TIB Appendices

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Appendix A: Depreciation Rates Increase

This announcement is not yet law, but the necessary legislation will be passed by 31 March 1992.

On 16 December 1991 the Government announced the introduction of a 25% loading to be applied to current rates of depreciation.

The following types of assets will qualify for the loading:

- New depreciable assets (excluding buildings);
- Imported second-hand assets (excluding motor cars);
- Primary sector land improvements; and
- Bloodstock used for horse breeding.

When the scheme will apply

All qualifying depreciable assets purchased and first used on or after 16 December 1991 and on or before 31 March 1993 will qualify for the loading.

Assets subject to a binding contract of purchase entered into on or before 31 March 1993 and first used on or before 31 March 1994 will also qualify for the loading.

Depreciation of plant and equipment

The depreciation deduction will be calculated at one and a quarter (125%) times the rate published by the Commissioner in the Depreciation booklet (IR 260) issued May 1991 for that particular class of asset.

Example:

A taxpayer who has a 31 March balance date enters into a contract on 17 December 1991 to buy a new truck valued at $100,000, which is delivered on 3 April 1992 and first used on 6 April 1992.

According to the schedule of depreciation rates, the rate for a truck is 20% D.V. (diminishing value basis). The depreciation rate is subject to the loading of 25% which brings the rate to be used up to 25% D.V. The taxpayer is entitled to claim $25,000 for the income tax year ended 31 March 1993. For the 1994 income tax year the taxpayer could claim $18,750. If the taxpayer were to be allowed only the current 20% rate of depreciation the deductions would amount to $20,000 for 1993 and $16,000 for 1994.

Asset Ownership

The taxpayer will be entitled to claim deductions on the qualifying asset at the loaded rate in every income year that the asset is owned by that taxpayer. On any change of ownership the asset will cease to be classed as new and therefore the depreciation rate to be used for that particular asset will revert to the Commissioner's rate in existence at that time.

The loaded rate will not be available for assets for which contracts to purchase are entered into after midnight on 31 March 1993.

Assets acquired under Specified Leases

The loaded rate may be applied to assets first used before midnight on 31 March 1994 pursuant to a specified lease (as defined in section 222A(1) of the Income Tax Act 1976. For leased assets first used by the lessee between midnight 31 March 1993 and midnight 31 March 1994 the lessor must have entered into a contract to purchase the asset prior to midnight 31 March 1993.

Administration

The depreciation regime will continue to be administered by the Commissioner as in the past. For example, a taxpayer will be able to claim a full 12 months' depreciation on any asset purchased and first used at least six months prior to the taxpayer's balance date. If the asset is purchased and first used within six months of balance date, a full six months of depreciation may be claimed.

Example:

A taxpayer who has a 30 June balance date enters into a contract on 17 December 1991 to buy a truck valued at $100,000. The truck is delivered on 3 April 1992 and first used on 6 April 1992.

The current depreciation rate for a truck is 20% D.V., which multiplied by one and a quarter is 25% D.V. The taxpayer is entitled to claim $12,500 for the 1992 income tax year and will be entitled to claim $21,875 for the 1993 income tax year.

Special Rates

Where an asset is not listed in the Commissioner's published schedule, or if the asset is expected to wear out faster than is indicated on the schedule, a taxpayer may make a submission to the Inland Revenue Department to request that a rate be set.

Depreciation of Fruit Trees and Vines

Fruit trees and vines planted on or after 16 December 1991 will qualify for the interim 25 percent loading. At the same time their treatment will be brought into line with that of other assets. A provision allowing scrapping of fruit trees and vines will be introduced, as will one allowing fruit trees and vines to be depreciated on a straight line basis, should a taxpayer so wish.

Depreciations of Stallions and Mares

Stallions and mares which stand at stud on or after 16 December 1991 will qualify for the 25 percent extra loading.

Treatment of Primary Sector Assets

The Thirteenth Schedule of the Income Tax Act 1976 lists assets which can generally be described as improvements to land, such as dams and stopbanks. Taxpayers who create, or buy these assets new, on or after 16 December 1991 will qualify for the 25% loading on those assets. Thirteenth Schedule assets will be brought under the general depreciation provisions from 1 April 1993, except for fruit trees and vines, for which the treatment changes on 16 December 1991.

Economic Rates

The Commissioner is currently reviewing all tax depreciation rates with a view to establishing base rates which are more closely aligned to economic rates of depreciation. It is proposed that industry and interested parties will be widely consulted during this review in 1992.

Depreciation: Questions and Answers

1. *What assets will qualify for the 25% loading?*
   - All new depreciable assets excluding buildings.
   - Second-hand imported assets excluding motorcars and buildings.
2. *How will the 25% loading apply?*

   The schedule of current rates and special rates approved by the Commissioner will be increased by 25%.

   Common rates will increase as follows:

Current Rate	x 1.25	Rounded Rate
3	3.750	3.8
5	6.250	6.3
6	7.500	7.5
10	12.500	12.5
12 1/2	15.625	15.6
15	18.750	18.8
16 2/3	20.833	20.8
20	25.000	25.0
25	31.250	31.3
331/3	41.666	41.7
50	62.500	62.5

3. *Over what period will the 25% loading apply?*

   All qualifying assets purchased and first used between 16 December 1991 and 31 March 1993 (inclusive) will receive the 25% loading. All qualifying assets for which a binding purchase contract was entered into between 16 December 1991 and 31 March 1993 (inclusive) will qualify for the 25% loading, provided that the asset is first used on or before 31 March 1994.
4. *Does that asset have to be physically used in NZ?*

   No. The asset must, however, be used in the production of New Zealand assessable income.

5. *What portion of the annual depreciation can I claim where the asset is purchased during the year?*

   In accordance with the current policy where an asset is employed for less than 6 months in an income year, a half year's depreciation may be claimed. Where the asset is employed for 6 months or more a full year's claim may be made.

6. *Has legislation giving effect to the regime been passed?*

   No. Legislation has yet to be introduced but will be passed by 31 March 1992.

7. *Does the 25% depreciation loading apply on top of the 2 and 3 shift allowance rates?*

   Yes. The loading applies to all rates approved by the Commissioner of Inland Revenue.

8. *What is happening to the current review of economic rates of depreciation?*

   This review is continuing and will be completed by 31 March 1993.

9. *What happens to depreciation rates after 31 March 1993?*

   . For assets purchased prior to 16 December 1991:

   The current rates of depreciation applying to all depreciable assets owned prior to the date of announcement will continue to apply for as long as they remain in the ownership of the taxpayer.

   . For assets purchased on or after 16 December 1991 and before 31 March 1993:

   The loading of 25% will continue to apply to qualifying assets for as long as they remain in the ownership of the taxpayer.

   . For assets purchased after 31 March 1993:

   The rates applying to assets purchased and used after 31 March 1993 will be determined by the economic rates review currently being undertaken plus any loading to be determined.

10. *What happens when I sell an asset to which the loading applies?*

    The current rules relating to ordinary depreciation will apply. Depreciation will be recovered on sale.

11. *If I sell an asset to which the loading applies will the purchaser be able to use the loading?*

    No. The purchaser must revert to the ordinary rates in existence at the time of sale.

Bloodstock Depreciation: Questions and Answers

1. *Do the stallions I currently have at stud qualify for the loading?*

   No.

2. *What stallions qualify for the loading?*

   Two criteria must be met by a stallion before it qualifies for the loading. One, it must not have been depreciated prior to 16 December. Secondly, where the stallion qualifies for depreciation on or after 16 December, the loading ceases if the stallion is sold. So any subsequent owners of that stallion do not qualify.

3. *If I import a stallion does it qualify for the loading?*

   If the stallion has not previously being depreciated under New Zealand's Income Tax Act provisions, it will qualify.

4. *What happens if I purchase a stallion from someone who has used that stallion for breeding purposes?*

   You do not qualify for the loading as the stallion previously was depreciated by another person.

5. *Do mares qualify for the loading?*

   Yes, the same qualification criteria apply to mares.

6. *If a stallion I own qualifies for the loading, what depreciation rate applies?*

   There are two different rates you may apply. You may depreciate the stallion using the straight line method of accounting or the diminishing value method.

7. *What is the straight line rate?*

   25 percent per annum.

8. *What is the diminishing value rate?*

   37.5 percent per annum.

Fruit Trees and Vines: Questions and Answers

1. *Will my existing fruit trees and vines qualify for the loading?*

   No, but any trees you plant on or after 16 December will qualify for the loading, if they aren't deductible.

2. *What trees and vines will qualify as being deductible?*

   A tree planted to replace an individual tree - for example, one which is dying.

3. *When I scrap a number old trees to make way for new trees will I be able to write off the book value of those old trees?*

   Yes, if those trees are scrapped on or after 16 December.

4. *What is the current rate of depreciation on trees and vines?*

   10% diminishing value.

5. *Will the depreciation rates applying to fruit trees and vines be included in the Commissioner's economic rates review?*

   Yes. It is likely that different depreciation rates will be set for different types of fruit tree and vine.

Appendix B: Petroleum Mining Legislation

The Government has announced its intention to introduce new tax legislation affecting the petroleum mining sector. The legislation is intended to eliminate the current punitive tax treatment of petroleum exploration and development expenditures, both onshore and offshore.

The new legislation will involve a restructuring of three key aspects of taxation that affect investment in the petroleum sector: exploration expenditures, development expenditures and farm-out arrangements.

Exploration expenditures

Exploration will be deductible in the year incurred.

Development expenditures

Expenditure will be capitalised and depreciated over seven years, starting from:

- the first year of commercial production for onshore projects; and
- the year the expenditure is incurred for offshore projects.

Farm-out arrangements

Exploration expenditure incurred as the result of a farm-out arrangement (where a licence or licence share is transferred for work done in the licence):

- will not be assessable in the hands of the farm-out party; and
- will be treated as exploration expenditure in the hands of the farm-in party.

There will be a general anti-avoidance provision to ensure that farm-out arrangements are not seen as a means of transferring losses.

Joint ventures

A petroleum joint venture is not to be treated as a partnership for tax purposes.

Legislation

The regime will be effective from 16 December 1991. The necessary legislation will be passed by 31 March 1992.