

## Foreword

The Government welcomes the publication of this exposure draft of the rewritten Parts A to E of the Income Tax Act 1994.

Legislation that is clear, written in plain language, and easy to use has obvious advantages: it saves time, increases certainty, reduces compliance costs, reduces administrative costs, and is generally easier to comply with. Tax is an inherently complex subject, so it is especially important that the law relating to it is as clear and accessible as possible.

Rewriting the Income Tax Act is a massive undertaking. The publication of this first exposure draft of rewritten legislation, which has been prepared by officials, is a milestone for the project.

The exposure draft includes the rewritten legislation in what are probably the most used parts of the Act, Parts C, D, and E, which deal with income and expenditure. How that law is rewritten will have a widespread effect on those who use it. Therefore we encourage the tax community to comment to the project team on this first stage of the rewritten legislation. Your feedback is vital to the consultative process and will help to influence this and future stages of the rewrite of the Act.

Hon Dr Michael Cullen  
Minister of Finance  
Minister of Revenue

Hon Paul Swain  
Associate Minister  
of Finance and  
Revenue

John Wright MP  
Parliamentary  
Under-Secretary  
to the Minister  
of Revenue



## Summary of contents

### Volume I: General commentary

Foreword	iii
Summary of contents	v
List of contents of draft legislation	ix
Overview	1
Chapter 1 Introduction	3
Chapter 2 Main features of the rewrite project	7
Chapter 3 Proposed structure of Parts C, D, and E	11
Chapter 4 Proposed rewrite changes	23
Chapter 5 Further notes on the draft legislation	51

### Volume 2: Parts A to E

Summary of contents	iii
List of contents	v
<b>Part A – Purpose and application</b>	<b>3</b>
<b>Part B – Core provisions</b>	
BA – Purpose	7
BB – Income tax and resulting obligations	8
BC – Calculating and satisfying income tax liabilities	11
BD – Income, deductions, and timing	19
BE – Withholding liabilities	22
BF – Other obligations	23
BG – Avoidance	24
BH – Double tax agreements	24
<b>Part C – Income</b>	
CA – General rules	29
CB – Income from business or trade-like activities	30
CC – Income from holding property (excluding equity)	52
CD – Income from equity	60
CE – Employee or contractor income	116
CF – Income from living allowances, compensation, and government grants	124

Rewriting the Income Tax Act: Exposure Draft  
Contents

CG – Recoveries and adjustments	127
CQ – Attributed income from foreign equity	138
CR – Income from life insurance	143
CS – Superannuation funds	145
CT – Income from petroleum mining	159
CU – Income from mineral mining	165
CV – Income specific to certain entities	189
CW – Exempt income	191
CX – Excluded income	225
CY – Income under Parts F to I	250
CZ – Terminating provisions	251
<b>Part D – Deductions</b>	
DA – General rules	261
DB – Specific rules for expenditure types	265
DC – Employee or contractor expenditure	297
DD – Entertainment expenditure	307
DE – Motor vehicle expenditure	313
DF – Government grants	320
DN – Attributed losses from foreign equity	323
DO – Farming, agricultural, and aquacultural expenditure	330
DP – Forestry expenditure	337
DQ – Income equalisation schemes	346
DR – Life insurance business expenditure	348
DS – Film industry expenditure	351
DT – Petroleum mining expenditure	360
DU – Mineral mining expenditure	375
DV – Expenditure specific to certain entities	387
DW – Expenditure specific to certain industries	397
DX – Other expenditure	400
DY – Specific deduction rules in Parts F to I	402
DZ – Terminating provisions	404
<b>Part E – Timing and quantifying rules</b>	
EA – Income credited in account	413
EB – Matching rules: revenue property and prepayments	415
EC – Valuation of trading stock (including dealer's livestock)	421
ED – Valuation of livestock	436
EE – Valuation of excepted financial arrangements	472
EF – Depreciation	474

Rewriting the Income Tax Act: Exposure Draft  
Contents

EG – Life insurance rules	527
EH – Financial arrangements rules	561
EI – Controlled foreign company and foreign investment fund rules	619
EJ – Spreading of specific income	687
EK – Spreading of specific expenditure	693
EL – Taxes and levies	709
EM – Recognition of accounting treatment	714
EN – Income equalisation schemes	719
EZ – Terminating provisions	768

**Volume 3: Definitions, consequential amendments, and tables**

Definitions	1
Consequential amendments	97
Table of destinations	157
Table of terminating provisions	215

Rewriting the Income Tax Act: Exposure Draft  
Contents