
APPENDICES TO TIB VOLUME TWO, NO 2, AUGUST 1990

Appendix A: Living Alone Allowances

Appendix B: Bloodstock Amendments

Appendix C: "Test Period" Motor Vehicle Log Books

Appendix D: Income Tax and Provisional Tax Changes

Appendix E: Detailed Discussion of Land Tax

Appendix F: Hybrid Accounting Basis for GST

APPENDIX A TO TIB VOLUME TWO, NO. 2, AUGUST 1990

LIVING ALONE PAYMENTS

Sec 2, 4, and 14 - 22, Income Tax Amendment Act (No. 3) 1990

The following sections specify the tax treatment of Living Alone payments to be paid to GRI Earners by Social Welfare from 26 September 1990 -

Section 2 of the Amendment Act amends section 2 of the principal Act to insert a definition of the term "living alone payment":

"A living alone payment means a living alone payment paid or payable under section 18A of the Social Welfare (Transitional Provisions) Act 1990."

Section 4 of the Amendment Act amends section 65(2) of the principal Act to insert another paragraph (db) which includes living alone payments within

the meaning of assessable income.

Sections 14 to 22 of the Amendment Act make a number of consequential amendments to sections 336A to 336L of the principal Act, which deal with the Guaranteed Retirement Income Earner Surcharge.

Section 25 of the Amendment Act makes a consequential amendment to the definition of residual income tax in sec 375 of the principal Act. Residual income tax is the tax liability remaining after deducting all tax credits, source deduction payments and resident withholding tax. The living alone payment is included in the list of deductions from the taxpayers total tax liability in order to determine residual income tax.

APPENDIX B TO TIB VOLUME TWO, NO. 2, AUGUST 1990

DETAILED DISCUSSION OF BLOODSTOCK AMENDMENTS

Sec 5 and 6, Income Tax Amendment Act (No. 3) 1990

Section 5 amends section 86H(2) of the Act by inserting a new paragraph (a) in the specified write-down provision. This new paragraph allows a write-down to commence in the income year that the bloodstock is 2 years of age or older and is-

- i) First used for breeding by that taxpayer in the business of breeding bloodstock; or
- ii) Purchased by the taxpayer with the intention of being used for breeding in the business of breeding bloodstock; or
- iii) Owned in the conduct of breeding bloodstock and the taxpayer has the intention of using that bloodstock for breeding. This subparagraph provides for the case where a breeder owns bloodstock not intended for breeding but subsequently decides to breed from that livestock.

This expanded paragraph will allow a taxpayer who purchases bloodstock at any time up to the end of the income year to write-down that livestock if it is used or intended to be used for breeding.

These amendments apply from the income year com-

mencing on 1 April 1991 and for every subsequent year.

Section 6 of the Act amends section 106(1)(n) to expand the circumstances under which a taxpayer may deduct expenditure incurred in relation to the racing of bloodstock. The section is further amended to clarify the tax treatment relating to expenditure incurred by horse trainers in training a horse for racing.

Paragraph (n) now disallows deduction for any expenditure or loss incurred in preparing any bloodstock for racing, except where:-

- a) A bloodstock breeder prepares that bloodstock for sale and the breeder does not race that bloodstock. It effectively provides that the expenses incurred in training a horse for a "ready to race" sale are deductible. The provision makes it clear that expenses incurred in racing a horse as part of the training for a "ready to race" sale are not deductible.
- b) A taxpayer in exchange for consideration undertakes the training of a horse on behalf of another

Bloodstock Amendments Cont'd

taxpayer. The provision is effectively limited to horse trainer's as the consideration for the training must be assessable for a deduction to be allowed. This amendment clarifies the legislation to ensure that taxpayers who train horses on behalf of another taxpayer may deduct their expenditure.

The paragraph still denies any deduction for any expenditure or loss to the extent it was incurred in racing any bloodstock or related to the racing of any bloodstock.

The section has an application date of the income year commencing on the 1st day of April 1991.

APPENDIX C TO TIB VOLUME TWO, NO. 2, AUGUST 1990

MOTOR VEHICLE LOG BOOKS

Sec 106B - 106E, Income Tax Amendment Act (No. 3) 1990

A detailed policy statement on this matter will be issued at a later date and will incorporate examples. This item only outlines the broad legislative requirements in relation to record keeping and application of the Commissioner's discretion in specific circumstances.

Section 7 repeals the existing section 106B and inserts new sections 106B to section 106E the provisions of which are summarised as follows:

Section 106B - Deductions for Motor Vehicle Expenses

Subsection (1) provides that no expenditure shall be deductible, or depreciation allowable, except to the extent that the deduction or allowance qualifies in terms of this section.

Subsection (2) ensures that sections 104 and 108 may still apply where a motor vehicle is used solely for the gaining or producing of assessable income or the use of it constitutes a fringe benefit. The section does not apply to any person who is a company or who derives income solely from employment.

Subsection (3) provides that where a motor vehicle is used by a taxpayer partly for business purposes and partly for other purposes the taxpayer may deduct expenditure and shall be allowed depreciation in proportion to the business use of the motor vehicle .

Subsection (4) provides the following definitions:

"Business purposes" or "business use" is defined to mean travel undertaken wholly and exclusively in the gaining or producing of the assessable income of the taxpayer.

"Motor Vehicle" means a road vehicle (other than a trailer) of the kind ordinarily used for the carriage of persons or the transport or delivery of goods or animals.

Subsection (5) provides that sections 106C to 106E will also cover taxpayers who have an annual balance date other than 31 March.

Section 106C - Use of Actual records to establish business use proportion of motor vehicle

Subsection (1) provides that a taxpayer may choose to maintain complete and accurate details for a period rather than keep a log book as provided for under section 106D. The Commissioner may specify the keeping of further details. These records may be used to determine the proportion of the travel of the motor vehicle relating to business travel for that period.

This is likely to occur where a taxpayer maintains records for other purposes such as the allocation of the motor vehicles costs between different jobs.

Subsection (2) provides that the section does not apply to the extent the records are maintained during a log book application period unless the Commissioner approves otherwise. This provision is to cover situations where the use of the vehicle is not representative of average use. e.g. holiday period etc. Conversely a dramatic but nevertheless temporary unforeseen increase in business use. In that event the records kept for that unforeseen period may be used, subject to the agreement of the Commissioner, for that unforeseen period rather than the proportion established under the log book.

Motor Vehicle Log Books Cont'd

Section 106D - Use of Logbook to Establish Business Use Proportion of Motor Vehicle

Subsection (1) provides that where a taxpayer has maintained a log book along the lines provided for in section 106C and a record of the total distance travelled during an income year or part of an income year those details so kept shall be used to calculate the proportion of business use of that motor vehicle during the income year or part income year.

Subsection (2) requires a taxpayer maintain a log book covering a period of not less than 90 days commencing on a day elected by the taxpayer. The log book must be kept for a period that represents or is likely to represent the average travel for business purposes and nonbusiness purposes. In other words it should be maintained for a period where the motor vehicle is expected to receive average use.

If the period is not of average use the taxpayer must choose a further 90 day period or keep full and complete records.

The log book must record complete and accurate details of the reasons for and the distance of journeys undertaken for business purposes. The Commissioner may require taxpayers to keep additional details.

The log book must also record the total distance travelled during the period the log book is maintained. As a result any journey not recorded in the log book automatically becomes a private journey, however, this provision also removes the need for the taxpayer to record the details of all private journeys.

Subsection (3) provides for the "logbook application period", the application of which commences on the latter of-

- (i) The first day of the income year commencing on the 1st day of April 1991:
- (ii) The first day of the income year in which the taxpayer commences to keep a log book:
- (iii) The day on which the motor vehicle was purchased (not being a replacement motor vehicle):
- (iv) The day following the day the last application period ended:
- (v) A day specified by the taxpayer:

The period ends on the earlier of:

- (i) The day on which the motor vehicle is sold or otherwise disposed of:
- (ii) A day specified by the taxpayer:

The taxpayer may want to commence another period as the use of the motor vehicle is to change or align the logbook application period with another date such as a balance date.

- (iii) A day specified by the Commissioner:

The Commissioner may end a logbook application period where the Commissioner has required the taxpayer to maintain a further log book and as a result of that further log book the Commissioner has decided that the first log book, while originally correct, has become unrepresentative.

- (iv) A day three years after the logbook application period commenced:

Subsection (4) provides that where in any month comprising part of the logbook application period the business use proportion for that month drops by 20 percentage points or more compared with the log book business proportion and it is established that the log book business use proportion no longer fairly represents the use of the motor vehicle then the logbook application period ceases on the last day of that month.

This subsection will not apply where the use of the motor vehicle changes significantly but that change in use is of a short duration. Further in cases where the change in use is of a longer duration the taxpayer may choose to keep supplementary records to determine the proportion of business use for that duration. A new log book would be required where the log book is not representative for an income year or part of an income year.

Subsection (5) caters for taxpayers who have a rapid turnover of motor vehicles, where for example motor vehicles are car-pooled or simply where a car is replaced during a logbook application period.

Where a taxpayer-

- (i) Replaces a motor vehicle with another motor vehicle and the log book kept in relation to the first motor vehicle is likely to be representative of the use for the replacement motor vehicle during the remainder of the logbook application period;and

Motor Vehicle Log Books Cont'd

- (ii) The taxpayer keeps a record of the total distance travelled by the replacement motor vehicle during each income year or part income year to which the log book relates

then that replacement motor vehicle is treated as if it were the original motor vehicle.

Subsection (6) provides specific powers to the Commissioner in relation to a logbook with which the Commissioner is not satisfied. During a logbook application period the Commissioner may require the taxpayer maintain a further logbook. After the end of an application period the Commissioner may deem that taxpayer to not have maintained a logbook. In this case the taxpayer will be limited to a maximum proportion of business use of 25% or such lesser amounts the available records support.

Subsection (7) sets out the Commissioner's powers in relation to an application period where the Commissioner has required the taxpayer to maintain a further log book and the business use in that further log book is 20 percentage points less than that calculated in the first log book.

Where the Commissioner considers that the first logbook was representative but became unrepresentative the Commissioner can determine a day on which the logbook application period in relation to that first log book ceased. The further logbook shall apply to a new logbook application period commencing the day after the first period ceased.

Where the Commissioner considers that the first logbook was always unrepresentative the Commissioner can direct that the further logbook shall apply instead.

Section 106E: Business Use Proportion of Motor Vehicle where no Log Book Kept

Where, in respect of any period, a taxpayer has not maintained a logbook or full and complete records the business use proportion applied in section 106B shall be limited to the lesser of actual business use or 25 percent of total use, whichever is less. The proportion of actual business use is determined based on records available. It follows that there are no records no deduction will be allowed.

APPENDIX D TO TIB VOLUME TWO, NO. 2, AUGUST 1990

INCOME TAX PAYMENT AND PROVISIONAL TAX CHANGES

Sec 24 - 31, Income Tax Amendment Act (No. 3) 1990

The following sections govern the changes to payment of income tax and provisional tax made in the 1990 Budget.

Section 24 amends section 361 of the Act by replacing subsection (2) to change the terminal tax due date for taxpayers with non-provisional income from 7 February to 20 November. If such taxpayers have a balance date other than 31 March, the due date will be the eighth month after balance date.

Section 25 amends section 375 of the Act by inserting a new definition of provisional taxpayer. From the 1991/92 income year, provisional taxpayers will be persons with residual income tax for the year of greater than \$2,500.

Section 26 amends section 377 of the Act by inserting a new subsection (2) with effect from the 1991/92 income year. This relieves provisional taxpayers from having to make payments of provisional tax

during the income year if their residual income tax for the previous year was \$2,500 or less.

Section 27 replaces subsection (2) and inserts a new subsection (5A). Subsection (2) sets the threshold for compulsory estimation at the third instalment.

Subsection (5A) applies from budget night. It requires that any estimate of provisional tax shall be a fair and reasonable estimate.

Section 28 replaces subsection (2) in section 388 of the Act. Subsection (2) sets the terminal tax due dates for provisional taxpayers. From the 1991/92 income year provisional taxpayers who do not have to make payments of provisional tax, i.e., persons whose residual income tax for the previous year was under \$2,500, are also having their terminal tax due date moved forward to 20 November (or the Eighth month after balance date for persons with nonstandard balance dates).

Income Tax and Provisional Tax Cont'd

Section 29 replaces subsection (2) of section 395 of the Act. This subsection sets the terminal tax due dates for tax not otherwise due and payable under any other section of the Act. In line with the other amendments being made, natural persons have had their terminal tax due date for the 1991/92 income year brought forward to 20 November (or equivalent).

Section 30 amends section 398A by replacing paragraph (a) of subsection (3). The threshold that has to

be reached, before natural persons not making an estimate of provisional tax are liable to pay use of money interest, has been changed from \$100,000 of provisional income to \$30,000 of residual income tax, with effect from the 1991/92 income year.

Section 31 amends section 413A by replacing paragraph (a) of subsection (3). The threshold that has to be reached, before natural persons not making an estimate of provisional tax are eligible for use of money interest, has been changed from \$100,000 of provisional income to \$30,000 of residual income tax, with effect from the 1991/92 income year.

APPENDIX E TO TIB VOLUME TWO, NO. 2, AUGUST 1990

DETAILED DISCUSSION OF LAND TAX

Section 1 Annual Act Provisions

Section 2 repeals the existing schedule in the Land Tax Act and substitutes a new schedule containing the 0.5 cents in the dollar rate to apply from 1 April 1991.

Section 3 then confirms that land tax shall be imposed, levied, and paid at the rate specified in the new schedule from 1 April 1991. These sections came into force on 8 August 1990.

Abolition of Land Tax Act 1976

Section 4 repeals the Land Tax Act with effect from

31 March 1992. Various other Acts are consequentially amended by removing references to Land Tax.

The sections in the Income Tax Act 1976 which refer to Land Tax have not been consequentially amended in this Act, but will be corrected prior to 31 March 1992. The consequential amendments are being delayed because they could be rendered incorrect by other income tax amendments enacted prior to 31 March 1992.

Section 5 is a saving provision which ensures that land tax imposed and levied prior to 31 March 1992 is still due and payable by the taxpayer.

APPENDIX F TO TIB VOLUME TWO, NO. 2, AUGUST 1990

HYBRID ACCOUNTING BASIS FOR GST

The adjustments that are required when a registered person changes to or from the hybrid basis are as follows:

(i) HYBRID/INVOICE

Invoice to Hybrid

Where the change is from an invoice basis to a hybrid basis input tax will be claimed on a payments basis, with output tax continuing to be returned on an invoice basis. An adjustment is required to avoid a double deduction when pay-

ment is eventually made to any creditors that the registered person had at the end of the last taxable period on an invoice basis and for which an input tax credit has already been claimed.

The registered person is required to:

- 1 Identify all creditors (from whom a tax invoice has been received for the supply and in respect of which an input tax credit has been claimed) of the taxable activity as at the last day of the taxable period in which the old accounting basis is used.

Hybrid GST Method Cont'd

- 2 Identify those creditors relating to supplies that have a time of supply determined under section 9(1), ["ordinary" supplies]; 9(3)(a), [goods supplied under an agreement to hire or services supplied under an agreement or enactment which provides for periodic payments]; 9(3)(aa), [progressive supplies and buildings and civil engineering works]; or 9(6), [supplies where the consideration is not determined at the time goods taken]. No adjustment is required in respect of supplies which have any other time of supply rules.
- 3 Apply the tax fraction to the amount determined under number 2.
- 4 Include the amount calculated under number 3 as an adjustment to output tax.

Hybrid to Invoice

In the reverse situation, i.e., where the change is from a hybrid basis to an invoice basis, input tax will change from the payments basis to the invoice basis and output tax will continue to be returned on the invoice basis. An adjustment will be required as the registered person will make claims following the end of the last taxable period on the hybrid basis as invoices are received rather than when payment is made. Without this adjustment a registered person would be denied an input credit for any amount where an invoice had been received before the changeover but where payment was actually made after the change in accounting basis.

The registered person is required to:

- 1 Identify all creditors (from whom a tax invoice has been received for the supply) of the taxable activity as at the last day of the taxable period in which the old accounting basis is used.
- 2 Identify those creditors relating to supplies that have a time of supply determined under section 9(1), ["ordinary" supplies]; 9(3)(a), [goods supplied under an agreement to hire or services supplied under an agreement or enactment which provides for periodic payments]; 9(3)(aa), [progressive supplies and buildings and civil engineering works]; or 9(6), [supplies where the consideration is not determined at the time goods taken]. No adjustment is required in respect of supplies which have any other time of supply rules.
- 3 Apply the tax fraction to the amount determined under number 2.

- 4 Include the amount calculated under number 3 as an adjustment to input tax.

(ii) HYBRID/PAYMENTS

Hybrid to Payments

Where the change is from a hybrid basis to a payments basis output tax will change from the invoice basis to the payments basis and input tax will continue to be claimed on the payments basis. The output tax brought into account on all debtors at the time invoices were issued must be reversed as output tax will be brought into account in subsequent periods as payment is received for the supply.

- 1 Identify all debtors (to whom a tax invoice has been issued for the supply) of the taxable activity as at the last day of the taxable period in which the old accounting basis is used.
- 2 Identify those debtors relating to supplies that have a time of supply determined under section 9(1), ["ordinary" supplies]; 9(3)(a), [goods supplied under an agreement to hire or services supplied under an agreement or enactment which provides for periodic payments]; 9(3)(aa), [progressive supplies and buildings and civil engineering works]; or 9(6), [supplies where the consideration is not determined at the time goods taken]. No adjustment is required in respect of supplies which have any other time of supply rules.
- 3 Apply the tax fraction to the amount determined under number 2.
- 4 Include the amount calculated under number 3 as an adjustment to input tax.

Payments to Hybrid

In the reverse situation, i.e., where the change is from a payments to a hybrid basis output tax will change from the payments basis to the invoice basis and input tax will continue to be claimed on the payments basis. An adjustment is required to bring into account the registered person's debtors at the time of the change that would not otherwise be brought into account.

The registered person is required to:

- 1 Identify all debtors (to whom a tax invoice has been issued for the supply) of the taxable activity as at the last day of the taxable period in which the old accounting basis is used.
- 2 Identify those debtors relating to supplies

Hybrid GST Method Cont'd

that have a time of supply determined under section 9(1), ["ordinary" supplies]; 9(3)(a), [goods supplied under an agreement to hire or services supplied under an agreement or enactment which provides for periodic payments]; 9(3)(aa), [progressive supplies and buildings and civil engineering works]; or 9(6), [supplies where the consideration is not determined at the time goods taken]. No adjustment is required in respect of supplies which have any other time of supply rules.

- 3 Apply the tax fraction to the amount determined under number 2.
- 4 Include the amount calculated under number 3 as an adjustment to output tax.

Consequential changes have been made to section 20 to allow registered persons to calculate their liability on the hybrid accounting basis.

Consequential changes have also been made to sections 78B and 78C to require a registered person on the hybrid basis to make adjustments in the event of a further rate change. These are:

Section 78B (ADJUSTMENT FOR PERSONS USING PAYMENTS BASIS FOLLOWING A CHANGE IN THE GST RATE)

This section is extended to apply also to persons using the hybrid accounting basis following a rate change. The following amendments are made to the adjustment provisions:

Output tax - no adjustment required as the person was accounting, and will continue to account, on an invoice basis.

Input tax - same adjustment as for a registered person accounting on a payments basis.

Section 78C (CHANGE IN ACCOUNTING BASIS COINCIDING WITH OR OCCURRING AFTER CHANGE IN TAX RATE)

Invoice to Hybrid

Output tax - no change.

Input tax - same adjustment as person changing from invoice to payments.

Hybrid to Invoice

Output tax - no change.

Input tax - same adjustment as person changing from payments to invoice.

Payments to Hybrid

Output tax - same change as person changing from payments to invoice.

Input tax - no change

Hybrid to payments

Output tax - same change as person changing from invoice to payments.

Input tax - no change