

FACT SHEET | PUKA MEKA**GST – secondhand goods input tax deduction – associated person limitation**

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IS 25/22 FS 3

This fact sheet accompanies IS 25/22: GST – Secondhand goods input tax deduction, which discusses the requirements that must be met for a registered person to claim a secondhand goods input tax deduction. The amount that a person can claim as a secondhand goods input tax deduction may be limited if the goods are acquired from an associated person. This fact sheet summarises this limitation.

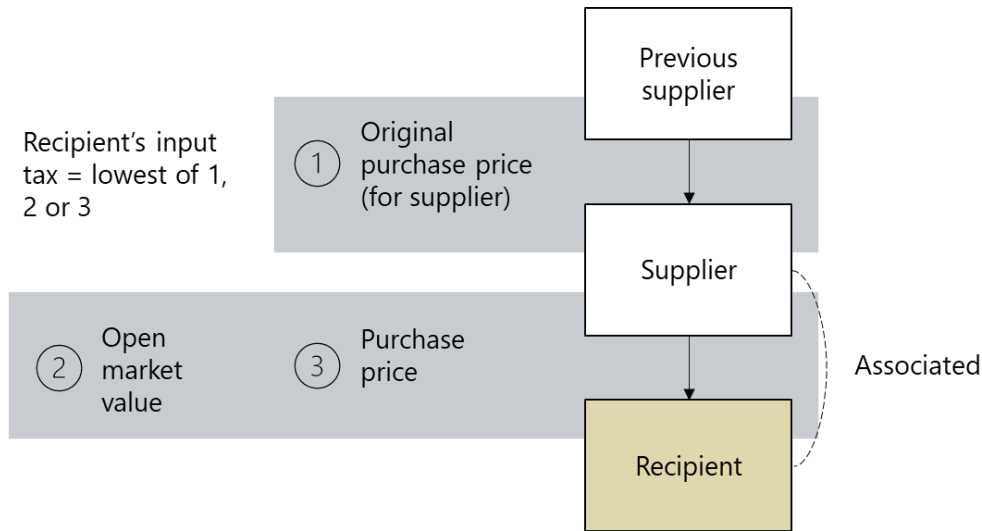
Limitation on input tax deduction

1. If goods are acquired from an associated person, a person's (recipient's) secondhand goods input tax deduction is generally limited to the lowest of three amounts (as discussed from [4]).
2. A special rule applies if the supplier of the goods also acquired the goods from an associated person (see from [7]).
3. The meaning of "associated person" is discussed at [12].

General rule

4. Assuming the supplier did not also acquire the goods from an associated person, the input tax for the recipient is limited to the lowest of the following three amounts:
 - the tax fraction of the purchase price of the goods paid by the supplier when they acquired the goods;
 - the tax fraction of the purchase price paid by the recipient in the current supply; and
 - the tax fraction of the open market value of the current supply.
5. This is illustrated in Diagram | Hoahoa 1 and Example | Tauria 1.
6. The tax fraction corresponds to the GST rate. For a GST rate of 15%, the tax fraction is $\frac{3}{23}$. For the purposes of s 3A(3), including when determining the amounts described in [4], tax fraction means the tax fraction that applied at the time of the relevant supply. For example, the tax fraction applying for the first amount described in [4] might be $\frac{1}{9}$, which corresponds to the earlier GST tax rate of 12.5%.
7. For the avoidance of doubt, if the purchase price of the goods paid by the supplier when they acquired the goods was zero, then the secondhand goods input tax deduction for the recipient for the current supply will be zero. For example, if the supplier received the goods as a distribution from a trust, the input tax deduction for the recipient for the current supply will be zero.

Diagram | Hoahoa 1 – Input tax where supplier and recipient are associated



Example | Tauira 1 – Land sold to associated company

In 2025, Henry sold a block of land to a company for \$1.5 million (this is also the open market value of the land). Henry had a 30% voting interest in the company when he sold the land.

Henry had bought the land from a non-registered third party for \$1.3 million two years earlier with the intention of building a house and living on the land. However, for the last two years, Henry has just been leasing the land to a neighbour for grazing. Henry has never been registered for GST and was not liable to be registered when he sold the land.

At the time of the supply, Henry and the company were associated persons because Henry had voting interests of 25% or more in the company.

The amount the company can claim is the lowest of the tax fraction of the:

- \$1.3 million purchase price Henry paid for the land;
- \$1.5 million purchase price the company pays to Henry; and
- \$1.5 million open market value of the land.

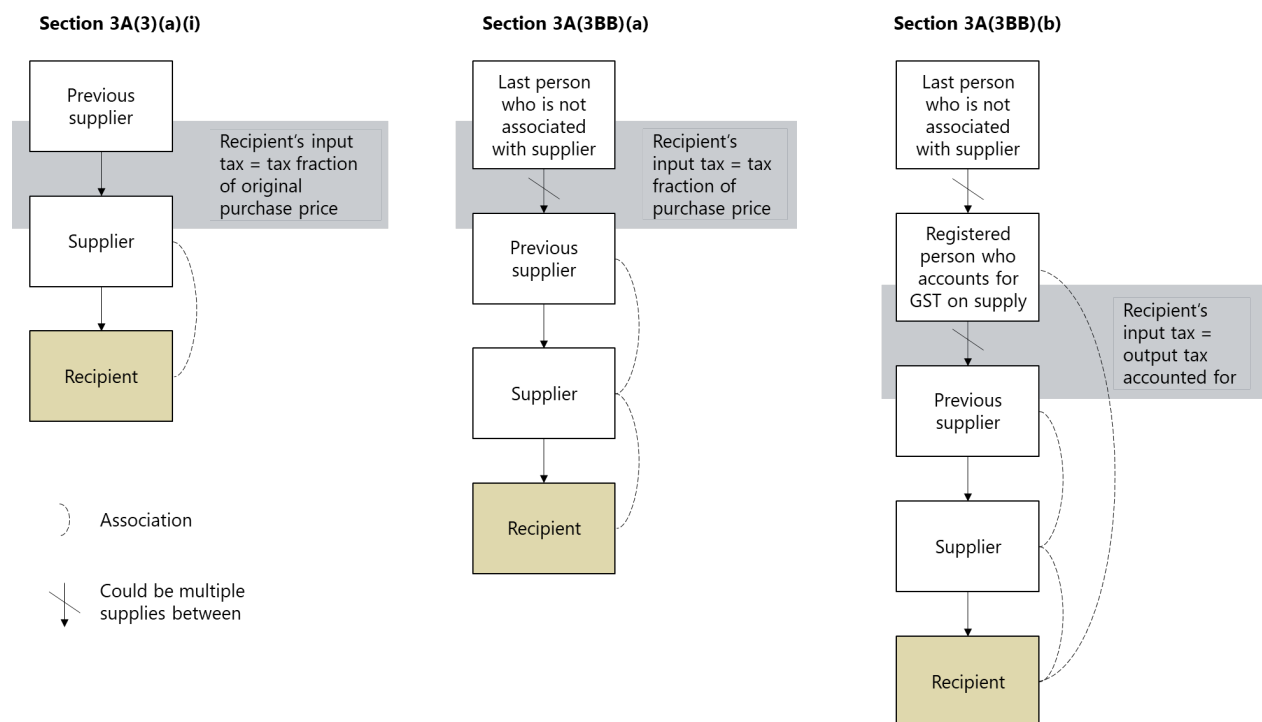
Therefore, the amount the company can claim is 3/23 of \$1.3 million, which is \$169,565.22.

The company can claim a deduction for an imputed amount despite GST not being charged on the supply from the third party to Henry.

Special rule – where the supplier also received the goods from an associated person

8. As noted above, a special rule¹ applies if the supplier of the goods also acquired the goods from an associated person.
9. In this case, the amount of input tax is generally the tax fraction of the purchase price of the goods when they were last supplied by a person who is not associated with the supplier.
10. A different input tax amount applies if, after the last supply by a person who is not associated with the supplier and before the associated supply being considered, the goods were supplied by a registered person associated with the supplier and the registered person accounted for output tax on the supply. In that case, the amount of the input tax is an amount equal to the amount of output tax accounted for.
11. This is illustrated in Diagram | Hoahoa 2 and Example | Taurira 2.

Diagram | Hoahoa 2 – Where the supplier also obtained the goods from an associated person – s 3A(3BB)



¹ Section 3A(3BB).

Example | Taurira 2 – Multiple associated supplies

In 2008, Kaea bought an apartment for \$300,000 from her friend Travis.

Kaea has two daughters, Kara and Koa.

In 2010, Kaea settled the apartment on a family trust. Kaea was trustee and Kara and Koa were beneficiaries of the trust.

In 2015, the family trust sold the apartment to Kara for \$350,000.

In 2025, Kara sold the apartment to her younger sister Koa for \$500,000.

None of Travis, Kaea, the family trust or Kara was registered for GST. However, Koa is registered, and she intends to use the apartment to make taxable supplies in her physiotherapy practice.

Koa can claim a secondhand goods input tax deduction for the purchase of the apartment, but the amount is limited to \$33,333.33, the tax fraction of the purchase price Kaea paid for the apartment ($\$300,000 \times 1/9 = \$33,333.33$).²

The special rule in s 3A(3BB)(a) applies because Koa acquired the apartment from an associated person (her sister Kara) and Kara also acquired the apartment from an associated person (the trustee of the family trust). Koa is associated with the family trust and her mother Kaea, so Travis was the last person who was not associated with Kara. This means the input tax for the supply made by Kara to Koa is calculated based on the tax fraction of the purchase price Kaea paid to Travis.

Variation

This variation uses the same facts as above except Kaea registered the family trust for GST, as trustee carried on a taxable activity from the apartment and, when the apartment was sold, accounted for \$45,652.17 of GST on the supply of the apartment to Kara.

In this case, Koa's secondhand goods input tax deduction is limited under s 3A(3BB)(b) to the \$45,652.17 of output tax accounted for by the family trust when it supplied the apartment to Kara.

² The tax rate was 12.5% when Kaea purchased the apartment, so the tax fraction is 1/9 rather than 3/23.

Associated persons

12. For GST purposes, whether two persons are associated is determined by the definition of “associated persons”.³
13. Determining whether two persons are associated is complex, so we don’t discuss the definition of “associated persons” in detail here. Read the definition and obtain advice if necessary. Some guidance is in **A guide to associated persons definitions for income tax purposes – IR620**.
14. In very simple terms and without being exhaustive, associated persons include:
 - companies controlled to the extent of 50% or more by the same group of persons;
 - a company and a person with a 25% or greater interest in the company;
 - a partnership and a partner of the partnership;
 - an unincorporated joint venture and a member of the venture;
 - relatives by blood (to the second degree), marriage, civil union, de facto relationship or adoption;
 - trustees of a trust and persons who have benefited or are eligible to benefit under the trust;
 - trustees and the settlor of a trust, except where the trustee is a charitable or non-profit body;
 - trustees of two trusts that have a common settlor; and
 - two persons if they are each associated with a common third person (tripartite test).
15. The definition also features an aggregation rule⁴ that can apply where two persons are associated. Each person can be treated as holding the company ownership interests that the other holds as well as their own, which may result in a threshold being reached for company association.

³ Section 2A.

⁴ Section 2A(4).

About this document | Mō tēnei tuhinga

Some of the Tax Counsel Office's longer or more complex items are accompanied by a fact sheet that summarises and explains an item's main points. While it summarises the Commissioner's considered views, a fact sheet should be read alongside the full item to completely understand the guidance. Fact sheets are not binding on the Commissioner. See further [Status of Commissioner's advice](#) (Commissioner's statement, Inland Revenue, December 2012).