

TAX INFORMATION BULLETIN NO.2

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BUDGET NIGHT LEGISLATION

INTRODUCTION

This item briefly explains the taxation provisions introduced into the House on Budget night and passed through all stages under urgency. The measures were contained in Parts I and II of the Finance Bill (No 5) 1989. Those Parts are enacted as the Income Tax Amendment Act (No 3) 1989 and the Land Tax Amendment Act 1989.

Issues covered are:

1. PAYE tax deductions and specified superannuation contribution withholding tax deductions.
2. National superannuitant's surcharge.
3. Retirement tax.
4. Family support credit of tax.
5. Guaranteed minimum family income tax credit.
6. Land tax.

Legislation commentaries are provided in Appendix A to this TIB.

1. PAYE TAX DEDUCTIONS AND SPECIFIED SUPERANNUATION CONTRIBUTION WITHHOLDING TAX DEDUCTIONS

(Sections 6 to 11 and 14 of the Income Tax Amendment Act (No 3) 1989).

At present PAYE deductions and specified superannuation contribution withholding tax (SSCWT) deductions are paid to the Commissioner once a month on the 20th of the month after the month in which the source deduction payments or contributions were made. That is, if the source deduction payments or contributions were made in January, the payments to the Commissioner would be due by the 20th of February.

From 1 May 1990, payments of PAYE deductions and SSCWT deductions must be paid to the Commissioner twice monthly. (Sections 6 to 9).

Payments for the first half of the month (from the 1st to the 15th day) will be due on the 20th of the month, and payments for the second half of the month (from the 16th to the end of the month) will be due on the 5th of the next month.

This new arrangement will commence in May 1990 and will apply as follows:

- i. All PAYE and SSCWT deductions for the month of April 1990 will be payable to the Commissioner by 5 May 1990; and
- ii. From 1 May 1990 the twice monthly payment arrangement as set out above will apply.

These changes also apply to employees who pay their own tax deduction, i.e. IR 56 taxpayers. (Section 10).

2. NATIONAL SUPERANNUITANT SURCHARGE

(Section 4 of the Income Tax Amendment Act (No 3) 1989)

This section provides that only one half of pensions and annuities from registered superannuation schemes and certain life insurance funds will be subject to the national superannuitant surcharge.

The Income Tax Amendment Act 1989 reformed the taxation treatment of private superannuation schemes. That Act put in place the taxed/taxed/exempt tax regime which means that all earnings of superannuation schemes are taxed as derived and that benefits (pensions and annuities) paid after 1 April 1990 will be tax free. However it was intended at that stage that pensions and annuities would continue to be subject to the national superannuitant surcharge where that applied. It is now considered that it is more appropriate that only half of these pensions and annuities are subject to the surcharge.

Where taxpayers make any investment other than pension or superannuation contributions they will pay tax, and surcharge if applicable, on the income derived from that investment but not on the amount of capital invested when that amount is returned to them.

However income from pensions and superannuation schemes received by pensioners and superannuitants generally comprise both income and capital elements. Although it is not possible to identify the precise composition of pension and superannuation payments, a 50 percent apportionment is considered a reasonable proxy. Treating only half of a pension or annuity as surchargeable income, recognises the capital element of any superannuation or pension payment and is therefore consistent with the tax and surcharge treatment of other types of investment.

3. RETIREMENT TAX

(Sections 2, 3, 5, and 15 of the Income Tax Amendment Act (No 3) 1989)

The Government announced in the Budget that a portion of the current tax take would be attributed to the cost of National Superannuation. The retirement tax regime will clearly identify the contribution each taxpayer makes to the support of the elderly.

The retirement tax will apply to the following taxes:

- * Income tax.
- * Fringe benefit tax, and
- * Specified superannuation contribution withholding tax.

The rate of retirement tax will be shown on the tax deduction certificates, fringe benefit tax returns, specified superannuation withholding tax forms, and end-of-year income tax assessment notices. A panel will be included on the income tax return for taxpayers to calculate how much of their own tax liability will be spent on provision for retirement income for the aged.

The rate of retirement tax for the 1990/91 income year is set at 7.5 cents for every dollar of income, fringe benefit, or specified superannuation contribution. The First Schedule to the Finance Act contains the new Twentieth Schedule to the Income Tax Act which sets out a list of estimated retirement rates for the next 30 years.

4. FAMILY SUPPORT CREDIT OF TAX

(Section 12 of the Income Tax Amendment Act (No 3) 1989)

The Government announced in the Budget that the \$16,000 threshold at which family support commences to abate is to increase to \$17,500 with effect from 1 October 1989.

The effect of the timing of this amendment means that a composite threshold will apply for the 1989/90 income year. The threshold for the income year commencing 1 April 1989 will therefore be \$16,750.

To effect the new family support and GMFI payments, the department will automatically calculate the new entitlements for persons who currently hold a valid certificate of entitlement without the need for fresh applications. These certificates will be issued in time for affected persons to forward them to their employers before 1 October.

For families with one child and gross annual incomes in the range \$17,500 to \$27,540 this will generally result in an increase in family support entitlement of \$270 in a full year. Where the entitlement for one child is \$36 per week, and for subsequent children \$16, the income level at which family support will be fully abated will be:

Number of Children (Under 16 Yrs.)	Annual Family Income Tax Year 1991
1	\$27540
2	\$30314
3	\$33087
4	\$35860
5	\$38634

5. GUARANTEED MINIMUM FAMILY INCOME TAX CREDIT

(Section 13 of the Income Tax Amendment Act (No 3) 1989)

The Minister of Finance announced in the Budget that the minimum after tax family income, including family benefit and family support, for a family with 1 child is increased from \$300 per week to \$310 per week. Where there are further children this amount increases by \$22 for each additional child under 16 years of age (\$6 family benefit and \$16 family support) or \$42 for each child 16 years or over (\$36 family support and \$6 family benefit) where the taxpayer qualifies for a family benefit in respect of the child.

To effect the new family support and GMFI payments, the department will automatically calculate the new entitlements for persons who currently hold a valid certificate of

entitlement without the need for fresh applications. These certificates will be issued in time for affected persons to forward them to their employers before 1 October.

Although the increase is backdated to 1 April 1989 any excess entitlement in respect of the period from 1 April 1989 to the operative date of the new Certificates will only be claimable at the end of the tax year when an income tax return is filed.

6. LAND TAX

(Land Tax Amendment Act 1989)

The Land Tax Act 1976 is one of the few parts of the New Zealand tax system not fundamentally reviewed since 1984. On Budget night the Minister of Finance announced that it was intended to amend the land tax regime to bring it into line with the Government's commitment to the broadening of the tax base and the lowering of tax rates.

The lowering of the land tax rate was made possible through 3 measures. The first was removing many of the current exemptions from land tax for various land uses. The second was the replacement of the \$175,000 special exemption with a lower \$10,000 de minimis threshold. The final measure was to announce (but not enact) the advancing of the land tax payment dates so that the resultant land tax revenue is collected earlier.

The amendments made to the land tax regime are as follows:

1989 Year of Assessment

For land owned as at 31 March 1989 the rate of land tax is reduced from 2 cents for every \$1 of land value on which land tax is payable to 1.5 cents. There is no change to the special exemption which is retained at \$175,000 and no amendment to any of the exemptions applying to certain classes of land. There is also no change to the date of paying land tax which is retained at 7 October. All land tax returns furnished before the annual rate of land tax was confirmed will be assessed at the confirmed rate of land tax.

1990 Year of Assessment

For land owned as at 31 March 1990 the scheduled rate of land tax is reduced from 1.5 cents for every \$1 of land value on which land tax is payable to 1 cent.

Specific provisions have been introduced to exempt from land tax Crown land used for roads, reserves, national parks, Parliament, any Vice-Regal residence etc.

A number of exemptions have been repealed. e.g. The exemptions provided to the trustee savings banks, friendly societies and public and local authorities.

The concessionary rates of land tax for certain religious societies, named trusts, and for local authorities engaged in the supply of energy have been removed.

The special exemption of \$175,000 is repealed but a \$10,000 de minimis rule is introduced to the effect that

taxpayers owning land with a total value of less than \$10,000 will not be required to pay land tax. Owners of land with a total value exceeding \$10,000 will be required to pay land tax on the total land value not the total land value less \$10,000.

The sections imposing a higher rate of land tax on persons absent from New Zealand for more than 2 out of the last 4 years is repealed.

Land tax will be due and payable in 2 instalments on 7 May 1990 and 7 October 1990. Legislation for this measure will be included in future legislation.

1991 Year of Assessment

The Minister also announced that land tax payable for the 1991 year of assessment will be due and payable on 7 May 1991 and will be payable in one instalment. As with the 1990 year of assessment payment dates the amending legislation will be included in a later Bill.

Rates of Land Tax Applying to Various Classes of Taxpayer

KEY: Continued: Means the specified section applies for that year at the rate set out.

Repealed: The specified section is removed.

Class of Taxpayer	Rate applying to Year of Assessment		
	1989	1990	1991
Section 26. Increase of tax of absentees.	Continued 2.25%	Repealed 1%	Repealed 1%
Section 28A. Local Authority Engaged in Energy Supply	Continued 1.5%	Repealed 1%	Repealed 1%
Section 28. Reduction of tax in certain cases	Continued 0.375%	Repealed 1%	Repealed 1%
Section 29. Tax on Maori Land	Continued 0.75%	Repealed 0.5%	Repealed 0.5%
All other land taxpayers	1.5%	1%	1%

Reference: Appendix A to TIB No.2, August 1989.

STUDENT YOUTH ALLOWANCES – TAXATION

SUMMARY

This item clarifies confusion surrounding the taxation of grant payments to students under the new Youth Allowance Scheme.

BACKGROUND

The Student Allowance Scheme is a new system of taxable allowances which replaces the Tertiary Assistance Grants available before 1989. It provides assistance, on a non-competitive basis to students 16 years of age and over who are studying approved full-time secondary or tertiary courses, and who are permanent residents of New Zealand or hold New Zealand citizenship.

(Further information on the Student Allowance Scheme may be obtained from your local tertiary institution or Student Allowances Section, Ministry of Education. Private Box 1379, Wellington.)

RULING

Grant payments are treated as salary and wages for tax purposes.

The primary tax code “G” should apply to the majority of students. Where a student has a second form of employment a “G” code would be declared for the higher gross income and a “Sec” or “Special tax code” would be declared for the lower income of the two.

The question also arises as to whether students are eligible to use the transitional tax code “T” in respect of the student youth allowance. It is not possible for them to use the “T” code because they do not meet the definition of a full time earner contained in section 50C of the Income Tax Act. That definition requires a person to be engaged in “remunerative work” for not less than 20 hours per week. Study is not “remunerative work” as defined in section 50C(1) of the Act as the use of the word “work” in the definition implies that the remuneration must be received in return for actual personal services performed and not merely an allowance paid for attending a university.

REFERENCE

HO Ref 10.R.2.1

TR Ref Chapter 18, Parag. 2.4

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

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

Appendix B to this TIB explains in detail the provisions contained in Part II of the Act which cover the following -

- Section 33 - Repeal of Exemptions from Income Tax.
- Section 39 - Taxation of Producer Boards, Milk Treatment Companies and Corporations, Primary Producer Co-operative Companies, and Co-operative Dairy, Milk Marketing, and Pig Marketing Companies.
- Section 40 - Taxation of Mutual Associations.
- Section 41 - Consequential Amendments.

A description of the imputation system applying to producer boards and co-operatives is also included in the Appendix.

Reference: Appendix B to TIB No. 2, August 1989.

DUE DATES REMINDER

- September 1** GST return and GST payment for period ended 31 July due.
- September 7** Due date to pay 1989 Terminal Tax for taxpayers with October balance dates.
Due date to pay second instalment 1990 Provisional Tax for taxpayers with January balance dates.
Due date to pay first instalment 1990 Provisional Tax for taxpayers with May balance dates.
Due date to pay third instalment 1989 Provisional Tax for taxpayers with September 1988 balance dates.
- September 20** August Tax Deductions payment due.
August Non-Resident Withholding Tax Deductions payment due.
- September 30** Last day for payment of Winding-Up Distribution Tax.

PRESS RELEASES

1. Family Support - Budget Changes

Following is a copy of a press release issued by the Commissioner of Inland Revenue on 1 August 1989.

"Families currently receiving Family Support are not required to fill out another application form to get the increased payments," said Commissioner of Inland Revenue, David Henry, when commenting on the practical implications of the Budget changes.

"Inland Revenue will issue new Certificates of Entitlement by mid-September to people who are currently receiving Family Support and who qualify for the increased payments. Wage and salary earners who receive a new Certificate should hand it to their employer if they wish to receive the increase in their pay packet. Anyone who is paid Family Support by the Department of Social Welfare, and receives a new Certificate advising them of an increased entitlement, will receive the increase with their normal payments."

Mr Henry added, "Inland Revenue will also issue new Certificates of Entitlement to full time earners who receive the Guaranteed Minimum Family Income Tax Credit. The announced increases will be paid by employers from the date specified on the new Certificates - generally this will be 1 October 1989. The balance of the increase, which is backdated to 1 April 1989, may be claimed when an income tax return is filed at the end of the tax year."

For inquiries: Stuart Jamieson
Phone (04) 721-032

2. Stiffer Penalties for Tax Evaders

As from 1 September 1989 a new system for Voluntary Disclosure will operate in all District Offices and Regional Offices. Penal rates have been increased. The following is copy of a press release issued by the Commissioner of Inland Revenue on 3 August 1989.

"Following last year's tax amnesty, Inland Revenue has moved to increase penalties on people evading tax.

The penalties under the tax law for evasion are:

- on conviction by the courts a fine of up to \$15,000.00 for each false return;
- a late payment penalty of 10% added every 6 months;
- penal tax of up to 300% of the tax evaded;
- publication of name and details of the offence.

The Commissioner of Inland Revenue, David Henry, said today that the amount of penal tax charged will be increased substantially as from 1 September 1989. At present the penal tax charged varies according to the circumstances of the particular case but the benchmark used is 100% of the tax evaded.

"In respect of investigations or inquiries commencing on or after 1 September 1989 we will be using 150% of the tax evaded as the benchmark. However we are giving much more generous treatment for people who come forward voluntarily", Mr Henry said.

People making a voluntary disclosure to the Department before any inquiry or investigation has commenced will have the penal tax reduced to 25% of the tax evaded, will not be prosecuted in Court and will not have their names

published. The new voluntary disclosure policy will be applied to any disclosures made after last year's amnesty ended 11 November 1988. However the 10% late payment penalty will still be applied.

"People who did not straighten up their affairs during the tax amnesty still have an opportunity to do so because the penal tax will be substantially reduced. However they will not get as good a deal as the people who came forward during the amnesty", Mr Henry said.

The tax amnesty ran for 2 months, from September to November in 1988. The total tax assessed under the amnesty was \$26.6m and was payable by 11,170 taxpayers. Some 24,000 back year returns were also filed. 13 taxpayers owed more than \$100,000.00 and 3 taxpayers owed more than \$500,000.00 tax.

Not everyone got bills to pay though. 4,913 people got refunds amounting to nearly 3 million dollars. Mr Henry said he was pleased about that. "These people have also straightened up their tax affairs by filing overdue returns and that makes our job that much easier", he said.

Inland Revenue has beefed up the number of people working on audit of taxpayers and has substantially increased the amount of taxes assessed. In the last 3 years taxes assessed from compliance work have increased 96% from \$285m in 1987 to \$560m in 1989.

Anyone wishing to make a voluntary disclosure to Inland Revenue should contact the Manager or other senior officer in the Verification Unit of the nearest District Office of Inland Revenue,"

Amnesty Debit Cases

District Office	No Cases	Total Tax
Whangarei	211	392,804
Greater Auckland	<u>4103</u>	<u>12,101,043</u>
Northern Region	4314	12,493,847
Gisborne	38	26,000
Hamilton	305	1,216,884
Napier	187	499,732
New Plymouth	228	547,609
Tauranga	215	548,868
Rotorua	242	1,512,428
Te Aroha	<u>108</u>	<u>322,769</u>
Waikato Region	1365	4,674,290
Wanganui	112	244,643
Palmerston North	368	678,434
Masterton	122	223,410
Land Tax	29	970,033
Greater Wellington	<u>2720</u>	<u>2,970,626</u>
Central Region	3351	5,087,146
Nelson	166	402,353
Greymouth	76	432,819
Blenheim	91	209,857
Greater ChCh	1087	2,709,236
Timaru	160	295,134
Oamaru	14	14,159
Invercargill	<u>223</u>	<u>367,512</u>
Southern Region	2140	4,431,070
Total	11,170	\$26,686,353

TAX INFORMATION BULLETIN



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