

PRODUCT RULING - BR Prd 12/02

This is a product ruling made under s 91F of the Tax Administration Act 1994.

Name of the person who applied for the Ruling

This Ruling has been applied for by Auckland Transport.

Taxation Laws

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

This Ruling applies in respect of ss 5(11E), 5(11F), 8(1), 9(1), 10, 24(6)(b) and 60.

Exceptions

This Ruling does not consider or rule on the GST treatment of:

- payments that Auckland Transport makes to Transport Operators under cl 3.4 of the Settlement Agreement
- amounts that are forfeited and become the property of Auckland Transport under the HOP Card Terms of Use
- administration fees Auckland Transport may charge Cardholders under the HOP Card Terms of Use.

The Arrangement to which this Ruling applies

The Arrangement is the sale of a smartcard-based ticketing media (HOP Card) issued by Auckland Transport for use on the Auckland public transport network to a member of the public (Cardholder), and:

- the loading of an amount of stored value to be used for travel on buses, trains or ferries (HOP Money product); or
- the loading of a bus, train or ferry pre-paid trip (for travel between specific points) (pre-paid trip product); or
- the loading of a bus, train or ferry period pass (period pass product);

onto the purchased HOP Card and the use of the HOP Card by a Cardholder to undertake the appropriate travel.

Auckland Transport is a body corporate and a council-controlled organisation of the Auckland Council, established by s 38 of the Local Government (Auckland Council) Act 2009. Auckland Transport is “resident” in New Zealand and is a “registered person” and a “local authority” as those terms are defined in s 2(1).

Further details of the Arrangement are set out in the paragraphs below.

Background

1. Public transport within the Auckland region is currently highly fragmented and is provided by a number of independent transport operators, each of which has its own fare structure and ticket formats.
2. Public transport in the Auckland region comprises three modes of transport: bus, train and ferry.
 - Buses in the Auckland region carry around 50 million passengers a year, and are provided by several different operators. Each operator has its own fare structure and ticketing options, although in some cases a multi-operator pass is available.
 - Trains in the Auckland region carry around nine million passengers a year. Auckland Transport is responsible for planning, developing and operating the Auckland train network, and contracts the day-to-day running of the train network to an independent commercial transport operator.
 - Nine ferry services in the Auckland region transport around five million passengers a year. Auckland Transport contracts ferry operators to run some of these services. However, the majority of passenger ferry services are run by four independent companies.
3. Three “types” of arrangement exist between Auckland Transport and the transport operators providing public transport services in the Auckland region (Transport Operator/s): gross contracts, net contracts and commercial registration.
 - Gross contracts are based on the gross operating price payable by Auckland Transport to the Transport Operator for providing the service. The Transport Operator is reimbursed at an agreed rate for the operating costs associated with providing the service. Auckland Transport bears any revenue risk.
 - Net contracts are based on the net cost payable by Auckland Transport to the Transport Operator for performing the service after the deduction of fare revenue earned by the operator. The Transport Operator is reimbursed a tendered rate, so bears the revenue risk for providing the service.
 - A commercial registration arrangement is where Transport Operators are responsible for registering a commercial service. The services are operated without funding assistance from Auckland Transport, and the Transport Operator bears all the revenue risk.
4. The type of arrangement held between Auckland Transport and Transport Operators will impact on the revenue allocated to each Transport Operator per customer transaction, as well as the nature in which revenues are settled between Transport Operators.
5. Transport Operators are “resident” in New Zealand and are “registered persons” as those terms are defined in s 2(1).

Auckland integrated fare system

6. To improve public transport accessibility and efficiency, Auckland Transport intends to introduce an integrated fare system (AIFS) using smartcard technology. Under the AIFS, all Transport Operators servicing the Auckland region will operate under the same fare structure, and customers will be able to purchase tickets to use transport with all Transport Operators in the region. The new AIFS will enable Cardholders to travel on Auckland's public transport using a variety of smartcard products: pre-paid trips, period passes and HOP Money (AIFS Products) across multiple operators and modes.
7. Auckland Transport will be responsible for the overall management and oversight of the AIFS.
8. Retailers for AIFS Products (Retailers), other than Auckland Transport and Transport Operators, have yet to be decided. However, it is likely that there will be a large number of Retailers, and that the number of approved Retailers will increase, and change, with time. Retailers are "resident" in New Zealand and are "registered persons" as those terms are defined in s 2(1).
9. Retailers will pay all funds received from the sale of HOP Cards (Issuance Fees) and AIFS Products into a separate "ring fenced" bank account (Stakeholder Account) controlled and administered by Auckland Transport as Stakeholder.

Relevant documents

10. The documents relevant to the Arrangement are the:
 - Settlement Agreement to be entered into between Auckland Transport and each Retailer and Transport Operator, which will be in a form that is not materially different to the "Settlement Agreement" supplied to Inland Revenue on 4 May 2012 (Settlement Agreement).
 - HOP Cards Terms of Use that govern a Cardholder's possession and use of a HOP Card, in a form that is not materially different to the "HOP Cards Terms of Use" supplied to Inland Revenue on 4 May 2012 (Terms of Use).

Clearing and settlement

11. Clearing and settlement entails the identification and distribution of earned revenues between Transport Operators, Retailers and Auckland Transport. Auckland Transport will be responsible for apportioning funds between these relevant parties for all transactions performed over an agreed number of business days, and the subsequent revenue earned by each party will be based on apportionment rules as defined by Auckland Transport.

Settlement Agreements

12. Auckland Transport will enter into a Settlement Agreement with each licensed Transport Operator and Retailer (AIFS Participant).
13. Clause 1.1 of the Settlement Agreement contains the following relevant definitions:
- AIFS** means the Auckland integrated fare system to be managed by AT [Auckland Transport] on and from the Start Date;
- AIFS Product** means the Pre-paid Trip Product, Period Pass Product or HOP Money Product and AIFS Products has a corresponding meaning;
- ...
- Cardholders** means holders of the HOP Cards;
- Card Terms of Use** means the general terms of use, as amended from time to time by AT, that apply to the use of the HOP Cards;
- ...
- HOP Cards** means the AIFS cards issued by AT;
- HOP Money Product** means the stored monetary value a Cardholder has loaded onto a HOP Card;
- ...
- Issuance Fee** means the fixed fee to purchase a HOP Card as set by AT from time to time;
- ...
- Period Pass Product** means a pass credit loaded onto a HOP Card allowing the Cardholder to undertake unlimited travel within a particular area for a specified number of days;
- Pre-paid Trip Product** means a discounted trip credit loaded onto a HOP Card for trips over a specified number of stages for buses and trains or with a particular ferry service;
- ...
- Retailers** means retailers of the HOP Cards and the AIFS Products appointed from time to time by AT;
- ...
- Stakeholder** means AT as appointed pursuant to clause 3.1;
- Stakeholder Account** means the [*Insert details of account*] controlled and administered by AT on behalf of AT, the Transport Operators and the Retailers or such replacement account;
- ...
- Transport Operators** means the operators of passenger transport services in the Auckland region that agree to take part in AIFS on the terms set out in this agreement.
14. The Settlement Agreement will appoint Retailers to sell HOP Cards as agents for Auckland Transport. Clause 2.1 of the Settlement Agreement provides as follows:
- 2.1 Sale of HOP Cards:** each Retailer is appointed to sell HOP Cards as agent for and on behalf of AT;

15. The Settlement Agreement will appoint Auckland Transport and all other Retailers to sell AIFS Products as agents for each Transport Operator with whom an AIFS Product voucher is ultimately redeemed. Clause 2.2 of the Settlement Agreement provides as follows:

2.2 Sale of AIFS Products: AT and each Retailer is appointed to sell AIFS Products as agent for and on behalf of each Transport Operator with whom, and to the extent that, an AIFS Product voucher is ultimately redeemed.

16. The Settlement Agreement will appoint Auckland Transport as the Stakeholder. Clause 3.1 of the Settlement Agreement provides as follows:

3.1 Appointment of Stakeholder: On and from the Start Date, the parties agree that AT is appointed as Stakeholder to establish, control and maintain the Stakeholder Account.

17. The Settlement Agreement will provide that, for GST purposes, Auckland Transport and each Retailer, as agent for the Transport Operator, is selling a "voucher" to the Cardholder (and not "travel"). Clause 4.1 of the Settlement Agreement provides as follows:

4.1 GST Treatment of HOP Cards and AIFS Products: On and from the Start Date, the parties agree to account for GST on the sale and purchase of HOP Cards and AIFS Products in accordance with the Product Ruling. For GST purposes, AT and each Retailer, as agent for the Transport Operator, sell a "voucher" to the Cardholder (and not "travel"). GST is not due and payable when a HOP Card is purchased or when AIFS Products are loaded onto the HOP Card.

18. The Settlement Agreement will provide that Retailers will not issue a "tax invoice" or a "credit note" or a "debit note" (as those terms are defined in s 2(1)) on behalf of Auckland Transport or a Transport Operator in relation to the sale of a HOP Card or an AIFS Product. Clause 4.2 of the Settlement Agreement provides as follows:

4.2 No Tax Invoices Issued by Retailers: AT and each Retailer agree not to issue a "tax invoice", "credit note" or "debit note" to any Cardholder on behalf of AT or a Transport Operator for the sale of a HOP Card or AIFS Product.

19. The Settlement Agreement will provide for the payment of commission by Auckland Transport to Retailers for providing sales services to Auckland Transport as manager of the AIFS. Clause 5.1 of the Settlement Agreement provides as follows:

5.1 Sales Commission: To the extent that the AIFS Participant is a Retailer, AT will pay commission to the AIFS Participant for providing sales services to AT as manager of AIFS.

Stakeholder Account

20. The Settlement Agreement will provide that all Issuance Fees Cardholders pay on the sale and purchase of HOP Cards and all amounts Cardholders pay on the sale and purchase of AIFS Products will be paid into the Stakeholder Account. The Settlement Agreement will also set out how and when funds received from the sale of HOP Cards and AIFS Products are to be deposited into the Stakeholder Account. Clause 3.2 of the Settlement Agreement provides as follows:

3.2 Deposit of Amounts into Stakeholder Account: All amounts collected from the sale and purchase of HOP Cards (Issuance Fees) and the sale and purchase of AIFS Products will be paid into the Stakeholder Account in accordance with the following provisions:

- (a) **Funds Collected by Retailers:** All amounts paid by Cardholders to Retailers will be paid into the Stakeholder Account by the Retailers. Each Retailer agrees to initially process and bank such amounts into the Retailer's bank account on the Business Day received (or if not received on a Business Day then the next available Business Day) and then to settle such amounts into the Stakeholder Account at the end of that same Business Day or next available Business Day;
 - (b) **Cash Collected by Vending and Reload Devices:** Cash takings collected by third parties appointed by AT via vending and reload devices will be paid by the third parties into the Stakeholder Account at the end of each Business Day received (or if not received on a Business Day then the next available Business Day);
 - (c) **Credit Card and Eftpos Amounts:** Amounts collected by credit card or eftpos via vending and reload devices, the MAXX Customer Contact Centre or the MAXX website will be paid into the Stakeholder Account at the end of each Business Day such sums are received (or if not received on a Business Day then the next available Business Day); and
 - (d) **Payments by AT:** Amounts collected by cash, credit card or eftpos by AT at its ticket offices or via its website will be paid into the Stakeholder Account at the end of each Business Day such sums are received (or if not received on a Business Day then the next available Business Day).
21. Funds Retailers deposit into the Stakeholder Account will form a pool out of which payments will be made to Auckland Transport for the supply of HOP Cards and to Transport Operators for the supply of AIFS Products. The transactions performed using stored value, pre-paid trips or validation of period passes will be used to apportion the relevant amounts owed to each Transport Operator. With the exception of pre-paid ferry trips, funds held in the Stakeholder Account from the sale of AIFS Products will not be allocated to Transport Operators until a trip has actually been taken by a Cardholder using an AIFS Product. The amount settled will consider the number of trips taken by Cardholders for each Transport Operator, as well as factors such as the product type, trip distance and type of contractual or commercial arrangement between Auckland Transport and the relevant Transport Operator. The amount of funds to be apportioned to each Transport Operator per Cardholder's trip will largely depend on the type of AIFS Product used by the Cardholder.
22. Clause 3.3 of the Settlement Agreement sets out how amounts held in the Stakeholder Account will be apportioned and provides as follows:
- 3.3 Apportionment of Amounts from Stakeholder Account:** All amounts collected from the sale and purchase of HOP Cards and AIFS Products and paid into the Stakeholder Account pursuant to clause 3.2 will be held in the Stakeholder Account and apportioned by the Stakeholder in accordance with the following provisions:
- (a) **Payments to AT:** Payments will be made from the Stakeholder Account each Business Day to AT for:
 - (i) **Issuance Fees:** Issuance Fees collected that Business Day (or if not collected on a Business Day then the next available Business Day); and
 - (ii) **Refunds:** Any refund of the remaining balance of HOP Money Products loaded on a HOP Card requested by a Cardholder in accordance with the Card Terms of Use;
 - (b) **Payments to Transport Operators:** Payments will be made from the Stakeholder Account to Transport Operators in accordance with the following provisions:

- (i) **HOP Money Products:** For transport journeys undertaken using the HOP Money Product, the Stakeholder will apportion amounts out of the Stakeholder Account to Transport Operators each Business Day (or the next available Business Day) based on usage of HOP Money Products that day as calculated by AT. Deductions will be made for any discounts or concessions offered by AT to Cardholders using the HOP Money Product;
 - (ii) **Pre-Paid Trip Products:** For transport journeys undertaken using the Pre-paid Trip Product, the Stakeholder will apportion amounts out of the Stakeholder Account as follows:
 - (A) to bus and train Transport Operators, each Business Day (or the next available Business Day) based on usage of Pre-paid Trip Products that day as calculated by AT; and
 - (B) to ferry Transport Operators, the full amount collected from a Cardholder for the Pre-paid Trip Product will be paid to the Transport Operator on the Business Day the Pre-paid Trip Product is loaded on a HOP Card (or if not loaded on a Business Day then the next available Business Day);
 - (iii) **Period Pass Products:** For transport journeys undertaken using the Period Pass Product, the Stakeholder will apportion amounts out of the Stakeholder Account as follows:
 - (A) to bus and train Transport Operators, based on the proportion of Period Pass trips undertaken by Cardholders with the respective Transport Operator, once the Transport Operator's entitlement has been calculated by AT and within seven days of a Period Pass Product expiring; and
 - (B) to ferry Transport Operators, the full amount collected from a Cardholder for the Period Pass Product will be paid to the Transport Operator on the Business Day the Period Pass Product is loaded on a HOP Card (or if not loaded on a Business Day then the next available Business Day).
23. Under cl 4.3 of the Settlement Agreement each Transport Operator will agree to account for GST on payments received from the Stakeholder Account. Clause 4.3 provides as follows:
- 4.3 Transport Operators to Account for GST:** Each Transport Operator agrees to account for GST on payments received from the Stakeholder Account pursuant to clause 3.3(b).
24. Under cl 3.4 of the Settlement Agreement, Auckland Transport will separately reimburse Transport Operators for the difference between any amounts a Transport Operator receives from the Stakeholder Account for any concessionary fare and/or discount offered by Auckland Transport and the full fare amount for that journey, out of Auckland Transport's own bank account. Clause 3.4 of the Settlement Agreement provides as follows:
- 3.4 Compensation for Discounts and Concessionary Fares:** AT will separately reimburse in full Transport Operators the difference between any amounts a Transport Operator receives from the Stakeholder Account in accordance with clause 3.3(b)(i) for any concessionary fare and/or discount offered by AT from time to time to Cardholders using the HOP Money Product and the full fare amount for that journey.
25. All amounts collected from the sale of HOP Cards and AIFS Products will be paid into the Stakeholder Account controlled by Auckland Transport (see para 20). Auckland Transport will not derive any benefit from holding the money while it remains in the central Stakeholder Account apart from retaining any interest earned, which it will apply towards the costs of operating the Stakeholder Account.

26. The Stakeholder will hold and have available, sufficient records to establish the particulars of all transactions relating to the sale of HOP Cards and AIFS Products, including (but not limited to) details of all deposits made by Retailers into the Stakeholder Account and all payments made to Auckland Transport and to each individual Transport Operator out of the Stakeholder Account.

HOP Card

Purchase of HOP Card

27. As part of the AIFS, Cardholders will be able to use HOP Cards to pay for travel on any bus, rail and ferry public transport service provided by public Transport Operators in the Auckland region. The HOP Card will be accepted by all public Transport Operators in the Auckland region. HOP Cards will need to be "topped up" with stored value or loaded with another AIFS Product before they can be used to purchase travel.
28. All HOP Cards will remain the property of Auckland Transport. Clause 8.3 of the Terms of Use provides as follows:
- 8.3** all HOP Cards will remain our property at all times and we retain the right to manage and change the software and data on the HOP Cards at any time;
29. Cardholders will be able to purchase a HOP Card for a non-refundable fixed fee (Issuance Fee) (currently \$10 inclusive of GST) from Auckland Transport ticket offices, a network of third party Retailers and online via the Auckland Transport website. The purchase of a HOP Card will give the Cardholder the right to load AIFS Products onto the card and to use the pre-loaded AIFS Products to undertake travel in the Auckland region, in accordance with the terms and conditions of the HOP Card Terms of Use and the relevant Transport Operator.
30. Under cl 31 of the Terms of Use no invoice or tax invoice will be provided to a Cardholder when they purchase a HOP Card or an AIFS Product. Clause 31 provides as follows:
- 31. GST:** The charges and other amounts payable to us or our Retail Agents under these Terms are stated and payable in New Zealand dollars inclusive of any GST, if any. No invoice or tax invoice will be provided to you when you purchase a HOP Card or load any Products on a HOP Card. If you need to make an expense claim or GST claim, please use a printout from your Online Account as a basis for your claim.
31. In relation to the initial sale of a HOP Card, the Settlement Agreement will (see paras 14-23):
- Appoint Retailers (who may include Transport Operators) as agents for Auckland Transport to sell HOP Cards on its behalf.
 - Provide that all Issuance Fees paid by Cardholders on the sale and purchase of a HOP Card will be paid into the Stakeholder Account administered by Auckland Transport as Stakeholder.
 - Set out the terms and conditions of the stakeholder relationship, including details of how and when money received from the sale of a HOP Card to a Cardholder will be paid into the Stakeholder Account and how and when amounts will be paid by the Stakeholder to Auckland Transport out of the Stakeholder Account.
32. Under the Terms of Use of the HOP Card, Cardholders will be entitled to use a HOP Card to pay for public transport journeys using any of the AIFS Products. Clause 4 of the Terms of Use provides as follows:

4. **HOP Cards:** You may use a HOP Card to pay for public transport journeys provided by public transport operators (**Public Transport Operators**) in the Auckland region using any of the following System products (**Products**):
 - 4.1 **HOP Money:** stored money value loaded onto a HOP Card (**HOP Money**), which can be used to purchase public transport journeys or paper tickets for public transport journeys;
 - 4.2 **Period Pass:** a pass credit loaded onto a HOP Card allowing you to have unlimited journeys within a number of days (**Period Pass**); or
 - 4.3 **Pre-paid Trip:** a discounted trip credit loaded onto a HOP Card for trips over a number of stages for buses and trains or a particular ferry service (**Pre-Paid Trip**).
33. Auckland Transport will apply the Issuance Fee towards the following:
 - a non-refundable travel deposit, allowing the Cardholder to end a journey with a negative balance;
 - various administrative costs associated with implementing the AIFS and issuing the card;
 - the cost of the card itself.
34. Cardholders will be able to register their HOP Cards online. Registration will enable the Cardholder to protect any AIFS Products stored on their card. Registered HOP Cards that are damaged, lost or stolen will be able to be replaced at a reduced fee.
35. A single HOP Card will be able to hold all three AIFS Products (pre-paid trips, period passes and stored value) simultaneously. The HOP Card will not be able to be used to purchase other goods or services.
36. When a Cardholder wants to travel on public transport using an AIFS Product, they will need to use their HOP Card to “tag on” before starting their trip and “tag off” when disembarking a bus or ferry or exiting a station or ferry wharf. When a Cardholder tags on and off, the respective boarding and alighting locations will be recorded as part of the transaction, as well as the time and date, route, device number and operator identification number. The AIFS will use this tag on and tag off information to calculate the relevant fare to be paid and to deduct or validate AIFS Products that have been loaded onto the Cardholder’s HOP Card.

Stored value reserve and nominal fare

37. Because the AIFS cannot predict the type of trip a Cardholder will take from the tag-on event alone, regardless of the type of AIFS Product used to travel, every time a Cardholder tags on to board a new service a “nominal fare” will be deducted from the “stored value reserve” of the Cardholder’s HOP Card. The nominal fare will vary depending on the transport mode and will equate to a reasonable fare should the Cardholder fail to tag off.
38. When the Cardholder tags off as they complete their trip, one or more of the following will occur:
 - the validity of any period pass will be verified;
 - an appropriate pre-purchased stage trip will be deducted;
 - the actual fare will be calculated and deducted from the stored value purse.

The nominal amount of stored valued deducted at the tag-on event will be credited back to the HOP Card “stored value reserve” on successful tag-off.

39. If a Cardholder fails to tag off after a trip has been completed, the nominal fare will not be re-credited to the stored value reserve of the HOP Card and will represent the fare paid for the trip taken. Therefore, the Cardholder will be charged the amount of the nominal fare for undertaking a trip on the service. Transport Operators under a net contract or commercial service will be apportioned the nominal fare amount for the trip taken in this instance.
40. The stored value balance and the status of all other AIFS Products loaded onto a HOP Card will be displayed each time the HOP Card is tagged on and off at a "fare payment device" or "electronic gate". When tagging on, the current stored value balance, pre-paid trip balance or period pass expiration date will be communicated to the Cardholder via the device display. At the end of the trip when the Cardholder tags off, the fare payment device or electronic gate will display the fare paid using stored value and the remaining stored value balance, the validation of a pre-paid trip being used to pay a fare and the pre-paid trip balance; or state the validation of an applicable period pass and the pass expiration date.

Cancellation of a HOP Card

41. All Cardholders who have registered their HOP Card online and who want to discontinue their use of a HOP Card that has stored value remaining on it, will be entitled to apply to Auckland Transport for a refund of the remaining balance, less an administration fee, on surrendering the card. Auckland Transport will not provide refunds for unused period passes or pre-paid trips loaded onto a Cardholder's HOP Card. Clause 11.1 of the Terms of Use provides as follows:

11. Cancellation and Refund:

11.1 If your HOP Card is registered on our Website (**Registered HOP Card**) you may apply to cancel your HOP Card and receive a refund in cash of the remaining HOP Money on your HOP Card (less a \$10 administration fee) within 14 days of surrender of your HOP Card. Only unused HOP Money can be refunded. No refunds are available for Period Passes or Prepaid Trips or paper tickets purchased using HOP Money. Any refund given by us is inclusive of any goods and services tax (GST).

42. A HOP Card will expire if it is not used for a continuous period of two years. When a HOP Card expires, any remaining stored value reserve and any remaining AIFS Products will be forfeited and become the property of Auckland Transport. Clause 9 of the Terms of Use provides as follows:

9. **Expiry:** The HOP Card (including any Products loaded on the HOP Card) will expire if the HOP Card is not used, no refund is requested, the HOP Card is cancelled, or no Products are loaded onto the HOP Card for a continuous period of two years. When a HOP Card expires, any Products remaining on the HOP Card will be forfeited and become our property on and from the date the HOP Card expires.

AIFS Products

43. In relation to the sale of AIFS Products, the Settlement Agreement will (see paras 14-23):
- Appoint Retailers as agents for Transport Operators to sell AIFS Products on their behalf.
 - Provide that all amounts Cardholders pay on the sale and purchase of an AIFS Product will be paid into the Stakeholder Account administered by Auckland Transport as Stakeholder.

- Set out the terms and conditions of the stakeholder relationship, including details of how and when money received from the sale of an AIFS Product to a Cardholder will be paid into the Stakeholder Account and how, when and what amount of funds held in the Stakeholder Account will be apportioned by the Stakeholder and paid out of the Stakeholder Account to Transport Operators for the sale of AIFS Products.

HOP Money product

44. Stored value (HOP Money) is an electronic record of monetary value that has been pre-loaded onto a HOP Card. The AIFS HOP Money stored-value product allows Cardholders to store money on a HOP Card that can be used at a later date to undertake travel of equivalent value to the amount stored on the card. The Cardholder will be able to use stored value on a HOP Card to undertake travel on all bus, train and ferry services provided by any Transport Operator in the Auckland region.
45. HOP Cards will be able to be “topped up” with stored value at Auckland Transport ticket offices, through a network of Retailers, through self-service vending machines located within some stations and large transport exchanges, by calling the MAXX Customer Contact Centre and online via the Customer Web Portal.
46. By default, when a Cardholder initially purchases a HOP Card, the stored value purse will have a zero balance and a stored value reserve amount. Cardholders will be able to end a trip with a negative stored value balance. However, to initiate a journey, a Cardholder must have a zero or positive stored value balance.
47. The HOP Money product will be used when any pre-paid trip product and/or period pass product that may be on the HOP Card does not match the specific trip undertaken by the Cardholder ascertained from the tag-on and tag-off events.
48. The minimum amount of stored value that can be added to a HOP Card will be \$5 (including GST). HOP Cards are currently only able to store a maximum of \$200 at one time. Clause 34 of the Terms of Use provides as follows:
 - 34. HOP Money:**
 - 34.1 Each time you add HOP Money to a HOP Card, you must add at least \$5 (incl. GST). You will only be able to add HOP Money equal to or above these minimum loadable values.
 - 34.2 The maximum amount of HOP Money that may be held on a HOP Card is \$200 (incl. GST).
 - 34.3 Notwithstanding section 23 (Right to Refuse), Public Transport Operators may permit you to commence a public transport journey, and to complete each leg of the route, as long as there is a positive or \$0.00 HOP Money balance on the HOP Card at the start of your journey. HOP Money contained on multiple HOP Cards cannot be combined to pay a single fare.
49. Cardholders may be provided with various discounts when using stored value to undertake travel including a stored value discount, stored value daily fare capping and transfer discount.
 - Stored Value Discount – a 10% discount on the adult cash fare that would have been charged for the same journey.

- Stored Value Daily Fare Capping – a daily fare cap, whereby any travel initiated after that fare cap has been reached will not incur a charge.
 - Transfer Discount – a discount for transfers between different train and bus services to reduce the overall cost of using public transport for people who need to use multiple services to complete their journey. The transfer discount will apply only for transfers taken within a 30-minute period.
50. HOP Cards can be topped up an infinite number of times, unless they are reported lost or stolen or are cancelled for some other reason.
51. If a HOP Card has been registered online, the Cardholder will be able to “top up” online. The stored value balance on a registered HOP Card that is lost, stolen or damaged will be able to be transferred to a replacement card.
52. Cardholders will be able to obtain a refund of any stored value on their HOP Card from Auckland Transport if they choose to cancel the card. However, if a HOP Card is not cancelled and remains inactive for more than two years the stored value will become the property of Auckland Transport (see para 42).
53. No interest will be payable to, or by, Cardholders in respect of any positive or negative AIFS Smartcard balance.

Revenue flows resulting from topping up stored value on a HOP Card

54. The topping up of stored value onto a HOP Card involves:
- the Cardholder
 - the Retailer
 - Auckland Transport
 - the Transport Operator.
55. The flow of funds resulting from the topping up of stored value onto a HOP Card is as follows:
- (i) The Cardholder pays the amount of topped-up stored value to be loaded onto their HOP Card to the Retailer (as agent for each Transport Operator with whom the HOP Money product is ultimately redeemed).
 - (ii) The Retailer pays the funds on a daily basis to the Stakeholder.
 - (iii) The Stakeholder clears the funds to the Transport Operator.
56. Funds collected from stored value top-ups will be paid to Transport Operators daily, based on actual usage. Each journey a Cardholder takes using stored value has a set fee that is determined by the number of travel zones covered. The amount of funds to be paid to each Transport Operator will be based on the total value of trips taken by Cardholders and the amounts deducted from stored-value balances.
57. Transport Operators with whom HOP Money products are ultimately redeemed will not elect to treat the supply made on redemption as a supply of goods and services.

Pre-paid trip product

58. Pre-paid trips are discounted trip credits that are loaded onto (and stored electronically on) a Cardholder's HOP Card for future use. The trips are defined by the number of stage points a Cardholder wishes to travel for a bus or train service or the particular ferry service a Cardholder wishes to travel on.
59. For bus and train services, Cardholders will be able to purchase pre-paid trips for a point-to-point journey between two specific points. The Transport Operator could be any bus or train operator providing travel between those points. The particular bus or train Transport Operator providing the service will not be known until a Cardholder actually uses the pre-paid trip product to undertake a journey. Pre-paid trips for travel on a ferry service will be for travel on a particular ferry service with an identifiable ferry Transport Operator.
60. Pre-paid trips must be purchased in multiples of 10, with a maximum of 40 stage-based pre-paid trips and 40 service-based pre-paid trips being able to be stored on a HOP Card at any one time. HOP Cards will only be able to store one type of stage-based pre-paid trip and one type of service based pre-paid trip at one time.
61. A HOP Card will need to be loaded with a pre-paid trip product, before a Cardholder can use it to undertake the appropriate travel. Pre-paid trip products will be able to be loaded onto HOP Cards at Auckland Transport ticket offices, through a network of Retailers, through self-service vending machines located within some stations and large transport exchanges, by calling the MAXX Customer Contact Centre and online via the Customer Web Portal.
62. To use a pre-paid trip, Cardholders must tag on to the transport service when they board, and tag off the transport service before disembarking or leaving the station or ferry wharf. If the journey matches a pre-paid trip, then the pre-paid trip is used. If the journey undertaken does not match the pre-paid trip type, either stored value or an applicable period pass will be used instead.
63. If a HOP Card has been registered online, the Cardholder will be able to set up automatic renewals of pre-paid trips. Pre-paid trips that are stored on a registered HOP Card that is lost, stolen or damaged will be transferable to a replacement card.

Revenue flows resulting from purchase of a pre-paid trip product

64. The sale and use of a pre-paid trip product involves:
 - the Cardholder
 - the Retailer
 - Auckland Transport
 - the Transport Operator.
65. The flow of funds resulting from the purchase of a pre-paid trip product is as follows:
 - (i) The Cardholder pays the cost of the pre-paid trip product to the Retailer (as agent for each Transport Operator with whom the pre-paid trip is ultimately redeemed).
 - (ii) The Retailer pays the funds on a daily basis to the Stakeholder.
 - (iii) The Stakeholder clears the funds to the Transport Operator.

66. Bus and train Transport Operators will be paid for each individual trip Cardholders take on their service using a pre-paid trip product. Funds collected from the sale of bus and train service pre-paid trips and held in the Stakeholder Account will be apportioned and paid to bus and train Transport Operators at the end of each day, based on the actual usage of pre-paid trips by Cardholders on a Transport Operator's service on that day.
67. Ferry Transport Operators will be paid (from the Stakeholder Account) the full amount collected from the sale of a pre-paid trip product, on the day it is loaded onto the Cardholder's HOP Card.
68. Transport Operators provide the actual transport to holders of pre-paid trips. Cardholders do not pay Transport Operators directly for their services.

Period pass product

69. The period-pass is an electronic product that is stored on a HOP Card. To purchase a period pass under the AIFS, a customer must hold a HOP Card.
70. A period pass will entitle a Cardholder to unlimited travel within the defined travel area for a specified number of days. A travel period begins on the date that a period pass is activated for the first time by the Cardholder tagging on with a Transport Operator. A travel period ends when the specified number of days has elapsed since the period pass was first activated.
71. For the purpose of period passes, the Auckland region will be split into three travel zones, with period passes being available for travel within either a single zone, which must be specified at the time of purchase, or all zones. Bus and train period passes will be available for unlimited bus and train travel within a defined number of zones, but will not be able to be used on ferry services.
72. Ferry period passes will be service based and operator specific, meaning that a period pass will be able to be used for unlimited travel on a specific ferry service. Ferry period passes will not be able to be used for bus or train travel.
73. HOP Cards will only be able to store one type of bus and train period pass and one type of ferry period pass at one time. However, a new period pass may be loaded onto a HOP Card up to seven days before expiry of the current period pass.
74. A HOP Card will need to be loaded with a period pass product, before a Cardholder can use it to undertake the appropriate travel. Period pass products will be able to be loaded onto HOP Cards at Auckland Transport ticket offices, through a network of Retailers, through self-service vending machines located within some stations and large transport exchanges, by calling the MAXX Customer Contact Centre, and online via the Customer Web Portal.
75. To use a period pass, passengers must tag on to the transport service when they board, and tag off the transport service before disembarking or leaving a station or ferry wharf. If the travel begins and ends within the defined travel area of the period pass, then the period pass will be used. If the actual travel begins or ends outside the geographic area covered by the period pass, the fare will be deducted from the Cardholder's stored value purse or pre-paid trips balance (depending on availability of products on the HOP Card).

76. If a HOP Card has been registered online, the Cardholder will be able to set up automatic renewals of period passes.
77. Period passes that are stored on a HOP Card that is lost, stolen or damaged may be transferred to the replacement card, if the original card was registered online.

Revenue flows resulting from purchase of a period pass product

78. The sale and use of a period pass product involves:
 - the Cardholder
 - the Retailer
 - Auckland Transport
 - the Transport Operator.
79. The flow of funds resulting from the purchase of a period pass product is as follows:
 - (i) The Cardholder pays the cost of the period pass product to the Retailer (as agent for each Transport Operator with whom the period pass is ultimately redeemed).
 - (ii) The Retailer pays the funds on a daily basis to the Stakeholder.
 - (iii) The Stakeholder clears the funds to the Transport Operator.
80. Funds collected from the sale of all period passes will be held in a revenue pool in the Stakeholder Account, until such time as each Transport Operator's entitlement is able to be determined. Funds collected from bus and train period passes will be paid to bus and train Transport Operators based on the proportion of period pass trips undertaken by Cardholders. Therefore, even when a period pass has been used to initiate travel with a particular Transport Operator, it will not be possible to determine the amount that a particular Transport Operator is entitled to, as this will be dependent on the proportion of total trips initiated with the period pass. For example, if only one bus or train trip is undertaken by a Cardholder using a period pass, the relevant Transport Operator will receive 100% of the purchase price of the period pass; if 100 bus and/or train trips are undertaken using a period pass, Transport Operators will receive only 1% of the purchase price of the period pass for each trip they provided to the Cardholder.
81. Funds collected from the sale of bus and train period passes will be paid to bus and train Transport Operators within seven days of the period pass expiring. Funds collected from the sale of a ferry period pass will be paid to the relevant ferry Transport Operator on the day it is loaded onto the Cardholder's HOP Card.
82. Transport Operators provide the actual transport to holders of period passes. Cardholders do not pay Transport Operators directly for their services.

How the Taxation Laws apply to the Arrangement

The Taxation Laws apply to the Arrangement as follows:

- The sale of a HOP Card is a supply of goods and services by Auckland Transport subject to GST under s 8(1).

- Under s 9(1), the time of supply of a HOP Card is the earlier of the time an invoice is issued or the time the funds are paid out of the Stakeholder Account to Auckland Transport.
- Under s 10, the value of the supply will be such amount as, with the addition of the GST charged, is equal to the Issuance Fee received by Auckland Transport for the HOP Card.
- Loading a HOP Money product onto a HOP Card is the issue or sale of a voucher with a face value which is treated as a supply under s 5(11E), and which is subject to GST under s 8(1).
- Under s 60, the supply of each HOP Money product voucher shall be deemed to be made by the Transport Operator with whom, and to the extent that, the HOP Money product voucher is redeemed.
- Under s 5(11F), there is no supply of goods and services when a HOP Money product voucher is redeemed by a Cardholder by undertaking travel with a Transport Operator.
- Under s 9(1), the time of supply of each HOP Money product voucher is the earlier of the time an invoice is issued or the time the funds are paid out of the Stakeholder Account to the Transport Operator with whom the HOP Money product voucher is redeemed.
- Under s 10, the value of the supply of each HOP Money product voucher will be such amount as, with the addition of the GST charged, is equal to the amount of money paid out of the Stakeholder Account to the Transport Operator with whom the HOP Money product voucher is redeemed.
- Loading a pre-paid trip product onto a HOP Card is the issue or sale of a voucher with no face value, which is treated as a supply of goods and services under s 5(11E), and which is subject to GST under s 8(1).
- Under s 60, the supply of each pre-paid trip product voucher shall be deemed to be made by the Transport Operator with whom, and to the extent that, the pre-paid trip product voucher is redeemed.
- Under s 5(11F) there is no supply of goods and services when a pre-paid trip product voucher is redeemed by a Cardholder.
- Under s 9(1), the time of supply of each pre-paid trip product voucher is the earlier of the time an invoice is issued or the time the funds are paid out of the Stakeholder Account to the Transport Operator with whom the pre-paid trip product voucher is redeemed.
- Under s 10, the value of the supply of each pre-paid trip product voucher will be such amount as, with the addition of the GST charged, is equal to the amount of money paid out of the Stakeholder Account to the Transport Operator with whom the pre-paid trip product voucher is redeemed.

- Loading a period pass product onto a HOP Card is the issue or sale of a voucher with no face value which is treated as a supply of goods and services under s 5(11E), and which is subject to GST under s 8(1).
- Under s 60, the supply of each period pass product voucher shall be deemed to be made by the Transport Operator with whom, and to the extent that, the period pass product voucher is redeemed.
- Under s 5(11F), there is no supply of goods and services when a period pass product voucher is redeemed by a Cardholder.
- Under s 9(1), the time of supply of each period pass product voucher is the earlier of the time an invoice is issued or the time the funds are paid out of the Stakeholder Account to the Transport Operator with whom the period pass product voucher is redeemed.
- Under s 10, the value of the supply of each period pass product voucher will be such amount as, with the addition of the GST charged, is equal to the amount of money paid out of the Stakeholder Account to the Transport Operator with whom the period pass product voucher is redeemed.
- Under s 24(6)(b), Retailers will not be required to issue a tax invoice for the sale of HOP Cards or AIFS Products.
- The provision of sales services by a Retailer to Auckland Transport is a supply of services by the Retailer subject to GST under s 8(1).
- Under s 9(1), the time of supply of the sales services is the earlier of the time an invoice is issued by the Retailer or Auckland Transport or the time payment of commission is received by the Retailer from Auckland Transport.
- Under s 10, the value of the supply will be such amount as, with the addition of the GST charged, is equal to the amount of commission received by the Retailer from Auckland Transport.

The period or income year for which this Ruling applies

This Ruling will apply for the period beginning on 1st June 2012 and ending on 1st June 2015.

This Ruling is signed by me on the 1st day of June 2012.

Fiona Heiford
 Manager (Taxpayer Rulings)