a minimum of two years. As section 5(3) of the Act effectively deems a supply to take place of goods and services that have not been consumed upon cessation of registration, the two year limitation on the cancellation of registration is not necessary. The amended section 52 allows a person's registration to be cancelled where the Commissioner is satisfied that the level of taxable supplies in the next 12 month period will fall below the registration "threshold" of \$24,000.

This amendment applies from the date this Amendment Act received the Governor-General's assent (22 June 1987).

PART II INCOME TAX AMENDMENT ACT (NO.2) 1987**A. FARMING AND FORESTRY TAXATION AMENDMENTS****Section 5 - Interpretation**

This section amends the definition of 'herd livestock' given in section 2 of the Principal Act.

The definition has been amended to allow bailors to value their bailed livestock under the herd scheme. This was always intended but was not reflected in the legislation. A bailor is an owner of livestock who has allowed another person (the bailee) the use of the livestock for an agreed period under a bailment agreement.

Section 19 - Treatment of Shortages of Bailed or Leased Livestock

In a normal bailment agreement the bailee, at the end of the bailment, has to replace or compensate the bailor for the livestock bailed. A shortage (or deficiency) of bailed livestock arises in any one income year when the bailee has less livestock, of the class bailed, on hand than the amount originally bailed. Such a shortage can occur if the bailee, for example, sells livestock of the class bailed.

Prior to the introduction of this Amendment Act there was no legislation specifically dealing with the treatment of shortages of bailed livestock by the bailee. The basis of accounting for bailed stock used by bailees was agreed to in discussions with the NZ Society of Accountants many years ago. An example of that basis is attached as Appendix 1.

The arrangement was that the bailee should adopt a value for bailed livestock at either the market value per head at the date of bailment, or an appropriate standard value; that value to be used in subsequent years during the term of the bailment. A deduction from income, for actual shortages in numbers of bailed livestock, at the value adopted, was allowed.

There are two methods that were prescribed for accounting for these shortages. Under method 1 the Livestock Account shows opening and closing bailed livestock at the adopted values. Under method 2 values of Bailed Livestock are not shown in the livestock account. In the latter case the livestock account has a provision for the replacement of deficient bailed livestock. Each year the existing provision is reversed and a new provision made. Both methods 1 and 2 arrive at the same figure for gross income.

On termination of the bailment the bailee returns the bailed livestock and compensates the bailor for any deficiencies. This compensation is usually set at the market price of the deficient stock numbers as at the date of termination of the bailment.

However, certain difficulties have arisen with this approach:

The method of determining adjustments to income following changes in the number of bailed livestock held by a bailee is not always equitable to the bailee.

- (a) If the value of livestock increases over the term of the bailment then any adjustment made to income for deficiencies in the bailed stock numbers will become less in real terms. This means that where sales of livestock create deficiencies, the provision for replacement may not be a reasonable offset on the income from the sales.

Example 1 - Bailee

1970 100 ewes bailed.
Value to be used by the bailee set at market value of \$8.

1974 80 bailed ewes on hand.
20 ewes were sold for \$18 each.
Sales are $20 \times \$18 = \360 .
Deduction for deficient bailed livestock (provision for replacement) is $20 \times \$8 = \160 .
There is, therefore, taxable income of \$200 resulting from the sale.

- (b) If the standard values given to bailed livestock are higher than the standard values of other similar livestock owned by a bailee, then any deduction for deficiencies may be excessive.

Example 2

1980 100 ewe hoggets bailed.
Value to be used by bailee is set at market value of \$40.

1981 No ewe hoggets on hand (have aged to two-tooth ewes)
100 two-tooth ewes with standard value of \$3 on hand.
Deduction for the replacement of the deficient bailed livestock is $100 \times 40 = \$4,000$.
Increase in income from value of two-tooth ewes is $100 \times 3 = \$300$.
Gain to bailee is therefore \$3,700.

Aim of the Amendment

The aim is to produce a fairer system which accounts for bailees' deficiencies at annually adjusted market values which are equivalent to the values which owned livestock are valued at. It is also to ensure that in transition to the new livestock valuation regime, the effect of the revaluation of deficiencies is taken into account in the calculation of the write-off.

Under the amendment the bailee is required to value deficient bailed livestock under the same scheme as owned livestock. The bailed livestock are able to be broken down only into the authorised categories set out in the twelfth schedule to the principal Act.

Operation of the Amendment

Section 19 introduces a new section 85B to the principal Act. Section 85B provides that the specified livestock of a bailee is to be calculated in accordance with the following formula:

$$a - b$$

where:

a is the actual number of specified livestock of a particular class on hand at the end of the income year, including both owned and bailed livestock; and

b is the original number of specified livestock of that class which were bailed, as specified in the bailment agreement(s) currently in force (provided that under the agreement these bailed livestock have to be returned or compensated for in full at a later date).

This means classes of specified livestock which are deficient are shown as negative livestock numbers and deducted from the number of owned specified livestock on hand.

The effect of the amendment is that the deduction for replacement of deficient specified livestock is made automatically and at the new standard or herd values. This is a change to the previous arrangement whereby adjustments for deficient livestock were made in the accounts at adopted (standard) values. Therefore methods 1 and 2 for accounting for bailed livestock as set out in the Departments rulings will no longer be needed (an example of how to reconcile these methods with the new treatment is given in Appendix 1)

Example

Taxpayer valuing livestock using the trading stock scheme.

Livestock on hand 01.04.86

Owned 4000 Mixed Age Ewes (Std Value = \$8)
 Bailed 1950 Ewe Hoggets (Adopted Std Value = \$8)

Livestock on hand 31.03.87

Owned 4000 Mixed Age Ewes (AMV = \$13.20)
 Bailed 1900 Ewe hoggets (AMV = \$17.20)

(The terms of the bailment agreement relate to 2000 ewe hoggets).

Sales: 3500 Lambs and Ewe Hoggets at \$18
 Purchases: 800 Ewe Hoggets at \$17
 Natural increase: 200 Ewe Hoggets

New values for specified livestock at 31.03.87

- Trading stock scheme

Ewe Hogget Class = \$17.20 x .7 = \$12.04
 Mixed Age Ewe Class = \$13.20 x .7 = \$ 9.24

Specified livestock at 01.04.86

Ewe Hogget Class

a - b

1950 - 2000 = -50

Mixed Age Ewe Class

a - b

4000 - 0 = 4000

Specified livestock at 31.03.87

Ewe Hogget Class

a - b

1900 - 2000 = -100

Mixed Age Ewe Class

a - b

4000 - 0 = 4000

LIVESTOCK ACCOUNT - Year Ended 31 March 1987

Class	Opening Stock on Hand	No. Bailed	Surplus (Deficiency)	Value	Total Value
Ewe Hoggets	1950	2000	(50)	\$8	(400)
Mixed Age Ewes	4000	0	4000	\$8	32,000
				Opening Value	31,600

Class	Closing Stock on Hand	No. Bailed	Surplus (Deficiency)	Value	Total Value
Ewe Hoggets	1900	2000	(100)	\$12.04	(1,204)
Mixed Age Ewes	4000	0	4000	\$ 9.24	36,960
				Closing Value	35,756

This way of accounting for bailed stock, which has already been adopted by some accountants, calculates the movement in bailed stock during the years in question and brings in deficient bailed livestock at negative values.

Calculation of Gross Profit

Sales: 3500 Lambs and Ewe Hoggets at \$18	\$63,000
less: Cost of sales - Opening stock	\$31,600
+ Purchases	13,600

	\$45,200
less: Closing stock	35,756

	9,444

Gross Profit (ignoring any transitional concessions)	53,556

The amendment ensures that the net proceeds from any sale of specified livestock which increases the number of deficient bailed livestock will better reflect the actual return to the farmer, after allowing for the value of the deficient livestock.

Section 20 - Standard Value of Livestock

This section amends section 86 of the principal Act. Section 86 provides for the operation of standard values. Two drafting corrections were required.

Paragraph (a) of subsection (1) deletes the word 'specified' that was wrongly inserted in the last line of the definition of "deductible excess".

Paragraph (b) of subsection (1) deletes a repeated phrase in 86(4)(b)(i)(B) (this error does not appear in CCH).

Section 21 - Valuation of Herd Livestock

This section amends section 86A of the principal Act by repealing subsection (3) and substituting a new subsection.

The former subsection (3) provided that where the value of any herd livestock of a taxpayer at the end of an income year is determined in accordance with section 86A then, regardless of section 85(3) of the Act, that value shall also be the value of the livestock at the beginning of the income year.

There is no change in substance to this. However, because the subsection required that a value be determined for livestock as at the end of the income year it did not appear to cover situations where the taxpayer ceased farming during the income year. The subsection has therefore been rewritten so that it will clearly apply whenever a taxpayer has elected to value livestock under the herd scheme.

Section 22 - Deduction in Respect of Livestock Revaluation

This section amends section 86E of the principal Act. Section 86E provides a "write-off" of livestock revaluation income (resulting from the increase in standard values which farmers are required to adopt as at 31 March 1987) in the transitional (1987) income year or the 1986 income year.

Subsection (1) makes a small change in the wording to 86E(2), which provides for the write-off in the case of a farmer ceasing farming after 12 December 1985 but in the 1986 income year. The referral to section 85(4C) has been replaced with a direct referral to the Estate and Gift Duties Act. The change in wording was necessary to make the section fully operative because section 85(4C) only comes into effect in the 1987 income year.

Calculation of the Livestock Revaluation Write-Off

The principal change to section 86E is made by subsection (2). Part of section 86E(3) has been rewritten to provide that the write-off is calculated by aggregating the amounts of revaluation income calculated for each class of livestock.

Base Number Calculation

In calculating the deduction given by section 86E(3) it should be noted that the section is affected by the new section 85B (introduced by section 19 of this Amendment Act) because deficient bailed livestock have to be taken into account in calculating base numbers.

Example 1

Taxpayer elects to calculate his base number as at 31 March 1985.

Livestock on hand 31 March 1985:

Owned: 4000 mixed age ewes (standard value = \$8)

Bailed: 1800 ewe hoggets (adopted standard value = \$8)

(The terms of the bailment agreement relates to 2000 ewe hoggets).

Calculation, for base number, of the number of specified livestock on hand at 31 March 1985 (section 85B)

Mixed age ewes:

a	-	b		
(total livestock on hand)		(livestock specified in bailment agreement)		
4000	-	0	=	4000

Ewe hoggets:

a	-	b		
(total livestock on hand)		(livestock specified in bailment agreement)		
1800	-	2000	=	-200

Calculation of write off (section 86E(3))

Mixed age ewes:

a	x	(b	-	c)
(base number)		(new standard value)		(old standard value)
4000	x	(\$9.24	-	\$8.00) = 4,960

Ewe hoggets:

a	x	(b	-	c)
(base number)		(new standard value)		(old standard value)
-200	x	(\$12.04	-	\$8.00) = -808

Revaluation write off = 4152

Dealing with Write-Downs

The amount of revaluation income for a positive class of specified livestock will be negative where the new standard value is lower than the standard value previously adopted. In these circumstances the amount of revaluation income for that class of livestock is deemed to be zero. This is done so taxpayers with high standard values will not be disadvantaged. The zeroing is given by a new subsection 86E(3A) which is inserted by subsection (3).

Example 2

Livestock on hand 31 March 1985:

Owned: 200 Mixed age ewes (standard value = \$12)
 200 Ewe hoggets (standard value = \$12)

Calculation of write off (section 86E(3)).

Mixed age ewes:

a	x	(b	-	c)
(base number)		(new standard value)		(old standard value)
200	x	(\$9.24	-	\$12) = -\$552 but deemed to zero

Ewe hoggets:

a	x	(b	-	c)	
(base number)		(new standard value)		(old standard value)	
200	x	(\$12.04	-	\$12)	= \$ 8
					—
		Revaluation write off	=		8

Note that where the value of deficient bailed livestock is being written down the zeroing does not apply because it is treated as negative livestock. The negative times negative in the write-off calculation for a deficient class will give a positive amount. This is justified because it compensates such bailees for their decreased deduction for deficiencies.

Treatment of Total Revaluation Write-Off

Where the total amount of the write-off calculated using section 86E is less than zero, the write-off is deemed to be nil. This is to ensure that no taxpayer has their assessable income increased by the write-off (a negative write-off means income).

Example 3

Base number: Mixed age ewes = 200
Ewe hoggets = -200

Calculation of write off (section 86E(3))

Mixed age ewes:

a	x	(b	-	c)	
(base number)		(new standard value)		(old standard value)	
200	x	(\$9.24	-	\$8.00)	= 248.00

Ewe hoggets:

a	x	(b	-	c)	
(base number)		(new standard value)		(old standard value)	
-200	x	(\$12.04	-	\$8.00)	= -808.00
					-560.00
		Revaluation write off	=	0	

As a negative write off would result, the revaluation write off is deemed to be zero.

The application date for this section is the income year commenced on 1 April 1985.

Section 23 - Spreading of Income From Livestock Revaluation

This section amends section 86F of the principal Act. Section 86F provides for a spread of livestock revaluation income.

Subsection (1) amends the definition of "livestock revaluation income" in section 86F(1) to allow taxpayers, in calculating the spread, the option of comparing 1987 opening and closing numbers of livestock of the same class. The more complicated method of comparing the closing classes of livestock with opening classes of livestock one class younger, which was previously specified in the legislation, can also be used. For further explanation of how the spread is calculated refer to pages 69-71 of the explanatory document on the Income Tax Amendment Act (No.4) 1986.

Note that in calculating the spread, all negative amounts are taken into account. No zeroing applies.

Subsection (2) inserts a new subsection (1A) in section 86F. The new subsection provides that only one of the options given in the definition of "livestock revaluation income" can be used for each type of livestock. Once the option is exercised for any class of livestock all classes of livestock within the particular type of livestock must be treated in the same way. This is to prevent taxpayers gaining a greater spread than was intended.

Subsection (3) inserts a new subsection (5A) which deals with matrimonial transfers in the 1987 income year. Both partners are deemed to own, at the beginning of the 1987 income year, for the purpose of calculating the spread, the amount of livestock owned by each of them after the matrimonial transfer.

Section 24 - Valuation of Bloodstock

This section amends section 86H of the principal Act. Section 86H provides the basis on which bloodstock is to be valued from the 1988 income year onward.

Subsection (1) amends paragraph (a) of 86H to make the meaning clearer. The change was required to ensure that subsection (2) of the transitional section 212C will work as intended, i.e., a broodmare used by a taxpayer for breeding prior to the 1988 income year will be treated for the purposes of section 86H as first being used by the taxpayer for breeding in the 1988 income year.

Section 27 - Certain Expenditure on Land Used For Forestry Purposes

This section amends section 127A of the principal Act. Section 127A phases out existing deductions for forestry expenditure.

Subsection (1) corrects a wrong date in 127A(4). The 30th day of December should be the 31st.

The amendment applies from 1 April 1987.

Section 28 - Expenditure on Land Improvements Used For Forestry

This section amends section 128B of the principal Act. Section 128B allows a deduction by way of depreciation for forestry land improvements.

Subsection (1) deletes the incorrect exclusion of categories (a) to (d) of Part II of the thirteenth Schedule. A deduction is allowed on all types of expenditure listed in Part II of the Thirteenth Schedule to the principal Act.

The amendment takes effect from the date the section applies, i.e., the 1988 income year.

Section 29 - Revised Assessments Where Land or Fish Farms or Certain Assets are Sold Within 10 Years of Acquisition After Deductions in Respect of Certain Expenditure

This section amends section 129 of the principal Act. Section 129 claws back deductions of interest and development expenditure when property is sold.

Subsection (1) amends section 129 so that all farm land sold after 12 December 1985, irrespective of ownership, is exempt from the clawback provisions. This means leasehold farm land will now no longer be subject to the clawback provisions.

The amendment takes effect from 12 December 1985.

Section 30 - Loss Incurred in Specified Activities

This section amends section 188A of the principal Act. Section 188A is a loss containment provision which applies to certain specified activities. The containment has been lifted for all activities, except renting, in relation to losses incurred in the 1986 income year and following years. This was achieved by adding a proviso to subsection 188A(7). However, group companies were left out because they are dealt with separately by subsection (7A).

This section inserts an appropriate proviso in section 188A(7A) to remedy the situation.

The amendment applies to any loss incurred in the income year that commenced on the 1st day of April 1986 or any following year. Losses incurred in previous years remain subject to the \$10,000 per annum maximum offset.

Section 40 - Twelfth Schedule

This section amends the Twelfth Schedule of the principal Act. The Twelfth Schedule sets out all the types and classes of specified and herd livestock.

The new schedule gives the previously announced consolidation of angora goat categories. The new schedule will take effect from the 1988 income year (the 1987 goat values have been averaged to take account of the consolidation).

B. ACCRUAL TREATMENT OF INCOME AND EXPENDITURE

Sections 9 to 18, 25, 26 and 39.

These provisions implement all but two of the recommendations made by the Consultative Committee on Accrual Tax Treatment of Income and Expenditure in its supplementary report to the Minister of Finance.

A comprehensive explanation covering the whole of the accruals provisions is to be issued shortly. The amendments made in this Amendment Act to those provisions will also be explained in that document.

C. FAMILY SUPPORT AND GMFI

Section 34 - Family Support Credit of Tax

Section 374D of the principal Act sets out the formula for calculating a person's family support entitlement. Section 34 amends subsections 374D(1) and (2) to provide that the income level at which the tax credit entitlement commences to abate with be increased from \$14,000 to \$15,000.

This results in an increased tax credit entitlement of up to \$180 a year for families who currently receive an abated amount of family support.

The amendment first applies for the income year that commenced on 1 April 1987 but any increase in entitlement for the 1987/88 income year can only be obtained in the end-of-year assessment (refer also to the commentary on section 36 below).

Subsection (1) - increases the income level, at which the family support entitlement commences to abate, from \$14,000 to \$15,000.

Subsection (2) - is the application section and provides for the increased abatement level to apply for the 1987/88 and all following income years.

Section 35 - Guaranteed Minimum Family Income Credit of Tax

This section increases the guaranteed minimum family income credit of tax (GMFI) provided by section 374E of the principal Act. The GMFI is increased from \$208 a week (\$10,816 per annum) to \$228 a week (\$11,856 per annum). Note that family support tax credits and family benefit payments are additional to the new weekly GMFI amount.

This means that a one-child family will now receive a guaranteed income of \$270 a week after tax (including family support and family benefit). This amount is increased by \$22 (\$16 family support and \$6 family benefit) for each additional child in the family.

The increase is backdated to 1 April 1987 although current recipients will need to reapply to the Department to have their entitlement increased. Similarly, any persons who have now become eligible for the GMFI will need to furnish an application. Any entitlement not received during the year (for example, for the period between 1 April 1987 and the date a new certificate of entitlement is issued based on the new annual net amount) will, of course, be paid at the end of the year when annual returns are furnished.

Subsection (1) - amends section 374E of the principal Act to increase the annual net amount of GMFI tax credit from \$10,816 to \$11,856.

Subsection (2) - provides for the increase to apply in respect of the 1987/88 and all subsequent income years.

Section 36 - Credit of Tax by Instalments

This section adds a proviso to section 374G(4) of the principal Act, which sets out the method of calculating the amount of the weekly tax credit entitlement to be included in a certificate of entitlement. This proviso prevents any increased family support entitlement resulting from the increase in the family support abatement threshold (from \$14,000 to \$15,000) from being claimed during the year.

All family support applications for the 1987/88 income year will therefore be treated as though the threshold is still \$14,000. Any increased entitlement must be claimed at the end of the income year in the taxpayers return.

The proviso is necessary to avoid large scale recalculations of family support entitlements during this year and applies only for 1987/88.

Applications for 1988/89 will therefore be processed on the basis of the new \$15,000 abatement threshold.

Subsection (1) - adds a new proviso to section 374G(4) of the principal Act to provide for interim instalments of family support tax credit for the 1987/88 income year to be determined on the basis of the 'old' \$14,000 abatement threshold.

Subsection (2) - provides for the proviso to apply only in respect of the income year which commenced on 1 April 1987.

Section 37 - Family Support Offences

This section amends section 374N which deals with the acts or omissions that constitute an offence in relation to the family support tax credit scheme.

Section 374N(d) and (f) as they currently stand, recognise only an attempt to commit an offence rather than the actual commission of an offence. The scope of the section is extended to include as an offence, the actual commission of the offence.

Subsection (1) declares that a person who obtains a refund of family support tax credit under false pretences commits an offence against the Income Tax Act 1976.

Subsection (2) states that a person who sells or otherwise transfers a certificate of entitlement to any other person commits an offence against the Income Tax Act 1976.

The amendment applies to offences committed on or after the date on which this Act received the Governor-General's assent (22 June 1987).

Section 38 - Penal Tax

An amendment is made to section 3740(1) which contains a separate penal tax provision dealing with false tax credits in connection with the Family Support Scheme.

Section 3740 previously provided only for the imposition of penal tax where a person attempted to obtain a refund from the

Commissioner by falsely pretending to have made a payment to any person by way of a credit of tax.

The amendment ensures that any person who actually obtains a refund of family support tax credit under false pretences will also be subject to penal tax.

The amendment applies with respect to tax on income derived in the income year that commenced on the 1st day of April 1987 and in every subsequent year.

D. DOUBLE DIPPING

Section 31 - Companies Included in a Group of Companies

Section 31 amends section 191 of the Act to prevent dual resident companies from offsetting their losses against the income of group companies. The effect is that a dual resident company will only be permitted to carry forward its losses for offset against its future income.

As announced in the 1987 Budget, the amendments to section 191 are an interim measure pending the introduction of legislation to combat international tax avoidance. The purpose of the measure is to counter the "double dipping" of tax losses by dual resident companies. The new legislation will apply to all dual resident companies in a tax loss situation, whether or not they are engaged in "double dipping" of losses.

Dual residence occurs when a company is resident in two countries under those countries' respective tax laws. An example of a dual resident company is one which is incorporated in New Zealand and managed and controlled in Australia. This company meets the tests of residence in each country.

Double dipping schemes rely on the establishment of a dual resident company and the company group loss transfer provisions in each country.

Example

Company DR is resident in both New Zealand and Australia under the tax laws of each country. It is wholly-owned by Company NZ, a company resident in New Zealand. Company DR borrows money to purchase the shares of Company OZ which is resident in Australia. At the end of the income year, Company DR returns a tax loss, mainly by virtue of the deduction claimed under section 106(1)(h)(ii) for interest incurred on money borrowed to acquire the shares in Company OZ. Prior to the amendment to section 191, the tax loss of Company DR could have been offset against the income of Company NZ under the grouping provisions of section 191. The loss could also be offset against the income of Company OZ under the Australian grouping provisions.

In this example, the amendments to section 191 will prevent Company NZ from obtaining the benefit of Company DR's tax losses. Company DR will be allowed to carry forward its losses under section 188 of the Act to be offset against its future income.

Subsection (1) of section 31 inserts a new paragraph (f) into section 191(1). The new subsection (1)(f) defines a "dual resident company" as a company that is resident in New Zealand during all or part of an income year, and that is resident in another territory during all or part of the same income year. Where a company is resident in either country for part of an income year it is still a dual resident company if, in another part of the same income year, it is resident in the other country.

The definition also applies where a company is subject to tax in another territory by virtue of registration, domicile, nationality, or incorporation.

Section 31(2) inserts a new subsection (7E) into section 191. The new subsection (7E) provides that-

- (a) the loss or part of a loss incurred by a dual resident company cannot be offset against the income of a group company under section 191(5);
- (b) any payment, that would be a subvention payment under section 191(7), made to a dual resident company in respect of a loss or part of a loss incurred in an income year-
 - (i) is not allowable as a deduction to the paying company;
 - (ii) is not assessable income of the dual resident company.

Section 31(3) makes consequential amendments to subsections (5) and (7) of section 191.

Section 31(4) provides that the amendments to section 191 apply to losses incurred by any company in accounting years that commenced after 17 December 1986. This is the date on which the Minister of Finance announced that legislation would be introduced to counter double-dipping.

E. NATIONAL SUPERANNUITANT SURCHARGE

Section 33 - Determination of "Specified Exemption"

Income derived by a superannuitant, other than National Superannuation, that is below the specified exemption is not subject to the surcharge.

Section 336BA of the principal Act sets out the procedure for calculating the specified exemptions for other income for the purposes of the surcharge.

Section 33 increases the specified exemption from \$7,202 to \$7,800 (single rate recipients) and from \$6,006 to \$6,500 (married rate recipients, giving a combined exemption of \$13,000 instead of the present \$12,012), as announced on Budget night.

The section does not come into force until 1 April 1988, but it will apply from 1 April 1987. Therefore superannuitants cannot take advantage of the new exemption levels on a pay period basis during the 1987/88 income year and will have to wait for the end of year assessment before getting the benefit of the increase. The retrospective application from 1 April 1987 will mean that benefits will be received when the 1988 tax assessment is issued.

Subsection (1) inserts the increased specified exemption levels into section 336BA of the principal Act.

Subsection (2) makes a consequential amendment to section 336L(1A) of the principal Act in order to specify the pay-period equivalents of the new \$7,800 exemption for single rate recipients for the purposes of the "SAJ" code.

Subsection (3) makes a consequential amendment to section 336L(2) of the principal Act in order to specify the pay-period equivalents of the new \$6,500 exemption for married rate recipients for the purposes of the "MAJ" code.

Subsection (4) - At present, National Superannuitants who receive more than \$6,006 of taxable income in addition to their National Superannuation are excluded from being "pay-period taxpayers" as that term is defined in section 356(1) of the principal Act.

This subsection consequentially amends that definition as a result of the new specified exemption levels to ensure that only those National Superannuitants who receive more than \$6,500 of taxable income in addition to their National Superannuation will be excluded from being "pay period taxpayers".

Subsection (5) - This is the application date subsection. It provides for this section of the amendment Act to come into force on 1 April 1988 but to apply with effect from the income year commencing on 1 April 1987.

F. GENERAL

Section 2, 3, and 4 - Annual Taxing Act

These sections are deemed to be the annual taxing Act for the 1987-88 income year.

Section 2 confirms the rates of income tax for the 1987-88 income year. The rates are as set out in the First Schedule to the principal Act.

Section 3 confirms the rate of excess retention tax for the 1987-88 income year. This rate remains at 35 cents as set out in clause 11 of Part A of the First Schedule to the principal Act.

Section 4 repeals the Income Tax (Annual) Act 1986.

Section 6 - When Objections May Be Referred in the First Instance to the High Court

Section 6 amends subsection (11A) of section 33 of the Act to correct a drafting error made when section 33(11A) was inserted by the Income Tax Amendment Act 1987 (the legislation relating to the new accruals regime).

The amendment deletes the reference to section 64E(5) and substitutes a reference to section 64E(6).

Section 7 - Rebate From Tax Payable by Non-resident Companies in Respect of Income From Special Development Projects

Section 7 amends section 42 of the principal Act which provides for a special rebate for those non-resident companies which have been declared by Order in Council to be undertaking a special development project in New Zealand.

The rebate ensures that the non-resident company's New Zealand tax rate falls between a minimum of 42.5 percent and a maximum of 53 percent (the tax rate applicable to income derived in New Zealand by non-resident companies) during the "first specified period" and does not exceed 48 percent (the rate of tax applicable to New Zealand resident companies) during the "second specified period" on income derived from special development project activities. The first and second specified periods are as stipulated within the appropriate Order in Council.

The purpose of this amendment is to ensure that the rebate will also apply when an Order in Council provides for a second specified period only. Previously section 42 required that prior to the commencement of the second specified period there must also have been a first specified period. This amendment to section 42 simply allows for the rebate to apply during a second specified period without there being a first specified period.

Subsection (1) of section 7 merely adds the words "(if any)" into the definition of the term "first specified period". This has the effect of saying that there need not be a "first specified period" in an Order in Council.

Subsection (2) adds a proviso to the definition of the term "second specified period". This has been inserted so that where an Order in Council declaring a non-resident company to be carrying on a special development project does not provide for a first specified period, but does specify a second specified period, that period is to commence from the accounting year to which that Order first applies. In other words, the second specified period is to commence at the same time as the first specified period, had there been one.

Subsection (3) amends subsection (4) of section 42 in two ways:

First, paragraph (a) inserts some words into subsection (4) to provide that an Order in Council declaring an undertaking to be a special development project can apply to accounting years of the company carrying on the project that commences before, on, or after the Order is made. The entitlement to any rebate under section 42 will depend upon the periods actually specified in an Order.

Second, paragraph (b) merely adds the words "if any" into paragraph (a) of subsection (4). This subsection specifies the maximum length of time that the specified periods can run. By inserting "if any" into the legislation it implies that there need not be a "first specified period" before a "second specified period".

Section 8 - Incomes Wholly Exempt From Tax

This section amends section 61 of the principal Act to provide an exemption from income tax for income derived by the trustees of the New Zealand Agent Orange Trust from the settlement fund awarded to the Trust by the United States District Court Eastern District of New York and accretions of income to that fund. Note that the exemption applies only to that part of the Trust's income derived from the original settlement and accretions thereto. It does not apply to the income earned on any other funds held by the Trust.

Any income derived by beneficiaries of the Trust by way of distributions from the Trust, is also exempt. In this case, all distributions, including those from funds of the Trust other than the original settlement and accretions thereto, are exempt.

Subsection (1) inserts a new paragraph 56 into section 61 of the principal Act which exempts from income tax:

- (a) income derived by any trustee of the New Zealand Agent Orange Trust from:
 - (i) the settlement fund awarded to it by the United States District Court Eastern District of New York, or

(ii) from any accretions of income attributable to the settlement fund;

(b) any distribution made by the New Zealand Agent Orange Trust to any beneficiary of the trust.

Subsection (2) provides that this section shall apply from 1 April 1987.

Section 32 - Special Partnerships

This section makes an amendment to section 211B(12) which is concerned with the duration of a special partnership.

Section 211B(12) provides that where a special partnership, first registered prior to 1 August 1986, is renewed or continued in conformity with the appropriate provision in the Partnership Act, then for the purposes of section 211B(2) that renewed partnership is regarded as having been first registered prior to 1 August 1986.

The purpose of this amendment is to correct a minor grammatical error. The word "it" is inserted after the expression "duration of the partnership" and before the expression "shall be deemed" in subsection (12).

The amendment applies with respect to the tax on income derived in the income year that commenced on the 1st day of April 1986 and in every subsequent year.

PART III LAND TAX AMENDMENT ACT 1987

Sections 1, 2 and 3 - Annual Land Taxing Act

These sections are deemed to be the annual Land Tax Act for the 1987-88 income year.

Section 2 confirms the rate of land tax for the 1987-88 income year.

The rate remains the same as that which applied last year, i.e., 2 cents in the \$1.

Section 3 repeals the Land Tax (Annual) Act 1986.

PART IV MISCELLANEOUS LEGISLATION**SPECIAL FARM OWNERSHIP SAVINGS ACCOUNTS
SPECIAL FISHING VESSEL OWNERSHIP SAVINGS ACCOUNTS**

As well as the three Inland Revenue Acts other legislation was also passed which has made it no longer possible to open any new Special Farm Ownership Savings Account qualifying for the section 49 rebate on increased savings after Budget night, 18 June 1987. However, just as with the earlier abandonment of the schemes relating to Home and Fishing Vessel Accounts, the rights of existing account-holders are protected, and indeed extended.

Depositors who close their accounts after Budget night will be issued with a withdrawal certificate, entitling them to claim a section 49 rebate on the increase in their savings between 31 March 1987 and 18 June 1987. This concession has also been extended as of Budget night to the 39 or so holders of Special Fishing Vessel Ownership Savings Accounts.

Depositors in both Farm and Fishing Vessel Accounts who have closed their accounts prior to Budget night and have been obliged to pay Withdrawal Tax (i.e., refund the value of any rebates claimed in earlier years, at 45 cents per \$ of their savings) will not be able to seek reassessment of their Withdrawal Tax. The cutoff date is Budget night (18 June 1987), and any depositor who closed the account will also not be entitled to claim a rebate for any savings between 31 March 1987 and the date of closure.

Discussions are continuing between IRD and Rural Bank officials, with the view to clarifying certain aspects of the new legislation. A further document explaining the points under issue will be issued once they have been settled.

There are still in existence some 100,000 qualifying accounts (Home, Farm and Fishing Vessel) and for most of these an IR 30 (Certificate of Increased Savings) will be produced for the year to 31 March 1988, whether or not the account remains open on that date.

ACCOUNTING FOR BAILED LIVESTOCK

Example of old methods 1 and 2 for accounting for bailed livestock and adjustments needed if to be used in the 1987 income year.

Example

Livestock on hand 1.04.85

Owned 4000 Mixed Age Ewes (std value = \$8)
Bailed 2000 Ewe Hoggets (adopted std value = \$8)

(The terms of the bailment require 2000 ewe hoggets to be returned or compensated for in 1994).

Sales 3000 Lambs and Ewe Hoggets at \$20.

Livestock on hand 31.03.86

Owned 4000 Mixed Age Ewes
Bailed 1950 Ewe Hoggets

Sales 3500 Lambs and Ewe Hoggets at \$18
Purchases 800 Ewe Hoggets at \$17.

Livestock on hand at 31.03.87

Owned 4000 Mixed Age Ewes (trading stock value = \$9.24)
Bailed 1900 Ewe Hoggets (trading Stock value = \$12.04)

LIVESTOCK ACCOUNT (METHOD 1)

YEAR ENDED 31 MARCH 1986

	<u>No.s</u>	<u>\$</u>		<u>No.s</u>	<u>\$</u>
Opening Bailed Sheep	2000	x \$8	16,000	Sales	3000 60,000
Opening Sheep	4000	x \$8	32,000	Closing Bailed Sheep 1950	x \$8 15,600
				Closing Sheep 4000	x \$8 32,000
Gross Profit			59,600		
			-----		-----
			107,600		107,600

LIVESTOCK ACCOUNT (METHOD 2)

YEAR ENDED 31 MARCH 1986

	<u>No.s</u>	<u>\$</u>		<u>No.s</u>	<u>\$</u>
Opening Sheep	4000 x \$8	32,000	Sales	3000	60,000
			Closing Sheep	4000 x \$8	32,000
Provision for Replacement		400			
Gross Profit		59,600			
		-----			-----
		92,000			92,000

Deficiency in Bailed Stock

Stock taken under bailment	Bailed sheep on hand	Deficiency
2,000	1950	50 at \$8 = \$400

LIVESTOCK ACCOUNT (NEW METHOD)

YEAR ENDED 31 MARCH 1986

	<u>No.s</u>	<u>\$</u>		<u>No.s</u>	<u>\$</u>
Opening Ewe Hoggets	-	-	Sales	3000	60,000
Opening Mixed Age Ewes	4000 x 8	32,000	Closing Ewe Hoggets - 50 x \$8		(400)
			Closing Mixed Age Ewes	4000x \$8	32,000
Gross Profit		59,600			
		-----			-----
		91,600			91,600

LIVESTOCK ACCOUNT(METHOD 1)

YEAR ENDED 31 MARCH 1987

	No.s	\$		No.s	\$
Purchases	800	13,600	Sales	3500	63,000
Opening Bailed Sheep	1950 x \$8	15,600	Bailed* Sheep	2000 x \$8	16,000
Opening Sheep	4000 x \$8	32,000	Closing Sheep (Mixed Age Ewes)	4000 x \$9.24	36,960
Gross Profit		53,556	Negative Specified Livestock (Ewe Hoggets)-100 x \$12.04		(1,204)
		<u>114,756</u>			<u>114,756</u>

* The valuation of deficiencies at the end of the income year is taken into account by the negative adjustment to specified livestock required by section 85B. This means the number of bailed livestock shown should be the total amount bailed under the agreement(s) in force at the beginning of the year with the value being the original standard value adopted.

LIVESTOCK ACCOUNT (METHOD 2)

YEAR ENDED 31 MARCH 1987

	No.s	\$		No.s	\$
Purchases	800	13,600	Sales	3500	63,000
Opening Sheep	4000 x \$8	32,000	Closing Sheep (Mixed Age Ewes)	4000 x \$9.24	36,960
Reversal of Prov for replacement*		(400)	Negative Specified Livestock (Ewe Hoggets)-100 x \$12.04		(1,204)
Gross Profit		53,556			
		<u>98,756</u>			<u>98,756</u>

* Provision for deficient bailed livestock at the end of the year is achieved by the negative livestock adjustment so a provision for replacement is not necessary. However, the provision made in the previous year needs to be reversed.

See main text for example of new method in 1987 income year.

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