

TAX INFORMATION BULLETIN NO.1

JULY 1989

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Dear Reader

The Taxation Information Bulletin is our new publication to replace both the Technical Policy Circulars and Public Information Bulletin. It will also include Accruals determinations which are currently issued separately and included in the TIB.

The TIB will provide a regular information service on interpretation of taxation legislation and tax practice and will be issued at least once a month.

The new format will provide information in summary form. More detailed information such as Accruals determinations and Legislation commentaries will be provided in a separate Appendices to the TIB. Our aim is to provide a more efficient service.

You will have the options of:

- a. Receiving all appendices with the TIB.
- b. Receiving TIB only and request Appendices which are of specific interest to you.

With the first two/three issues of the new TIB you will automatically receive the appendices. A questionnaire will be included in the third issue so you can let us know whether you wish to receive, in future, all appendices or just the TIB.

We are also interested in hearing your reaction to the new approach and will look to make further improvements on an on-going basis.

David Henry
Commissioner of Inland Revenue

LAND CORPORATION LTD OFFER TO FARMERS TO REPAY MORTGAGES OUTSTANDING

Landcorp is currently offering, to mortgagors, the opportunity to repay their outstanding mortgage at a discount.

There are two types of financial arrangements involved:

- Type i. A fixed principal fixed term mortgage
- Type ii. A current account mortgage where further sums are advanced as further development is needed to bring the farm up to a viable unit. These further advances are subject to satisfactory development of the farm, in terms of a development plan agreed to at the time of entry into the mortgage. As there are further conditions to be met before any further advance is made these mortgages are

not regarded as variable principal debt instruments. Once the farm is developed to the stage of being a viable unit the mortgage is converted to a type i. mortgage. Enquiries with Land Corp revealed that all of these mortgages were originally entered into before the commencement of the accrual tax accounting regime, and their terms are such that they are not affected by the accrual tax accounting regime. There are 360 farmers from Whangarei to Te Anau to whom this offer has been made.

This means that the amount of the debt forgiven will not be assessable income to the farmer concerned.

A media release, based on the above, was made by the Deputy Commissioner Technical on 9 May 1989. A copy of that release was produced in PIB 182.

EAST COAST, NORTH ISLAND DROUGHT

In a recent Press Release issued jointly by the Ministers of Finance and Agriculture most of the East Coast of the North Island has been declared an Adverse Events Area because of the drought experienced up to the end of April 1989.

The areas covered by the declaration are the counties of Waiapu, Cook, Waikohu, Wairoa, Hawkes Bay, Waipawa, Waipukurau, Masterton, Wairarapa South and Featherston: Dannevirke County east of Highway 2 to the coast, Eketahuna County east of Alfredton. Since the termination of section 94 of the Income Tax Act 1976, the income tax effects of the declaration of an Adverse Event Area has diminished to some extent. However, that section will still be operative where the present drought is a "further occurrence" (see the proviso to section 94(2)). This provision will only apply where a farmer was unable to replace capital livestock, sold as a result of an earlier adverse event, because of the current drought.

Farmers in the drought area will be able to take advantage of the declaration by making use of the income spreading provisions of the Income Equalisation Scheme. Normally deposits made to the scheme can only be withdrawn after 12 months. Where an area has been declared an Adverse Event Area the Commissioner of Inland Revenue has the authority to make refunds from the scheme at an earlier date. This will enable the income arising from the forced sale of capital stock to be deposited in the scheme and withdrawn when that stock is replaced. The scheme also provides for early refunds, from funds already deposited, where those refunds are used to undertake development or repair work arising from the adverse event that was unforeseen at the time the deposit was made. The Commissioner can also authorise early refunds "to avoid the suffering by the taxpayer of serious hardship."

TAX DEDUCTIONS ON PAYMENTS TO SCHOOL TRUSTEES

The Department has been asked to clarify the tax status of allowances paid to members of the Boards of Trustees recently set up as part of the changes in the education sector.

A payment of \$55.00 gross is made to each school board trustee for each board meeting attended, to a maximum of 10 meetings per year. The payments are in the nature of honoraria and are therefore subject to tax deductions at the rate of 33 cents in the dollar pursuant to clause 5 of Part B of the Schedule to the Income Tax (Withholding Payments) Regulations 1979.

As these payments are not income from employment any expenditure directly incurred by school board trustees in attending board meetings that meets the requirements of the Income Tax Act 1976 may be claimed as a deduction.

BUYER - CREATED INVOICES AND THE "NETTING OFF" OF SUPPLIES

INTRODUCTION

The purpose of this item is to establish guidelines for determining a registered persons GST liability where that person calculates their liability to tax by accounting for the net amount of a supply only.

BACKGROUND

In some cases, especially in the supply of agricultural products, a form of buyer-created invoice is used that contains both output and input tax components. For example, a dairy company contracts with a farmer to purchase milk on a daily basis and issues a buyer-created invoice on behalf of the farmer. The farmer receives a payment reflecting a net amount after the deduction of items such as commission, freight, levies, processing charges etc. In addition to these charges, there may be a further deduction for goods and services that the farmer has purchased from the dairy company, such as fence posts, drench, fuel, groceries etc.

COMMENT

When the reduction in the net value is a result of charges directly relating to the establishment of the value of a supply, these charges may be accepted in most cases as an internal cost or component of the calculation used by the recipient. Charges other than these internal costs cannot be interpreted as anything other than a supply from the recipient to the supplier.

The following guidelines are to be used to distinguish between the acceptable netting off of internal costs incurred by the recipient (dairy company) and the mak-

ing of separate supplies which are used to offset the tax liability to the supplier (farmer).

(a) Where the reduction in the net value is a result of charges made directly in connection with ascertaining the value or the quantity, volume or quality of a supply, that reduction in output tax liability may be accepted and the net consideration established prior to any other deductions for unrelated supplies shall be considered to be the consideration for the supplier's total taxable supply.

(b) Where the buyer-created invoice notifies the supplier of purchase made from the recipient who has issued that invoice, those purchases and the amount that the consideration is reduced by, will be regarded as an expense incurred by the supplier. An input tax deduction may be made if a supporting tax invoice has been supplied and the goods and services were acquired for the principal purpose of making taxable supplies.

It may be difficult to determine if some charges are in fact an internal cost or whether a supply has been made, e.g., freight.

The question should be asked, who is the recipient of the supply? Is the charge a disbursement or does the dairy company own its own trucks and merely identify the charge separately for accounting purposes?

GST - SECONDHAND GOODS CREDIT - LIVESTOCK PROGENY, WOOL, DEER VELVET, MOHAIR ETC

BACKGROUND

It has been brought to the Department's attention that a number of registered persons have continued to claim an imputed secondhand goods credit in respect of items which are outside the scope of the definition of secondhand goods. In particular, woolbuyers have made representations in respect of wool purchased from unregistered farmers.

FACTS

Section 2 of the Goods and Services Tax Amendment Act 1988 amended the meaning of secondhand goods in section 2 of the Goods and Services Tax Act 1985 with effect from 24 March 1988. The effect of this amendment was that the term "secondhand goods" should apply to goods that had been previously owned by another person for their own use. This is the common meaning of secondhand goods. The definition as amended may still include goods such as trading stock, livestock and pets where those goods have previously been owned by another person for their own use. The definition ensured that goods such as livestock progeny, wool, deer velvet, mohair and other items "produced" would not be classed as secondhand goods.

DECISION

Where wool is purchased by an unregistered farmer and later sold to a woolbuyer the woolbuyer may claim a secondhand goods credit in respect of that purchase. Where the wool is produced by the unregistered farmer and sold to the woolbuyer, no imputed credit is allowed as the wool does not come within the definition of secondhand goods. This item confirms the policy stated in PIB 174 and has effect from 24 March 1988, the date of assent of the Goods and Services Tax Amendment Act 1988.

INCOME TAX AMENDMENT (NO. 5) ACT 1988 - PART IV

The Income Tax Amendment Act (No. 5) 1988 received the Royal Assent on 16 December 1988.

The appendix to the Taxation Information Bulletin explains in detail the provisions contained in Part IV of the Act which cover the following matters.

Part A Imputation

Part B Dividend Withholding Payment Regime

Part C Branch Equivalent Tax Accounts

Part D Imputation Related Amendments

The remainder of the provisions in Part IV of the Act which relate to the definition of dividends, fringe benefit tax and excess retention tax will be covered in a future Taxation Information Bulletin.

Reference: Appendix to TIB No.1 July 1989

DUE DATES REMINDER

August 1 GST return and GST payment for period ended 30 June due.

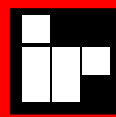
August 7 Due date to pay second instalment 1990 Provisional Tax for taxpayers with December balance dates.

Due date to pay first instalment 1990 Provisional Tax for taxpayers with April balance dates.

Due date to pay third instalment 1989 Provisional Tax for taxpayers with August 1988 balance dates.

August 20 July Tax Deductions payment due.
July Non-Resident Withholding Tax Deductions payment due.

TAX INFORMATION BULLETIN



INLAND
REVENUE

TE TARI TAAKE

THIS IS AN INLAND REVENUE DEPARTMENT SERVICE
TO PEOPLE WITH AN INTEREST IN THE TECHNICAL ASPECTS
OF TAXATION IN NEW ZEALAND.