

TAXATION (INCOME TAX RATES) BILL

EXPLANATORY NOTE

General Policy Statement

Introduction

THIS Bill gives effect to the Coalition Government's decision to postpone the second stage of the tax rate reductions from 1 July 1997 to 1 July 1998. The 1 July 1997 increases in the Independent Family Tax Credit (IFTC) and family support will proceed.

Details of Policy

The deferral of the tax reductions from 1 July 1997 to 1 July 1998 results in the need to amend the currently legislated:

- annual tax rates (basic rates of income tax) for the 1997-98 and 1998-99 income years so that they become the annual tax rates for the 1998-99 and 1999-2000 income years respectively;
- entitlement and abatement rates for the low income rebate for the 1997-98 and 1998-99 income years so that they become the entitlement and abatement rates for the 1998-99 and 1999-2000 income years respectively;
- PAYE tax deduction rates (basic tax deductions) and other withholding tax rates that apply for pay periods or interest paid on or after 1 July 1996 so that they continue to apply until 30 June 1998;
- six dollars per week increase in the Guaranteed Minimum Family Income (GMFI) from 1 July 1997 so that it is deferred until 1 July 1998;
- increase in the non-filing threshold from \$34,200 to \$38,000 so that it is deferred until the 1998-99 income year.

The bill sets and confirms the annual tax rates for the 1997-98 income year. The 1997-98 income tax rates are based on the tax rates that applied from 1 July 1996 (the first stage of the Tax Reduction and Social Policy programme). The bill also sets the entitlement and abatement rates for the low income rebate for that year.

Taking into account the low income rebate, the effective tax rates for the 1997-98 income year are shown below.

<i>Effective Annual Tax Rates</i>			
Income	Annual Tax Rate	Low Income Rebate	Effective Annual Tax Rate
\$0-\$ 9,500	21.5 cents	-6.5 cents	15 cents
\$9,501-\$34,200	21.5 cents	2.5 cents	24 cents
Over \$34,200	33 cents	-	33 cents

The increase in the level of GMFI of \$6.00 per week from 1 July 1997 was to ensure that recipients of GMFI benefited from the tax reductions. As the tax reductions have been deferred one year, it is also appropriate to defer the GMFI increase.

As the increase in the top marginal tax rate threshold of \$38,000 will now take effect in the 1998-99 income year as a result of the deferral, the increase in the non-filing return threshold to \$38,000 is also deferred for one year.

The bill also inserts a new section KD 5AB (see clause 24) which sets out how the interim payments of family support, IFTC and GMFI will be calculated for a period beginning on or after 1 July 1997 and ending on or before 30 June 1998. In relation to family support and the IFTC, the provision includes the increase of \$2.50 and \$7.50 per week per child from 1 July 1997 respectively. The GMFI component is based on the 1 July 1996 threshold which is \$14,768 per annum (\$284 per week).

When enacted, the application of some of the amendments will retrospectively change the tax rates that would otherwise have applied for the income year that will commence on 1 April 1997.

Clause by clause analysis

Clause 1 relates to the Bill's Short Title.

PART 1

AMENDMENTS TO INCOME TAX ACT 1994 AMENDMENT ACT 1996

Clause 2 provides that the Income Tax Act 1994 Amendment Act 1996 is amended by this Part.

Clause 3 amends section 32 to extend the period for which the current withholding rates for secondary employment and extra emoluments applies. It also extends the period for which the current basic tax deduction rates (Appendix A to Schedule 19) applies. The current rates which take into account the 1 July 1996 tax reductions will continue to apply until 30 June 1998.

Clause 4 amends section 35 to defer the application until the 1998-99 income year, the amendments to the low income rebate which reflect the postponed 1 July 1997 tax reductions.

Clause 5 amends section 37 to defer the increase in the annual GMFI income threshold from the 1997-98 to the 1998-99 income year. (See clause 22 for the annual GMFI income threshold which will apply for the 1997-98 income year).

Clause 6 amends section 38 to provide that the composite annual income tax rates (basic rates of income tax) applying to individuals will apply for the 1998/99 instead of the 1997-98 income year. (See clause 20 for the annual tax rates that will apply for the 1997-98 income year).

Clause 7 repeals the division heading preceding section 39.

Clause 8 repeals section 39(1) and inserts new subsections (1) and (1A) to defer the application date of sections 40 and 43 until 1 July 1998. Section 40, as enacted, deals with how interim instalments of family support, IFTC, and GMFI after 1 July 1997 are to be calculated. Section 43, as enacted, requires the

Director-General of Social Welfare to take into account rates of family support credit and family credit abatement given by section KD 5B.

Clause 9 amends section KD 5B of the Income Tax Act 1994 which was inserted by section 42 to defer its application from 1 July 1997 to 1 July 1998. Section 42, as enacted, sets out how the interim payments of family support, IFTC and GMFI will be calculated for a period commencing on or after 1 July 1997. (See clause 23 calculation of the interim rates for a period beginning on or after 1 July 1997 and ending on or before 30 June 1998).

Clause 10 is a consequential amendment as a result of the new section KD 5AB (as inserted by clause 24).

Clause 11 amends section 45 to defer, from 1 July 1997 to 1 July 1998, the reduction in the resident withholding tax deduction rate applying to interest from 21.5¢ to 19.5¢.

Clause 12 amends section 46 to defer the reduction in the withholding rate applying to secondary employment and extra emoluments from 24¢ to 21¢ from 1 July 1997 to 1 July 1998. It also defers the application of the basic tax deduction rates (Appendix A of Schedule 19) that will now apply from 1 July 1998.

Clause 13 repeals the division heading preceding section 47.

Clause 14 repeals section 47 which brought into effect sections 47 to 55 and given that each section has its own application date, and some of them are changing as a result of this bill, it is irrelevant.

Clause 15 amends section 49 to defer the application of the amendments to the low income rebate until the 1999–2000 and subsequent income years. Section 49, as enacted, amended the low income rebate to reflect that the postponed 1 July 1997 tax reductions applied for a full income year.

Clause 16 amends section 51 to defer the application of the annual GMFI income threshold of \$15,080 for the 1998–99 income year to the 1999–2000 and subsequent income years.

Clause 17 amends section 52 to defer until 1 April 1999 the application of a number of consequential changes to a number of definitions as a result of the deferral in the increases in GMFI.

Clause 18 amends section 53 to defer the application of the annual tax rates (basic rates of income tax) applying to individuals from the 1998–99 to the 1999–2000 and subsequent income years.

PART 2

AMENDMENTS TO THE INCOME TAX ACT 1994

Clause 19 provides that the Income Tax Act 1994 is amended by this Part.

Clause 20 repeals the current rates of income tax applying to individuals for the 1997–98 income year and sets the annual income tax rates (basic rates of income tax) for the 1997–98 income year as set out in Part B to Schedule 1.

On so much of the taxable income as—	The rate of tax for each dollar of taxable income:
Does not exceed \$34,200	21.5¢
Exceeds \$34,200	33.0¢

Part B replaces that enacted in the Taxation (Core Provisions) Act 1996.

(See clause 32 for the confirmation of these rates for the 1997–98 income year).

When enacted, the application of this amendment will retrospectively change the tax rates that would otherwise have applied for the income year that will commence on 1 April 1997.

Clause 21 inserts a new section KC 1(1) to provide for the low income rebate for the 1997/98 income year. The low income rebate for the 1997-98 income year is based on the tax rates which applied from 1 July 1996.

When enacted, the application of this amendment will retrospectively change the low income rebate that would otherwise have applied for the income year that will commence on 1 April 1997.

Clause 22 amends sections KD 3(2) and (3) to provide for the annual GMFI income threshold of \$14,768 per annum for the 1997-98 income year. This threshold reflects the 1 July 1996 increase for the full income year.

When enacted, the application of this amendment will retrospectively change the annual GMFI that would otherwise have applied for the income year that will commence on 1 April 1997.

Clause 23 amends section KD 5(6A) which deals with the calculation of interim instalments of family support, IFTC and GMFI. The amendment inserts a new paragraph (ab) to ensure that the new section KD 5AB (see clause 23) applies for calculations during a period 1 July 1997 to 30 June 1998 and defers the application of paragraph (b) to 1 July 1998.

Clause 24 inserts a new section KD 5AB to provide for the calculation of interim instalments of family support, IFTC, GMFI for a period beginning on or after 1 July 1997 and ending on or before 30 June 1998. The interim payments of family support and IFTC take into account the 1 July 1997 increases, whereas GMFI is based on the 1 July 1996 rates.

Clause 25 amends section KD 6(1A) to reflect the newly inserted section KD 5AB (see clause 23). The effect is to direct the Director-General of Social Welfare to take into account the rates of family support credit and family credit abatement given by section KD 5AB, for a period beginning on or after 1 July 1997 and ending on or before 30 June 1998. The amendment also defers the application of paragraph (b) (ii) to 1 July 1998.

Clause 26 consequentially amends a number of definitions in section OB 1 to refer to the new section KD 5AB, inserted by clause 24.

PART 3

AMENDMENTS TO TAX ADMINISTRATION ACT 1994

Clause 27 provides that the Tax Administration Act 1994 is amended by this Part.

Clause 28 inserts a new section 33A which provides the circumstances under which taxpayers are not required to file annual income tax returns. It will apply for the 1996-97 income year, and sets the non-filing return threshold at \$34,200. This clause corrects an unintended drafting error in the Tax Administration Amendment Act 1996 which inadvertently terminated the application of section 33A at the end of the 1995-96 income year.

The clause is retrospective in its application, in that it applies for the 1996-97 income year and is deemed to come into force on 1 April 1996. However, it is drafted to incorporate the amendments that would have been made to it by section 7 of the Tax Administration Amendment Act 1996 if section 33A had not been terminated.

Clause 29 inserts a new section 33A for the 1997-98 and subsequent income years. This clause reflects the new terminology introduced by the Taxation (Core Provisions) Act 1996 and retains the non-filing return threshold at \$34,200 to reflect the one year deferral of the tax reductions.

Clause 30 amends section 33A (as inserted by clause 28) to raise the non-filing return threshold from \$34,200 to \$38,000 for the 1998-99 and subsequent income years.

PART 4

AMENDMENTS TO TAX ADMINISTRATION AMENDMENT ACT 1996

Clause 31 provides that the Tax Administration Amendment Act 1996 is amended by this Part.

Clause 32 deems this Part to come into force on 1 April 1997.

Clause 33 repeals sections 5 and 6 which dealt with the non-filing return provisions for the 1995-96 and 1996-97 income years. Clauses 27 and 28 insert new provisions which apply for the 1996-97 and 1997-98 and subsequent income years, respectively.

Clause 34 repeals sections 7 (1), (3) and (4) which dealt with the increase in the non-filing return threshold from \$34,200 to \$38,000 for the 1997-98 income year.

Clause 29 increases the threshold from \$34,200 to \$38,000 for the 1998/99 for the 1998/99 and subsequent income years.

PART 5

ANNUAL RATES OF INCOME TAX FOR 1997-98

Clause 35 confirms the annual income tax rates for the 1997-98 income year, and repeals those set by the Taxation (Annual Rates of Income Tax 1996-97) Act 1996.

Rt. Hon. W. F. Birch

TAXATION (INCOME TAX RATES)

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A BILL INTITULED

An Act to amend individual rates of income tax

BE IT ENACTED by the Parliament of New Zealand as follows:

1. Short Title—This Act may be cited as the Taxation (Income Tax Rates) Act 1997. 5

PART 1

AMENDMENTS TO INCOME TAX ACT 1994 AMENDMENT ACT 1996

2. Income Tax Act 1994 Amendment Act 1996—This Part amends the Income Tax Act 1994 Amendment Act 1996. 10

3. Basic tax deductions—In section 32 (3), “1 July 1997” is replaced by “1 July 1998”.

4. Low income rebate—(1) In section 35 (1), “(as substituted by section 18 (1) of this Act),” is omitted.

(2) In section 35 (2), “the 1997–98 income year” is replaced by “the 1998–99 income year”. 15

(3) Section 35 (3) is deemed to have been repealed on 31 March 1997.

5. Guaranteed minimum family income credit of tax—

(1) In section 37 (1) and (2), “(as substituted by section 21 (1) of this Act)” is omitted. 20

(2) In section 37 (3), “the 1997–98 income year” is replaced by “the 1998–99 income year”.

6. Basic rates of income tax for individuals and certain other taxpayers—(1) In section 38 (1), “(as substituted by section 30 (1) of this Act),” is omitted. 25

(2) In section 38 (2), “the 1997–98 income year” is replaced by “the 1998–99 income year”.

(3) Section 38 (3) is deemed to have been repealed on 31 March 1997. 30

7. Heading repealed—The division heading immediately preceding section 39 is repealed.

8. Commencement—In section 39, subsection (1) is replaced by the following:

“(1) Sections 40 and 43 come into force on 1 July 1998. 35

“(1A) Sections 41, 42 and 44 to 46 of, and the Fourth Schedule to, this Act come into force on 1 July 1997.”

9. Rates for interim instalments for period beginning on or after 1 July 1998—Section KD 5B of the Income Tax Act 1994 as it is enacted by section 42 is amended in subsection (1) by replacing “1 July 1997” with “1 July 1998”.

5 **10. Director-General to deliver credit of tax**—In section 43, “(as inserted by section 24 (1) of this Act)” is omitted.

11. Resident withholding tax deductions—In section 45 (2) and (3), wherever it occurs, “1 July 1997” is replaced by “1 July 1998”.

10 **12. Basic tax deductions**—(1) In sections 46 (3) and (4), wherever it appears, “1 July 1997” is replaced by “1 July 1998”.

13. Heading repealed—The division heading immediately preceding section 47 is repealed.

15 **14. Section repealed**—Section 47 is repealed.

15. Low income rebate—(1) In section 49 (2), “the 1998–99 income year” is replaced by “the 1999–2000 income year”.

20 (2) In section 49 (3), “1 April 1998” is replaced by “1 April 1999”.

16. Guaranteed minimum family income credit of tax—(1) In section 51 (1) and (2), “(as substituted by section 37 (1) of this Act),” is omitted.

25 (2) In section 51 (3), “the 1998–99 income year” is replaced by “the 1999–2000 income year”.

(3) In section 51 (4), “1 April 1998” is replaced by “1 April 1999”.

17. Definitions—Section 52 is renumbered as section 52 (1) and the following is added:

30 “(2) Subsection (1) of this section comes into force on 1 April 1999.”.

18. Basic rates of income tax for individuals and certain other taxpayers—(1) In section 53 (2), “the 1998–99 income year” is replaced by “the 1999–2000 income year”.

35 (2) In section 53 (3), “1 April 1998” is replaced by “1 April 1999”.

PART 2

AMENDMENTS TO INCOME TAX ACT 1994

19. Income Tax Act 1994—This Part amends the Income Tax Act 1994.

20. Basic rates of income tax for individuals and certain other taxpayers—(1) Schedule 1 is amended by repealing Part B, and substituting the new Part B set out in the Schedule to this Act. 5

(2) Subsection (1) is deemed to apply to the 1997–98 income year. 10

21. Low income rebate—Section KC 1 (1) is replaced by:
 “KC 1 (1) In the assessment of every taxpayer, being a natural person other than an absentee, there shall be allowed as a rebate of income tax,—

“(a) Where the net income derived in the income year by that taxpayer, being a New Zealand superannuitant, is less than \$9,500, a rebate of an amount equal to 6.5 cents for each complete dollar of that net income: 15

“(b) Where the net income of that taxpayer (not being a taxpayer to whom paragraph (a) applies) is less than \$9,500 for the income year, a rebate of 6.5 cents for each complete dollar of the amount determined under the formula in subsection (4): 20

“(c) Where the net income of that taxpayer amounts to, or exceeds, \$9,500 for the income year, an amount calculated in accordance with the following formula: 25

“ $x - y$

“where— 30

“x is—

“(i) \$617.50, where the taxpayer is a New Zealand superannuitant:

“(ii) The lesser of \$617.50 and an amount equal to 6.5 cents for each complete dollar of the amount determined under the formula in subsection (4), in all other cases; and 35

“y is an amount equal to 2.5 cents for each complete dollar of the net income that exceeds \$9,500.”. 40

“(2) Subsection (1) is deemed to apply to the 1997–98 income year.”.

22. Guaranteed minimum family income credit of tax—(1) In section KD 3(2) and (3), wherever it appears, “x is \$14,690” is replaced by “x is \$14,768”.

5 (2) Subsection (1) is deemed to apply to the 1997–98 income year.

23. Credit of tax by instalments—(1) In section KD 5 (6A), after paragraph (a), the following is inserted:

10 “(ab) Section KD 5AB, for a calculation period beginning on or after 1 July 1997 and ending on or before 30 June 1998; or”

(2) In section KD 5 (6A) (b), “1 July 1997” is replaced by “1 July 1998”.

15 **24. Transitional rates for interim instalments during period 1 July 1997 to 30 June 1998**—After section KD 5A, the following is inserted:

20 “KD 5AB. (1) For the purposes of section KD 5 (6), the amount of the estimated entitlement of a person to a credit of tax for a period beginning on or after 1 July 1997 and ending on or before 30 June 1998, shall be calculated in accordance with the following formula:

$$“a + b$$

“where—

25 “a is the estimated entitlement of the person to a family credit for the period, calculated under subsection (2); and

“b is the estimated entitlement of the person to a guaranteed minimum family income for the period, calculated under subsection (6).

30 “(2) For the purposes of this section, the estimated entitlement of a person to a family credit for a period shall be calculated in accordance with the following formula:

$$“x + y - z$$

“where—

35 “x is the amount of the family support credit under subsection (3); and

“y is the amount of the independent family tax credit under subsection (4); and

“z is the amount of the family credit abatement under subsection (5).

40 “(3) The amount of the family support credit under this subsection shall be calculated using the following formula:

$$“a \times \frac{d}{364}$$

“where—

“a is an amount equal to the sum of—

“(a) For the eldest dependent child of whom the person is a principal caregiver during the period, one of the following: 5

“(i) \$2,444, if the child is under the age of 13 years;

“(ii) \$2,444, if the child is 13 or more years of age;

“(iii) A weighted average of the amounts in subparagraphs (i) and (ii) that reflects the proportion of the period that those subparagraphs apply to the child if the child attains 13 years of age during the period; and 10

“(b) For each dependent child of whom the person is a principal caregiver during the period, other than the eldest dependent child, one of the following: 15

“(i) \$1,664, if the child is under the age of 13 years;

“(ii) \$2,080, if the child is 13 or more years of age;

“(iii) A weighted average of the amounts in subparagraphs (i) and (ii) that reflects the proportion of the period that those subparagraphs apply to the child if the child attains 13 years of age during the period; and 20

“d is the number of days in the period.

“(4) The amount of the independent family tax credit under this subsection shall be calculated using the following formula: 25

$$“\$780 \times c \times \frac{e}{364}$$

“where—

“c is the number of dependent children for whom the person is a principal caregiver during the period; and 30

“e is the number of days in the period that the person and any spouse of the person does not receive a specified payment and does not have a suspended entitlement to an income-tested benefit.

“(5) The amount of the family credit abatement under this subsection shall be calculated in accordance with the following formula: 35

$$“f \times \frac{d}{364}$$

“where—

“f is—

“(a) If the qualifying person has no spouse during the period, and—

5 “(i) The specified income of the person for the period does not exceed \$20,000, nil:

 “(ii) The specified income of the person for the period exceeds \$20,000 but does not exceed \$27,000, 18 cents for each complete dollar of that excess:

10 “(iii) The specified income of the person for the period exceeds \$27,000, the amount of \$1,260 increased by 30 cents for each complete dollar of the excess; or

 “(b) If the person has a spouse during the period and—

15 “(i) The specified income of the person, or the specified income of the spouse, or the sum of those specified incomes, as the case may be, for the period does not exceed \$20,000, nil:

20 “(ii) The specified income of the person, or the specified income of the spouse, or the sum of those specified incomes, as the case may be, for the period exceeds \$20,000 but does not exceed \$27,000, 18 cents for every complete dollar of that excess:

25 “(iii) The specified income of the person, or the specified income of the spouse, or the sum of those specified incomes, as the case may be, for the period exceeds \$27,000, the amount of \$1,260 increased by 30 cents for every complete dollar of the excess; and

30 “d is the number of days in the period.

 “(6) For the purposes of this section, the estimated entitlement of the person to a guaranteed minimum family income shall be calculated,—

35 “(a) For a person who has no spouse, in accordance with the following formula:

$$“(x - y) \times \frac{z}{52}$$

 “where—

40 “x is \$14,768; and

 “y is the net specified income in relation to that person and to the period; and

“z is the number (if any) of periods of one week in the period in relation to each of which the person is a full-time earner; and

“(b) If a person has a spouse, for each of the person and the spouse, 50% of the amount calculated in accordance with the following formula: 5

$$“(x - y) \times \frac{z}{52}”$$

“where—

“x is \$14,768; and

“y is the net specified income in relation to the person and to the period, or the net specified income in relation to the spouse and to the period, or the aggregate of the net specified income in relation to the person and to the spouse and to the period; and 10 15

“z is the number (if any) of periods of one week in the period in relation to each of which the person is a full-time earner.”.

25. Director-General to deliver credit of tax—(1) In section KD 6 (1A), after subparagraph (i), the following is inserted: 20

“(ia) Section KD 5AB, for a period beginning on or after 1 July 1997 and ending on or before 30 June 1998; or”.

(2) In section KD 6(1A) (b)(ii), “1 July 1997” is replaced by “1 July 1998”. 25

26. Definitions—(1) Section OB 1 is amended as follows:

(a) In paragraph (a) of the definition of “family credit”, “or section KD 5AB(2)” is inserted after “section KD 5A(2)”; 30

(b) In paragraph (a) of the definition of “family credit abatement”, “or section KD 5AB(5)” is inserted after “section KD 5A(5)”; 30

(c) In paragraph (a) of the definition of “family support credit”, “or section KD 5AB(3)” is inserted after “section KD 5A(3)”; 35

(d) In paragraph (a) of the definition of “guaranteed minimum family income”, “or section KD 5AB(6)” is inserted after “section KD 5A(6)”; and

(e) In paragraph (a) of the definition of “independent family tax credit”, “or section KD 5AB(4)” is inserted after “section KD 5A(4)”.

(2) Subsection (1) comes into force on 1 July 1997.

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PART 3

AMENDMENTS TO TAX ADMINISTRATION ACT 1994

27. Tax Administration Act 1994—This Part amends the Tax Administration Act 1994.

28. Annual income tax returns for 1996–97 income year—(1) After section 33, the following is inserted:

10 “**33A. Annual income tax returns not required from taxpayers**—(1) For the purposes of this Act, subject to subsections (2) and (3), a natural person shall not be required to furnish a return of income in relation to a year if, in the year,
15 the person—

“(a) Is not a New Zealand superannuitant; and

“(b) Does not derive income other than—

20 “(i) Income from employment from which a tax deduction is liable to be made in accordance with the PAYE rules:

“(ii) Interest or dividends from which resident withholding tax is liable to be deducted in accordance with the RWT rules; and

“(c) Has total income which does not exceed \$34,200; and

25 “(d) Does not derive income as a shearer or as a shearing shed hand; and

“(e) Is not an absentee; and

“(f) Is not issued with a family certificate of entitlement for any part of the year; and

30 “(g) Does not have a spouse who is issued with a family certificate of entitlement for any part of the year; and

“(h) Is not required to pay any financial support under the Child Support Act 1991; and

35 “(i) Does not have any IRD loan balance (as defined in section 2 of the Student Loan Scheme Act 1992).

“(2) Notwithstanding anything in subsection (1), a person who is a New Zealand superannuitant shall not be required to furnish a return of income in relation to a year if, in the year,
40 the person—

“(a) Satisfies paragraphs (b) to (i) of subsection (1); and

- “(b) Receives payments of which the following amounts do not exceed \$3,412.50 in aggregate—
- “(i) Income from employment other than New Zealand superannuation:
 - “(ii) Interest and dividends: 5
 - “(iii) 50% of any pension from a superannuation fund:
 - “(iv) 50% of any annuity to which section CB 9 (f) applies.
- “(3) Notwithstanding anything in subsections (1) and (2), a person shall be required to furnish a return of income in relation to a year if, in the year,— 10
- “(a) The person receives income from employment from which a tax deduction is made and the amount of the tax deduction is determined wholly or partly by a special tax code certificate issued under section NC 14 of the Income Tax Act 1994: 15
 - “(b) The Director-General of Social Welfare pays to the person or to the person’s spouse a family credit under section KD 6 of the Income Tax Act 1994 for which the amount of family credit abatement (as given by section KD 2(4) of the Income Tax Act 1994) is greater than nil. 20
- “(4) For the purposes of subsections (1) and (2), resident withholding tax is deemed to be deducted from a dividend if application of the formula in section NF 2(1)(b) of the Income Tax Act 1994 results in the payer of the dividend being required to deduct a nil amount.”. 25
- (2) Subsection (1) applies with respect to the 1996–97 income year. 30
- (3) Subsections (1) and (2) are deemed to have come into force on 1 April 1996.
- 29. Annual income tax returns for 1997–98 income year—**(1) After section 33, the following is inserted: 35
- “**33A. Annual income tax returns not required from taxpayers—**(1) For the purposes of this Act, subject to subsections (2) and (3), a natural person shall not be required to furnish a return of income in relation to a year if, in the year, the person— 40
- “(a) Is not a New Zealand superannuitant; and
 - “(b) Does not derive gross income other than—

- 5 “(i) Income from employment from which a tax deduction is liable to be made in accordance with the PAYE rules:
- “(ii) Interest or dividends from which resident withholding tax is liable to be deducted in accordance with the RWT rules; and
- “(c) Derives annual gross income that does not exceed \$34,200; and
- 10 “(d) Does not derive gross income as a shearer or as a shearing shed hand; and
- “(e) Is not an absentee; and
- “(f) Is not issued with a family certificate of entitlement for any part of the year; and
- 15 “(g) Does not have a spouse who is issued with a family certificate of entitlement for any part of the year; and
- “(h) Is not required to pay any financial support under the Child Support Act 1991; and
- 20 “(i) Does not have any IRD loan balance (as defined in section 2 of the Student Loan Scheme Act 1992).
- “(2) Notwithstanding anything in subsection (1), a person who is a New Zealand superannuitant shall not be required to furnish a return of income in relation to a year if, in the year, the person—
- 25 “(a) Satisfies paragraphs (b) to (i) of subsection (1); and
- “(b) Receives payments of which the following amounts do not exceed \$7,722 in aggregate—
- “ (i) Income from employment other than New Zealand superannuation:
- 30 “(ii) Interest and dividends:
- “(iii) 50% of any pension from a superannuation fund:
- “(iv) 50% of any annuity to which section CB 9 (f) applies.
- 35 “(3) Notwithstanding anything in subsections (1) and (2), a person shall be required to furnish a return of income in relation to a year if, in the year,—
- “ (a) The person receives income from employment from which a tax deduction is made and the amount of the tax deduction is determined wholly or partly by a special tax code certificate issued under section NC 14 of the Income Tax Act 1994:
- 40 “(b) The Director-General of Social Welfare pays to the person or to the person’s spouse a family credit
- 45 under section KD 6 of the Income Tax Act 1994 for

which the amount of family credit abatement (as given by section KD 2(4) of the Income Tax Act 1994) is greater than nil.

“(4) For the purposes of subsections (1) and (2), resident withholding tax is deemed to be deducted from a dividend if application of the formula in section NF 2(1)(b) of the Income Tax Act 1994 results in the payer of the dividend being required to deduct a nil amount.”

(2) Subsection (1) applies with respect to the 1997–98 and subsequent income years.

(3) Subsections (1) and (2) are deemed to have come into force on 1 April 1997.

30. Annual income tax returns for 1998–99 and subsequent income years—(1) In section 33A (as substituted by section 29 (1)), “\$34,200” is replaced by “\$38,000”.

(2) Subsection (1) applies with respect to the 1998–99 and subsequent income years.

(3) This section comes into force on 1 April 1998.

PART 4

AMENDMENTS TO TAX ADMINISTRATION AMENDMENT ACT 1996 20

31. Tax Administration Amendment Act 1996—This Part amends the Tax Administration Amendment Act 1996.

32. Commencement—This Part is deemed to come into force on 1 April 1996.

33. Sections repealed—Sections 5 and 6 are repealed. 25

34. Annual income tax returns for 1998–99 income year—Sections 7 (1), (3) and (4) are repealed.

PART 5

ANNUAL RATES OF INCOME TAX FOR 1997–98

35. Rates of income tax for 1997–98 income year— 30
(1) For the 1997–98 income year, income tax must be imposed and paid under Part B of the Income Tax Act 1994 at the basic rates specified in Schedule 1 to the Income Tax Act 1994.

(2) The Taxation (Annual Rates of Income Tax 1996/97) Act 1996 is repealed. 35

SCHEDULE

Section 20 (1)

NEW PART B OF SCHEDULE 1 TO INCOME TAX ACT 1994

“PART B

Rates referred to in Clause 9 of Part A

				The rate of tax for every \$1 of taxable income shall be
				Cents
On so much of the taxable income as—				
Does not exceed \$34,200	21.5
Exceeds \$34,200	33.0

TAXATION (INCOME TAX RATES) BILL

AS REPORTED FROM THE FINANCE AND EXPENDITURE
COMMITTEE

COMMENTARY

Recommendation

The Finance and Expenditure Committee has examined the Taxation (Income Tax Rates) Bill and recommends that it be passed with the amendments shown in the bill.

Conduct of the examination

The Taxation (Income Tax Rates) Bill was referred after its second reading to the Finance and Expenditure Committee on 4 March 1997. We were instructed to report the bill to the House on or before 22 April 1997. We called for public submissions on the bill and received two submissions. We heard both submissions at our meeting on 26 March 1997.

Advice was received from the Inland Revenue Department and The Treasury.

Background

The bill gives effect to the Coalition Government's decision to postpone commencement of the implementation of the second stage of the tax rate reductions, enacted last year as part of the Tax Reduction and Social Policy Programme, from 1 July 1997 to 1 July 1998. The increases in the Independent Family Tax Credit and Family Support will proceed, with effect from 1 July 1997.

Details of the bill's provisions are outlined in the general policy statement contained in the bill, as introduced, and in the Minister of Finance and Minister of Revenue's *Commentary on the Bill*.

Submissions on the bill

We received and heard submissions on the bill from the New Zealand Manufacturers' Federation and the New Zealand Business Roundtable.

The New Zealand Manufacturers' Federation opposes the bill, expressing concern about the economic impact of the deferral of the 1 July 1997 tax cuts. The Federation stated that there are strong economic grounds for favouring a delay in the Government's spending programme rather than the delay in the tax cut programme. It contended that tax cuts provide much greater overall economic benefit than increased government spending.

The New Zealand Business Roundtable also opposes the deferral of the tax cuts. The Business Roundtable commented that most of the increased spending planned is badly targeted. It submitted that the Government should reconsider its spending and maintain tax certainty by retaining the tax cuts and implementing further tax reductions in future years.

We are recommending, by majority that the bill be passed, without significant amendment.

Recommended amendments

We recommend three drafting amendments to the bill. The amendments are stylistic in nature and do not affect the policy of the bill:

- The Long Title is to be amended to reflect that the bill also fixes the rates of income tax for the 1997-98 income year (in addition to amending individual rates of income tax).
 - Clause 29 is to be amended to consequentially repeal Part II of the Taxation (Superannuitant Surcharge Reduction) Act 1996 for the 1997-98 and subsequent income years. These amendments are superseded by clause 29.
 - Clause 35 is to be amended to recognise more clearly that income tax is imposed by section BB 1 of the Income Tax Act 1994 and paid at the basic rates specified in Schedule 1 of that Act, rather than being imposed and paid under Part B of the Income Tax Act 1994.
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KEY TO SYMBOLS USED IN REPRINTED BILL
AS REPORTED FROM A SELECT COMMITTEE

Struck Out (Majority)

Subject to this Act,

Text struck out by a majority

New (Majority)

Subject to this Act,

Text inserted by a majority

<Subject to this Act,>

Words inserted by a majority