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## **PRODUCT RULING – BR PRD 16/05**

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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 Sovereign Services Limited.

### **Taxation Laws**

All legislative references are to the Income Tax Act 2007 unless otherwise stated.

This Ruling applies in respect of ss CA 1, CE 1, and EW 3.

### **The Arrangement to which this Ruling applies**

The Arrangement is the offering of retail discounts and a points based reward scheme to the three categories of members of a scheme offered by Sovereign Services Limited (Sovereign). **The number of reward points determines the amount of each member's "cash back" reward" and "gym cash back voucher".** Cash back rewards are between \$50 - \$100 and gym cash back vouchers are between \$25 - \$50. The retail discounts are offered to all members irrespective of the number of reward points earned by the member.

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

### ***Summary of the Reward Scheme***

1. **The points based reward scheme is called "Healthy by Sovereign". It encourages members to become healthier by awarding points for exercising, receiving regular medical check-ups and consuming nutritious food. A member will be ranked as bronze, silver, gold or platinum depending on the number of points that they have accumulated.**
2. If the member earns a certain number of points within a twelve month period, they will be rewarded with a cash back reward payment. Members are also eligible for other benefits including special discounts, gym cash back vouchers and

exclusive offers. However, only silver, gold and platinum members will receive gym cash back vouchers to obtain additional discounts at a Gym Partner.

3. Membership will be open to customers (who have a health insurance policy for which they are the life assured), advisers (third party advisers with a current agency agreement), and permanent employees of Sovereign.

### **Membership**

4. Entry into the Healthy by Sovereign scheme is voluntary and is free of charge.
5. There are three categories of membership:
  - Customer Membership: An individual who is at least 16 years of age and is life assured under a retail health insurance policy or eligible group scheme with Sovereign (includes employees and advisers who have an eligible insurance policy with Sovereign).
  - Adviser Membership: Third party advisers who have a current agency agreement with Sovereign and are accredited to sell Sovereign health products. **For the purposes of this ruling the phrase "Adviser" refers to those Adviser Members who are treated by Sovereign as employees for tax purposes.**
  - Sovereign Employee Membership: A permanent employee of Sovereign.
6. If a person is eligible for more than one membership, they will automatically be added to only one membership category based on the following order of priority: (1) Customer, (2) Adviser, and (3) Sovereign Employee.
7. Membership is only available to individuals. Membership cannot be shared. There is no family, company, trust or joint membership.

### **Partnership Agreements**

8. Sovereign has entered into a number of Partnering Agreements with Gym Partners who will provide all Healthy by Sovereign members with an upfront fee discount. Sovereign will not subsidise this discount and it will be fully funded by the Gym Partner. If, however, a member reaches silver, gold or platinum status, Sovereign will issue the member with a gym cash back voucher to redeem at a Gym Partner. In this instance the Gym Partner will invoice Sovereign for reimbursement of the discount provided to the member.
9. Sovereign has entered into agreements with Retail Partners who will provide all members of Healthy by Sovereign with discounted goods and / or services regardless of their level of membership.
10. Sovereign will not reimburse Retail Partners and Gym Partners for the cost of discounts provided to the three categories of members.

### **Reward points and cash back rewards**

11. Only Customer Members and Adviser Members are eligible for the cash back reward. Sovereign Employee Members are only eligible for gym cash back vouchers, Gym Partner discounts and Retail Partner discounts.
12. Whenever a member completes a specified healthy activity they will earn reward points. Activities that earn reward points include purchasing fresh meat, fruit and vegetables, completing a gym workout, reaching a certain number of daily steps, and going for annual doctor and dentist check-ups.
13. The number of points earned by a member will determine which of the four membership levels they will be accredited with. The cash back rewards are calculated on the basis of the level that has been achieved as at their membership anniversary date. The cash back reward payment will only be paid to members who reach Silver (\$50), Gold (\$75) or Platinum (\$100) status. The maximum annual cash back reward is capped at \$100.
14. The terms and conditions provide that reward points are not transferrable and cannot be redeemed for cash. Gym cash back vouchers and other rewards are non-transferable, not exchangeable for cash, cannot be replaced if expired, can only be redeemed once, and can only be used if the person is a member of Healthy by Sovereign.
15. **At each member's anniversary date, the member's points will be reset to zero, and the member will be automatically reclassified into the Bronze category. A member's points cannot be carried over to a subsequent year.**
16. The anniversary dates for each membership category are outlined below:
  - Customer Membership – six weeks before their Sovereign health insurance policy renews.
  - Adviser Membership – the date that the adviser registered for Healthy by Sovereign.
  - Employee Membership – the date the employee registered for Healthy by Sovereign.
17. A member can lose the points they have been allocated if they are involved in any dishonest or fraudulent activity with regard to the programme.

### **Termination of Membership or the Scheme**

18. A member may terminate their membership at any time. All accumulated points will automatically expire.
19. If Sovereign cancels the program, members will be allowed to access their benefits for a period of 30 days from the date of the notification of termination.

## **Conditions stipulated by the Commissioner**

This Ruling is made subject to the following four conditions:

- a) There are no differences in the terms and conditions of the employment of "Employee Members" and any employees who have not elected to join the Healthy by Sovereign scheme.
- b) There are no differences in the terms and conditions of the employment of "Adviser Members" and any "Adviser Members" who have not elected to join the Healthy by Sovereign scheme.
- c) There are no differences in the terms and conditions of the reward scheme offered under the Arrangement at any time to "Employee Membership" and "Customer Membership", other than the exclusion of "Employee Members" from the cash back reward payment.
- d) There are no differences in the terms and conditions of the reward scheme offered under the Arrangement at any time to "Adviser Membership" and "Customer Membership".

## **How the Taxation Laws apply to the Applicant and the Arrangement**

Subject in all respects to any condition stated above, the Taxation Laws apply to the Arrangement as follows:

- a) No income arises to a Healthy by Sovereign member under s CA 1(2) when the member receives a cash back reward payment.
- b) No income arises under s CE 1 for an "Adviser Member" who does not operate as a company.
- c) No income arises under the "financial arrangement rules" as defined in s YA 1 as the Healthy by Sovereign scheme is not a "financial arrangement" as defined by s EW 3.

## **The period or income year for which this Ruling applies**

This Ruling will apply for the period beginning on 1 April 2016 and ending on 31 May 2019.

This Ruling is signed by me on the 5<sup>th</sup> day of July 2016.

**Howard Davis**

Director (Taxpayer Rulings)