School of Accountancy

110.389
Advanced Taxation

Administration and Study Guide

Internal/Extramural

Semester Two, 2009

<www-accountancy.massey.ac.nz>
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Introduction

> Welcome

Welcome to this course and I hope you will find it stimulating, interesting, useful, and (sometimes) fun – even though Albert Einstein once said, “the hardest thing to understand was the income tax!”

This paper builds upon the knowledge base that you have acquired from the first taxation paper 110.289 Taxation. It delves into more complex tax areas such as international tax, financial arrangements, and property investments. This paper will also help you to develop the necessary tax research skills to find, interpret, and apply relevant statutory, regulatory, and judicial information through technology and internet.

The course material provided here is designed to help you to organise and progress smoothly with your studies. It comprises of THREE sections:

1 An administration section which details the important information about studying and passing the paper. Please read it thoroughly now.

2 An assignments section which sets out Assignments 1 and 2.

3 A study guide section which is set out to assist you with the topics to be covered for each of the 12 weeks of study. It is set out in such a manner so that you can progress smoothly and logically from learning about various tax issues arising from the business or investment environment.
> **Paper coordinator**

Hi, I am Lin Mei Tan and I would like to welcome you to this course. I came from Malaysia many years ago after having taught there for a couple of years in the Department of Business Studies. Before joining Massey University, I spent some time in the United Kingdom pursuing my Masters in Accounting and Finance at the University of Lancaster. I am now a Chartered Accountant as well as an Associate Member of the Institute of Chartered Secretaries and Administrators (UK).

Over these years at Massey, I have been involved in teaching a number of accountancy subjects such as Introductory Accounting, Corporate Accounting, Taxation, and Management Accounting. Although I find all these subjects interesting and useful, my primary research interest lies mainly in the area of taxation.

As the coordinator of this paper, I wish you every success and hope you find this course enjoyable and useful. I can be contacted at the number indicated below. Once the course commences, I will advise you of my office contact hours.

My e-mail address, telephone number, and fax number are as follows:

Phone  
(06) 356 9099 extn 2172
Fax    
(06) 350 5617
Email  
l.m.tan@massey.ac.nz

Postal address
School of Accountancy
Massey University
Private Bag 11222
Palmerston North  4442

> **Other Staff**

**David Butcher, Auckland Campus**

Hi, I am David Butcher and welcome to this paper. After qualifying as a chartered accountant in England, I worked for a number of firms before specialising in taxation and becoming a tax partner in a medium sized firm in Hereford.

I came to New Zealand from England several years ago. After one year at the Open Polytechnic in Wellington, I took up a teaching position at AUT University in Auckland. Over the years there I have taught taxation and many accounting papers from first year papers through to Advanced Financial Accounting.

I look forward to meeting you and wish you every success in your studies.

Phone  
(09) 414 0800 extn 9205
Fax    
(09) 441 8133
Email  
d.p.butcher@massey.ac.nz

Postal Address
School of Accountancy
Massey University
Private Bag 102 904
North Shore Mail Centre
Auckland  9088
> Student profile (optional)

Please complete this student profile and return it to me at your earliest convenience. The information is requested so that I am aware of your particular circumstances and the information given is only for my personal use.

Name: ________________________________________________________________

Address: ______________________________________________________________

____________________________________________________________

____________________________________________________________

Home phone: ___________________________ Work phone: ___________________________

Email address: __________________________________________________________

Occupation: ____________________________________________________________

Educational background/qualifications: ______________________________________

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

Previous papers taken at Massey? ____________________________________________

_______________________________________________________________________

_______________________________________________________________________

Interests: ________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

Are there any particular issues you would like to study this year or at the contact course?

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

Any other comments that you would like to add about yourself (including, for example, learning difficulties that you may face …): ____________________________________________

_______________________________________________________________________

_______________________________________________________________________
**Internet access information:**

Do you have regular access to the internet and email? Yes / No

If yes, your email address: ________________________________________________

If you have access to the internet do you connect to it from home/work?

If from work are any restrictions placed on your access – i.e. email only, no internet access?

_______________________________________________________________________________

Please rate your level of expertise on the internet and world wide web.

(a) Never used it
(b) Some exposure
(c) I’m quite competent
(d) I’m very competent

Would you consider using a web browser and the internet to access course material?  Yes / No

Signed: ____________________________  Date: ______________________

For extramural students and Palmerston North internal students, please return this form to the address below:

Lin Mei Tan  
School of Accountancy  
Massey University  
Private Bag 11222  
Palmerston North  4442

or

for Auckland Internal students, to:

David Butcher  
School of Accountancy  
Massey University  
Private Bag 102904  
North Shore Mail Centre  
Auckland  9088
> Aims

The aims of this course are to provide you with an understanding of the advanced and emerging issues in taxation and to develop your skill in tax research.

The objectives are:

- To develop your ability to identify and determine the tax implications or consequences of various tax issues that concerns businesses or individuals with investments in New Zealand and in foreign jurisdictions.

- To develop your tax research skills such as locating, reading, comprehending, analysing and making proper use of various tax resources for purposes of tax research and tax planning.

> Learning Outcomes

Students who successfully complete this paper should be able to:

1. Compare and contrast the tax rules that regulate the treatment of investments in real and personal properties, and appraise how those rules are interpreted in practice by the courts and the Inland Revenue;
2. Evaluate the tax implications of different entities that are available for the conduct of business operations or for property ownerships;
3. Analyse the various international tax regimes that apply to investors, and evaluate the principles underpinning these regimes;
4. Discuss and evaluate the constraints on tax planning imposed by legislation and the courts, and the risks and uncertainties inherent in tax planning strategies;
5. Critique the current relationship between tax and financial accounting in business operations.

> Topics covered

The topics covered in this paper include the following:

- The financial arrangements regime;
- The taxation of investment properties – including investment in portfolio investment entities (PIE), debt instruments, rental property, shares, land transactions;
- International transactions - including an analysis of income tax provisions applying to NZ inbound and outbound transactions and investments, NZ resident status, source of income rules, overseas branch and subsidiary, tax treaties, foreign tax credit, transfer pricing, controlled foreign companies (CFCs), foreign investment funds (FIFs);
- Tax planning opportunities related to the formation of business entities and tax issues involved in the growth, expansion and amalgamation of business enterprises;
- Tax planning – tax avoidance and tax evasion;
- Tax penalties;
- Tax reporting and financial reporting.
> **Textbooks and recommended reading**

**Textbook**

The prescribed textbook for this course is:


This book is available from:

Bennetts University Book Centre  
Freepost 118333  
Massey University  
Palmerston North  
Telephone: (06) 354 6020

It may also be available from other university bookshops.

**Recommended Readings**

Some other books, which may be of interest, are:

- Staples Tax Guide 2009 – Thomson/Brookers  
- New Zealand Taxation 2009 – Thomson/Brookers  

Unless you have money to burn, you don’t have to buy these. But it may be useful to have access to them from time to time if you are interested in reading further on some topics which are of particular interest to you. Most of these books are available from Massey Library. Staples Tax Guide, the Tax legislations and CCH NZ Master Tax Guide are available on-line as well.

**Supplementary Readings**

Throughout the study guide, you may be asked to read supplementary articles. They are extracted from various journals to give you further insights into various tax issues.

> **Assessment**

**Pass Requirements**

You will obtain a ‘pass’ grade by scoring 50% or more over all assessments as follows:

- Two written assignments worth 35% of the total assessment. These two assignments (Assignment 1 and Assignment 2) are **compulsory**, meaning that if you do not submit them, you lose the allocated marks accordingly.
- Final exam worth 65% of final grade.

To obtain a pass mark, you must get at least 50% overall, with a minimum of 40% in the final examination.
Assignments and Exam Weightings

Assessment instruments will each be scored using percentages. The overall score for the whole paper will be obtained by a scheme of weights.

You can find the assignment questions and the requirements in the next section.

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<tr>
<th>Assignment</th>
<th>Due Date</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignment 1</td>
<td>8th September 2009</td>
<td>20%</td>
</tr>
<tr>
<td>Assignment 2</td>
<td>1st October 2009</td>
<td>15%</td>
</tr>
<tr>
<td>Final Examination</td>
<td>28th October 2009</td>
<td>65%</td>
</tr>
</tbody>
</table>

* Please check the Examination Timetable to confirm this date.
Details

> Massey University Credit System from 2007

The University has converted from a 100 point standard equivalent full-time year for academic programmes to one of 120 credits. As from February 2007, it has used the expression ‘credits’ to replace ‘points’.

For existing Massey students, the change will have minimal impact. They will be required to pass the same number of papers to complete their programmes.

For Massey students who enrolled before the change, the conversion from points to credit is straightforward. Credits for papers completed to date are multiplied by 1.2. For example, current 12.5 point papers become 15 credit papers and 25 point papers become 30 credit papers. Transitional arrangements had been put in place to see to papers with odd numbers of points to ensure that no students will be disadvantaged.

In the past, the point system gave an indication of the total amount of time that a student might reasonably expect to spend on each paper in order to satisfactorily complete the assessment requirements (including lectures, laboratories, tutorials, visits and study time for an internal student, or campus and/or regional courses, study groups and private study time for an extramural student). Converted into a number of hours per week, this was referred to as the effective weekly hours for the paper.

With the introduction of the credit system, the total hours required for a student to study a paper remains the same. On average, a student is expected to spend approximately 12.5 hours per week for a 15 credit paper. The course outline for each paper should indicate the effective weekly hours and how these might typically be spent.

> Suggested study programme

Study Time

It is of utmost importance that you must get organised.

Study at this level requires independent work from you. Many students prejudice their chances of passing by not getting started soon enough, and always struggling to catch up. Indeed, an all too common occurrence, particularly with extramural students, is the complete “no show” leading to a DNC (did not complete) grade. Too many students pay their money, are sent the materials, and then procrastinate, freeze, stall etc. Please, if it seems like this is going to happen to you, get help, including from the paper coordinator or another member of the teaching team.
Get focused: have fun: enjoy your studies

You can improve your chances of success by planning now for the learning ahead. **The paper is a 15 credits paper and requires an average of 12.5 hours work per week.** Although, the amount of private study time will be dependent on each individual’s ability and study patterns, you should plan how best to use this scarce time. Key dates, such as assignment deadlines and the examination, will serve as milestones in your own personal learning schedule. Within your domestic and work routines, put aside times each day for learning and absorbing material.

Ensure that you have a suitable place to work, free from distractions, and think ahead so that you will have the books and other materials to work with when needed. Avoid rushed assignments (yes, I like to repeat this again – avoid rushed assignments!); commence them in plenty of time to answer the questions and submit answers in a presentable form. Make time also to prepare properly for the exam.

Keep the aims of the paper and your learning objectives firmly in mind. As you implement your learning plan, watch, listen, read, think, and write in the context of your learning objectives. Know in outline what comprises each assignment question from the start, and make jottings of ideas, sources, angles etc right from the word ‘Go’. Get interested and excited about the subject matter.

**Study Programme**

Your studies will be driven by reading the required material, attempting computational exercises, tackling analytical questions, and answering questions in the final examination. Passing the paper entails:

- demonstrating you understand the subject matter;
- demonstrating you can analyse situations in which the subject matter is present; and
- demonstrating you can analyse, synthesize and draw appropriate conclusions.

The next 12 weeks are an opportunity to study various tax issues that concern a business person or a non business person. In the first tax paper, or its equivalent, you were exposed to the general principles of taxation, covering aspects of various topics such as:

- income and deductions;
- fringe benefit tax;
- goods and services tax;
- tax policies;
- business structures;
- tax compliance issues.

If you cannot remember any of these topics, a quick revision is a good idea. Our study continues from there and we delve into more complex tax areas.

The areas covered in this course are listed in the course calendar provided on page 11 and the weekly study programme follows this scheme.
> Income Tax Legislation

The new Income Tax Act 2007 came into effect on 1 April 2008 and you should make reference to this Act.

For examination purposes, you will not be penalised if you cannot remember sections of the Act (or any Acts). However, for assignment purposes, you are required to locate relevant tax law authority to support your answers, conclusions, or tax recommendations.

SMART TAX

Massey library has access to SMART Tax.

You can access this by going to Massey Library website, and then choose
- “Article Databases”
- Click on “Brokers NZ Legal Databases”
- Click on “Smart Tax”

And search for information accordingly.

The tax legislations are all in there. Other materials such as Staples Tax Guide, TIBs, Binding Rulings etc are also in there.

CCH NZ

The library also has access to CCH Master Tax Guide and other useful reference material including NZ Income Tax Law and Practice etc.

You can access this by going to Massey Library website, and then choose
- “Article Databases”
- Click on “CCH NZ Online Library”
- Click on “NZ Tax”
- Choose “NZ Updating Master Tax Guide”

If you have problems in using any of these resources, you should ask the library staff to help you.
### COURSE CALENDAR

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<th>Topic</th>
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</thead>
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<td><strong>1</strong></td>
<td>13 July</td>
<td><em>Tax Research</em></td>
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| **2** | 20 July | *Investments in Personal and Real Property*  
   (1) Financial Arrangements |
| **3** | 27 July | (2) Other Personal Property |
| **4** | 3 August | (3) Land Transactions |
| **5** | 10 August | *Business Entities and Their Owners: Tax Issues*  
   (1) Tax Implications of Various Business Structures |
| **6** | 17 August | (2) Qualifying Companies, Amalgamation and Consolidation |

**24 August – 6 September (Semester Break)**

2 September 2009 – Contact course  
8 September 2009 – Assignment 1 due

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<thead>
<tr>
<th>Week</th>
<th>Week Starting</th>
<th>Topic</th>
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</table>
| **7** | 7 September | *International Tax*  
   (1) Residency, Foreign Sourced Income, NZ Sourced Income, Double Tax Relief etc. |
| **8** | 14 September | (2) CFCs and FIFs |
| **9** | 21 September | (3) Overseas Branch/Subsidiary, Transfer Pricing, Thin Capitalisation, Principles |
| **10** | 28 September | *Tax Planning and Penalty Risks*  
   1 October 2009 – Assignment 2 due |
| **11** | 5 October | *Tax and Accounting Issues* |
| **12** | 12 October | Revision |
> Lectures

For Internal Students

Lectures for INTERNAL STUDENTS on the Turitea Campus are scheduled for Mondays 3 - 5 pm in SSLB 6 and Fridays 12 -1pm in SSLB 7. (Please check the timetable again to see if there are any changes as this material was prepared in March 2009).

INTERNAL STUDENTS on the Albany Campus, please check with the Albany Co-ordinator.

Note that lectures are intended to introduce the main issues and may not cover every examinable aspect of the course.

From time to time, lecture notes and suggested solutions to review questions or any other clarifications will be posted on the 110.389 WebCT site. Students should check this site frequently and regularly.

For Extramural Students

EXTRAMURAL STUDENTS should attend the Contact Course scheduled for 2nd September 2009. NSATS will communicate with students in connection with the Contact Course and provide details dates, times & venues. The purpose of the Contact Course is to review the course material. Time does not allow us to deal with every aspect in depth.

Contact between staff and extramural students is not limited to the Contact Course. Extramural students may contact the appropriate on-campus staff during office hours at any time during the semester in order to resolve queries relating to the course material.

From time to time, lecture notes and suggested solutions to review questions or any other clarifications will be posted on the 110.389 WebCT site. Students should check this site frequently and regularly.

> Assignment details

There are two assignments in total. Please see the assignments section for details.

> Presentation of written work

- All written work must be submitted on A4 (21cm x 29.7cm) sized paper.
- Please write on one side of the paper only.
- Leave a 4cm margin on the left-hand side for marker’s comments. Use 1½ line spacing.
- Each page should be numbered in one continuous sequence. Commence numbering from the page following the title page. Print your last name at the top of each page.
- All sheets should be stapled together at the top left-hand corner. Do not clip, pin or fold pages to secure them. An honesty declaration form should also be attached.
- For extramural students, put the extramural cover page on top of the work. This should give your full name and local address, your student number, the title, paper coordinator, the paper, assignment number and paper title.
> Assignment submission

For **internal students on Turitea Campus**, please place your assignment in the assignment boxes provided along the School of Accountancy’s reception foyer (SST 1.19).

For **internal students on Albany Campus**, please contact the Albany Co-ordinator.

For **extramural students**, please post your assignments to:

The Extramural Assignments Office  
NSATS  
Massey University  
Private Bag 11555  
Palmerston North

Remember to complete all coversheet details. An Honesty Declaration must be attached to each assignment.

> Extensions and late assignments

Marks will be deducted if you submit your assignment late. Please see the assignments section for more details.

> Academic Dishonesty

It is important that you develop the habit of always behaving ethically. In the professional world the penalty for failure to behave ethically can be severe.

For all course assignments it is acceptable (and helpful) to discuss the issues with other students. You may freely ask and answer questions that promote learning.

However it is NOT acceptable to:

- divide the assignments up with each person doing part of the whole;
- copy another student’s work, an official answer, or an official answer from either the current class or from a previous class;
- allow another students to copy your work ;
- provide students in future years with copies of your assignments;

Each student is expected to submit for marking his or her own work. Discussion promotes learning. Copying does not!

In completing your assignments, if you use the words of another author you must enclose them in quotation marks. You must also cite a page number. When you have included the ideas of another author, you are required to reference the source of those ideas. To use the words or ideas of another author without citing the source is plagiarism and is not acceptable under any circumstances. The University Calendar states that there are strict penalties for plagiarism and these will be enforced.

For guidelines on referencing, please refer to the section on Referencing under “Library Services and Referencing” on pages 19 – 22.
> Posting of materials (extramural students)

In this posting you will receive a folder which contains:

- the Administration Guide section
- an Assignments section
- a Study Guide section

> Contact Course

For extramural students, a one-day Contact Course is planned in Wellington on

Wednesday, 2th September 2009

[Please check the website below or ring 0800 MASSEY prior to booking travel as dates are subject to change. A list of all the current Contact Courses and venue information is available from: Web http://extramural.massey.ac.nz/massey/students/extramural/contact ].

Attendance at the course is strongly recommended. Many past students have appreciated us in making an effort to provide this sort of contact. At the very least, the course serves as a point of personal contact between yourself, staff and fellow students.

If you wish to attend the Contact Course, please ensure you register three weeks prior to its commencement. NSATS require a decision to be made at this time and the Contact Course will be cancelled if less than 12 people are registered.

Aims of Contact Course

We see Contact Course as being an opportunity to

- meet with teaching team member (s) and other students, and develop study contacts;
- work together through a selection of exercises, problems and cases;
- share work and similar experiences having a bearing on the subject matter;
- identify any learning problems you have in various topics;
- preview future topics;
- (hopefully) improve your motivation to study and pass.

NSATS will contact you soon with more administrative details and to ask formally if you will attend. In the meantime, please indicate on the student profile form if you are likely to attend.
## Contacts

<table>
<thead>
<tr>
<th>Problem</th>
<th>Contact</th>
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</table>
| I have changed my address  
I am going to withdraw                                                       | Phone 0800 MASSEY (+64 6350 5701)  
Write to the Enrolment Office  
Copy to Paper Coordinator  
Email: contact@massey.ac.nz                                           |
| Did you get my assignment?  
I think I've missed a posting                                           | Phone 0800 MASSEY (+64 6350 5701)  
Email: contact@massey.ac.nz |
| I don’t understand the assignment  
I think my grade is incorrect  
I’m not sure about the Contact Course  
I am having trouble/help!!                                           | Contact your Paper Co-ordinator |
| I think I should withdraw                                              | Contact your Paper Coordinator before proceeding                       |

## Contact Course

If the paper in which you enrol has a Contact Course component please register early. This will ensure that you receive the relevant information in regard to dates, venues and timings. You can register via the following means:

- Phone 0800 Massey (0800 627 739) or  
- Email contactcourse@massey.ac.nz <mailto: contactcourse@massey.ac.nz> or  
- Web http://extramural.massey.ac.nz/massey/students/extramural/contact

Please check the website below or ring 0800 MASSEY prior to booking travel as dates are subject to change.

A list of all the current Contact Courses and venue information is available from: http://extramural.massey.ac.nz/massey/students/extramural/contact

## Street Address

National Student Administration & Teaching Support  
Massey University  
Albany Drive  
Turitea Campus  
Palmerston North  4474
> Concerns/ Complaints

In Case of Emergency

“Many of life’s failure are people who did not realize how close they were to success when they gave up.” *Thomas Edison (in The Learning Revolution, p. 280)*

Your first objective should be to persevere in the paper. If at any time during the semester you contemplate withdrawing from 110.389 because of falling behind or other difficulties, or because of outside circumstances (e.g. being exceptionally busy in other aspects of life or changing circumstances) please contact me to help review your prospects in the paper.

If you decide to withdraw you **must** notify the Enrolments Office, Massey University, Private Bag 11222, Palmerston North as soon as possible.

Before You Do, Ask Yourself

- Will I regret this later?
- Will I feel better after a cup of coffee/the baby has gone to sleep/the weather has improved? etc.
- Do I really have to decide now?
- Should I write to or phone those nice understanding lecturers about it?
- I have got this far, shouldn’t I might as well finish the course?

If you have any concerns or complaints about this paper, you should contact the Paper Coordinator in the first instance. If Paper Coordinator is unable to resolve the matter or if you feel uncomfortable bringing this matter to the Paper Coordinator, you should contact the Head of School.
Internet Resources

> WebCT

Your online learning environment

This paper makes use of the internet to help create an "online learning environment". At Massey University we use WebCT (Web Course Tools) as the preferred "online learning environment".

This paper is Web-supported: You are encouraged to access the supporting online materials and resources. In particular, you should check the 110.389 WebCT regularly for any up to date information about this course.

The facilities in WebCT are comprehensive and include on-line discussions, real-time chat, course information, participant homepages, schedules, and links to other sites and resources on the internet. In addition, it enables material that supplements the set text and study guide to be disseminated, for example: lecture notes, issues for consideration and discussion, and supplementary worked examples (if any).

Participation in the online environment is voluntary. Please note that I do not participate in the on-line discussion on a regular basis. If you have any specific queries and would like a prompt response, you should contact the co-ordinator directly either by phone or via email.

The administration section of this study guide will be provided on the 110.389 website.

Accessing the online resources

Access the resources through the School of Accountancy home page (http://www-accountancy.massey.ac.nz); click on 'Teaching Sites' and then click on 110.389. This will take you to the 'Mass-e-learning' homepage. Follow the instructions as set out below under Direct Access.

This is the preferred route to access the 110.389 web-learning environment as from time to time, important information (e.g., employment opportunities, School of Accountancy Handbooks, etc.) will be placed on the School of Accountancy home page for general dissemination. This site will also provide notice of any technical problems that the WebCT site might be experiencing.

Direct Access

In your web browser enter the following web address exactly as shown:

http://webct.massey.ac.nz
Programme Planning

> Handbooks

The following School of Accountancy Handbooks can be downloaded from the School’s website (www-accountancy.massey.ac.nz). Each contains detailed paper descriptions and contact information for Paper Coordinators.

- Undergraduate Handbook
- Postgraduate Handbook
Library and Referencing

> Distant library service

**Who can use this service**

- If your programme of study is predominantly extramural, block mode, and/or conjoint you can use the service. (This is worked out each semester on the basis of points per paper.)
- Most students living overseas are able to use the Distance Library Service.
- You may also be eligible if you are not required to visit campus regularly AND you live a significant distance from a Massey Library.

If you are uncertain about your eligibility, please contact us before requesting material.

**Contacting the Distance Library Service**

- **Hours**: 8.00am – 6.00pm Monday-Friday
  
  *(8.00am – 5.00pm over summer vacations)*
- **Phone**: (06) 350 5670 extn 2550
- **Fax**: (06) 351 5645 or (06) 350 5605
- **Email**: LibExtm@massey.ac.nz
- **Web**: http://www.massey.ac.nz/~wwwlib

**Post**

Distance Library Service

Massey University Library

Private Bag 11054

Palmerston North

Please check the library website for an up-to-date opening hours.

**What the service provides**

If you are eligible, the Distance Library Service (DLS) will be your arms and legs in the Library, retrieving material and delivering it to your home. The DLS offers a variety of free services:

**Books**

Course-related books are delivered to your home. The DLS will pay return postage within New Zealand for the books we send out. If you’re having trouble identifying a good book on a topic, tell the DLS what you’re looking for and they can select a book for you.

**Photocopies**

The DLS will photocopy materials for your studies and post them out to you, including:

- Journal articles
- Copies of exam papers for the past three years (if these have not been included in the Study Guide)
- Chapters of books not available for loan, e.g. titles held in Reference, or the Reserve Book Collection

The Library complies with copyright and can photocopy only a reasonable proportion of any work.
Subject searches
If you are having trouble identifying resources for your assignment, the DLS may be able to help by conducting a brief search for your topic. This service is intended primarily for 300-level and postgraduate students as study guides and books can generally supply sufficient material for 100 and 200 level study. The aim of the DLS is to provide a selection of representative material to enable you to complete an assignment, or to get started on some research. The DLS will search our catalogue and databases for appropriate information and send a list for you to select from. You should allow up to two weeks for this service.

> Using the libraries in person

You are welcome to use the Library at any of the Massey University Campuses (Albany, Hokowhitu, Turitea, Wellington, and Ruawharo). Many services are available from these Libraries, including: classes in finding information, help desks for providing solutions to individual problems, and research consultations for postgraduate students. Contact any campus library or the Distance Library Service for more information.

Helping yourself

There is a wealth of resources on the Library’s web page that you can use to assist you with your studies. If you are connected to the Internet you can reach the Library’s home page at http://www.massey.ac.nz/~wwwlib/. The library website is being constantly updated so you should check it frequently.

From the Library website you can:

Access the Library Online Catalogue (KEA)

KEA lists all the materials held at Massey University Libraries around the country. Note: KEA lists only the titles of journals the libraries subscribe to – it doesn’t index or list specific journal articles.

From the Library website you can use KEA to:

- Search for material on your assignment or research topic
- View your Lending record, check when your books are due back, and renew your books
- Place requests for books that the Distance Library Service will dispatch to you.

More information on KEA is available from the KEA Help Centre on the website.

Search for journal articles

The Library has an extensive range of electronic resources that will enable you to find journal articles on a specific topic. From the Library website you can access:

- Electronic Resources (A-Z) to find a particular database or browse through the complete list.
- Electronic Resources (by Subject) to find databases and links to electronic journals on a particular subject.

There is detailed information available on the website to help you use the databases, including information on how to login and tips on search techniques.
Borrowing books from other NZ University Libraries

Massey University Library is a member of the ULANZ reciprocal borrowing agreement among 7 of the 8 New Zealand Universities. This gives registered Massey University Library borrowers (i.e. staff and students) the right to enrol for limited borrowing privileges at those university libraries.

Full details are available on the Library web site under the heading Borrowing Information - ULANZ Reciprocal Borrowing Scheme.

> Referencing

The reference system used should enable you to indicate the source of facts and opinions without interrupting the flow of your argument, and it must enable a reader to check and pursue these citations quickly and economically. These guidelines are based on the APA (American Psychological Association) referencing system.

When a reference is made in the body of the assignment or report it is sufficient to mention the name of the author, the year of publication, and the page reference, e.g.:

“it has been urged (Kotler, 1986, p.9) that …”, or
“it has been urged by Kotler (1986, p.9) that …”

All references cited in the text must be reported in full standard bibliographical form under a heading “References” at the end of the assignment. The references should be arranged alphabetically by author’s surname.

When listing references, all lines except the first should be indented five spaces (typically one tab stop). Note the use of italics (or underlining), capitalisation, punctuation and order of elements. For journal articles, the title of the journal, and the volume number, should be italicised. For a book, italics should be used for the title. If your word processor or printer cannot do italics, underline these elements.

The preferred format for different types of publications is as follows:

Books


Periodicals


Occasional publications


Internet

All references begin with the same information that would be provided for a printed source (or as much of that information as possible). The web information is then placed at the end of the reference. It is important to use “Retrieved from” and the date because documents on the web may change in content, move, or be removed from a site altogether. To cite a website in text (but not a specific document), it’s sufficient to give the address (e.g. http://www.apa.org) there. No reference entry is needed.


Massey University study guide

If you are making reference to the 110.389 study materials for example, it can be referenced in the following manner:


Act (Statute/Legislation)

Depending on the database you extracted the information from – for example:


If it is not from a database, indicate the publisher’s name and where it is published.

For tax cases

The reference list should include the name of the case, the date, volume number of the report series, source of the information e.g. NZLR (New Zealand Law Reports), issue number of the report series, Court e.g. (CA) Court of Appeal. For example:

Apple v Gate [19xx] 2 NZLR 888 (CA).
Past Examinations

> Final examination 2009

The examination comprises 65% of the final grade.

You are required to answer all questions.

- **Section A** (total marks: 30 marks) will comprise of 10 TRUE/FALSE type of questions worth 3 marks each. Each True / False question will have a statement that requires a True or False response AND a reason for the response. NO MARKS are awarded if there is no reason given. Please read the instructions, on the examination booklet, carefully.

- **Section B** (total marks: 70 marks) will comprise of 4 questions.

For the final examination, you are not allowed to bring any books into the examination hall i.e. the exam is a closed book exam. Only non programmable calculators are permitted.

If there are any further changes to this format, you will be notified before the exam.

**Examination Date**

Please check the date and time of the final examination from your enrolment material. If you have problems with this date and time you should consult NSATS as soon as possible.
This examination paper consists of **TWO (2)** compulsory sections as follows:

**SECTION A - COMPULSORY**

Question 1: consists of **TEN (10)** true/false types of questions.

You must answer **ALL TEN (10)** questions: each correct answer scores 3 marks; an unanswered question or a question answered incorrectly scores a zero.

30 marks

**SECTION B - COMPULSORY**

Consists of **FOUR (4)** questions. You **must answer all questions**.

70 marks

Total : 100 marks

**NON PROGRAMMABLE CALCULATORS MAY BE USED**
SECTION A: COMPULSORY

Question One – Answer ALL parts.

Below are a number of statements (independent of each other). For each of the statements, specify whether they are TRUE or FALSE (you must write TRUE or FALSE clearly), and justify your answer with an appropriate explanation (in no more than 150 words). Each of the following statements is worth 3 marks. No marks are awarded if no explanation is provided to justify your answer. All persons mentioned below are New Zealand residents unless otherwise stated.

(a) Rose, who comes from Hong Kong, has an overseas bank account which is in overdraft. She is now resident in NZ and pays interest of $1,500 per annum on the overdraft. If the money from the overseas bank account is used to pay for her son’s education in NZ, the interest paid is subject to the financial arrangement rules.

(b) Fortune Ltd is a Loss Attributing Qualifying Company (LAQC). It is also a company within a 66% group of companies. If Fortune Ltd makes a loss, it can elect to either offset the losses against the profits of the other companies within the group, or attribute the losses to Fortune Ltd’s shareholders.

(c) Basil owns a rental property. He intends to remove the house and sell it separately so that he can build a new one on the vacant land. The house has a tax book value of $60,000 but Parsley, his colleague, is willing to pay only $55,000. If Basil sells the house to Parsley, the $5,000 loss is tax deductible.

(d) Aloe and Vera live in a 3 bedroom house on a large section in Palmerston North and they have a mortgage of $100,000 secured over this property. Unhappy with their existing house, they decide to build a bigger house with 5 bedrooms on their back section and rent out the current one. To finance the building of their new house, they will use Aloe’s inheritance of $200,000 and borrow another $300,000 from the bank, secured over both of their properties. The interests on the mortgage are all tax deductible.

(e) GetSmart Ltd is owned equally by Mrs Smart (who is also an employee of the company) and the Smart Family Trust. At 30 June 2007, the shareholder current account balances show that the Smart Family Trust (her children and husband are the beneficiaries) has an overdrawn amount of $30,000. If the company does not charge interest on the current account, the advance would be a deemed dividend derived by the trustees.

(f) In the first year of business, Cookie Ltd, a qualifying company, makes a profit of $45,000 and the tax on this profit is $14,850. If Cookie Ltd makes a cash distribution of $50,000 to the shareholders, the total amount of exempt dividends in the hands of the shareholders will be $19,850. Assume the company tax rate is 33%.
(g) Lock Ltd and Mill Ltd are both land dealing companies. They amalgamated on 1/4/2008 with Lock Ltd as the amalgamated company, and the amalgamation is not a resident’s restricted amalgamation. Mill Ltd bought a $300,000 rental property on 1/4/1999 as a long term investment property. The transfer of this investment property to the amalgamated company will not trigger any income tax liability.

(h) The rationale behind the thin capitalisation regime is to deny a deduction for all interest paid by a New Zealand subsidiary to its non-resident parent company.

(i) All expenses claimed under a company’s Statement of Financial Performance prepared in accordance to the International Financial Reporting Standards (IFRS) are also deductible for income tax purposes.

(j) Yin issues Yang a debenture stock with a face value of $50,000 for $50,000. The debenture stock pays interest (in arrears) of 8% per annum. The stock is repayable in six (6) year’s time i.e. on 31 March 2008. At the end of year 4, Yin decided to sell the stock to Zen for $48,000. The stock is redeemed at face value, on maturity, by Zen. The Based Price Adjustment (BPA) for Yin and Zen are $2,000 and $6,000 respectively. (Assume that all parties used the straight line method of accruing income and expenses).

[BPA formula is: consideration – income + expenditure + amount remitted]

[Total: 30 marks]
SECTION B: ANSWER ALL QUESTIONS

Question Two

(a) Mr and Mrs Bagel are equal partners in a family business since 2006 and their existing marginal tax rate is 39%.

They are now thinking of expanding their business. As they need more capital to fund the expansion, they approached their good neighbours, Miss Do Nut and Mr Croy Song, to join their business. Do Nut and Croy Song agreed but are a bit worried about the risk involved as they anticipate losses for a few years. The four of them thought about different business structures that may be appropriate for their business and narrowed down to either operating as a Company or a Limited Partnership. Mr and Mrs Bagel, Miss Do Nut and Mr Croy Song are all New Zealand residents.

(i) From both commercial and tax perspectives, advise them which (Company or Limited Partnership) may be the more favourable structure option. Provide reasons to justify your advice.

      (5 marks)

(ii) If they decide to form a Limited Partnership and Do Nut contributes $500,000 initial capital to the partnership for 20% of the partnership profits or losses, what will be the amount of loss that she will be able to claim if the partnership makes a loss of $2 million in each of the first two years of business? Briefly explain.

      (3 marks)

(b) Mr and Mrs Bagel also recently bought a house for their own private residence, financed predominantly with a bank debt. Their accountant tells them about a “great scheme” where they can use their home and mortgage to reduce their income tax liability. According to their accountant, they should sell their home to a Loss Attributing Qualifying Company (LAQC) and rent the property back to themselves at market rental. The LAQC would borrow money from the bank to fund the purchase.

(i) Mr and Mrs Bagel do not understand what the accountant meant. Briefly explain to them how their income tax liability may be reduced if they sell their house to an LAQC?

      (3 marks)

(ii) Do you think the accountant’s advice would constitute an arrangement acceptable to the IRD? Briefly discuss.

      (4 marks)

[Total: 15 marks]
Question Three

All persons mentioned below are New Zealand residents.

(a) Chimpz is a land dealer and trades through his company King Kong Ltd. Chimpz owns 100% of the shares in the company. To protect his future land acquisitions, Chimpz’s Family Trust acquired several rental properties in the last six years. The beneficiaries of the Chimpz Family Trust are Chimpz, his spouse, children, and grandchildren. Briefly explain to Chimpz the tax implications if the trust decides to sell one of its rental properties now.

(3 marks)

(b) Chimpz married Gorila in 2006 and Gorila is the beneficiary of her father’s trust. Her father’s trust owns some long term investment properties including a block of land which was purchased in October 2005 and some residential flats in early 2007. If her father’s trust sells the block of land and flats now, briefly explain whether the income derived from sale will be taxable.

(4 marks)

(c) Chimpz’s sister, Utan, owns a diversified portfolio of equities and bonds. She invested $300,000 in shares on the New Zealand share market a few years ago, and recently invested $300,000 in New Zealand bonds and Government stock. Utan decides to sell one lot of her shares that do not carry any dividend rights and she wants to know:

whether she will be subject to tax on any income derived from the sale of the shares
whether she will be subject to tax on any discount on the issue of bonds she has invested recently.

Briefly explain to Utan her tax situation.

(5 marks)

[Total: 12 marks]
Question Four

(a) Gordon Brown is a tax accountant and provides tax services mostly to small and medium size businesses in New Zealand.

   (i) In reviewing one of his client’s 2007 tax return, he found that the client’s income was understated by $100,000. It appeared that they had inadvertently failed to correctly calculate the gain on sale of a business property. What shortfall penalties would apply in such a situation? What can the accountant do to reduce his client’s exposure to such penalties? Provide a brief explanation.

   (3 marks)

   (ii) Gordon was firmly of the opinion that he had an acceptable tax position for one of his other clients who went along with his interpretation. Gordon was of the view that his interpretation of the legislation appeared reasonable and fair, and was not intended to avoid taxes. He wondered whether an offence has been committed if it is found that he has given his client wrong advice. Provide a short explanation.

   (3 marks)

(b) Michael Kullen is a self employed builder operating as a sole trader in Hawkes Bay. He files the October monthly schedule of source deduction payments on time but forgot to make the PAYE payment by the due date. Briefly explain what penalties will be imposed on Michael. Provide a brief explanation.

   (3 marks)

(c) Entities that have to comply with Generally Accepted Accounting Principles (GAAP) are adopting the International Financial Reporting Standards (IFRS) for financial reporting purposes.

   (i) Briefly outline two areas (other than financial arrangements) where the NZ income tax legislation expressly rely on financial reporting standards.

   (3 marks)

   (ii) Briefly explain how the adoption of IFRS impact on the financial arrangement tax regime.

   (2 marks)

[Total: 14 marks]
Question Five

All currencies are expressed in New Zealand dollars.

(a) Nancy Drew, a New Zealand resident, has invested $1,000,000 in fixed interest securities currently yielding 9% per annum. She earns a salary of $90,000 and has heard about the Portfolio Investor Entity (PIE) regime from her colleague. However, she is still unsure and has the following questions about the regime.

- What is the amount of savings she will enjoy if she invests through a Portfolio Tax Rate Entity (PTRE)? She understands that most PTREs charge a management fee of about 0.5%.
- Will she be taxed on distributions to her from a PTRE?
- Does she need to declare the income derived by a PTRE?
- How the profits or losses on shares that might be traded by PTRE be treated for tax purposes?
- If the $1 million investment funds is held by her family trust instead of by her, and she is the only beneficiary of the trust, are there any advantages for the trust to invest via a PTRE?
- She also has $120,000 invested in overseas equity investments in listed companies (Australian shares cost $20,000, Vietnamese shares cost $30,000, USA shares cost $70,000). How will gains from these investments be taxed?

Knowing that you have a reasonable knowledge in taxation, she approached you to help her with her questions. Briefly explain to her the tax implications of the questions above. Assume the return from investing in a PIE is also 9% p.a.

(10 marks)

(b) On 1 April 2007, Barby, a New Zealand resident, has shares in the United Kingdom (UK) that have a market value of $190,000. The shares in UK were bought on 13 June 1999 for $51,000.

Regarding her UK shares, Barby provided you with the following details:

At 1 April 2007, she owned the following shares in UK:
- Aee Co - market value $60,000.
- Bee Co - market value $90,000.
- Cee Co - market value $40,000.

In addition:
- On 15 April 2007, she sold all of the Cee Co shares receiving $48,000.
- On 13 June 2007, she purchased some new Dee Co shares for $30,000.
- Bee Co paid a dividend during the year of $10,000.
- On 19 September 2007, she sold half of the Dee shares for $20,000.
- She has retained all the remaining investments and still holds them at 31 March 2008.
The closing value of shares held at 31 March 2008 is:

- Aee Co market value $70,000.
- Bee Co market value $94,000.
- Dee Co market value $28,000.

Briefly explain to her whether she will be required to account for income using the Fair Dividend Rate. If so, calculate her investment income for the year ending 31 March 2008.

(6 marks)

(c) The shareholders of GiantTee Ltd, a foreign company are as follows:

<table>
<thead>
<tr>
<th>NZ Residents</th>
<th>Non Residents (each holding less than 10%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antony</td>
<td>10%</td>
</tr>
<tr>
<td>Barb</td>
<td>10%</td>
</tr>
<tr>
<td>Carl</td>
<td>10%</td>
</tr>
<tr>
<td>Dick</td>
<td>10%</td>
</tr>
<tr>
<td>ET Ltd</td>
<td>5%</td>
</tr>
<tr>
<td>FT Ltd</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>50%</td>
</tr>
</tbody>
</table>

Hulk, a New Zealand resident, holds 100% shares in both ET Ltd and FT Ltd. Briefly explain whether GiantTee Ltd is a Controlled Foreign Company (CFC).

(3 marks)

(d) ABC Ltd is a profitable NZ resident holding company for a number of operating companies based in NZ. The company wants to expand its operations by purchasing the shares in US Co, a US based company. The projected profit of US Co for the year is $5 million.

(i) Identify the tax implications associated with repatriating the profits back to ABC Ltd by way of dividend if the company buys the shares in US Co.

(2 marks)

(ii) Briefly outline two (2) other methods which US Co could use to repatriate profits.

(2 marks)

(iii) What would be the tax effect if a NZ company acquired the business operations and ran the business as a US branch of a NZ company?

(2 marks)

(e) Briefly explain what Capital Export Neutrality (CEN) and Capital Import Neutrality (CIN) mean, and provide examples of how the New Zealand government attempts to achieve them.

(4 marks)

[Total: 29 marks]
> Paper Evaluation - For all students

The last word on this paper belongs to you and we welcome your feedback on any aspect of this course. This evaluation is deliberately open-ended to permit you to make constructive criticisms. It is intended to be anonymous. Please complete the following questionnaire and mail it, at the end of the course, to the Paper Coordinator.

Many thanks for your cooperation.


How would you rate the amount of content covered in this paper? How would you rate the content relative to your other accounting papers?

Was the Administration Guide clear and useful? What changes would you suggest?

Was the Study Guide useful? What changes would you suggest?

Was the textbook relevant and interesting? How would you rate the textbook relative to the textbooks you have used in your other accounting papers?
What did you think of the assignment(s) set for this paper? What changes would you recommend?

Were you happy with the grading and feedback on your assignments?

Please identify and comment on a topic or aspect of the paper that you enjoyed or found useful:

Please identify and comment on any aspect of the paper you think could be improved:

Any other comments?

Thank you for taking the time to complete this evaluation form.

Please cut out and send to your Paper Coordinator at the following address:

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Massey University  
Private Bag 11222  
Palmerston North 4442

or

David Butcher  
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Private Bag 102 904  
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