Inland Revenue
Te Tari Taake

INTERPRETATION STATEMENT | PUTANGA WHAKAMĀORI

GST – Meaning of payment

Issued | Tukuna: 11 November 2025

IS 25/23

This interpretation statement discusses the meaning of "payment" for GST purposes. The meaning of payment is relevant for determining the time of supply, the tax period for which you return output tax or for which you claim an input tax deduction, and eligibility for a secondhand goods input tax deduction.

All legislative references are to the Goods and Services Tax Act 1985 unless otherwise stated.

REPLACES | WHAKAKAPIA

- GST: Meaning of payment *Tax Information Bulletin* Vol 1, No 4 (October 1989): 1
- GST: claims for secondhand goods input tax credits on property transactions between associated persons *Tax Information Bulletin* Vol 5, No 11 (April 1994): 1

Contents | Ihirangi

Summary | Whakarāpopoto

1. This interpretation statement discusses the meaning of "payment" for GST purposes. The meaning of payment is relevant for determining the time of supply, the tax period for which you return output tax or for which you claim an input tax deduction, and eligibility for a secondhand goods input tax deduction. For GST purposes, the following points can be made:

   - A payment can be made with money or by transferring property or providing services (for example, a company could make a payment by issuing shares in itself to a supplier). See from [9].
   - Payment can be made using a promissory note or a bill of exchange. See from [11].
   - Payment is not made if the purchase price for the supply of goods or services is simply deferred or left owing under the supply agreement. See [19].
   - Payment can be made by the purchaser borrowing an amount under a separate loan agreement with the supplier (or another person) and using the amount borrowed to satisfy the payment obligation under the supply agreement. By doing this, payment will be made for GST purposes, even though the purchaser will still owe the supplier an amount under the separate loan agreement. See [20].
   - Payment for a supply could be made by set-off against an existing debt owed by the supplier to the recipient. For example, if the supplier owed the recipient an amount under an existing debt, the amount payable by the recipient for the supply could be offset against the amount owed by the supplier to the recipient. See [25].
   - From an economic perspective there may appear to be no real difference between, for example, an amount left owing under a supply agreement or an amount owing under a separate loan agreement. However, a difference exists for GST purposes. See [30].
   - The GST general anti-avoidance provision (s 76) may apply to arrangements where payment is technically established, but in a way that fails the parliamentary contemplation test. See from [31].
   - Accounting entries can provide at least some evidence that a payment has occurred, but accounting entries may not always be sufficient. The absence of accounting entries does not mean a payment has not been made. However, depending on other evidence available, the timing of the accounting entries could influence the determination of when the payment was made. See [34].
   - The payment of a deposit under an agreement constitutes a payment. See [49].

- However, where the recipient of a supply makes a payment to a stakeholder, for GST purposes, the recipient has not made, and the supplier has not received, a payment. Payment does not occur until the stakeholder pays the amount to the supplier or is holding the amount only for the benefit of the supplier (that is, when the conditions of the supply contract are satisfied). See from [54]. A supplier can be a stakeholder. See [56].

Introduction | Whakataki

2. We have been asked to clarify the Commissioner's position on the meaning of payment for GST purposes.

3. Whether a payment has been made is relevant in the following contexts:

   - Time of supply. Under s 9(1), the time of supply is the earlier of the time an invoice is issued by the supplier or the recipient, or the time any payment is received by the supplier.
   - The tax period for which you return output tax. For a registered person who accounts for tax on a payments basis,[1] output tax on a supply is generally attributed to a taxable period to the extent that payment for the supply has been received during the period.
   - The taxable period for which you claim an input tax deduction. For a registered person who accounts for tax on a payments basis or a hybrid basis, an input tax deduction is allowed only to the extent that payment has been made.[2]
   - Secondhand goods input tax deductions. A registered person can make a secondhand goods input tax deduction only to the extent that payment has been made for the goods acquired.[3] This applies whether they account for tax on an accruals, payments or hybrid basis.

4. Other guidance on GST and payments (referred to briefly in this statement) is in:

   - **QB 23/06: GST – goods purchased on deferred payment terms**;[4] and
   - **IS 10/03: GST – time of supply – payments of deposits, including to a stakeholder**.[5]

[1] Section 19(2).

[2] Section 20(3)(b)(i).

[3] Section 20(3)(a)(ia) and (b)(i).

[4] QB 23/06: GST – goods purchased on deferred payment terms *Tax Information Bulletin* Vol 35, No 6 (July 2023): 291.

[5] IS 10/03: GST – time of supply – payments of deposits, including to a stakeholder *Tax Information Bulletin* Vol 22, No 6 (July 2010): 7.

5. This interpretation statement replaces:

   - **GST: Meaning of payment** *Tax Information Bulletin* Vol 1, No 4 (October 1989): 1.
   - **GST: claims for secondhand goods input tax credits on property transactions between associated persons** *Tax Information Bulletin* Vol 5, No 11 (April 1994): 1.

Analysis | Tātari

Ordinary meaning of payment

6. A payment can be made with money or with the equivalent of money.

7. "Payment" is not defined in the Act. Therefore, payment has its ordinary meaning.

8. In the simplest case, a payment could be made in cash or by transferring money into the supplier's bank account. However, payment can be made in other ways.

9. The dictionary definition of payment suggests that a payment can be made with money or with the equivalent of money. The *Oxford English Dictionary* relevantly defines payment as:[6]

> **1**. A sum of money (or equivalent) paid or payable, esp. in return for goods or services or in discharge of a debt; wages, pay. ...
>
> **2.a.** The action or an act of paying money owed; the remuneration of a person with money or its equivalent, in discharge of a debt or in exchange for goods, services, etc.
>
> **2.b.** The paying of money or its equivalent *for*... goods, services, etc.

10. Case law has also held that payment can be in something other than money. In *Re Mataura Motors Ltd*, the Court of Appeal stated:[7]

> ... **the word "payment"** in itself is one which in an appropriate context **may cover many ways of discharging obligations** (*White v Elmdene Estates Ltd* [1960] I QB 1, 16; [1959] 2 All ER 605, 610, per Lord Evershed MR).
>
> ... the question of whether payment has been made **is not entirely dependent on the physical passing of cash** or a cheque. [Emphasis added]

[6] *Oxford English Dictionary* (online, accessed on 19 June 2025).

[7] *Re Mataura Motors Ltd* [1981] 1 NZLR 289 at 292.

Promissory note or bill of exchange

11. Payment for a supply can be made using a promissory note[8] or a bill of exchange.[9] These instruments, when provided in return for a supply of goods, discharge the payment obligation under the supply agreement and set up a separate payment obligation under the instruments themselves. By providing one of these instruments in return for a supply of goods, payment will no longer be required under the supply agreement; a payment obligation will exist only under the separate instrument.

12. A mere acknowledgment of debt does not constitute payment. If an instrument merely acknowledges the existence of a debt arising under a purchase agreement it is not possible to say that the payment obligation under the purchase agreement has been discharged. This is illustrated in Example | Tauira 2.

13. Whether a document is a promissory note, bill of exchange or mere acknowledgment of debt depends on whether the documents satisfy the relevant definitions, rather than what the document might be called.

14. Although not directly on point, the view that payment can be made using a promissory note or bill of exchange is also consistent with the definition of "money" in s 2, which includes a promissory note or bill of exchange.

15. However, for a promissory note to constitute payment, the promissory note must be genuine. The Commissioner may consider the application of the GST general anti-avoidance provision (s 76) if the supply is between associated persons and, for example, no realistic prospect exists of the recipient making payment under the promissory note. Section 76 is discussed further from [31].

16. The use of promissory notes is illustrated in Example | Tauira 1, Example | Tauira 2 and Example | Tauira 3.

[8] A promissory note is defined in s 84 of the Bills of Exchange Act 1908 as an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or to bearer.

[9] A bill of exchange is defined in s 3 of the Bills of Exchange Act 1908 as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer". A bank cheque, when they were still available, was an example of a bill of exchange. See *Laws of New Zealand* Bills of exchange, cheques, and promissory notes (LexisNexis, online ed, accessed 13 May 2025).

Example | Tauira 1 – Promissory note as payment

Mikaela's Garage Ltd enters into an agreement with Car Parts Are Us Ltd to purchase $20,000 of specialised car parts, which need to be imported from overseas. Payment is due on 20 November 2025. Mikaela's Garage Ltd is registered for GST on a payments basis.

The purchase agreement requires Mikaela's Garage Ltd to pay for the parts before taking possession. However, Mikaela's Garage Ltd is unable to make the payment on the due date.

After some negotiation, Car Parts Are Us Ltd agrees to accept a promissory note from Mikaela's Garage Ltd with payment to be made on or before 20 February 2026.

Mikaela gets some help and on 23 November 2025 prepares and delivers to Car Parts Are Us Ltd the following:

> **Deed of acknowledgement of debt**
>
> I, Mikaela Burns, director of Mikaela's Garage Ltd, hereby acknowledge that Mikaela's Garage Ltd is indebted to Car Parts Are Us Ltd in the sum of $20,000 and Mikaela's Garage Ltd promises to pay Car Parts Are Us Ltd $20,000 on or before 20 February 2026.

Despite being titled "Deed of acknowledgement of debt", this is a valid promissory note. It constitutes payment because it discharges the payment obligation under the supply agreement.

In this case, payment under the supply agreement is achieved on 23 November 2025. Among other things, this means that Mikaela's Garage Ltd is able to claim an input tax deduction in the GST period ended 30 November 2025 for the $20,000 of specialised car parts purchased.

Example | Tauira 2 – Transfer of property to trust

Cameron, who is not registered for GST, has inherited a holiday home from his father. His father had acquired the holiday home from a non-associated person in 2012 for $460,000.

Cameron decides to sell the holiday home to Thiseldome Ltd in its capacity as trustee of a trust settled by Cameron. The purchase price for the holiday home is $1 million. Settlement for the sale and purchase agreement is on 6 July 2026. On settlement, Thiseldome Ltd issues an acknowledgement of debt to Cameron, which refers to the sale and purchase agreement and states:

> I acknowledge that Thiseldome Ltd owes Cameron $1 million and that this is payable on demand.

The following month when Thiseldome Ltd's accountant is provided with the details of the sale and purchase agreement and the acknowledgement of debt, she points out that the acknowledgement of debt did not achieve payment for the supply. As a result, on 15 August 2026, a new acknowledgement of debt is prepared, which again refers to the sale and purchase agreement and states:

> Thiseldome Ltd promises to pay to Cameron $1 million on demand.

Thiseldome Ltd is registered for GST on an invoice basis and files two-monthly returns. It owns other holiday homes in the area and carries on a taxable activity of holiday home rental. It intends to use the holiday home acquired from Cameron in this activity as well.

Thiseldome Ltd is able to claim a $60,000[10] secondhand goods input tax deduction on the purchase of the holiday home in its GST return for the period ended 30 September 2026. The first acknowledgement of debt did not achieve payment for the purposes of the secondhand goods input tax deduction. It merely acknowledged the amount that was still payable under the sale and purchase agreement. However, on 15 August 2026 payment was achieved under the second acknowledgement of debt (which constitutes a promissory note despite being called an acknowledgement of debt). The second acknowledgement of debt discharged the payment obligation under the sale and purchase agreement and set up a separate payment obligation.

Variation – different payment schedule

Instead of promising to pay $1 million on demand under the second acknowledgement of debt, Thiseldome Ltd promises to pay $50,000 a year to Cameron for the next nine years and the balance ($550,000) in 10 years' time.

The result is the same. The acknowledgement of debt still discharges the payment obligation under the sale and purchase agreement. The different repayment schedule under the acknowledgement of debt does not make any difference.

[10] Under s 3A(3BB), the secondhand goods input tax deduction is limited to 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 (Cameron). This means that the deduction is limited to the tax fraction of the purchase price paid by Cameron's father, that is, $460,000 x 3/23 = $60,000. Section 3A(3BB) applies because Thiseldome Ltd is associated with Cameron (s 2A(1)(g) – trustee/settlor) and Cameron was associated with his father (s 2A(1)(c)(i) – blood relationship).

Example | Tauira 3 - Promissory note used in tax avoidance arrangement

Thomas, who is not registered for GST, owns a secondhand luxury car that he acquired new three years ago for $800,000.

Thomas sells the car to a trust for $500,000 (which is also the current market value). Thomas is a trustee and a beneficiary of the trust. On the same day, the trustees give Thomas a promissory note promising to pay Thomas $500,000 on demand.

The trustees are registered for GST. Thomas states that the trustees have acquired the car solely for use in a taxable activity of delivering online food orders.

The trustees do not have any significant funds or assets other than the luxury car they now own. They also do not have any other income earning activity.

The trustees claim a $65,217.39 secondhand goods input tax deduction on the purchase of the car.

The trustees argue that they have made payment for the car using the promissory note and are otherwise eligible for a secondhand goods input tax deduction.

In this case, the Commissioner might consider the application of the anti-avoidance provision in s 76 (discussed further from [31]). One of the concerns here is that the payment obligation under the promissory note may never be satisfied. This is because the food delivery activity is unlikely to generate enough profit to repay the loan principal and the trustees have no other significant funds, assets or income earning activity. There may also be concerns relating to private use of the vehicle and whether a taxable activity will eventuate. Further, there may be concerns if the arrangement involved a plan by Thomas to forgive the loan or settle money on the trust that would allow the trustees to repay the loan.

Payment by transferring property or providing services

17. Payment for the supply of goods or services could be made by transferring property or by providing services, as in a barter transaction.[11]

[11] In *White v Elmdene Estates* [1959] 2 All ER 605 (CA) at 610, Lord Evershed MR concluded that the word payment may cover many ways of discharging obligation, including a payment in kind. See also *Case T61* (1998) 18 NZTC 8,461 (TRA) where it was held that the recipient of a supply had made a payment by issuing shares to the supplier. In that case, the issue of the shares was subject to the supplier having a put option that allowed them to sell the shares back to the recipient after a certain date. The supplier attempted to exercise the put option, but the recipient was unable to comply and subsequently filed for bankruptcy. The supplier omitted the share component of the sale price from their return arguing that the issue of the shares did not constitute payment. The Taxation Review Authority held the issue of shares constituted payment by way of barter.

18. This is illustrated in Example | Tauira 4.

Example | Tauira 4 – Payment by issuing shares in company

Ranjna, who is not registered for GST, owns land that is suitable for a warehouse development. Ranjna agrees to sell the land to Dhillon Warehousing Ltd (DWL) for $3 million. DWL is registered for GST and files GST returns monthly.

DWL pays Ranjna a cash deposit of $300,000 when the agreement for sale and purchase is entered into on 1 April 2026.

Settlement takes place on 1 June 2026. On this date, a further cash payment of $700,000 is made. DWL also issues shares worth $2 million to Ranjna, which Ranjna accepts in part payment of the purchase price.

In this case, the deposit of $300,000 is paid by DWL and received by Ranjna on 1 April 2026. On these facts, there is no indication that the deposit is received by Ranjna in the capacity as a stakeholder.[12]

The cash payment of $700,000 is paid on settlement date.

The issue of shares is also a payment made on settlement date. The issue or transfer of shares is a common form of non-monetary payment.

Assuming other requirements are met, DWL may be able to claim a secondhand goods input tax deduction. However, a secondhand goods input tax deduction is available for a period only to the extent that payment has been made in the period.[13] In this example, this means that DWL is able to claim secondhand goods input tax deductions of $39,130.43 ($300,000 x 3/23) in the return for the period ended 30 April 2026 and $352,173.91 ($2,700,000 x 3/23) in the return for the period ended 30 June 2026.

Payment using an amount borrowed under a separate loan agreement

19. Payment will not be made if the purchase price for the supply of goods or services is simply deferred or left owing under the supply agreement.[14]

20. However, payment can be made by the purchaser borrowing an amount under a separate loan agreement with the supplier (or another person) and using the amount borrowed to satisfy the payment obligation under the supply agreement. By doing

[12] Payments to stakeholders are discussed from [52].

[13] Or in the relevant earlier period if a deduction is claimed in accordance with the proviso in s 20(3).

[14] *Case U31* (2000) 19 NZTC 9,293 (TRA).

this, payment will be made for GST purposes, even though the purchaser will still owe the supplier an amount under the separate loan agreement.

21. In *Nicholls,* Tipping J noted that the taxpayer in that case could have made payment by way of an external or vendor mortgage.[15] He stated at [30]:[16]

> … If he had settled the transaction in full when title became available, funding the purchase by way of an external or indeed a vendor mortgage, he would thereby have made payment of the whole balance and would have been entitled to an input tax credit on that basis.

22. A similar decision was made in *Faith Construction*.[17] In that case, a law change was announced that was to apply to certain supplies from 1 June 1984. In light of the announcement, the taxpayers in that case, who had existing building contracts with customers, entered into arrangements with their customers for payment by the customers to occur before 1 June 1984, which would avoid the application of the law change. In the case of two of the taxpayers, the arrangements involved payment by the customers with the condition that the building company would immediate lend back to the customers equivalent sums. The loans to the customers were to be repaid progressively as architects' certificates for work done were obtained. In the case of the other two taxpayers, the arrangements involved the payments being paid into a deposit account, only to be released for the company's use on the receipt of the architects' certificates. The Court of Appeal held that payment had been made under the supply agreements, notwithstanding the loans back to the customers or the conditions on the payments into the deposit account. The liability of the customers to pay under the supply contracts was discharged.

23. Bingham LJ concluded that there was a full upfront payment to the builder for the building work, despite the loan back, stating at 920:

> There is of course much law as to what in the absence of agreement amounts to payment, but in the contractual context my understanding is that A pays the price to B when he does that which B agrees to accept as payment of the price.

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[15] *Nicholls v CIR* (1999) 19 NZTC 15,233 (CA). The important point is that there is separate loan agreement. It is not important that the loan is secured by a mortgage, for example.

[16] See also *Case S99* (1996) 17 NZTC 7,622 (TRA) where it was held that payment was made when the recipient provided the supplier with an unconditional and irrevocable letter of credit from the recipient's bank, despite the letter of credit having a payment date six months in the future. A letter of credit from a third party constitutes a payment where it satisfies the recipient's payment obligations under the supply agreement and the supplier agrees to rely solely on the letter of credit to receive payment. See also *Re Mataura Motors Ltd* where a debenture was issued in satisfaction of a payment obligation; and *Case Q10* (1993) 15 NZTC 5,061 (TRA) where a payment was made when a taxpayer agreed to receive payment over time secured by a mortgage over property.

[17] *Customs and Excise Commissioners v Faith Construction Ltd* [1990] 1 QB 905 (CA).

24. This is illustrated in Example | Tauira 5.

Example | Tauira 5 - Payment with funds from separate loan agreement

Owen who is not registered for GST, owns shares in a courier company. On 30 March 2026, Owen sells a van that he owns in his own name to the company for $15,000. The company intends to use the van as a courier vehicle.

There is no payment of cash or bank transfer, but there is a loan agreement between Owen and the company under which Owen agrees to lend the $15,000 purchase price to the company. Company resolutions note the purchase of the van by the company from Owen and the loan made by Owen for the purchase price of the van. A credit entry is made in the company accounts "30 March 2026, Shareholder Loan – Owen, $15,000".

The company wants to know whether it can claim a secondhand goods input tax for the taxable period ended 31 March 2026.

The company can claim a secondhand goods input tax deduction. There has been a payment of $15,000 in the taxable period ended 31 March 2026. A separate loan agreement has been entered into that has discharged the payment obligation for the sale of the van. The secondhand goods input tax deduction may be limited if Owen owns enough shares to be associated with the company.[18]

Payment by set-off against existing debt

25. Payment for a supply could be made by set-off against an existing debt.

26. For example, if the supplier owed the recipient an amount under an existing debt, the amount payable by the recipient for the supply could be offset against the amount owed by the supplier to the recipient.

27. In *Healing Industries*, the High Court stated:[19]

> In the taxation context, the issue was considered by the Federal Court of Australia in *Whim Creek Consolidated NL v FC of T* 77 ATC 4,503. The taxpayer had lent money to a subsidiary. Subsequently, the subsidiary allotted shares to the taxpayer as fully paid. The amount payable on the allotment was set off against the advances received from the taxpayer. The Federal Court held that **the monies set off against the monies due on allotment were "monies paid on shares"** for the purposes of the relevant taxing provision.

[18] See IS 25/22 – Secondhand goods input tax deduction.

[19] *Healing Industries Ltd v CIR* (1988) 10 NZTC 5,115 at 5,118.

> What in my view emerges from these and other cases is that **in appropriate circumstances it can properly be held that a payment has been made by the release of a financial obligation or by the discharging of a contractual obligation**. I can see no reason why this general approach should not apply in these circumstances. The premium was the difference between the par value and the market value of the Healing shares transferred to the Avery Wood shareholders. The "payment" for that premium was effected by the transfer of the Avery Wood shares by the Avery Wood shareholders to Healing. The value of the Avery Wood shares is fixed by the agreement of the 15th December 1980 at the purchase price set out therein of $3,875,000. Part of the value of those shares was the consideration that passed for the premium portion of the value of the Healing shares. I am left in no doubt that any man of business would regard that premium as having been "paid" by the Avery Wood shares transferred to Healing. [Emphasis added]

28. See also *Case L34*[20], discussed at [37].

29. Payment by offsetting existing debt is illustrated in Example | Tauira 6.

Example | Tauira 6 – Payment by offsetting existing debt

Scott is registered for GST on the payments basis. Scott is a builder and has an account with Sharpest Edge Ltd for tool maintenance services. Scott owes $2,500 on his account.

Sharpest Edge Ltd has a workshop doorframe that needs fixing. Scott offers to take care of the doorframe for $250. Sharpest Edge Ltd agrees and reduces the amount owing on Scott's account by $250. On the same day, Sharpest Edge Ltd emails Scott an updated statement showing "3 December 2025, Payment (Thank you!) – services provided, $250 credit, balance $2,250".

Although there was no exchange of cash or bank transfer, Sharpest Edge Ltd has made a payment for Scott's services by offsetting the amount of the fee against the amount Scott owes on his account. Therefore, Scott will need to return GST for fixing the doorframe in his two-monthly GST return for the period ended 31 January 2026.

At the same time, Scott has made a $250 payment on his account for tool maintenance services. This means he will be able to claim input tax on the payment in the period ended 31 January 2026.

Not an economic equivalence approach

30. From an economic perspective there may appear to be no real difference between, for example, an amount left owing under a supply agreement or an amount owing under a

[20] *Case L34* (1989) 11 NZTC 1,204 (TRA).

separate loan agreement. However, a difference exists for GST purposes. Whether a payment has been made for GST purposes depends on the legal effect of the transactions entered into. This was discussed in *Nicholls*, where the Court of Appeal stated at [32]:

> As I understand him Mr Nicholls also argued that, in spite of the transaction being structured as a deferred payment, rather than as full settlement with a vendor mortgage, the Court should treat the transaction according to its general effect. It was suggested that the transaction should be treated as if there had been an exchange of cheques or the conveyancing equivalent. It is sufficient to say that this did not happen. The Court cannot proceed as if the transaction had been structured differently, or as if it had been carried out differently, on some sort of economic equivalence basis. **Tax is payable or not and deductions are allowable or not, in accordance with the legal consequences of the transaction into which the parties have entered, not upon the basis of what they might have done to achieve the same outcome.** [Emphasis added]

Anti-avoidance

31. The GST general anti-avoidance provision (s 76) may apply to arrangements where payment is technically established, but in a way that fails the parliamentary contemplation test.[21] This is illustrated in Example | Tauira 3.

32. *Glenharrow* provides an example.[22] In that case, a non-registered person supplied a mining licence to the taxpayer (who was registered) for $45 million. Except for an $80,000 deposit, payment was made by way of vendor finance. The Supreme Court accepted the taxpayer's argument that the vendor finance technically constituted payment for the purposes of the secondhand goods input tax deduction requirement. However, despite technical compliance with the input tax provision, the Supreme Court held that the arrangement was a tax avoidance arrangement, so was void for GST purposes.

33. The Supreme Court considered the size of the company purchaser, the company's lack of capitalisation or backing from its shareholder, the shrinking value of the mining licence and the mining licence's very limited practical life. On an objective view, the court found that the effect of the structure was to produce a GST refund totally disproportionate to the economic burden undertaken by the purchaser or the economic benefit obtained by the vendor from the vendor finance. On the facts in

[21] The parliamentary contemplation test is discussed in IS 23/01 Tax avoidance and the interpretation of the general anti-avoidance provisions sections BG 1 and GA 1 of the Income Tax Act 2007 *Tax Information Bulletin* Vol 35, No 2 (March 2023): 8. Although IS 23/01 primarily relates to the Income Tax Act 2007, it is also relevant to the s 76.

[22] *Glenharrow Holdings Ltd v CIR* [2008] NZSC 116.

Glenharrow, the payment for the supply was artificial because realistically the purchaser could not repay the $45 million vendor finance.

Accounting entries as evidence of a payment

34. Accounting entries can provide at least some evidence that a payment has occurred. However, accounting entries may not always be sufficient.

35. This is because whether a payment has been made depends on the legal effect of the transactions that have been entered into. The legal effect may not be clear solely from the accounting entries and more evidence may be needed (for example, a separate loan agreement or a clear company resolution). For example, an accounting entry simply showing an amount owing from a recipient to a supplier could reflect either a separate loan agreement used to pay for a supply or a situation where part of the purchase price has merely been left owing under the supply agreement (without a separate loan agreement).

36. The burden of proving that payment under the supply agreement has occurred is on the registered person. It may be difficult for the registered person to satisfy this burden if they are relying solely on accounting entries.

37. In *Case L34*,[23] the Taxation Review Authority considered whether payment was made through accounting entries. It also illustrates how a payment can be made by set-off against existing debt (see from [25]), so it is useful to describe the facts in some detail here.

38. In *Case L34*, incoming shareholders subscribed for shares in a company. The incoming shareholders paid for the shares using amounts lent to them by the company's principal shareholder. The loan from the principal shareholder to the incoming shareholders was reflected in entries made to the current accounts the shareholders had with the company. The entries included a debit to the principal shareholder's current account (which reduced a separate debt owed by the company to the principal shareholder) and corresponding credit entries to the current accounts of the incoming shareholders. This essentially transferred credit with the company from the principal shareholder to the incoming shareholders. Debit entries were then made to the current accounts of the incoming shareholders to pay for their share subscriptions. In that case, the parties to the dispute accepted that the book entries reflected loans from the principal shareholder to the incoming shareholders.

39. The Taxation Review Authority held that a payment may be made by accounting or book entries only, if the entries relate to a genuine transaction. However, the authority

[23] *Case L34* (1989) 11 NZTC 1,204.

also noted that it is not good practice to merely rely on book entries. The authority stated at 1,212:

> In my view, there is no doubt that "payment" is wider than the mere transferring of cash. **Accounting entries which cause crediting in account, by debiting to another account, amount to "payment". A payment may be made in a number of forms and by means other than a physical transfer of cash**. I am in no doubt that payments of subscriptions for shares may be made in non-cash forms. **Payments may be made by accounting or book entries only, if bona fide in relation to a genuine transaction**. I am satisfied that the procedures followed by the company and the objectors did amount to a "payment" in respect of the shares subscribed for by the objectors. **Those accounting entries reflected genuine commitments between the parties.** However, **I do not think it is good practice to merely rely on book entries to record non-cash transactions.** Professional advisers usually require formal agreements or some sort of documentation or, at least, a careful series of company resolutions. [Emphasis added]

40. The absence of accounting entries does not mean a payment has not been made. Funds borrowed under a separate loan agreement could be legally set off against a payment obligation under a supply agreement. This would result in a payment under the supply agreement – even if accounting entries to reflect this are not made until later. However, depending on other evidence available, the timing of the accounting entries could influence the determination of when the payment was made.

41. The relevance of accounting entries was also discussed in *Case K60*:[24]

> The resolution purported to divide the amount of the tax free dividend in issue, $23,375, among the shareholders of the company by declaring it to be credited to their current accounts. **It seems to me that any book entry or accounting thereafter would be no more than evidence** of the performance of the resolution by the directors. As in the case of realisation, so in the case of the type of distribution being considered, **I do not think it is necessary for** an actual cash payment to be made or **a book entry to be made** evidencing such or a transfer of interest in the capital sum, for it to be a "transaction", if not also a "payment". [Emphasis added]

42. The relevance of accounting entries is illustrated in Example | Tauira 7 and Example | Tauira 8.

Example | Tauira 7 – Transferring assets to a new company

Camila has been carrying on a taxable activity in her own name for the last two years but has decided it is time to incorporate a company, Churros by Camila Ltd, to carry on the activity. Camila owns 100% of the shares in the company.

[24] *Case K60* (1988) 10 NZTC 487 (TRA) at 494-495.

On 5 May 2026, Camila sells her churro making equipment to the company for $2,000. The company is registered for GST on a payments basis.

The company has no cash yet, so no cash payment could be made for the equipment.

However, the following journal entries are made in the company's accounts:

Assets

5/05/2026	Equipment	$2,000 debit

Liabilities

Shareholder current account – Camila

5/05/2026	Loan - equipment	$2,000 credit

Camila wants to know whether the company, which is registered for GST on a payments basis, can claim an input tax deduction for the equipment.

Accounting entries can provide at least some evidence that a payment has occurred, but accounting entries may not always be sufficient.

In this case, other than the reference in the accounting entry to a "loan", no evidence exists of a loan entered into. There is also no suggestion that the purchase price obligation has been set off against an amount owing by Camila to the company (like in *Case L34*).

The burden of proving that a payment has been made is on the company. In these circumstances, the company has not satisfied the onus of proving that there is a separate loan agreement and, therefore, that a payment has been made. Therefore, the company cannot claim an input tax deduction yet.

Example | Tauira 8 – Proving a separate loan agreement was entered into

Abida runs school holiday music programmes and is registered for GST on a payments basis.

On 28 November 2025, Abida purchases instruments from Soulful Sounds for $1,500 (including GST) for a holiday programme she intends to run in January and February 2026. Abida pays Soulful Sounds $750 on 28 November, and Soulful Sounds agrees to take the remaining $750 in February once Abida has run her holiday programme.

Soulful Sounds records the following entry in its accounts: "28 November 2025, Rising Stars loan scheme – Abida, $750 debit.

Abida claims an input tax deduction for the full $1,500 in her return for the two months ended 30 November 2025.

Inland Revenue reviews Abida's return for the period ending 30 November 2025. Inland Revenue requests bank statement information from Abida and other information from Soulful Sounds relating to transactions with Abida. Inland Revenue notices that Abida has claimed a deduction for $1,500 despite only paying $750 in the period. There is no evidence of any discussion between Abida and Soulful Sounds in November 2025 about a loan. As part of the review, Soulful Sounds accounting records, including the entry above, are obtained as they relate to Abida. Soulful Sounds also provides Inland Revenue with information it received from its accountant when it first set up its Rising Stars loan scheme. The advice noted that one of the advantages of the scheme (other than encouraging music education) was that purchasers who accounted for GST on the payments basis could claim deductions upfront.

After the GST review has started, Abida and Soulful Sounds provide a completed Rising Stars loan programme application. The form has been recently completed but is backdated to 28 November 2025.

Although Soulful Sounds has a loan scheme and has recorded the debt as a loan in its accounts, there is little objective evidence that Soulful Sounds and Abida actually entered into a separate loan agreement or even discussed the nature of the amount left to pay in November 2025. Little (if any) weight is likely to be placed on the recently completed application form.

The burden of proving there was a separate loan agreement is on Abida. On the evidence available, there is a risk that Inland Revenue will not accept the existence of the loan and will propose an adjustment to her return to deny part of deduction claimed. In the absence of a separate loan agreement, it appears that Abida has paid only $750 in the period ended 30 November 2025.

Abida would have been in a better position to satisfy her burden of proof if she and Soulful Sounds had completed a Rising Stars loan programme application at the time of purchase.

If part of the deduction is disallowed in the period ended 30 November 2025, Abida would be able to claim it in the period ended 31 March 2026, assuming she pays the remaining $750 in that period.

Deferred payment

43. Specific deferred payment scenarios are considered in QB 23/06: GST – goods purchased on deferred payment terms.[25] QB 23/06 considered four types of agreement and provided guidance as summarised in Table | Tūtohi 1:

Table | Tūtohi 1 Deferred payment

Summary – for payments basis persons	
Type of agreement	**When an input tax deduction can be claimed**
Standard sales agreement	When and to the extent that payment has been made.
'Buy now, pay later' (BNPL) agreement	Typically, when the agreement is entered into as the BNPL provider pays for the supply in full.
Hire purchase agreement	When the agreement is entered into.
Layby sales agreement	When property in the goods is transferred, typically after final payment has been made.

44. As stated at [19] of this interpretation statement, payment will not be made if the purchase price of the supply of goods or services is simply deferred or left owing under the supply agreement. Store credit accounts are an example of a standard sales agreement offering deferred payment terms.

45. As discussed at [20], payment can be made by the purchaser borrowing an amount under a separate loan agreement with the supplier (or another person) and using the amount borrowed to satisfy the payment obligation under the supply agreement. By doing this, payment will be made for GST purposes, even though the purchaser will still owe the supplier an amount under the separate loan agreement. Buy now, pay later (BNPL) agreements are an example of this. Under BNPL agreements, payment is typically made at the time the supply and the BNPL agreements are entered into. This is because the BNPL provider has paid for the goods or services in full, and the recipient of the supply has entered into a separate agreement with the BNPL provider.

[25] QB 23/06: GST – goods purchased on deferred payment terms *Tax Information Bulletin* Vol 35, No 6 (July 2023).

46. Specific time of supply rules apply in the case of hire purchase agreement[26] and layby sales agreements.[27]

47. Where goods and services are supplied under a hire purchase agreement, the supply is deemed to take place at the time the agreement is entered into (even though payment has not been made under the hire purchase agreement).

48. Where goods and services are supplied under a layby sales agreement, the supply occurs when property in the goods is transferred, typically after final payment has been made.

A deposit is a payment

49. The Commissioner's view is that the payment of a deposit under a supply agreement constitutes a payment for the supply. This applies equally to conditional and unconditional contracts.[28]

50. An alternative view, not accepted by the Commissioner, is that a deposit does not constitute a payment until the supply agreement has been completed. This alternative view is based on the idea that a deposit's primary purpose is as a guarantee or surety provided by the purchaser. However, the Commissioner considers that a purpose of a deposit is also to provide a part payment of the purchase price.

51. This is discussed further in IS 10/03: GST – time of supply – payments of deposits, including to a stakeholder.[29] IS 10/03 also discusses payments to stakeholders.

When a payment is made to a stakeholder

52. Sometimes a payment for a supply is made to a person to hold until a condition of the supply contract is satisfied. A person who receives such a payment is commonly called a stakeholder.

53. For example, where a deposit is paid to a real estate agent for the purchase of land, the real estate agent may hold the deposit for the parties as a stakeholder. A stakeholder generally holds the amount in a contractual or quasi-contractual capacity for the supplier and recipient, not as agent for the supplier.

[26] Section 9(3)(b).

[27] Section 9(2)(c).

[28] A conditional contract refers to a binding contract that is subject to conditions, as opposed to a case where conditions exist that must be satisfied before there will be a binding contract.

[29] IS 10/03: GST – time of supply - payments of deposits, including to a stakeholder *Tax Information Bulletin* Vol 22, No 6 (July 2010): 7.

54. Where the recipient of a supply makes a payment to such a stakeholder, for GST purposes, the recipient has not made, and the supplier has not received, a payment. Therefore, assuming no invoice has been issued, the time of supply is not triggered for the supply.[30]

55. For GST purposes, the recipient does not make, and the supplier does not receive, the payment unless and until the stakeholder pays the amount to the supplier or is holding the amount only for the benefit of the supplier.[31] For example, once an agreement becomes unconditional and the stakeholder's obligations are at an end, the amount is held for the supplier's benefit and the payment is received by the supplier from that point in time.

56. A supplier can be a stakeholder.[32] Where a payment is made to a supplier in their capacity as stakeholder, for GST purposes payment will not occur until they receive a beneficial interest in the payment (that is, when the conditions of the supply contract are satisfied).

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Case U31 (2000) 19 NZTC 9,293 (TRA)

[30] Section 9(1).

[31] IS 10/03 at [44].

[32] IS 10/03 and *CIR v Dormer* (1997) 18 NZTC 13,446 (HC).

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About this document | Mō tēnei tuhinga

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