

LAND AND INCOME TAX AMENDMENT BILL

EXPLANATORY NOTE

THIS Bill amends the Land and Income Tax Act 1954.

Clause 1 relates to the Short Title.

Clause 2 provides that the Bill, except where otherwise provided therein, will apply with respect to tax on income derived in the income year that commenced on 1 April 1966, and in every subsequent year.

PART I

AMENDMENTS OF PRINCIPAL ACT

Clause 3: By section 83 (3) of the principal Act, the special housekeeper's allowance provided for by that section is reduced, in cases where the taxpayer employs a housekeeper or housekeepers for part only of the income year, by one-twelfth for every month or part of a month during which no housekeeper was employed.

The effect of this clause is that a reduction in the allowance will be made only in respect of complete months during which no housekeeper was employed.

Clause 4 re-enacts in an amended form section 85 of the principal Act, which provides for a special exemption in respect of life insurance premiums and superannuation and insurance fund contributions.

The principal changes are—

- (a) The class of insurance policies the premiums on which qualify for the exemption has been extended to include policies on the life of the spouse of the taxpayer or on the joint lives of the taxpayer and the spouse of the taxpayer. Premiums on policies on the life of a child (including a step-child or foster child) of the taxpayer will also qualify if the child is dependent on the taxpayer in the same income year as that in which the premiums are paid.
- (b) In order that the premiums on any policy of life insurance may qualify for the exemption, a minimum period both for the term of the policy and before any benefits are payable is specified, and, except for a child's deferred assurance policy or a policy on a substandard life, the sum payable on death must not be materially less than the sum otherwise payable.

- (c) Contributions to the National Provident Fund or any superannuation fund or any insurance fund of a friendly society or any similar fund approved by the Commissioner for the purposes of the section made for the benefit of the taxpayer's spouse will now qualify, as will those made for the benefit of a child (including a step-child or foster child) of the taxpayer if the child is dependent on the taxpayer in the same income year as that in which the contributions are made.
- (d) The 20 percent limit of a taxpayer's assessable income is abolished. The amount of the exemption will be £250 or £325, whichever limit is applicable, or the amount paid if that is less.
- (e) The Commissioner may disallow an exemption under this section in respect of a policy of life insurance if the policy is surrendered within five years after the commencement of the term of the policy.
- (f) The Commissioner may disallow an exemption under this section in respect of contributions to the National Provident Fund or any superannuation or insurance fund or similar approved fund where the contributions are withdrawn within five years after the date on which they were made, unless there was a regular pattern of contributions by the taxpayer to that fund over the whole of that period.

Clause 5 exempts from ordinary income tax and social security income tax deferred pay of servicemen granted or paid in respect of service on or after 15 July 1965 in any area outside New Zealand declared by the Minister of Defence with the concurrence of the Minister of Finance to be an active-service area for the purposes of this provision. The exemption applies only to pay which is declared in like manner to be deferred pay for the purposes of this provision.

Clause 6, subclause (1): Section 86A (1) (a) of the principal Act exempts from social security income tax the income of any company assessable for ordinary income tax under section 149 of the principal Act, which relates to the income of life insurance companies derived from life insurance business.

The effect of this subclause will be to limit that exemption to income derived by such a company from life insurance business, so that if the company derives other income from any other class of business the exemption provided by section 86A (1) (a) will not apply to that other income.

Subclause (2): Section 86A (1) (b) of the principal Act exempts from social security income tax income derived from interest by any non-resident investment company.

The effect of this subclause is to exclude from that exemption interest to which section 150A of the principal Act (proposed to be inserted by *clause 32* of the Bill) applies. That clause provides for a special rate of ordinary income tax in respect of certain interest derived by life insurance companies to which section 149 of the principal Act does not apply.

Clause 7 makes several amendments to section 98 of the principal Act, which deals with the valuation of trading stock.

Subclause (1) is an interpretation provision for the purposes of the proposed new subsection (9A) of section 98, inserted by *subclause (3)* of this clause.

Subclause (2): The effect of this amendment is that a taxpayer may not adopt a standard value in respect of livestock used in dealing operations. This amendment enacts what is in fact the existing practice.

Subclause (3) is intended to give effect to the livestock incentive scheme announced in the Budget.

By section 98 (4) of the principal Act, the value of the trading stock of any taxpayer to be taken into account at the end of an income year shall

be, at the option of the taxpayer, its cost price, its market selling value, or its replacement price. By subsection (9) of that section, a taxpayer may adopt a standard value in respect of livestock instead of the value provided for in subsection (4).

This subclause gives to any taxpayer carrying on a farming business on land in New Zealand the option of entering into a scheme for deferring taxation resulting from an increase in livestock (being either cattle or sheep). The main provisions of the scheme are—

- (a) If the taxpayer elects to adopt this scheme, a basic number is established for cattle and sheep respectively. The basic number for each of those classes of livestock is the greater of the number of that class carried on the land at the end of either of the two income years preceding the taxpayer's first year of operation under the scheme.
- (b) At the end of each year the taxpayer may bring in at nil value any excess over basic number in respect of each of the two classes of livestock. Where one of the classes shows an increase over basic number while the other shows a decrease below basic number, the number of the former class which may be brought in at a nil value will be correspondingly reduced on the basis of the "specified equivalent", which is a defined term signifying that one head of cattle is to be taken as equivalent to six sheep.
- (c) When the taxpayer sells or otherwise disposes of the increases in livestock, the full market value thereof will become assessable income. In addition, the taxpayer will have the usual option at any time of adopting a standard value for the increases in livestock and paying tax on that value.

Subclause (4) replaces with certain consequential amendments section 98 (10), which deals with the valuation of livestock on the death of a taxpayer. The new subsection also excludes livestock used in dealing operations from the provisions relating to standard values.

Subclause (5) is a formal amendment only.

Clause 8 further amends section 98 of the principal Act, and provides that where the Commissioner is satisfied that the value of a taxpayer's trading stock (other than livestock) is, by reason of obsolescence or other special circumstances, lower than the lowest value applicable under subsection (4) of that section, the value of the trading stock will, if the taxpayer so desires, be that lower value instead of the value applicable under subsection (4).

Clause 9 amends section 98 (7) of the principal Act, which provides that where in any income year the whole or any part of the assets of a business is sold or otherwise disposed of by a taxpayer, and those assets include any trading stock, the consideration received or receivable for the trading stock is to be taken into account in calculating the taxpayer's assessable income for that year, and the person acquiring that trading stock is deemed to have purchased it for the amount of that consideration.

This clause extends that provision, and applies it in cases where a share or interest in any trading stock is sold or otherwise disposed of.

Clause 10: By section 101 of the principal Act, where any trading stock is sold together with other assets of a business, the part of the consideration attributable to the trading stock is to be determined by the Commissioner, and the amount so determined is deemed to be the price paid for the trading stock by the purchaser.

This clause extends that provision so as to apply in cases where a share or interest in trading stock is sold together with other assets of a business or with a share or interest in other assets of a business.

Clause 11: Section 102 of the principal Act contains provisions applying where any trading stock is sold or otherwise disposed of for an inadequate consideration. Under that section it is deemed to have been sold at its current market price or, where there is no market price, at such price as the Commissioner determines.

This clause extends that provision so as to apply to cases where a share or interest in trading stock is sold or otherwise disposed of for an inadequate consideration.

Clause 12 amends section 103 of the principal Act, relating to the spreading of excess income derived on the sale of livestock where unduly low standard values are adopted. This amendment is consequential on the provisions of *clause 7* enabling a nil value to be adopted, and will apply the provisions of section 103 to such a case.

Clause 13 makes several amendments to section 103A of the principal Act relating to adjustments of tax where a farmer is forced to quit his farm or his farming business is affected by an adverse event, and as a result the farmer derives excess income by reason of the forced sale of livestock or, in the case of livestock sold in the ordinary course of business, inability to replace it in the same income year.

The amendments made by this clause are—

- (a) *Subclause (1)* extends these provisions to apply in individual cases where the reason for the forced sale or inability to replace in the same income year is sickness or disease among the farmer's livestock, even though the sickness or disease has not been declared to be an adverse event.
- (b) *Subclause (2)* is consequential on the provisions of the proposed new subsection (9A) of section 98 of the principal Act, proposed to be inserted by *clause 7 (3)* of the Bill. It makes provision for cases where the farmer has adopted a nil value for livestock pursuant to that subsection.
- (c) *Subclause (3)* is intended to cover the position where the farmer is, by reason of a further occurrence of any of the kinds referred to in section 103A (1) (a) of the principal Act before the end of the second income year following the income year in which the livestock was sold, unable to replace the livestock before the end of that second income year. In such case the period for replacing the livestock may be extended for a further year.
- (d) *Subclause (4)* is also consequential on the provisions of the proposed new subsection (9A) of section 98 of the principal Act, enabling the farmer to adopt a nil value for livestock in certain cases.

Clause 14: The effect of this clause is that in calculating the assessable income derived by any taxpayer from any source, no deduction may be made in respect of any expenditure incurred, directly or indirectly, in advertising over any radio-broadcasting or television station transmitting from any vessel, whether within or outside the territorial limits of New Zealand.

Clause 15 extends the provisions of section 114A of the principal Act, which enables a taxpayer to claim a special depreciation allowance of 20 per cent, in addition to ordinary depreciation rates, in respect of—

- (a) Plant or machinery or buildings for the accommodation of employees of the taxpayer. At present, the plant or machinery must be acquired installed, or extended, and the building for employees must be acquired, erected, or extended, before 1 April 1967:

- (b) New farm buildings, or new extensions (other than residences). At present, the buildings must be erected or extended before 1 April 1967.

This clause extends the time in each case for a further year, until 1 April 1968.

Clause 16 extends the provisions of section 116A of the principal Act, which enables a taxpayer to claim an initial depreciation allowance of 20 percent, in addition to ordinary depreciation rates, on—

- (a) The cost of acquiring, erecting, or extending buildings for the accommodation of employees of the taxpayer. At present, the building must be acquired, erected, or extended on or after 1 April 1961 and not later than 31 March 1967, and must first be used for the purposes of the taxpayer's business during that period.
- (b) The cost of erecting new buildings or new extensions (other than residences) for use wholly for the purposes of a farming or an agricultural business carried on by the taxpayer. At present, the building must be erected or extended on or after 1 April 1964 and not later than 31 March 1967, and must first be used for the purposes of taxpayer's business during that period.

This clause extends that period in each case for a further year, until 31 March 1968.

Clause 17: Section 117A of the principal Act enables a taxpayer to claim an investment allowance of 10 percent on new manufacturing plant or machinery. Delivery of the plant or machinery must generally be taken on or after 1 August 1963 and on or before 31 March 1967, but there are special provisions for such cases as when a unit of plant or machinery is under construction on 31 March 1967 or was delivered within a reasonable period after 31 March 1967 under a binding contract entered into before that date.

This clause fixes 16 June 1966 as the closing date of the qualifying period, and the special provisions are now also related to that date.

This amendment will also affect section 117B of the principal Act, which enables a taxpayer to claim an investment allowance of 10 percent on new farming or agricultural plant or machinery. The same qualifying period is fixed in this case as in the case of an allowance under section 117A, and the amendment to section 117A will thus have the effect of fixing 16 June 1966 as the closing date of the qualifying period in relation to farming or agricultural plant and machinery also.

Clause 18: Section 117c of the principal Act enables a taxpayer to claim a special investment allowance of 20 percent on new or secondhand plant, machinery, and buildings and extensions of buildings for redevelopment projects on the West Coast of the South Island. The plant, machinery, or buildings must be acquired or installed by the taxpayer before 1 April 1967.

Subclause (1) of this clause extends that period by a further year, until 1 April 1968.

Subclause (2) of this clause reduces this allowance to 10 percent in the case of plant or machinery (but not buildings or extensions of buildings) acquired or installed after 16 June 1966 unless a binding contract for its acquisition or installation had been entered into on or before that date.

Clause 19: Section 117D of the principal Act enables a taxpayer to claim an investment allowance of 10 percent on plant or machinery used in taking or catching fish, shellfish, or crustaceans (including fishing boats and expenditure incurred in converting or making structural alterations to vessels to be used as fishing boats). The plant or machinery must have been acquired by the taxpayer on or after 1 April 1964 and before 1 April 1967.

The effect of this clause is that the allowance may now be claimed only in respect of plant or machinery acquired or constructed on or after 1 April 1964 and not later than 16 June 1966, unless a binding contract for its acquisition or installation had been entered into on or before the latter date. Where such a contract was entered into, the plant or machinery must be acquired or constructed within a period considered by the Commissioner to be reasonable in the circumstances of the particular case. If the circumstances warrant, that period could extend beyond 31 March 1967, the end of the present qualifying period.

Clause 20 amends section 119B of the principal Act, which enables a taxpayer engaged in a farming or an agricultural business to elect to allocate expenditure incurred in purchasing or applying to his land fertiliser or lime, or any part of that expenditure, to any one or more of the four income years succeeding the income year in which it was incurred.

At present, under subsection (2) the taxpayer must make that election within the time within which he is required to make a return of income for the year in which the expenditure was incurred. This clause amends this provision, and enables the taxpayer to defer making his election or to make several elections during the three-year period following the income year in which the expenditure was incurred, and he will not be required to make his election in the first year following that income year. Where the whole amount that may be claimed as a deduction under this section is not claimed as a deduction for the year in which it was incurred or for any of the next three succeeding years, it will be allowed as a deduction for the fourth succeeding year.

The clause also replaces subsection (3) of section 119B, with consequential amendments.

Clause 21 amends section 119D of the principal Act, which enables a taxpayer engaged in any farming or agricultural business to claim a deduction in respect of—

- (a) Expenditure incurred on development work (such as eradicating pests, clearing timber, scrub, stumps, and weeds, and the preparation of land for farming or agriculture).
- (b) Expenditure incurred not later than the income year ending with 31 March 1967 on other development work (such as drainage, farm-access roads and tracks, irrigation, new fencing, and construction of landing strips).
- (c) Expenditure incurred on or after 1 April 1965 and not later than the end of the income year ending with 31 March 1967, on the erection on the land of electric-power lines and telephone lines.

The taxpayer is entitled to elect to allocate the whole or any part of the expenditure to any one or more of the five income years succeeding the income year in which the expenditure is incurred.

This clause makes the following changes in these provisions:

- (a) *Subclause (1)* extends the time referred to in paragraphs (b) and (c) of this note for a further year, until the end of the income year ending with 31 March 1968.

(b) Expenditure to which section 119D relates is extended to include expenditure incurred on or after 1 April 1966 and not later than the end of the income year ending with 31 March 1968 on the construction of feeding platforms, feeding yards, plunge sheep dips, or self-feeding ensilage pits.

(c) *Subclause (2)*: At present, under subsection (2) of section 119D, the taxpayer must make his election within the time within which he is required to make a return of income for the year in which the expenditure was incurred. This subclause amends this provision, and enables the taxpayer to defer making his election or to make several elections during the four-year period following the income year in which the expenditure was incurred, and he will not be required to make his election in the first year following that income year. Where the whole amount that may be claimed as a deduction under this section is not claimed as a deduction for the year in which it was incurred or for any of the next four succeeding years, it will be allowed as a deduction for the fifth succeeding year.

The subclause also replaces subsection (3) of section 119D, with consequential amendments.

Clause 22: Section 126A of the principal Act allows a tax deduction to be claimed by a company that makes a donation to a University for research purposes that are of importance in the general economy of New Zealand. The deduction applies up to a maximum of 5 percent of the assessable income of the company with a limit of £500 in any one year.

This clause widens this provision to include as qualifying deductions donations made for such purposes to the Medical Research Council of New Zealand or to research institutions approved by the Minister of Finance on the recommendation of that Council or of the National Research Advisory Council.

The provision will apply to donations made on or after 17 June 1966.

Clause 23 enables a taxpayer who is carrying on any business to claim a deduction in respect of any pensions paid to former employees and widows of former employees. In order to qualify for a deduction under this provision, the pension must be of an amount that is reasonable in the circumstances, it must be payable for a fixed period or for life or during widowhood, it must be payable as of right under a deed, and the employee must have retired by reason of reaching the normal retiring age or on account of serious illness or permanent disability or the employee must have died while he was employed by that employer. Where the employer is a company and the employee was or is a director of the company, the deduction may not be claimed if he was not employed full time, or if he, or, as the case may be, his widow, has sufficient means for his or her own support.

Clause 24 extends the provisions of section 129A of the principal Act enabling a taxpayer to claim a special deduction in relation to export-market development or tourist-promotion expenditure. At present, the taxpayer may deduct one and a half times the amount of any such expenditure incurred during the period commencing 1 April 1962 and ending 31 March 1967.

This clause extends that period for a further year, until 31 March 1968.

Clause 25: By section 129B of the principal Act, a taxpayer may claim a deduction in respect of income derived from the increased exports of goods during the five income years commencing with the 1963 income year. The deduction is available only in respect of goods which have been exported by the taxpayer and have been sold or disposed of by him and which were

owned by the taxpayer at the time of the sale or disposal, and is available in respect of all such goods exported, with certain exceptions specified in the definition of the term "export goods" in section 129B (1).

The excess exports for an income year are ascertained in relation to a base period which is defined as the first three of the four income years immediately preceding the income year, and the amount of the deduction is calculated in accordance with a formula set out in section 129B (5).

This clause makes the following two changes in these provisions:

- (a) Instead of a deduction calculated in accordance with the formula set out in section 129B (5), a uniform 15 percent deduction will be allowed in respect of all qualifying increases in exports.
- (b) The base period is defined as the first three of the five (instead of the four) income years immediately preceding the income year in respect of which a deduction is claimed.

This clause also provides (in *subclause (7)*) that the amount of the deduction to which a taxpayer shall be entitled under section 129B of the principal Act in respect of the income derived by him in the income year that commenced on 1 April 1966 shall not be less than the amount of the deduction to which he would have been entitled if the amendments made to that section by *subclauses (1) to (4)* of this clause had not been made.

Clause 26 allows a tax deduction to be claimed for subscriptions, fees, and levies paid by an employee and relating to his employment (e.g., trade union fees and subscriptions to professional bodies). The maximum deduction under this provision will be £10 in any income year.

Clause 27: By section 136c of the principal Act (relating to the farm income equalisation scheme) a taxpayer may make payments to the Commissioner by way of farm income equalisation reserve deposits, but where a voluntary withdrawal has been made in respect of any year no subsequent deposit may be made in respect of that year.

The effect of this clause is to enable a subsequent deposit to be made in such a case if the amount of the refund has, before the making of the subsequent deposit, been wholly applied for the purposes of the development or expansion of the farming business.

This amendment is retrospective to the commencement of section 136c.

Clause 28 amends section 136E of the principal Act, relating to voluntary withdrawals of income equalisation reserve deposits. Any amount refunded is assessable income for the accounting year in which application for the refund is received by the Commissioner, but the taxpayer may, provided he makes his application within a specified period, elect to treat the refund as income for the preceding accounting year.

This clause gives the Commissioner a discretion to extend the time for making the application in cases where the taxpayer wishes to make such an election.

This amendment is retrospective to the commencement of section 136E.

Clause 29: Sections 136B to 136K of the principal Act enable a taxpayer who is engaged in any farming or agricultural business to make payments to the Commissioner by way of income equalisation deposits, and a deduction is allowed of the amount of these deposits from the assessable income of the taxpayer for the year of deposit. The deposits when refunded are treated as part of the assessable income of the taxpayer for the year of refund.

The effect of this clause is that the amount of income tax payable in respect of the refunds will not exceed the amount of additional income tax that would have been payable in the year of deposit if the deposits had not been allowed as a deduction from the assessable income of the taxpayer for that year.

This amendment is retrospective to the commencement of section 136k.

Clause 30 re-enacts in an amended form section 149 of the principal Act relating to the assessment of life insurance companies. The most important changes are—

- (a) *Subsection (1)* of the new section defines what constitutes a company carrying on in New Zealand the business of life insurance for the purposes of the section. The section will apply to a company only if the greater part of its life insurance business in New Zealand consists of the issuing of policies of insurance upon human life in New Zealand and the investment and management of money received by way of premiums in respect of such policies.
- (b) *Subsections (3) and (4)* contain new provisions as to what constitutes profits derived by such a company. Generally, these will constitute the surplus funds allotted in respect of policies comprised in the New Zealand business of the company. The important change from the existing provision is that it will no longer be possible for certain dividends derived by the company to be deducted from the surplus funds when determining the company's assessable income.
- (c) *Subsection (8) (a)* is a new provision, and defines what is meant by "policies comprised in the New Zealand business" in relation to a company to which the section applies. In broad terms, this will comprise such policies upon human life in New Zealand as the company has itself issued, increased by such policies or parts of policies as it may have accepted from other companies by way of reinsurance and decreased by such policies or parts thereof as it may have ceded to other companies by way of reinsurance. The adjustments in respect of reinsurances accepted or ceded will not apply to contracts of reinsurance under which the liability of the reinsurer is limited to the extent only of "death strain at risk". This is a recognised insurance expression, and means in respect of a particular insurance at a particular time the amount by which the amount payable at death exceeds the money held at that time, in respect of the insurance, by the company which issued the policy.
- (d) *Subsection (8) (b)* is new, and provides a standard formula for calculating the amount of surplus funds allotted by way of reversionary bonuses. Under the existing section the calculation of the amount of surplus funds could vary from company to company depending on the formula adopted in each case.
- (e) *Subsection (11)* is a new provision, and covers the position of those companies whose business in New Zealand comprises the accepting of reinsurance from companies carrying on life insurance business in New Zealand as previously defined, as distinct from the issuing of policies of insurance on their own behalf.
The effect of the subsection is to bring such reinsurance companies within the general scope of section 149, subject to such minor modifications as their special circumstances may require.
- (f) There are a number of other minor changes from the wording of the old section 149, but these are primarily to obtain greater clarification and remove certain ambiguities.

- (g) The clause also includes transitional provisions, including provisions for the phasing out over a period of three years ending 31 March 1969 the existing exemption from taxation of company dividends received by life insurance companies.

Clause 31 amends section 150 of the principal Act, which provides that the amount of ordinary income tax payable by a life insurance company (except the tax payable in respect of certain kinds of income) shall be nine-twentieths of the amount that would, but for that section, be payable by the company.

The effect of this clause is to limit this provision to those life insurance companies to which the proposed new section 149 of the principal Act (as substituted by *clause 30* of the Bill) applies.

Clause 32 inserts a new section 150A in the principal Act applying to life insurance companies to which the proposed new section 149 does not apply.

As a result of the amendment to section 150 of the principal Act proposed to be made by *clause 31* of the Bill, overseas life insurance companies whose only life insurance business in New Zealand consists of the investment of funds will no longer be eligible for the special rate provided by section 150. The proposed new section 150A provides for the continuation of this special rate in those cases, which are limited in number, where the debentures have been issued before the date of introduction of the Bill and the principal sum under the debentures has been used for a development project within the meaning of section 86A (3) of the principal Act.

Clause 33: Section 151 (1) (a) of the principal Act provides that in the case of an insurance company carrying on any insurance business other than life insurance its assessable income does not include income derived from insurance business carried on outside New Zealand. The effect of this clause is to make it clear that this provision does not apply to certain kinds of income which, by section 167 of the principal Act, are deemed to have been derived from New Zealand.

Clause 34 provides that in the case of any overseas shipowner carrying freight or passengers from New Zealand, 5 percent of the gross amount paid or payable in respect of that carriage (whether paid or payable in New Zealand or elsewhere) will be deemed to be taxable income derived from New Zealand in respect of that carriage, and the shipowner will not be assessable for income tax otherwise than in accordance with this provision.

The Commissioner may exempt any taxpayer or class of taxpayer resident in any other country from liability to pay income tax under this provision where New Zealand residents are exempted in corresponding circumstances in that other country or territory.

Clause 35: Subclause (1) declares to be income derived from New Zealand any income derived from any business carried on out of New Zealand to the extent that that income consists of income of any of the kinds referred to in the following paragraphs of section 167 of the principal Act:

- (a) Paragraph (c) (income derived as the owner of land in New Zealand).
- (b) Paragraph (d) (income derived from any mortgage of land in New Zealand).
- (c) Paragraph (e) (income derived from shares or debentures of New Zealand companies or local or public authorities).

- (d) Paragraph (f) (income derived from New Zealand Government securities or from contracts with the Government).
- (e) Paragraph (i) (income derived from the disposition of property of any kind in New Zealand).
- (f) Paragraph (j) (income derived from money lent in New Zealand).
- (g) Paragraph (jj) (income derived from money lent outside New Zealand to New Zealand residents (with certain exceptions) or to persons who are not New Zealand residents and used for certain business purposes in New Zealand).

This subclause is intended to clarify what has been understood to be the present position in regard to the above kinds of income.

Subclause (2): Section 167 (m) of the principal Act provides that income derived from the carriage by sea or air of merchandise, mails, or passengers shipped or embarked in New Zealand is deemed to be derived from New Zealand. This subclause is intended to make it clear that paragraph (m) applies, and always has applied, to goods and livestock also.

Clause 36 repeals section 171 of the principal Act, which empowers the Governor-General, by Order in Council, to exempt from income tax non-resident traders of any other country if he is satisfied that New Zealand traders are exempt in that country from income tax derived as non-resident traders.

This section provides an alternative method to that provided by section 172 relating to arrangements with other countries for relief from double taxation, and in future relief may be obtained only by means of an Order in Council under section 172.

Clause 37: Section 172BB of the principal Act defines the term "privately controlled company" for the purposes of Part VIA of the principal Act, under which excess retention tax is payable by privately controlled companies only.

This clause re-enacts section 172BB in an amended form, and narrows the class of companies that are privately controlled companies for the purposes of Part VIA. In future the term "privately controlled company" will be restricted to proprietary companies as defined in section 138 (1) (a) of the principal Act (which, generally speaking, are companies under the control of not more than four persons), except proprietary companies in which all the shares are beneficially held directly or indirectly by companies that are not proprietary companies.

Clause 38 re-enacts section 172kk of the principal Act, which enables a company to be released from payment of excess retention tax in respect of income retained for expenditure on essential development or expenditure involving the acquisition, erection, installation, or extension of fixed assets.

The new section extends these provisions to include cases where funds are retained to provide increases in current assets, such as trading stock, book debts, and consumable aids (e.g., fuel). The other amendments in the section are consequential on this extension.

Clause 39 repeals sections 188 and 189 of the principal Act. Section 188 provides that local or public authorities which issue debentures are deemed to be the agents of the debenture holders and must make returns of income derived from those debentures and be assessable and liable for income tax thereon. Section 189 modifies those provisions in certain circumstances.

Clause 40 re-enacts in an amended form section 201 of the principal Act, which provides that where an agent in New Zealand of a principal resident or carrying on business abroad is instrumental in procuring the purchase from that principal of goods or merchandise which are in New Zealand or are to be imported into New Zealand in consequence of that purchase, the principal is deemed to be carrying on business in New Zealand through his agent in New Zealand. The income derived from that business is taxable, and the agent must make returns and pay tax accordingly.

The Governor-General may grant relief from tax, by Order in Council, in cases where and to the extent to which he is satisfied that there is reciprocity of relief from the other country or territory.

The only material change in the new section is that relief from tax may be granted by the Commissioner instead of by Order in Council.

Clause 41 re-enacts in an amended form section 223 of the principal Act, which provides for a refund of excess tax paid by a taxpayer if written application for the refund is made by the taxpayer within six years after the end of the year in which the assessment was made (in cases where the assessment has not been altered), or within six years after the end of the year in which the original assessment was made (in cases where the original assessment has been altered).

The new section 223 requires the Commissioner to refund any tax paid in excess without the necessity of a written application by the taxpayer, but no refund may be made after the expiration of six years from the end of the year in which the assessment was made (in cases where the assessment had not been altered) or after the expiration of six years after the end of the year in which the original assessment was made (in cases where the original assessment has been altered), unless in either case a written application for a refund is made by the taxpayer before the expiration of that period.

Where an assessment has been altered so as to increase the amount of tax payable and by reason of that alteration tax has been paid in excess, the six-year period will, as under the present section 223, commence to run from the end of the year in which the alteration was made and not from the end of the year in which the original assessment was made.

Clause 42: By section 226 (1A) of the principal Act, a special exemption not exceeding £78 may be granted to relieve serious hardship to a taxpayer who is a widow or widower with dependent children but is not entitled to claim a housekeeper exemption under section 83. This is in addition to the child exemption.

This clause extends that provision to cases where the taxpayer is a separated or divorced person.

PART II

AMENDMENTS OF INCOME TAX ASSESSMENT ACT 1957

Clause 43: At present no relative of a taxpayer (other than a wife or husband or a child under 18 years of age) is a dependant for the purposes of tax codes if his income (including any social security benefit) exceeds £300 a year.

This clause increases that amount to £325 a year. The increase is to come into force on 1 April 1967.

Clause 44 re-enacts in an amended form section 25 of the Income Tax Assessment Act 1957, which provides for a refund or crediting towards repayment of unpaid tax of any excessive tax deductions made from the salary of a pay-period taxpayer. Written application for the refund or crediting must at present be made within six years after the end of the year in which the income is derived.

The new section 25 provides that if the Commissioner is satisfied that excessive tax deductions have been made, he is to refund or credit the tax paid in excess without the necessity of a written application by the taxpayer, but no refund or crediting may be made after the expiration of six years from the end of the year in which the income was derived unless a written application for a refund or crediting is made by the taxpayer before the expiration of that period.

Clause 45 repeals section 28 (5A) of the Income Tax Assessment Act 1957, which provides that no refund of excessive tax deductions is to be made under subsection (2) of that section unless written application for the refund is made by the employee concerned.

Clause 46 repeals section 57 (2A) of the Income Tax Assessment Act 1957, which provides that no refund of provisional tax paid in respect of any income year which is in excess of the tax assessed for that year may be made under subsection (1) of that section unless written application for the refund is made by the taxpayer concerned.

Hon. Mr Lake

LAND AND INCOME TAX AMENDMENT

ANALYSIS

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A BILL INTITULED

An Act to amend the Land and Income Tax Act 1954

BE IT ENACTED by the General Assembly of New Zealand in Parliament assembled, and by the authority of the same, as follows:

5

1. Short Title—This Act may be cited as the Land and Income Tax Amendment Act 1966, and shall be read together with and deemed part of the Land and Income Tax Act 1954* (hereinafter referred to as the principal Act).

2. Application—Except where this Act otherwise provides, this Act shall apply with respect to the tax on income derived in the income year that commenced on the first day of April, nineteen hundred and sixty-six, and in every subsequent year.

10

PART I

AMENDMENTS OF PRINCIPAL ACT

15

3. Special exemption in certain cases for a taxpayer employing a housekeeper—Section 83 of the principal Act (as substituted by section 13 (1) of the Land and Income Tax Amendment Act 1965) is hereby amended by omitting from subsection (3) the words “or part of a month”.

20

*Reprinted 1964, Vol. 3, p. 1443

Amendments: 1965, No. 18; 1965, No. 125

4. Special exemption in respect of life insurance premiums and superannuation and insurance fund contributions—

(1) The principal Act is hereby further amended by repealing section 85, and substituting the following section:

5 “85. (1) For the purposes of this section—

“‘Benefit’, in relation to a policy of life insurance, means a benefit that is specified in or is ascertainable from the terms of the policy:

“‘Child’ includes a step-child and a foster child:

10 “‘Policy of life insurance’, in relation to a taxpayer, means a policy of insurance—

“(a) Which has been effected—

“(i) On the life of the taxpayer; or

15 “(ii) On the life of the spouse of the taxpayer; or

“(iii) On the joint lives of the taxpayer and the spouse of the taxpayer; or

“(iv) On the life of a child of the taxpayer; and

20 “(b) Which, except in the case of a whole of life policy, has a minimum term of—

“(i) At least ten years in any case to which subparagraph (ii) of this paragraph does not apply; or

25 “(ii) At least five years in any case where the maturity date of the policy is not earlier than the date on which the life assured, or, in the case of a joint policy, either of the lives assured, attains the age of sixty years, if male, or fifty-five years, if female; and

30 “(c) Under the terms of which no benefits (other than benefits payable or distributable as a result of the death of the life assured or, in the case of a joint policy, of either of the lives assured) are payable or distributable earlier than the expiry of ten years after the commencement of the term of the policy or the maturity date of the policy, whichever is the sooner; and

35

“(d) Which—

“(i) Provides for the payment or distribution, as a result of the death of the life assured, or, in the case of a joint policy, of either of the lives assured, of a benefit (not being a return of premiums with or without interest) which, in the opinion of the Commissioner, consists substantially of a capital benefit and is not, irrespective of the date of death during the currency of the policy, materially less than the total benefit payable or distributable under the policy otherwise than as a result of death as aforesaid; or

“(ii) Is a child’s deferred life assurance policy; or

“(iii) The taxpayer proves, to the satisfaction of the Commissioner, is on the life of a person who, owing to ill health or physical disability is unable to effect a policy of insurance to which subparagraph (i) of this paragraph applies at ordinary rates;—

and includes any policy of insurance effected before the twenty-sixth day of August, nineteen hundred and sixty-six, the premiums in respect of which were allowable as a deduction by way of special exemption under the provisions of the section for which this section was substituted by section 4 of the Land and Income Tax Amendment Act 1966.

“(2) For the purpose of assessing ordinary income tax every taxpayer, other than an absentee, who in any income year pays premiums in respect of a policy of life insurance for the taxpayer’s own benefit, or for the benefit of the taxpayer’s spouse or children, shall be entitled to a deduction by way of special exemption from his or her assessable income for that income year of the amount of those premiums.

“(3) For the purpose of assessing ordinary income tax every taxpayer, other than an absentee, who is a contributor for the taxpayer’s own benefit or for the benefit of the taxpayer’s spouse or children to the National Provident Fund, or to any superannuation fund, or to any insurance fund of a friendly society, or to any similar fund approved by the Commissioner for the purposes of this section, shall be entitled to a deduction

by way of special exemption from his or her assessable income for any income year of the amount of his or her contributions during the same income year.

5 “(4) Notwithstanding the provisions of subsections (2) and
6 (3) of this section, no deduction by way of special exemption
7 shall be allowed in any income year in respect of the premiums
8 paid by a taxpayer in respect of any policy of life insurance
9 on the life of any child, or in respect of contributions for the
10 benefit of any child to the National Provident Fund or to
11 any superannuation fund or to any insurance fund of a
12 friendly society or to any similar fund approved by the
13 Commissioner for the purposes of this section, unless the
14 taxpayer is entitled to a deduction by way of special exemption
15 under section 83A or section 84 of this Act in respect of that
16 child in the same income year.

“(5) The deductions by way of special exemption provided for in this section—

20 “(a) In the case of any taxpayer who is a contributor to
21 the Government Superannuation Fund, or who is
22 a member of a superannuation fund to which any
23 person employing or engaging the taxpayer or con-
24 tracting for the services of the taxpayer is liable to
25 contribute in respect of the income year, shall not
26 in any year exceed in the aggregate the sum of two
27 hundred and fifty pounds:

“ (b) In the case of any taxpayer to whom paragraph (a)
of this subsection does not apply, shall not in any
year exceed in the aggregate the sum of three
hundred and twenty-five pounds.

30 “(6) The Commissioner may, in his discretion, disallow or
31 decline to allow a deduction by way of special exemption—

35 “(a) Under subsection (2) of this section in respect of pre-
36 miums paid in respect of any policy of life
37 insurance which is surrendered within five years
38 after the commencement of the term of that policy;
39 or

40 “(b) Under subsection (3) of this section in respect of
41 contributions to the National Provident Fund or
42 to any superannuation fund or to any insurance
43 fund of a friendly society or to any similar fund
44 approved by the Commissioner for the purposes
45 of this section which are withdrawn within five
46 years after the date on which they were made,
47 unless there is a regular pattern of contributions
48 by the taxpayer to that fund over the whole of
49 that period—

and may accordingly make or amend any assessment or assessments of the taxpayer for any year without allowing that deduction. For the purpose of giving effect to this subsection, the Commissioner may amend any assessment or assessments of the taxpayer at any time, notwithstanding the provisions of section 24 of this Act.” 5

(2) The following enactments are hereby consequentially repealed:

- (a) Section 5 of the Land and Income Tax Amendment Act (No. 2) 1957: 10
- (b) So much of the Third Schedule to the Income Tax Assessment Act 1957 as relates to section 85 of the principal Act:
- (c) Section 11 of the Land and Income Tax Amendment Act (No. 2) 1959: 15
- (d) Section 23 of the Land and Income Tax Amendment Act 1964.

5. Certain deferred pay of servicemen exempt from taxation—Section 86 of the principal Act is hereby amended by inserting in subsection (1), after paragraph (j), the following paragraph: 20

“(jj) Income derived by any person from deferred pay, being pay—

“(i) Granted or paid to him, pursuant to the Navy Act 1954 or the New Zealand Army Act 1950 or the Royal New Zealand Air Force Act 1950, in respect of his service on or after the fifteenth day of July, nineteen hundred and sixty-five, as a member of the New Zealand armed forces in any area outside New Zealand declared to be an active-service area for the purposes of this paragraph by the Minister of Defence, by notice in the *Gazette*, given with the consent of the Minister of Finance; and 30

“(ii) Declared to be deferred pay for the purpose of this paragraph by the Minister of Defence, by notice in the *Gazette*, given with the concurrence of the Minister of Finance:” 35

6. Income exempt from social security income tax—

(1) Section 86A of the principal Act (as inserted by section 83 of the Income Tax Assessment Act 1957) is hereby amended by repealing paragraph (a) of subsection (1), and substituting the following paragraph: 40

“(a) Income assessable for ordinary income tax under section 149 of this Act:”.

(2) Section 86A of the principal Act (as so inserted) is hereby further amended by repealing paragraph (b) of subsection (1) (which paragraph was substituted by section 25 (1) of the Land and Income Tax Amendment Act (No. 2) 1958), and substituting the following paragraph:

“(b) The income derived from interest (other than interest to which section 150A of this Act applies) by any non-resident investment company:”.

(3) Section 25 of the Land and Income Tax Amendment Act (No. 2) 1958 is hereby consequentially amended by repealing subsection (1).

7. Value of livestock—(1) Section 98 of the principal Act is hereby amended by inserting, after subsection (1), the following subsection:

“(1A) For the purposes of this subsection and of subsection (9A) of this section—

“‘Basic number’, in relation to any class of livestock and to any taxpayer carrying on any farming business on any land in New Zealand, means the number (if any) of that class of livestock (being livestock used by the taxpayer in that business or used by any other person in any farming business carried on by that other person on that land) that was on hand at the end of either of the two income years immediately preceding that taxpayer’s year of first election, whichever number is the greater:

“‘Increase over the basic number for the income year’, in relation to any class of livestock and to any income year and to any taxpayer carrying on any farming business on any land in New Zealand, means any excess of the number of that class of livestock (being livestock used by that taxpayer in that business) on hand at the end of that income year over the taxpayer’s basic number of that class of livestock, reduced, on the basis of the specified equivalent, by any decrease in the number of any other class of livestock (being livestock used by that taxpayer in that business) on hand at the end of that income year below that taxpayer’s basic number of that other class of livestock:

“‘Livestock’ means cattle or sheep:

“‘Specified equivalent’, in relation to livestock, means that one head of cattle is equivalent to six sheep:

“‘Year of first election’, in relation to any taxpayer carrying on any farming business on any land in New Zealand, means the first income year in respect of which that taxpayer makes an election under subsection (9A) of this section.”

5

(2) Section 98 of the principal Act is hereby further amended by inserting in subsection (9), after the words “income from livestock”, the words “(other than livestock used in dealing operations)”.

(3) Section 98 of the principal Act is hereby further amended by inserting, after subsection (9), the following subsection:

10

“(9A) Notwithstanding anything to the contrary in subsection (4) or subsection (9) of this section, where there is, in relation to any income year and to any taxpayer carrying on any farming business on any land in New Zealand, an increase over the basic number for the income year in relation to any class of livestock (other than livestock used in dealing operations), the taxpayer may, if he so elects, adopt a nil value in respect of the whole or part of that increase over the basic number for the income year to be taken into account at the end of the income year:

15

20

“Provided that where, by reason of any change in the pattern of the taxpayer’s farming operations or the acquisition of additional land for the purposes of the farming business or the sale or other disposal of land that has been used for the purposes of that business or for any other reason, the Commissioner is of the opinion that the taxpayer is at an unfair advantage or disadvantage for the purposes of this subsection, the Commissioner may make such adjustment for the purposes of this subsection as he considers equitable to meet the special circumstances of the case.”

25

30

(4) Section 98 of the principal Act is hereby further amended by repealing subsection (10), and substituting the following subsection:

35

“(10) Notwithstanding anything to the contrary in the foregoing provisions of this section, the executor or administrator of any taxpayer dying after the thirty-first day of August, nineteen hundred and fifty, who at the date of his death was deriving income from livestock shall, in the return of income for the period ending with the date of death of the taxpayer, adopt as the value of any livestock on hand at that date the value of that livestock as determined for the purposes of the Estate and Gift Duties Act 1955, unless he

40

elects in respect of any class of livestock (other than livestock used in dealing operations) to adopt instead thereof a lower value, being—

5 “(a) Where the deceased taxpayer had adopted a standard value in respect of that class of livestock (whether or not he had adopted, under subsection (9A) of this section, a nil value in respect of any part of that class of livestock)—

10 “(i) The standard value last adopted by the deceased taxpayer and for the time being in force under subsection (9) of this section; or

“(ii) A new standard value, being higher than the standard value referred to in subparagraph (i) of this paragraph; or

15 “(b) Where the deceased taxpayer had not adopted a standard value in respect of that class of livestock—

20 “(i) Such standard value as the Commissioner considers reasonable, having regard to the standard values generally adopted in respect of livestock of the same type and quality; or

“(ii) A standard value higher than the standard value referred to in subparagraph (i) of this paragraph,—

25 in which event the standard value so adopted in respect of any class of livestock shall be deemed to have been adopted with the concurrence of the Commissioner, and shall be taken into account for the purpose of calculating the assessable income derived by the deceased taxpayer for the period ending with the date of his death and (subject to the provisions of

30 subsections (9) and (9A) of this section) for the purpose of calculating the assessable income derived by the executor or administrator for any period or periods after the date of the death of the deceased taxpayer. In any case in which a standard value is adopted under this subsection, the amount of

35 income tax (if any) required to be allowed as a debt under section 9 of the Estate and Gift Duties Act 1955 in respect of the income of the deceased taxpayer for the period ending with the date of his death shall be calculated in accordance with this subsection.”

40 (5) Section 98 of the principal Act is hereby further amended by omitting from subsection (4) the words “Subject to the provisions of subsection (9) of this section”.

8. Value of trading stock reduced by obsolescence or other special circumstances—Section 98 of the principal Act is hereby further amended by inserting, after subsection (4), the following subsection:

“(4A) Notwithstanding anything to the contrary in subsection (4) of this section, where the Commissioner is satisfied that, by reason of obsolescence of, or any other special circumstances relating to, any trading stock (not being live-stock) of any taxpayer, the value of that trading stock to be taken into account at the end of any income year should be an amount (being less than the amount that is the lowest value that could be applicable under that subsection) determined by the Commissioner to be the fair and reasonable value of that trading stock, having regard to—

“(a) The quantity of that trading stock on hand at the end of that income year; and

“(b) The quantity of that trading stock sold, exchanged, or used in manufacture by the taxpayer after the end of that income year and the prospects of sale, exchange, or use in manufacture of further quantities of that trading stock; and

“(c) The quantity of trading stock of the same kind sold, exchanged, or used in manufacture by the taxpayer during that income year and preceding income years; and

“(d) Such other matters as the Commissioner considers relevant,—

the value of that trading stock to be so taken into account shall, notwithstanding any exercise of the option of the taxpayer under subsection (4) of this section, be the value so determined by the Commissioner:

“Provided that this subsection shall not apply in relation to any taxpayer, unless, by written notice signed by or on behalf of the taxpayer and given to the Commissioner within the time within which the taxpayer is required to furnish a return of his income for the income year at the end of which the value of the trading stock is to be taken into account, or within such further time as the Commissioner, in his discretion, may allow, the taxpayer notifies the Commissioner that he desires this subsection to apply.”

9. Share or interest in trading stock disposed of during income year—Section 98 of the principal Act is hereby further amended by adding to subsection (7) the words “The foregoing provisions of this subsection shall, with the necessary modifications, apply in any case where a share or interest in any trading stock is sold or otherwise disposed of by any taxpayer.”

10. Sale of a share or interest in trading stock together with other assets of a business—Section 101 of the principal Act is hereby amended by inserting, after subsection (2), the following subsection:

5 “(2A) The foregoing provisions of this section shall, with the necessary modifications, apply in any case where a share or interest in any trading stock is sold or otherwise disposed of together with other assets of a business or with a share or interest in other assets of a business.”

10 **11. Sale of a share or interest in trading stock for inadequate consideration**—Section 102 of the principal Act is hereby amended by inserting, after subsection (1), the following subsection:

15 “(1A) The foregoing provisions of this section shall, with the necessary modifications, apply in any case where a share or interest in any trading stock is sold or otherwise disposed of without consideration in money or money’s worth or for a consideration that is less than the true value of the share or interest at the date of the sale or other disposition.”

20 **12. Spreading of excess income derived on sale of livestock where unduly low standard values or nil value adopted**—Section 103 of the principal Act is hereby amended—

25 (a) By inserting in subsection (1), after the words “the true value thereof at the date of the sale or other disposition”, the words “or by reason of the adoption of a nil value under subsection (9A) of section 98 of this Act in respect of the livestock”:

30 (b) By omitting from subsection (2) and also from subsection (2A) (as inserted by section 26 of the Land and Income Tax Amendment Act 1964) the words “standard value” wherever they occur, and substituting in each case the word “value”.

13. Excess income on sale of livestock where farmer forced to quit farm, or farming business adversely affected by fire, flood, etc.—(1) Section 103A of the principal Act (as substituted by section 27 (1) of the Land and Income Tax Amendment Act 1964) is hereby amended by inserting in subparagraph (ii) of paragraph (a) of subsection (1), after the words “for the purposes of this section”, the words “or by reason of sickness or disease among livestock”.

(2) Section 103A of the principal Act (as so substituted) is hereby further amended by repealing paragraph (c) of subsection (1), and substituting the following paragraph:

“(c) The price realised, or deemed for the purposes of this Act to have been realised, by the taxpayer for the livestock and taken into account in calculating the assessable income of the taxpayer was in excess of the standard value last adopted, or, as the case may be, of the nil value adopted under subsection (9A) of section 98 of this Act, in respect of the livestock; and”.

(3) Section 103A of the principal Act (as so substituted) is hereby further amended by adding to paragraph (d) of subsection (1) the following proviso:

“Provided that where, before the end of that second income year, the farming business is affected by a further occurrence of any of the kinds referred to in paragraph (a) of this subsection, the period for acquiring other livestock or retaining progeny of livestock shall be extended to the end of the third income year after the income year in which the livestock was sold or otherwise disposed of.”

(4) Section 103A of the principal Act (as so substituted) is hereby further amended by repealing the definition of the term “assessable excess” in subsection (2), and substituting the following definition:

“‘Assessable excess’, in relation to any taxpayer, means the difference, referred to in paragraph (c) of subsection (1) of this section, between the price taken into account in calculating the assessable income of the taxpayer in respect of the livestock sold or otherwise disposed of by him and the standard value last adopted, or, as the case may be, the nil value adopted under subsection (9A) of section 98 of this Act, in respect of the livestock.”

14. Certain deductions not permitted—Section 112 of the principal Act is hereby amended by adding the following paragraph:

“(h) Any expenditure incurred, directly or indirectly, in advertising over any radio-broadcasting or television station transmitting from any vessel (whether or not a ship within the meaning of the Shipping and Seamen Act 1952), whether the vessel is within or outside the territorial limits of New Zealand.”

- 15. Special depreciation allowance on plant and machinery and buildings**—(1) Section 114A of the principal Act (as substituted by section 7 of the Land and Income Tax Amendment Act (No. 2) 1962) is hereby amended by omitting 5 from paragraph (a) and from paragraph (b) of subsection (1) (as amended by section 16 (1) of the Land and Income Tax Amendment Act 1965), and also from subsection (1A) (as inserted by section 28 (4) of the Land and Income Tax Amendment Act 1964 and amended by section 16 (1) of the 10 Land and Income Tax Amendment Act 1965), the words “nineteen hundred and sixty-seven”, and substituting in each case the words “nineteen hundred and sixty-eight”.
- (2) Section 16 of the Land and Income Tax Amendment Act 1965 is hereby consequentially repealed.

- 15 **16. Initial depreciation on buildings**—(1) Section 116A of the principal Act (as inserted by section 6 of the Land and Income Tax Amendment Act 1961) is hereby amended by omitting from subsection (1) (as amended by section 17 (1) of the Land and Income Tax Amendment Act 1965), and 20 also from subsection (1A) (as inserted by section 30 (2) of the Land and Income Tax Amendment Act 1964 and amended by section 17 (1) of the Land and Income Tax Amendment Act 1965), the words “nineteen hundred and sixty-seven”, and substituting in each case the words “nineteen hundred 25 and sixty-eight”.
- (2) Section 17 of the Land and Income Tax Amendment Act 1965 is hereby consequentially repealed.

- 17. Investment allowance on plant and machinery for use for manufacturing, farming, or agricultural purposes**—
- 30 (1) Section 117A of the principal Act (as inserted by section 11 of the Land and Income Tax Amendment Act (No. 2) 1963 and amended by section 20 (1) of the Land and Income Tax Amendment Act 1965) is hereby further amended by omitting from paragraph (a) of subsection (6), and also 35 from subparagraph (ii) of paragraph (b), paragraph (d), paragraph (e), paragraph (f), and subparagraph (i) of paragraph (g) of subsection (7), the words “the first day of April, nineteen hundred and sixty-seven”, and substituting in each case the words “the seventeenth day of June, nine- 40 teen hundred and sixty-six”.
- (2) Section 20 of the Land and Income Tax Amendment Act 1965 is hereby consequentially repealed.

18. Investment allowance on plant, machinery, and buildings for use in redevelopment projects in the West Coast, South Island—(1) Section 117c of the principal Act (as inserted by section 13 of the Land and Income Tax Amendment Act (No. 2) 1963) is hereby amended by omitting from paragraph (a) and from paragraph (b) of subsection (2) (which paragraphs were substituted by section 33 (2) of the Land and Income Tax Amendment Act 1964) the words “nineteen hundred and sixty-seven” wherever they occur, and substituting in each case the words “nineteen hundred and sixty-eight”.

(2) Section 117c of the principal Act (as so substituted) is hereby further amended by adding to subsection (4) the following proviso:

“Provided that where—

“(a) The plant or machinery was acquired or installed after the sixteenth day of June, nineteen hundred and sixty-six; and

“(b) The Commissioner is not satisfied that a binding contract for the acquisition or installation of the plant or machinery was completed by all the necessary parties thereto on or before that date,—
the deduction to be allowed under this section in respect of that expenditure shall be of an amount equal to one-tenth of that expenditure.”

19. Investment allowance on plant and machinery for use for the purposes of fishing business—Section 117d of the principal Act (as inserted by section 21 (1) of the Land and Income Tax Amendment Act 1965) is hereby amended by repealing subsection (2), and substituting the following subsection:

“(2) Subject to subsection (4) of this section, this section shall apply to any plant or machinery owned by a taxpayer that is for use wholly and exclusively in and for the purposes of any business of fishing carried on in New Zealand by the taxpayer, and that has been acquired or constructed by the taxpayer—

“(a) On or after the first day of April, nineteen hundred and sixty-four, and not later than the sixteenth day of June, nineteen hundred and sixty-six; or

“(b) After the sixteenth day of June, nineteen hundred and sixty-six, if the Commissioner is satisfied that—

“(i) On or before that date a binding contract for the acquisition or construction of the plant or machinery was completed by all the necessary parties thereto; and

5 “(ii) The period between the date on which the contract was completed and the date on which the plant or machinery was acquired or constructed did not exceed such period as, in the opinion of the Commissioner, is reasonable in the circumstances
10 of the particular case.”

20. Apportionment of expenditure incurred in purchase of fertiliser and lime and application to land used for farming or agricultural purposes—(1) Section 119B of the principal Act (as inserted by section 14 (1) of the Land and Income
15 Tax Amendment Act (No. 2) 1963) is hereby amended by repealing subsections (2) and (3), and substituting the following subsections:

“(2) Every notice under subsection (1) of this section by which the whole or any part of the expenditure is allocated
20 to any one of the four income years next succeeding the income year in which the expenditure was incurred shall be in writing, and shall be given to the Commissioner within the time within which the taxpayer is required to furnish a return of his income for the year to which the expenditure is so
25 allocated, or within such further time as the Commissioner, in his discretion, may allow in any case or class of cases:

“Provided that where any part of the total amount of the expenditure is not claimed as a deduction for the year in which the expenditure is incurred and is not allocated to any
30 one or more of the three immediately succeeding years by an election under that subsection, that part shall be deducted from the income of the fourth income year following the year in which the expenditure was incurred.

“(3) Where any taxpayer who has made an election or
35 elections under subsection (1) of this section ceases to carry on that business before the expiry of the fourth income year following the income year in which the expenditure as aforesaid was incurred, the total amount of that expenditure or, as the case may be, so much of that total amount as has
40 not previously been allowed as a deduction shall, as the taxpayer (or, where the taxpayer is deceased, his personal representative) elects, either—

- “(a) Be allowed as a deduction in calculating the assessable income derived by the taxpayer from that business in the income year in which he ceased to carry on that business; or
- “(b) Be allocated equally to the income year in which that total amount was incurred and the succeeding income years in which the taxpayer has continued to carry on that business, and any amount or, as the case may be, additional amount so allocated to any such year shall be allowed as a deduction or, as the case may be, a further deduction in calculating the assessable income derived by him from that business in that last-mentioned year.”

21. Deduction of certain expenditure on land used for farming or agricultural purposes—(1) Section 119D of the principal Act (as inserted by section 16 (1) of the Land and Income Tax Amendment Act (No. 2) 1963) is hereby amended by omitting from paragraph (b) of subsection (1) (as amended by section 22 (1) of the Land and Income Tax Amendment Act 1965), and also from paragraph (c) of that subsection (as inserted by section 22 (2) of that last-mentioned Act), the words “nineteen hundred and sixty-seven”, and substituting in each case the words “nineteen hundred and sixty-eight”.

(2) Section 119D of the principal Act (as so inserted and amended) is hereby further amended by inserting, after paragraph (c) of subsection (1) (as so inserted) the following paragraph:

- “(d) Any expenditure incurred in that business on or after the first day of April, nineteen hundred and sixty-six, and not later than the end of the income year ending with the thirty-first day of March, nineteen hundred and sixty-eight, and not deductible otherwise than under this section, in the construction on the land of feeding platforms, feeding yards, plunge sheep dips, or self-feeding ensilage pits.”

(3) Section 119D of the principal Act (as so inserted) is hereby further amended by repealing subsections (2) and (3), and substituting the following subsections:

- “(2) Every notice under the proviso to subsection (1) of this section by which the whole or any part of the expenditure is allocated to any one of the five income years next succeeding the income year in which the expenditure was

incurred shall be in writing, and shall be given to the Commissioner within the time within which the taxpayer is required to furnish a return of his income for the year to which the expenditure is so allocated, or within such further
5 time as the Commissioner, in his discretion, may allow in any case or class of cases:

“Provided that where any part of the total amount of the expenditure is not claimed as a deduction for the year in which the expenditure is incurred and is not allocated to any one or
10 more of the four immediately succeeding years by an election under that proviso, that part shall be deducted from the income of the fifth income year following the year in which the expenditure was incurred.

“(3) Where any taxpayer who has made an election or
15 elections under the proviso to subsection (1) of this section ceases to carry on that business before the expiry of the fifth income year following the income year in which the expenditure as aforesaid was incurred, the total amount of that expenditure or, as the case may be, so much of that total
20 amount as has not previously been allowed as a deduction shall, as the taxpayer (or, where the taxpayer is deceased, his personal representative) elects, either—

“(a) Be allowed as a deduction in calculating the assessable income derived by the taxpayer from that
25 business in the income year in which he ceased to carry on that business; or

“(b) Be allocated equally to the income year in which that total amount was incurred and the succeeding
30 income years in which the taxpayer has continued to carry on that business, and any amount or, as the case may be, additional amount so allocated to any such year shall be allowed as a deduction or, as the case may be, a further deduction in calculating the assessable income derived by him
35 from that business in that last-mentioned year.”

(4) Section 22 of the Land and Income Tax Amendment Act 1965 is hereby consequentially amended by repealing subsection (1).

**22. Deduction of gifts of money made by companies to
40 universities and approved research institutes—**(1) Section 126A of the principal Act (as inserted by section 24 (1) of the Land and Income Tax Amendment Act 1965) is hereby amended by repealing subsection (1), and substituting the following subsection:

“(1) Subject to the provisions of this section, any company shall, in calculating the assessable income derived by it during any income year, be entitled to a deduction of the amount of any gift of money of the amount of one pound or more (being an amount that is not deductible otherwise than under this section) made by it during that income year to— 5

“(a) Any university within the meaning of the Universities Act 1961; or

“(b) The Medical Research Council of New Zealand established under the Medical Research Council Act 1950; or 10

“(c) Any research society, association, or institute, whether incorporated or not, which is approved by the Minister of Finance for the purposes of this section on the recommendation of the said Medical Research Council of New Zealand or of the National Research Advisory Council established under the National Research Advisory Council Act 1963— 15
for the purposes of research which is of importance in the general economy of New Zealand.” 20

(2) This section shall apply with respect to gifts made on or after the seventeenth day of June, nineteen hundred and sixty-six.

23. Pensions payable by employers to former employees—
The principal Act is hereby further amended by inserting, after section 128, the following section: 25

“128A. (1) Subject to the provisions of this section, the Commissioner may, in calculating the assessable income derived in any income year by any taxpayer from any business, allow a deduction in respect of any amount (being an amount which is not deductible otherwise than under this section and which is, in the opinion of the Commissioner, reasonable in the particular circumstances of the case) paid by the taxpayer in that income year by way of a pension to any former employee of the taxpayer in that business, or to the widow of any such employee, in consideration of the past services of that employee in that business of the taxpayer, where the Commissioner is satisfied that— 30 35

“(a) The pension is receivable by the recipient as of right under a deed for a fixed period or for life, or, in the case of a pension receivable by a widow, for a fixed period or for life or until she remarries; and 40

- 5 “(b) Except in the case of the death of the employee while
in the employment of the taxpayer, or the early
retirement of the employee from that employment
by reason of his serious illness or permanent dis-
ability, the employee did not retire from that
employment before attaining the normal retiring
age, not being less than the age of sixty years,
in the case of a male employee, or fifty-five years,
10 in the case of a female employee, or such earlier
age as the Commissioner considers reasonable,
having regard to the nature of the business of the
taxpayer in which the employee was employed.
“(2) This section shall not apply where the taxpayer is a
company and the employee was or is a director thereof, and
15 either—
“ (a) The employee was not employed as a full-time
permanent employee by the taxpayer; or
“ (b) The employee or, as the case may be, the widow of
the employee has in the opinion of the Commis-
sioner sufficient income or capital for his or her
20 own support whether by reason of his or her
shareholding in the company or otherwise.”

**24. Deduction of export-market development and tourist
promotion expenditure—**(1) Section 129A of the principal
25 Act (as inserted by section 11 of the Land and Income Tax
Amendment Act (No. 2) 1962 and amended by section 25 (1)
of the Land and Income Tax Amendment Act 1965) is here-
by further amended by omitting from subsection (2) the
words “nineteen hundred and sixty-seven”, and substituting
30 the words “nineteen hundred and sixty-eight”.

(2) Section 18 of the Land and Income Tax Amendment
Act (No. 2) 1963 is hereby consequentially amended by
omitting from subsection (4) (as amended by section 25 (2)
of the Land and Income Tax Amendment Act 1965) the
35 words “nineteen hundred and sixty-seven”, and substituting
the words “nineteen hundred and sixty-eight”.

(3) Section 25 of the Land and Income Tax Amendment
Act 1965 is hereby consequentially repealed.

25. Deduction by reference to export of goods—(1) Section
40 129B of the principal Act (as inserted by section 20 of the
Land and Income Tax Amendment Act (No. 2) 1963) is
hereby amended by omitting from the definition of the expres-
sion “base period” in subsection (1) the words “four income
years”, and substituting the words “five income years”.

(2) Section 129B of the principal Act (as so inserted) is hereby further amended by repealing subsection (5) (as substituted by section 36 (2) of the Land and Income Tax Amendment Act 1964), and substituting the following subsection:

“ (5) Subject to the provisions of this section, where there is, in relation to an income year and to a taxpayer carrying on in New Zealand any business or businesses in which goods are sold or otherwise disposed of, an increase in export sales for the income year (being the income year that commenced on the first day of April, nineteen hundred and sixty-six, or the income year next succeeding that income year), a deduction shall be allowed under this section in respect of the income derived by the taxpayer in the income year from that business or, as the case may be, those businesses of an amount equal to fifteen percent of the increase in export sales for the income year.”

(3) Section 129B of the principal Act (as so inserted) is hereby consequentially amended by omitting from paragraph (a) of subsection (3), and also from paragraph (c) of that subsection, the words “during the income year immediately succeeding the base period”, and substituting in each case the words “during either of the two income years immediately succeeding the base period”.

(4) Section 129B of the principal Act (as so inserted) is hereby further consequentially amended by repealing the definition of the expression “gross receipts for the income year” in subsection (1) (as amended by section 36 (1) of the Land and Income Tax Amendment Act 1964).

(5) Section 36 of the Land and Income Tax Amendment Act 1964 is hereby consequentially repealed.

(6) Subject to subsection (7) of this section, this section shall apply with respect to the tax on income derived in the income year that commenced on the first day of April, nineteen hundred and sixty-six, and in the income year next succeeding that income year.

(7) Notwithstanding the amendments made to section 129B of the principal Act by subsections (1) to (4) of this section, the amount of the deduction to which a taxpayer shall be entitled under the said section 129B in respect of the income derived by him in the income year that commenced on the first day of April, nineteen hundred and sixty-six, shall not be less than the amount of the deduction to which he would have been so entitled if those amendments had not been made.

26. Deduction of trade union fees, etc.—The principal Act is hereby further amended by inserting, after section 129c (as inserted by section 26 of the Land and Income Tax Amendment Act 1965), the following section:

5 “129cc. Any taxpayer who is in the employment of any employer shall, in calculating the assessable income derived by him in any income year, be entitled to a deduction of the amount of any periodical subscriptions, fees, or levies which are paid by him in the income year to any trade or professional
10 union or association and which are directly related to that employment:

“Provided that the deductions provided for in this section shall not, in the case of any taxpayer, in any income year exceed in the aggregate the sum of ten pounds.”

15 **27. Income equalisation reserve deposits**—Section 136c of the principal Act (as inserted by section 29 (2) of the Land and Income Tax Amendment Act 1965) is hereby amended as from its commencement by adding to the second proviso to subsection (1) the words “except where the Commissioner
20 is satisfied that the amount of the refund has, before the making of the subsequent payment by way of deposit, been wholly applied for the purposes of the development or expansion of the business”.

28. Refunds from income equalisation reserve accounts—
25 Section 136E of the principal Act (as inserted by section 29 (2) of the Land and Income Tax Amendment Act 1965) is hereby amended as from its commencement by inserting in the proviso to subsection (3), after the words “in relation to an accounting year”, the words “or within such later time
30 as the Commissioner, in his discretion, may allow in any case or class of cases”.

29. General provisions as to refunds from income equalisation accounts—(1) Section 136k of the principal Act (as
35 inserted by section 29 (2) of the Land and Income Tax Amendment Act 1965) is hereby amended as from its commencement by adding the following subsections:

“(3) Where—

40 “(a) An assessment made in respect of the income derived by any taxpayer in any accounting year includes any refunds made under sections 136E to 136J of this Act (not being refunds or parts of refunds

that are, in accordance with subsection (1) of this section, attributable to deposits or parts of deposits made in respect of that accounting year); and

- “(b) The additional tax payable in respect of the aggregate amount of those refunds exceeds the total tax saving in respect of the deposits or parts of deposits to which that aggregate amount of those refunds is attributable in accordance with subsection (1) of this section (not being deposits or parts of deposits to which any refunds or parts of refunds made in respect of that accounting year are attributable in accordance with that subsection)—

the Commissioner shall allow a rebate equal to the amount of that excess.

- “(4) For the purpose of subsection (3) of this section—

- “(a) The term ‘additional tax’, in respect of the aggregate amount of refunds made to any taxpayer under sections 136E to 136J of this Act in respect of any accounting year and included in the assessable income derived by the taxpayer in that accounting year (not being refunds or parts of refunds that are, in accordance with subsection (1) of this section, attributable to deposits or parts of deposits made in respect of that accounting year), means the amount by which the income tax payable by the taxpayer under this Part of this Act in respect of that assessable income is greater than the amount that would have been payable but for the inclusion of that aggregate amount of those refunds:

- “(b) The term ‘tax saving’, in respect of the aggregate amount of deposits made by any taxpayer under section 136c of this Act in respect of any accounting year (not being deposits or parts of deposits to which any refunds or parts of refunds made in respect of that accounting year are attributable in accordance with subsection (1) of this section), being an aggregate amount in respect of which a deduction has been allowed under section 136D of this Act in calculating the assessable income derived by the taxpayer in that accounting year, means the amount by which the income tax payable by the taxpayer under this Part of this Act in respect of that assessable income is less than the amount that would have been payable but for the allowance of that deduction in respect of that aggregate amount of deposits:

5 “(c) The tax saving in respect of any deposit or part of a deposit that has been allowed as a deduction under section 136D of this Act in respect of any accounting year shall bear to the tax saving in respect of the aggregate amount of the deposits that have been allowed as a deduction under that section in respect of that accounting year the same proportion that that deposit or part of a deposit bears to that aggregate amount.”

10 **30. Assessment of life insurance companies**—(1) The principal Act is hereby further amended by repealing section 149; and substituting the following section:

15 “149. (1) This section applies to every company engaged in carrying on in New Zealand the business of life insurance (being a company the greater proportion of whose business of life insurance in New Zealand consists, in the opinion of the Commissioner, of issuing policies of insurance upon human life in New Zealand and the investment and management of money received by way of premiums in respect of such policies).

20 “(2) Notwithstanding anything to the contrary in this Act, every company to which this section applies shall for the purposes of assessing ordinary income tax be deemed to have derived and to derive profits from its business of life insurance in New Zealand in accordance with the following provisions of this section, and all such profits shall be deemed accordingly to be assessable income of the company.

30 “(3) In the case of any such company which makes to its policyholders, or to any class or classes of its policyholders, an annual allotment of surplus funds by way of reversionary bonuses or otherwise, the amount of the surplus funds so allotted for any income year in respect of policies comprised in the New Zealand business of the company shall be deemed to be profits derived by the company in that year from its business of life insurance in New Zealand.

40 “(4) In the case of any such company which makes to its policyholders, or to any class or classes of its policyholders, an allotment of surplus funds by way of reversionary bonuses or otherwise at periodical intervals greater than a year, the amount of the surplus funds allotted for any period in respect of policies comprised in the New Zealand business of the company shall be deemed to be profits derived by the company during that period from its business of life insurance in New Zealand, and the average annual amount thereof shall be deemed to have been derived in each of the income years wholly or partly included in that period.

“(5) If any company to which this section applies has for any income year or other period paid any dividends to shareholders out of profits derived from its business of life insurance, whether carried on in New Zealand or elsewhere, there shall be added to its profits computed in the manner provided by subsection (3) or subsection (4) of this section, as the case may be, an amount calculated in accordance with the following formula: 5

$$\frac{a}{b} \times c \quad 10$$

where—

- a is the amount of the surplus funds allotted by way of reversionary bonuses or otherwise for that income year or that period, as the case may be, in respect of policies comprised in the New Zealand business of the company; and 15
 - b is the amount of the surplus funds allotted by way of reversionary bonuses or otherwise for that income year or that period, as the case may be, in respect of all policies comprised in the business of life insurance of the company, whether carried on in New Zealand or elsewhere; and 20
 - c is the amount of dividends,—
- both a and b being calculated on the same basis of valuation. 25

“(6) The assessable income for any income year, computed in accordance with the foregoing provisions of this section, of any company to which this section applies shall, notwithstanding anything to the contrary in this Act, be the taxable income of the company for that year derived from its business of life insurance in New Zealand. No such company shall, in respect of its business of life insurance in New Zealand, be assessable for ordinary income tax otherwise than as provided in this section. 30

“(7) If for any year of assessment any company to which this section applies is unable to furnish returns as to the profits derived or deemed to have been derived by it in accordance with the foregoing provisions of this section during— 35

“(a) That year, in any case where the company is not a subsisting company; or 40

“(b) The preceding year, in any case where the company is a subsisting company—

its profits for that year or, as the case may be, that preceding year shall in either case be deemed to be not less than the profits derived by it in accordance with this section during the last preceding year for which returns are available, and ordinary income tax shall be assessed and payable thereon accordingly, and any adjustments, whether by way of the payment of additional tax or the refund of tax, shall be made as soon as practicable thereafter. 45 50

“(8) For the purposes of this section—

5 “(a) The expression ‘policies comprised in the New Zealand business’, in relation to a company to which this section applies, means policies of insurance upon human life in New Zealand issued by the company; and includes the whole or, as the case may be, part of every policy of insurance upon human life in New Zealand issued by any other person, being a policy in respect of the whole or, as the case may be, part of which the company as reinsurer has entered into a contract of reinsurance with that other person (not being a contract under which the liability of the company as reinsurer is limited to meeting claims to the extent only of death strain at risk); but does not include the whole or, as the case may be, part of any policy of insurance upon human life in New Zealand issued by the company, being a policy in respect of the whole or, as the case may be, part of which the company has entered into a contract of reinsurance with any other person as reinsurer (not being a contract under which the liability of that other person as reinsurer is limited to meeting claims to the extent only of death strain at risk) :

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25 “(b) The amount of the surplus funds allotted by way of reversionary bonuses shall be deemed to be the value of those bonuses on the basis of the A 1949–52 Tables for Assured Lives published for the Institute of Actuaries and the Faculty of Actuaries with interest at the rate of four and a half percent per annum.

30
35 “(9) Every reference in this section to an income year shall, where the company furnishes a return of income under section 8 of this Act for an accounting year ending with an annual balance date other than the thirty-first day of March, be deemed to be a reference to the accounting year corresponding with that income year, and, in every such case, the provisions of this section shall, with any necessary modifications, apply accordingly.

40 “(10) For the purposes of this section, the Government Insurance Commissioner shall be deemed to be a company carrying on in New Zealand the business of life insurance, and shall accordingly, in respect of that business, be assessable and liable for ordinary income tax as provided in this section.

“(11) For the purposes of this section, any company which carries on in New Zealand the business of life reinsurance (being a company the greater proportion of whose business of life reinsurance in New Zealand consists, in the opinion of the Commissioner, of entering into contracts of reinsurance in respect of the whole or, as the case may be, part of policies of insurance on human life in New Zealand issued by other persons and the investment and management of money received by way of premiums in respect of such contracts of reinsurance) shall, in respect of that business, be deemed to be carrying on in New Zealand the business of life insurance, and, in any such case, the provisions of subsections (2) to (9) of this section, with the necessary modifications, shall apply as if—

“(a) References in those provisions to a company to which this section applies were references to a company to which this subsection applies; and

“(b) Reference in those provisions to surplus funds allotted by way of reversionary bonuses or otherwise in respect of policies comprised in the New Zealand business of a company to which this section applies were references to funds so allotted in respect of the whole or, as the case may be, part of policies in respect of which a company to which this subsection applies has entered into contracts of reinsurance as aforesaid (not being contracts under which the liability of the company as reinsurer is limited to meeting claims to the extent only of death strain at risk),—

and the company shall, in respect of that business, be assessable and liable for ordinary income tax accordingly.”

(2) Section 78b of the principal Act (as inserted by section 5 (1) of the Land and Income Tax Amendment Act 1964) is hereby consequentially amended by omitting the words “by virtue of subsection (4) of that section”, and substituting the words “by virtue of subsection (5) of that section”.

(3) The following enactments are hereby consequentially repealed:

(a) So much of the Third Schedule to the Income Tax Assessment Act 1957 as relates to section 149 of the principal Act:

(b) Subsection (2) of section 8 and section 14 of the Land and Income Tax Amendment Act 1964.

(4) Subject to subsections (5) and (6) of this section, subsection (1) of this section shall apply and, where necessary, be deemed to have applied—

5 (a) In the case of every company to which section 149 of the principal Act (as substituted by subsection (1) of this section) applies, with respect to the tax on income derived in the income year that commenced on the first day of April, nineteen hundred and sixty-six (which income year is hereinafter in this section referred to as the year of transition), and in every subsequent year:

10 (b) In the case of any company to which subsection (4) of section 149 of the principal Act (as so substituted) applies, with respect to the tax on income derived in any income year before the year of transition, if that income year is included in any period (being a period for which the company allots surplus funds by way of reversionary bonuses or otherwise) which also includes the year of transition, whether or not it also includes any subsequent year.

15 (5) Where any company to which section 149 of the principal Act (as so substituted) applies derives in any income year (being the year of transition or the income year commencing on the first day of April, nineteen hundred and sixty-seven, or the income year commencing on the first day of April, nineteen hundred and sixty-eight) any dividends, being—

20 (a) Where the company is resident in New Zealand, dividends derived by the company from companies, other than from companies that are exempt from income tax:

25 (b) Where the company is not resident in New Zealand, dividends derived by the company from New Zealand companies, other than from companies that are exempt from income tax (not being dividends which, but for section 9 of the Land and Income Tax Amendment Act 1965, would not, by virtue of the amendments made to section 4 of the principal Act by subsection (1) of section 5 of the Land and Income Tax Amendment Act 1965, be dividends for the purposes of the principal Act),—

30 40 the taxable income of the company for that income year derived from its business of life insurance in New Zealand

shall be the amount which, but for this subsection, would be the amount of that taxable income, reduced to the extent following:

- (c) In the case of the year of transition, by an amount equal to the total amount of those dividends derived by the company in that year: 5
- (d) In the case of the income year commencing on the first day of April, nineteen hundred and sixty-seven, by an amount equal to two-thirds of the total amount of those dividends derived by the company in that year: 10
- (e) In the case of the income year commencing on the first day of April, nineteen hundred and sixty-eight, by an amount equal to one-third of the total amount of those dividends derived by the company in that year. 15
- (6) Where any company to which subsection (4) of section 149 of the principal Act (as so substituted) applies has derived in any income year before the year of transition (being an income year to which paragraph (b) of subsection (4) of this section applies) any dividends, being— 20
- (a) Where the company is resident in New Zealand, dividends derived by the company from companies, other than from companies that are exempt from income tax: 25
- (b) Where the company is not resident in New Zealand, dividends derived by the company from New Zealand companies, other than from companies that are exempt from income tax (not being dividends which, but for section 9 of the Land and Income Tax Amendment Act 1965, would not, by virtue of the amendments made to section 4 of the principal Act by subsection (1) of section 5 of the Land and Income Tax Amendment Act 1965, be dividends for the purposes of the principal Act),— 35
- the taxable income of the company for that income year derived from its business of life insurance in New Zealand shall be the amount which, but for this subsection, would be the amount of that taxable income, reduced by an amount equal to the total amount of those dividends derived by the company in that year. 40

(7) For the purposes of section 149 of the principal Act (as in force before the passing of this Act) the amount of the surplus funds allotted by way of reversionary bonuses—

5 (a) In the case of any company to which subsection (2) of that section (as so in force) applied, for the income year that ended with the thirty-first day of March, nineteen hundred and sixty-six; or

10 (b) In the case of any company to which subsection (3) of that section (as so in force) applied, for any period that ended with the income year that ended with the thirty-first day of March, nineteen hundred and sixty-six,—

shall, notwithstanding anything to the contrary in that section (as so in force), be deemed to be the value of those bonuses
15 on the basis of the A 1949–52 Tables for Assured Lives published for the Institute of Actuaries and the Faculty of Actuaries with interest at the rate of four and a half percent per annum.

(8) Section 149 of the principal Act (as in force before the
20 passing of this Act) shall be deemed to have been amended by inserting in subsection (3A) (as inserted by section 14 of the Land and Income Tax Amendment Act 1964), after the words “companies that are exempt from taxation”, the words
“(not being dividends which, but for section 9 of the Land
25 and Income Tax Amendment Act 1965, would not, by virtue of the amendments made to section 4 of this Act by subsection (1) of section 5 of the Land and Income Tax Amendment Act 1965, be dividends for the purposes of this Act)”.

30 (9) Every reference in this section to an income year shall, where the company furnishes a return of income under section 8 of the principal Act for an accounting year ending with an annual balance date other than the thirty-first day of March, be deemed to be a reference to the accounting year corresponding
35 with that income year, and, in every such case, the provisions of this section shall, with any necessary modifications, apply accordingly.

31. Partial exemption of life insurance companies—

40 (1) Section 150 of the principal Act is hereby amended by repealing subsection (1), and substituting the following subsection:

“(1) Unless otherwise provided in the annual taxing Act for any year, the amount of ordinary income tax payable by any company that is assessable for ordinary income tax under section 149 of this Act (other than income tax payable in respect of income derived otherwise than from the business of life insurance) shall be nine-twentieths of the amount that would be payable by the company (after taking into account any rebate under section 78D of this Act and any rebate from ordinary income tax under section 78E of this Act) if this section had not been passed.”

(2) The following enactments are hereby consequentially repealed:

(a) So much of the Third Schedule to the Income Tax Assessment Act 1957 as relates to section 150 of the principal Act:

(b) Subsection (4) of section 6 of the Land and Income Tax Amendment Act 1964.

32. Partial exemption in respect of interest derived from certain debentures—(1) The principal Act is hereby further amended by inserting, after section 150, the following section:

“150A. (1) For the purposes of this section—

“‘Development project’ means any undertaking, scheme, or work that, pursuant to an Order in Council made under subsection (3) of section 86A of this Act, is a development project for the purposes of that section:

“‘Amount’, in relation to a debenture, means the principal sum expressed to be secured by or owing under the debenture.

“(2) Where any company which is not resident in New Zealand and which carries on the business of life insurance (not being a company that is assessable for ordinary income tax under section 149 of this Act) derives interest from any debenture, being a debenture—

“(a) That was issued to the company before the twenty-sixth day of August, nineteen hundred and sixty-six; and

“(b) The amount of which has been used wholly or principally for the purposes of a development project; and

“(c) The interest from which that was derived during any income year before the income year that commenced on the first day of April, nineteen hundred and sixty-six, has been assessed for ordinary income

tax pursuant to the provisions of subsection (1) of section 150 of this Act (as in force before the commencement of this section),—

5 the amount of ordinary income tax payable by the company
in respect of any interest derived by it from that debenture in
any income year shall, unless otherwise provided in the annual
taxing Act for any year, be nine-twentieths of the amount
that would be payable by the company (after taking into
10 account any rebate from ordinary income tax under section
78c or section 78E of this Act in respect of that interest) if
this section had not been passed.

“(3) For the purposes of this section, the provisions of sub-
section (2) of section 150 of this Act shall apply as far as they
are applicable.”

15 (2) Section 78B of the principal Act (as inserted by section
4 of the Land and Income Tax Amendment Act 1959 and
amended by section 6 (1) (a) of the Land and Income Tax
Amendment Act 1964) is hereby further amended by omitting
from subsection (2) the words “(other than dividends)”, and
20 substituting the words “(other than interest to which section
150A of this Act applies or dividends)”.

(3) Section 6 of the Land and Income Tax Amendment
Act 1964 is hereby consequentially amended by repealing
paragraph (a) of subsection (1).

25 **33. Insurance companies other than life insurance com-
panies**—Section 151 of the principal Act is hereby amended
by adding to paragraph (a) of subsection (1) the words “to
the extent that the income so derived consists of income other
than income of the kinds referred to in paragraph (c), para-
30 graph (d), paragraph (e), paragraph (f), paragraph (i),
paragraph (j), or paragraph (jj) of section 167 of this Act”.

**34. Assessment of taxable income derived by non-residents
from the carriage by sea outside New Zealand of merchandise,
goods, livestock, mails, or passengers shipped or embarked
35 in New Zealand**—(1) The principal Act is hereby further
amended by inserting, after section 154A (as inserted by
section 10 of the Land and Income Tax Amendment Act
1956), the following heading and section:

“Overseas Shipping Freight and Passage Money

“154B. (1) Notwithstanding anything to the contrary in this Act, where a ship belonging to or chartered by any person, being resident in a country or territory outside New Zealand and not being resident in New Zealand, carries outside New Zealand merchandise, goods, livestock, mails, or passengers shipped or embarked in New Zealand, five percent of the gross amount paid or payable to that person in respect of that carriage, whether that amount is payable in or outside New Zealand, shall be deemed to be taxable income derived by him from New Zealand. No person to whom this subsection applies shall, in respect of carriage as aforesaid, be assessable for income tax otherwise than as provided in this subsection.

“(2 For the purposes of this section—

“(a) Merchandise, goods, livestock, mails, or passengers shipped or embarked on any ship at any port in New Zealand for carriage outside New Zealand shall be deemed to be carried outside New Zealand from that port notwithstanding that the ship calls at any one or more other ports in New Zealand before finally leaving New Zealand on that voyage:

“(b) ‘Income tax’, in respect of any country or territory outside New Zealand, means any tax which, in the opinion of the Commissioner, is substantially of the same nature as income tax imposed under this Part of this Act.

“(3) The Commissioner may exempt in whole or in part from his liability, pursuant to subsection (1) of this section, to pay income tax in New Zealand any person, or any class or classes of persons, being resident in a country or territory outside New Zealand and not being resident in New Zealand, if and so far as he is satisfied that in corresponding circumstances the like person or, as the case may be, the like class or classes of persons, being resident in New Zealand, are not liable to or are exempt from income tax imposed by the laws of that country or territory.”

(2) This section shall apply with respect to the tax for the year of assessment that commenced on the first day of April, nineteen hundred and sixty-six, and for every subsequent year.

(3) Any assessment heretofore made for the year of assessment that commenced on the first day of April, nineteen hundred and sixty-five, or for any prior year of assessment, on any person who is not resident in New Zealand shall, in so far as it includes as taxable income any amount equal to a proportion of the gross amount paid or payable to that

person (whether that amount was payable in or outside New Zealand) in respect of the carriage by sea outside New Zealand of merchandise, goods, livestock, or passengers shipped or embarked in New Zealand shall be deemed to have been
5 validly and lawfully made.

35. Classes of income deemed to be derived from New Zealand—(1) Section 167 of the principal Act is hereby amended by inserting, after paragraph (a), the following paragraph:

10 “(aa) Income derived from any business carried on out of New Zealand to the extent that that income consists of income of the kinds referred to in paragraph (c) or paragraph (d) or paragraph (e) or paragraph (f) or paragraph (i) or para-
15 graph (j) or paragraph (jj) of this section.”.

(2) Section 167 of the principal Act is hereby further amended as from its commencement by inserting in paragraph (m), after the word “merchandise”, the words “goods, livestock”.

20 **36. Reciprocal arrangements for exemption of non-resident traders**—(1) Section 171 of the principal Act is hereby repealed.

(2) Section 224 of the principal Act is hereby consequentially amended by omitting the words “section 171 or under”.

25 (3) Section 51 of the Income Tax Assessment Act 1957 is hereby consequentially amended by omitting the words “section 171 or”.

(4) All Orders in Council in force immediately before the passing of this Act made for the purpose of giving effect to
30 arrangements with the Government of any country or territory outside New Zealand with a view to affording relief from double taxation of income and purporting to have been made under sections 171 and 172 of the principal Act, or the corresponding provisions of any former Act, shall be deemed to have
35 been validly made under section 172 of the principal Act, or, as the case may be, the corresponding provisions of that former Act, and shall continue to have effect accordingly.

37. Excess retention tax payable by privately controlled companies only—(1) The principal Act is hereby further
40 amended by repealing section 172BB (as inserted by section 9 (1) of the Land and Income Tax Amendment Act 1961), and substituting the following section:

“172BB. (1) In this Part of this Act the term ‘privately controlled company’ means any company which is a proprietary company, other than a proprietary company in which all the shares are beneficially held by or on behalf of one or more other companies none of which is a proprietary company. 5

“(2) For the purposes of subsection (1) of this section, where shares in any proprietary company are beneficially held by or on behalf of another proprietary company and all the shares in the last-mentioned proprietary company are held by one or more other companies none of which is a proprietary company, the shares in the first-mentioned proprietary company shall be deemed to be held on behalf of that other company or companies. 10

“(3) In this section the term ‘proprietary company’ has the same meaning as in paragraph (a) of subsection (1) of section 138 of this Act.” 15

(2) Section 9 of the Land and Income Tax Amendment Act 1961 is hereby consequentially amended by repealing subsection (1). 20

(3) This section shall apply with respect to the tax for the year of assessment that commenced on the first day of April, nineteen hundred and sixty-six, and for every subsequent year.

38. Special allowance for excess retention tax purposes of income required for essential development or expansion— 25

(1) The principal Act is hereby further amended by repealing section 172KK (as inserted by section 22 (1) of the Land and Income Tax Amendment Act 1960), and substituting the following section: 30

“172KK. (1) In any case where the Commissioner is satisfied that—

“(a) The whole or any part of the insufficient distribution of the income derived by a company in any accounting year has been retained by the company for the purposes of essential development or expansion involving— 35

“(i) The acquisition, erection, installation, or extension of fixed assets; or

“(ii) An increase in current assets; and 40

“(b) The resources of the company and the amount of the retention allowance in relation to the income derived by the company in that accounting year are insufficient to meet that development or expansion,— 45

the Commissioner may, in his discretion, upon application in that behalf made in writing by or on behalf of the company within the prescribed period in relation to that accounting year, or within such further period as the Commissioner, in his discretion, may allow in any case or class of case, release the company wholly or in part from its liability to pay excess retention tax upon the amount of the insufficient distribution that is retained by the company for such purposes, and the excess retention tax on that insufficient distribution may be assessed or reassessed accordingly.

“(2) Where under this section any company is released in whole or in part from its liability to pay any excess retention tax upon the amount of any insufficient distribution of the income derived by the company in any accounting year—

“(a) On the grounds referred to in subparagraph (i) of paragraph (a) of subsection (1) of this section, and the Commissioner is not satisfied that before the expiration of three years after the end of that accounting year—

“(i) The whole amount of the insufficient distribution in respect of which relief was so given has been expended by the company in the acquisition, erection, installation, or extension of fixed assets; or

“(ii) A binding contract for the acquisition, erection, installation, or extension of fixed assets requiring the payment by the company of the whole amount of that insufficient distribution is completed by all the necessary parties thereto; or

“(iii) The company has dealt with the whole amount of that insufficient distribution partly in the manner specified in subparagraph (i) and partly in the manner specified in subparagraph (ii) of this paragraph; or

“(b) On the grounds referred to in subparagraph (ii) of paragraph (a) of subsection (1) of this section, and the Commissioner is satisfied that at the expiration of three years after the end of that accounting year there has been a reduction in the current assets of the company, not being a reduction in the ordinary course of business of the company,—

the Commissioner may reassess the excess retention tax on the amount of that insufficient distribution in such manner and to such extent as he considers reasonable to meet the circumstances of that particular case.

“(3) For the purposes of this section the term ‘current assets’ means—

“(a) Trading stock; and

“(b) Book debts arising from the sale or other disposition of trading stock; and

“(c) Consumable aids or assets of a similar nature.”

(2) The following enactments are hereby consequentially repealed:

(a) Section 22 of the Land and Income Tax Amendment Act 1960:

(b) Section 46 of the Land and Income Tax Amendment Act 1964.

(3) This section shall apply with respect to the tax for the year of assessment that commenced on the first day of April, nineteen hundred and sixty-six, and for every subsequent year.

39. Repealing agency provisions as to debentures issued by local or public authorities—The principal Act is hereby further amended by repealing sections 188 and 189.

40. Agents in New Zealand of principals resident abroad—

(1) The principal Act is hereby further amended by repealing section 201 (as substituted by section 25 of the Land and Income Tax Amendment Act (No. 2) 1963), and substituting the following section:

“201. (1) For the purposes of this section, the term ‘income tax’, in respect of any country or territory outside New Zealand, means any tax which, in the opinion of the Commissioner, is substantially of the same nature as income tax imposed under Part VI of this Act.

“(2) Subject to the provisions of this section, when any person in New Zealand, on behalf of a principal who is resident in a country or territory outside New Zealand and is not resident in New Zealand, is instrumental in procuring the purchase from that principal of goods or merchandise which are in New Zealand or are to be imported into New Zealand in pursuance of or in consequence of that purchase, whether the contract of purchase is made in New Zealand or elsewhere, the principal shall in respect of the sale by him of the goods or merchandise be deemed to be carrying on business in New Zealand through the agency of that person; and the income derived from that business shall be

deemed to be derived from New Zealand, in the same manner and to the same extent as if the contract had been made in New Zealand, and shall be assessable for income tax accordingly, and the agent shall make returns and pay tax accordingly.

5 “(3) The Commissioner may exempt in whole or in part from his liability, pursuant to subsection (2) of this section, to pay income tax in New Zealand any principal or class or classes of principals, being resident in a country or territory
10 outside New Zealand and not being resident in New Zealand, if and so far as he is satisfied that in corresponding circumstances the like principal or, as the case may be, the like class or classes of principals, being resident in New Zealand, are not liable to or are exempt from income tax imposed
15 by the laws of that country or territory.

“(4) Every exemption granted under subsection (3) of this section to a principal shall extend to exempt from income tax in New Zealand (in his capacity of agent, but not otherwise) the agent of that principal.”

20 (2) Section 51 of the Income Tax Assessment Act 1957 is hereby amended by inserting, after the words “section 170”, the words “or subsection (3) or subsection (4) of section 201”.

(3) Section 25 of the Land and Income Tax Amendment Act (No. 2) 1963 is hereby consequentially repealed.

25 **41. Refund of excess tax**—(1) The principal Act is hereby further amended by repealing section 223, and substituting the following section:

30 “223. (1) In any case where the Commissioner is satisfied that tax has been paid in excess of the amount properly payable, he shall refund the amount paid in excess:

35 “Provided that, subject to subsection (2) of this section, no refund shall be made under this section after the expiration of the period of six years immediately after the end of the year in which the assessment was made or, in any case where the original assessment has been altered (whether once or more than once), after the end of the year in which the original assessment was made, unless written application for the refund is made by or on behalf of the taxpayer before the expiration of that period.

40 “(2) In any case where an assessment has been altered so as to increase the amount of tax payable and the Commissioner is satisfied that by reason of that alteration tax has been paid in excess of the amount properly payable, he shall,

notwithstanding that the time limited in accordance with the provisions of subsection (1) of this section for the making of a refund may have expired, refund the amount so paid in excess by reason of that alteration:

“Provided that, in any such case, no refund shall be made under this section after the expiration of the period of six years immediately after the end of the year in which the alteration was made, unless written application for the refund is made by or on behalf of the taxpayer before the expiration of that period.”

(2) Section 223A of the principal Act (as inserted by section 36 of the Land and Income Tax Amendment Act (No. 2) 1958) is hereby consequentially amended by omitting from subsection (1) the words “time specified for making an application for the refund”, and substituting the words “time limited for the making of a refund”.

(3) Section 89 of the Income Tax Assessment Act 1957 is hereby consequentially amended by repealing paragraph (e).

(4) This section shall come into force on the date of the passing of this Act.

42. Relief in cases of serious hardship—(1) Section 226 of the principal Act is hereby amended by omitting from subsection (1A) (as inserted by section 37 of the Land and Income Tax Amendment Act (No. 2) 1958) the words “a widow or widower”, and substituting the words “a widow, a widower, a divorced person, or a separated person”.

(2) Section 226 of the principal Act is hereby further amended by adding the following subsection:

“(3) For the purposes of this section, the expression ‘separated person’ has the same meaning as in section 83 of this Act.”

PART II

AMENDMENTS OF INCOME TAX ASSESSMENT ACT 1957

43. Relatives as dependants for purposes of tax code— (1) Section 14 of the Income Tax Assessment Act 1957 (as amended by section 34 (1) of the Land and Income Tax Amendment Act 1965) is hereby further amended by omitting from paragraph (a) of subsection (8), and also from paragraph (b) of that subsection and from paragraph (a) of subsection (9); the words “three hundred pounds”, and substituting in each case the words “three hundred and twenty-five pounds”.

(2) Section 34 of the Land and Income Tax Amendment Act 1965 is hereby consequentially repealed.

(3) This section shall come into force on the first day of April, nineteen hundred and sixty-seven.

5 **44. Adjustment of excessive tax deductions**—(1) The Income Tax Assessment Act 1957 is hereby further amended by repealing section 25 (as substituted by section 39 of the Land and Income Tax Amendment Act 1959), and substituting the following section:

10 “25. In any case where—

“(a) The amount of income tax for which a pay-period taxpayer is liable in respect of the income derived by him in any year is determined exclusively and finally, pursuant to the provisions of subsection (1) of section 23 of this Act, by the total amount of the tax deductions required under this Part of this Act to be made from that income; and

15
“(b) The Commissioner is satisfied that the total amount of the tax deductions made from payments of that income to the taxpayer is in excess of the total amount of the tax deductions required under this Part of this Act to be made from that income,—
the Commissioner shall pay to the taxpayer the amount of that excess or, at the option of the Commissioner, credit that
20 amount in payment of any tax due by the taxpayer and unpaid:

“Provided that no payment shall be made or credit given under this section after the expiration of the period of six years immediately after the end of the year in which that
30 income was derived, except where written application for the payment or credit is made by or on behalf of the taxpayer before the expiration of that period.”

(2) Section 39 of the Land and Income Tax Amendment Act 1959 is hereby consequentially repealed.

35 (3) This section shall come into force on the date of the passing of this Act.

45. Refund of tax deductions—(1) Section 28 of the Income Tax Assessment Act 1957 is hereby amended by repealing subsection (5A) (as inserted by section 43 of the Land and Income Tax Amendment Act 1959 and amended by
40 section 2 (2) of the Land and Income Tax Amendment Act 1960).

(2) The following enactments are hereby consequentially repealed:

(a) Section 43 of the Land and Income Tax Amendment Act 1959:

(b) So much of the Schedule to the Land and Income Tax Amendment Act 1960 as relates to section 28 of the Income Tax Assessment Act 1957. 5

(3) This section shall come into force on the date of the passing of this Act.

46. Refund of provisional tax—(1) Section 57 of the Income Tax Assessment Act 1957 is hereby amended by repealing subsection (2A) (as inserted by section 48 of the Land and Income Tax Amendment Act 1959 and amended by section 2 (2) of the Land and Income Tax Amendment Act 1960). 15

(2) The following enactments are hereby consequentially repealed:

(a) Section 48 of the Land and Income Tax Amendment Act 1959:

(b) So much of the Schedule to the Land and Income Tax Amendment Act 1960 as relates to section 57 of the Income Tax Assessment Act 1957. 20

(3) This section shall come into force on the date of the passing of this Act.