



10 June 2005

## **Media release—Finance and Expenditure Committee**

### **Taxation (Depreciation, Payment Dates Alignment, FBT, and Miscellaneous Provisions) Bill**

Clayton Cosgrove, chairperson of the Finance and Expenditure Committee, announced today that the committee is inviting public submissions on the Taxation (Depreciation, Payment Dates Alignment, FBT, and Miscellaneous Provisions) Bill. The closing date for submissions is **12 August 2005**.

Mr Cosgrove said, “the bill makes a number of changes to the tax depreciation rules, intended to ensure that depreciation rates are more closely aligned to the commercial reality of an asset’s economic life. The bill also increases the low-value asset threshold, which allows taxpayers to write off the value of an asset immediately, from \$200 to \$500.

“Measures to change the payment of provisional tax and GST are included in the bill. The due dates for payment of both provisional tax and GST are aligned with each other, and both will now be required on the 28th day of the month, although the frequency of required provisional tax payments will usually be lower than the frequency of GST payments. It is proposed that taxpayers will be able to calculate their provisional tax using the ratio method, based on a percentage of their taxable supplies, in order to align their provisional tax payments with cashflow.

“The bill provides for the payment of a subsidy where small businesses voluntarily make use of a PAYE intermediary. Provisions in the bill detail the eligibility criteria for payroll agents to be listed, as well as a process for revoking that listing; the obligations on PAYE intermediaries; the process and conditions that must be met when claiming the subsidy; and the administrative process to be followed when an agreement between an employer and the intermediary is terminated.

“A number of measures to reduce compliance costs and remove anomalies in the fringe benefit tax regime are included. Key changes apply to the application of fringe benefit tax to motor vehicles although a large number of other measures, affecting both the general fringe benefit tax regime and the application of the regime to particular benefit types, are also included in the bill.

“The bill contains provisions governing the taxation of securities lending transactions. Specific securities lending rules are introduced to allow qualifying share lending transactions to be taxed on the basis of economic substance (as a loan) rather than legal form (as a sale of shares), meaning they will not be treated as a taxable disposal. In addition, the imputation and non-resident withholding tax rules are strengthened to prevent an unintended fiscal cost from arising out of non-qualifying share lending transactions.

“Under other provisions in the bill, taxpayers seeking a tax deduction for research and development expenditure (including depreciation losses) will be able to choose to allocate the deduction to income years after the year where the expenditure is incurred, allowing the timing of the deduction to be marched to the timing of income resulting from the research and development expenditure. This amendment is intended to prevent accumulated tax deductions from being lost as a result of shareholding changes where new equity investors are brought into the company after the expenditure is incurred. These provisions will be optional, and taxpayers will be able to continue their current treatment of research and development expenditure.

“The bill includes provisions intended to remove incentives that encourage companies to migrate rather than liquidate for tax reasons. The current rules that apply where a company has been liquidated will also apply where the company ceases to be a New Zealand resident for income tax purposes. The company will be regarded as having disposed of its property at market value, and all shareholder funds will be treated as having been paid to shareholders as a dividend, and will be subject to tax. The provisions should ensure that migrating companies pay tax on their worldwide income earned while resident in New Zealand.

“A number of measures intended to reduce the additional tax burden imposed on new migrants and expatriates (who have not been tax resident in New Zealand for 10 years) are contained in the bill, in order to remove barriers inhibiting the recruitment of skilled employees from overseas. The bill provides an tax exemption for all foreign income except dividends, interest, employment income, and business income relating to the supply of services. This exemption will have a term of five years for migrant employees, and for three years for all new migrants.

“New rules covering information reporting and record-keeping require the disclosure of increased information from New Zealand resident trustees of foreign trusts, including trusts that receive no New Zealand-sourced income. Trustees will be required to keep certain records and maintain them in New Zealand, to be provided to the Inland Revenue Department on request. These requirements are needed to ensure that the New Zealand is able to meet its international obligations to meet information requests from its double tax agreement partners. The Australian Taxation Office will automatically be provided with information on foreign trusts with a New Zealand-resident trustee and an Australian-resident settler, while information requests on other trusts will be made on a case-by-case basis.

“The bill also

- narrows the provisions relating to double tax treaties, so that they override only the Inland Revenue Acts 1994 and 2004, the Privacy Act 1993 and the Official Information Act 1982
- clarifies that distributions from co-operatives are deductible for the co-operative and taxable for the member
- introduces a framework requiring the Accident Compensation Corporation to withhold tax at source on attendant care payments when an independent caregiver is used
- exempts non-resident investors from tax on the sale of shares in companies that they have invested in accordance with an agreement with the New Zealand Venture Investment Fund
- provides a separate tax exemption for the gaming machine income of licensed gaming trusts
- includes provisions intended to resolve tax issues arising out of natural disasters
- allows people who invest in foreign hybrids, which have the characteristics of both a company and a partnership, to receive grey-list treatment and foreign tax credits for tax paid overseas on income earned by a foreign hybrid

- applies an exemption from the foreign investment fund rules for interests held by returning residents in employment-related foreign superannuation schemes
- extends the statutory life of the exemption from the controlled foreign company rules for investments in listed controlled foreign companies
- increases the maximum child rebate payable from \$156 to \$351 a year
- provides a new ownership tracing rule for reverse takeovers and mergers, in order to preserve shareholding continuity and allow losses and imputation credits to be carried forward
- adds Spain to the grey list to which the controlled foreign company and foreign investment fund rules do not generally apply
- clarifies the capital account treatment of regressing and fertilising expenditure where that expenditure is associated with a significant capital activity, such as converting a farm from one agricultural purpose to another, and updates the capital account treatment to reflect modern farming practices with shorter pasture rotation cycles
- amends and clarifies the GST treatment of supplies of goods and services to security holders; international postage stamps; distributions from a testamentary trust or as a gift between associated registered persons; and goods that were intended to be consumed in New Zealand but were located outside New Zealand at the time of supply
- makes a number of remedial amendments to the Tax Administration Act 1994.

Mr Cosgrove also said that the bill seeks to confirm that current annual income tax rates will apply for the 2005/06 tax year.

“These changes involve amendments to the Income Tax Act 2004, the Tax Administration Act 1994, and the Goods and Services Tax Act 1985.”

Copies of the bill can be purchased from Bennetts Government Bookshops. A commentary on the bill, produced by the Minister of Revenue, may be found at <http://www.taxpolicy.ird.govt.nz/publications/files/maybill2005comm.pdf>.

The committee requires 25 copies of each submission. Those wishing to include any information of a private or personal nature in a submission should first discuss this with the clerk of the committee, as the committee usually releases submissions to the public. Those wishing to appear before the committee to speak to their submissions should state this clearly and provide a daytime telephone contact number. For further guidance on making a submission, our publication *Making a Submission to a Parliamentary Select Committee* can be found on our web site at [www.clerk.parliament.govt.nz](http://www.clerk.parliament.govt.nz).

**Submissions should be addressed as follows:**

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 Finance and Expenditure Committee Secretariat  
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