School of Accountancy

110.289 Taxation
Administration Guide

Internal
Albany
Manawatu
Wellington

2009

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

This material is protected by copyright and has been copied by and solely for the educational purposes of the University under licence. You may not sell, alter or further reproduce or distribute any part of this course pack/material to any other person. Where provided to you in electronic format, you may only print from it for your own private study and research. Failure to comply with the terms of this warning may expose you to legal action for copyright infringement and/or disciplinary action by the University.
Contents

Introduction ............................................................................................................................... 1
  Welcome ............................................................................................................................ 1
  Paper Coordinator ........................................................................................................ 1
  Other Staff .................................................................................................................... 2
  Important Teaching Notes ............................................................................................... 3

Essentials ................................................................................................................................... 4
  Course Overview ............................................................................................................ 4
  Textbooks & Recommended Readings ............................................................................. 4
  Assessment ...................................................................................................................... 5

Details ........................................................................................................................................ 6
  Suggested Study Programme ............................................................................................. 6
  General ............................................................................................................................. 7
  Lectures ........................................................................................................................... 7
  Test ................................................................................................................................... 7
  Workshops ....................................................................................................................... 8
  Assignment Details .......................................................................................................... 8
  Due Dates, Extensions and Penalties ................................................................................ 9
  Assignments - General ...................................................................................................... 10
  Suggested Solutions ........................................................................................................ 11
  Presentation of Work ........................................................................................................ 11
  Assignment Submission ................................................................................................... 12
  Assignment Ethics ............................................................................................................ 12
  Academic Dishonesty ....................................................................................................... 12
  Remarking of Assignments ............................................................................................. 13

Postings, Courses & Contacts ............................................................................................... 14
  Posting of Materials ........................................................................................................ 14
  Contacts ........................................................................................................................... 14
  Complaints ....................................................................................................................... 15

Internet Resources .................................................................................................................. 16
  Stream ............................................................................................................................... 16
  Discussion Forum ............................................................................................................. 16
  Internet Links ................................................................................................................... 16
  Accessing the Online Resources ..................................................................................... 17

Library and Referencing ......................................................................................................... 19
  Massey University Library Service .................................................................................. 19
  Library Website .............................................................................................................. 20
  Referencing ..................................................................................................................... 20

Assessment ............................................................................................................................. 23
  Test Sample (from 2006 Test) ........................................................................................... 23
  2009 Assignment ........................................................................................................... 26

Examinations ........................................................................................................................... 28
  Final Examination 2007 .................................................................................................. 29
  Final Examination 2008 ................................................................................................. 48
Introduction

Welcome

Welcome to 110.289: Taxation. This course is designed as an introduction to the principles (and less on the practical application) of New Zealand taxation. We have organised a study programme that provides you with an awareness of the New Zealand tax system at the local level and an international comparison where appropriate. We hope that you will find the course stimulating and enjoyable, and that you will be successful in your studies for this semester.

At the macro level the tax system impacts significantly on a country’s investments, economy and the community in general. In the day-to-day business operation taxpayers are relying much more on the professional accountant for appropriate tax advice. Therefore, we believe that a sound understanding of the principles of taxation is of importance, not only to those who have ambitions to become professional accountants, but also to those who may choose a career in management. A good understanding of the basic principles and practices will allow managers and advisors to respond more effectively to the increasingly complex tax demands made upon them.

A reason for emphasising principles, rather than practice, stems from our belief that principles are relatively stable and uniform across different entities and in different countries. Principles are the foundation of all sound practice. If the principles are recognised and understood practitioners should be able to reason their way around any new problem or change in practice.

Paper Coordinator

Judith Pinny, Wellington Campus

Hello, I am Judith Pinny and welcome to Taxation.

Prior to joining Massey University, I have worked at Victoria University of Wellington, in Chartered Accountancy and for a large New Zealand corporate as a Tax Manager.

I teach in Taxation, Financial Accounting and Introductory Accounting courses. I am a member of New Zealand Institute of Chartered Accountants. I am currently pursuing a PhD in Accountancy, studying tax food policy in New Zealand.

I can be contacted as follows:
Lin Mei Tan, Manawatu Campus

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 offering coordinator of this paper, I wish you every success and hope you find this course enjoyable and useful. My contact details are listed below:

Phone: (06) 356 9099 extn 2172
Room: SST 1.27
Office Hours: to be advised
Fax: (06) 350 5617
Email: l.m.tan@massey.ac.nz
Postal address: School of Accountancy
Massey University
Private Bag 11222
Palmerston North
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
Room: QA 3.17
Office Hours: To be advised.
Fax: (09) 441 8133
Email: d.p.butcher@massey.ac.nz
Postal Address: School of Accountancy
Private Bag 102 904
North Shore Mail Centre
Auckland

> Important Teaching Notes

The 110.289 teaching staff will attempt to respond to student enquiries outside of the above office hours - where these are reasonable. However, we do not respond to student enquiries outside of normal business hours, i.e., at nights or weekends. Fax or email enquiries will not, as a rule, receive any special priority over any other medium used for student enquiries.

There is a Discussion Forum on the 110.289 Stream. Participation in the online environment is voluntary. Please note that the Paper and Offering Co-ordinators do not participate in the on-line discussion on a regular basis. Should you have any particular question or concern, we suggest that you e-mail the offering coordinator at your campus first.

If you telephone please clearly identify the paper number and, should we be unavailable, then please leave a message on our voicemail or with one of our secretaries (06) 356 9099 extn 2197 or 2199. Be sure to provide a contact number so that we can get back to you. Please leave a broad indication of the nature of your query.

If you have elected to write to us, please include a telephone (or fax, email) number at which you may be contacted as this may help to speed things up.
This paper, 110.289 Taxation, is a study of the principles of tax.

Broadly the objectives are to:

- Explain and discuss the various types of taxation and tax bases applicable in New Zealand and, the potential implications for a New Zealand entity operating in the global environment;
- Demonstrate an understanding of the tax concepts that govern the determination of tax obligations relating to various personal and business structures; and
- Demonstrate an awareness of tax as an instrument of fiscal policy.

It lays down the principles (or “foundation”) for comprehension of the most commonly encountered aspects of tax. Its intent is not to provide you with the full ability or knowledge necessary to practise in this area, and advanced study should be pursued to fully meet this objective.

The study guide, prescribed textbook and attached readings form the main study notes. To gain an understanding of the rationale of the tax system some of the readings may appear outdated. However, these readings are significant and relevant in tracing the development of the taxation system.

Besides the attached readings you are provided with a list of additional reference sources to read. It is important to read widely and the attached readings and lists are a good starting point.

At the end of each topic there is a set of questions for you to review. You are expected to prepare answers and discuss them either with other students, the paper/offering co-ordinator or at the workshops.

The textbook is:


As a number of review questions are chosen from this textbook it is imperative that you own a copy or, at least, have access to a copy. In addition, a comprehensive Study Guide (with extra readings) has been prepared for this course.

If students have other textbook preferences the responsibility of acquiring the appropriate study material lies with you. It is acceptable that students refer to other commonly available tax information resources such as:
1. Inland Revenue Tax Information Bulletins (TIB) and pamphlets;
2. Government Consultative Documents and Working Papers on specific tax issues;
3. Staples Tax Guide (Thomson Brookers); and

This list is not exhaustive.

The Study Guide is available from the Student Notes Distribution Centre (The Printery) at your respective campus.

The textbook is available from the branch of Bennetts bookshop at your campus.

Alternatively, you can order your textbook from:

Bennetts University Book Centre
Freepost 118333
Massey University
Palmerston North

Telephone: (06) 354 6020

> Assessment

Students should consult the official Massey examinations timetable (which is published and distributed by the University later in the year) to confirm the date, time and venue of the final examination.

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Due Date</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Test</td>
<td>Week 5 (Exact date to be advised)</td>
<td>15%</td>
</tr>
<tr>
<td>2 Assignment</td>
<td>Wednesday, 23 September 2009</td>
<td>15%</td>
</tr>
<tr>
<td>3 Final Exam</td>
<td>Tuesday, 3 November 2009 am</td>
<td>70%</td>
</tr>
</tbody>
</table>

100%

IMPORTANT:

(i) To be considered for a ‘pass’ in paper 110.289 you must achieve at least a 40% minimum mark in the final examination.

In other words if you do not get at least 40 out of a possible 100 marks in the final examination, you will not pass the paper - irrespective of how good your assignment marks are.

(ii) Under current University policy the School is unable to award AEG passes for this paper. Therefore it is of utmost importance that students sit the final examination.

The duration of the final examination is three (3) hours.
### 110.289 Course Diary
**Semester 2, 2009**

<table>
<thead>
<tr>
<th><strong>WEEK</strong></th>
<th><strong>TOPICS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Economic Policy, Concepts of Taxation and Legal Framework</td>
</tr>
<tr>
<td>2</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>3</td>
<td>Fringe Benefit Tax</td>
</tr>
<tr>
<td>4</td>
<td>General Principles: Income</td>
</tr>
</tbody>
</table>
| 5        | (a) Capital & Revenue  
            (b) Income Statements for Tax Returns |
| **Test** | **(Date to be advised)** |
| 6        | General Principles: Deductions & Depreciation |
| **Mid Semester Break** | |
| 7        | (a) Resident and Non-Resident Taxpayers  
            (b) Tax/Income Years |
| 8        | Income Tax: Imposition, Calculation, Assessment and Payment |
| 9        | Taxation of Different Business Structures and Entities:  
            (a) Partnerships  
            (b) Trusts |
| **Assignment** | **Due Date: Wednesday 23rd September 2009 at 5pm.** |
| 10       | Taxation of Different Business Structures and Entities:  
            Company Taxation -  
            (a) General Principles  
            (b) Dividend Imputation |
| 11       | (a) Farming taxation  
            (b) E-Commerce |
| 12       | (a) Taxpayers’ Rights of Objection  
            (b) Tax Compliance, Offences & Penalties  
            (c) Recent and Proposed Tax Changes |
> **General**

Understanding the material is the key to success in 110.289, but understanding involves far more than merely being able to identify a principle or practice. In addition, it requires that you are able to discuss various issues related to that principle/practice.

Answers to both assignment and examination questions must persuade the examiner or marker that you do, indeed, comprehend the issues in question. The quality of your response must be such that your answer is legible, appropriate, logical, unambiguous and complete. If, after a reasonable effort on your part, some element of principle (or its relationship to any part of the paper) fails to make sense to you, do not simply ignore it. Ask the necessary questions at your workshop or contact a member of the teaching team and get a satisfactory answer.

> **Lectures**

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

The main learning resources for 110.289 are the study guides/notes, prescribed textbook and highly recommended supplementary readings. It is strongly recommended that students should *at least* have *scanned* these materials before attending lectures.

From time to time lecture notes and suggested solutions to assignments and review questions may be posted on the Accountancy Stream Teaching sites (www.stream.massey.ac.nz).

**Internal Students at Manawatu, Albany and Wellington Campuses**

Internal students at all Campuses should check lecture and workshop details with the Offering Coordinators on their campus.

> **Test**

This applies to **all** internal students (Manawatu, Albany and Wellington). Students will be tested on the concepts from Topics 1–4 inclusive.

Date, venues and time will be announced a week before the test.

A *sample* of test questions and analyses/justification can be found in this Study Guide on page 24. A review of these questions and analyses/justification may provide you with the necessary clues as how to approach and formulate the appropriate answers to the test questions.
Workshops

Note: Workshop questions are contained in each topic of the Study Guide under the title “Work Preparation”

110.289 students on each campus should attend one workshop (1 hour block) per week, commencing from weeks 2 to 12 inclusive.

Note that the workshop information is correct as at April 2009 but may be subject to change.

Wellington students the workshop is on Monday 3-4pm in 5C19.

Manawatu students the workshop is on Thursday 1-2pm in SSLB3.

Albany students should check with their Offering Coordinator where workshop sign-up lists will be posted.

Attendance at workshops is voluntary. Attendance registers will be kept, however no inducement, by way of a proportion of the year’s mark, is made for either attendance or participation at workshops.

We believe that you are able to allocate your time wisely and to your best advantage and, therefore, non-attendance at workshops will not draw any direct penalty. However, if you have to apply for an impaired performance, regular attendance at workshops will be a distinct advantage.

If you choose not to attend workshops (or lectures) do not expect the 110.289 teaching staff to provide you with any special assistance to compensate for such non-attendance. A workshop session should be considered as a time for, and means of, consolidating what you should have already assimilated, i.e., a workshop should be thought of as a session to meld existing knowledge.

The workshop session should be used as an informal forum to raise and clarify queries concerning the material covered during preceding lectures. The Review Questions will be discussed and from the open discussion the student shall be guided through the issues. Therefore, it is important that students attend a workshop, and undertake a thorough study of the essential material before attending the session.

Assignment Details

Paper 110.289 has two internally assessed pieces of coursework scheduled for 2009.

- **Test**: Tentatively, to be held in Week 5, Semester 2 (exact date, time, and venue to be confirmed). The test will be an evaluation of your ability to justify your understanding of the concepts from Topics 1–4 inclusive.

- **Assignment**: due on Wednesday, 23rd September 2009 at 5pm. The assignment involves the application of tax principles in: (i) the determination of a “business”; and (ii) choosing the type of structure appropriate for operating a business.

Note that a signed Honesty Declaration is required to be submitted with the Assignment.

These are downloadable from Stream. At Wellington Campus, they are available at the Assignment box.
Manawatu students should place assignments in the assignment box at the School of Accountancy reception, SST 1.19.

For Albany Campus please check with your Offering Coordinator.

Please note: we do not accept assignments by e-mail.

> Due Dates, Extensions and Penalties

Pay particular attention to the assignment due date, and plan your work accordingly. Late assignments may be rejected for marking, or attract a penalty of up to 10% per week (or part thereof), i.e. students can lose up to 10% of any marks available for a late answer. In order not to run the risk of incurring a penalty, assignments must be received at your campus or by NSATS on, or before the due date.

As a general rule, no extension of time will be allowed for submitting assignments. If you believe that your assignment may be late, please do not attempt to contact either the Paper Co-ordinator or Offering Co-ordinator for an extension of time. Submit your assignment with an explanation and evidence for late submission and we shall consider each case accordingly.

Assignments received after a solution is posted on Stream, will be returned unmarked.

‘Pressure of work’ is not considered a reasonable excuse for late submission of an assignment.

Note:

It is the student’s responsibility to ensure that:

(a) The assignment arrives within the pre-arranged submission date - only the assignment documents submitted on time shall be marked. Any documents and/or additional pages of work submitted at a later date shall be returned unmarked;

(b) Assignments are submitted to the correct address and within the accepted mode: do not e-mail assignments to the Paper Co-ordinator;

(c) A written explanation and evidence accompany the submission of late assignments; and

(d) The Honesty Declaration notes the correct paper number and title, and name of paper/offering co-ordinator.

Assignments received after a solution is posted on Stream will be returned unmarked.

---

Note that the penalty will be calculated as a percentage of the marks that the question is worth, not the mark actually achieved by the student.
Assignments - General

Assignment answers must be legible, logically presented, appropriate (relevant) and complete. In essence, an answer must possess the quality that will persuade the marker that you understand the matter in question, and that you have responded appropriately to the question.

If an assignment question appears ambiguous, seek help from the teaching team. In an examination, state your interpretation/assumption at the top of your answer and, if reasonable, the ambiguity/assumption will be taken into account when your work is graded. **Note however that failure to properly read, or understand a reasonably worded question, does not constitute ‘reasonable ambiguity’**.

It is **strongly recommended** that the 110.289 assignment be printed on a computer. If you have to submit a hand-written response please **write only on one side** of the paper. In either case use **double or 1½ line spacing**, and/or **generous margins**. A generous amount of spacing is necessary to allow the marker to add comments/notes to your assignment.

Word limits associated with an assignment question are intended as a **guide only**. We will not count the number of words in any answer, but if anyone exceeds the word limit in a substantial way the marker can decline to read all that is written.

**Number all answers clearly, and where necessary, use appropriate headings and sub-headings to separate different aspects of the answer.**

In addition, assignments (and examination) questions often include words or phrases such as “analyse”, “describe”, “outline”, “discuss”, “compare”, “contrast”, “comment”, “examine”, “explain”, “give reasons for”, “justify”, “criticise”, “evaluate”, “review”, “assess”. In no case does this mean “write all you know” – it is **essential** for students to **differentiate** carefully between these terms.

**Analyse**: Your main focus should be on the “why” or “how” of a particular issue, aiming to clarify reasons, causes and its effects. Don’t just describe or summarise events.

**Describe**: Requires a list of the main features of the topic; to describe an attempt at reconciling two viewpoints would require mention of one attempt, a list of the main features, and the way in which it was developed.

**Outline**: A wide coverage of topic rather than one in-depth. Where the student has a sound knowledge of an area of topic, it is probably easier to satisfy an outline rather than a “describe” question. It is intended for the student to show a good general appreciation of the topic.

**Discuss**: This type of question assumes that the student has a good grasp of relevant factual material and requires the student’s view (with appropriate support from the literature in most cases).

**Compare and Contrast**: Each alternative should be given approximately equal treatment or emphasis – similarities and differences between the two aspects must be dealt with. The two topics (or methods, models, etc) should be compared point-by-point, advantage against advantage, disadvantage against disadvantage.

**Comment and Examine**: Requires an interpretation of facts or quotations as presented, or an investigation of the factors giving rise to those facts or quotations.
**Explain and Give Reasons For:** The student is being asked to show why a set of circumstances has arisen. It is insufficient to state the facts – the reasons for the facts are being sought.

**Justify:** Requires the student to defend an argument or position – a good answer may require a point-by-point examination of the stance taken, the challenging arguments and appropriate arguments in rebuttal.

**Criticise:** Does not mean “an attempt to destroy the other work”, but requires an assessment of the writing, passing judgement on the work as an addition to knowledge, an informed appraisal of the main points brought out in the work.

**Evaluate, Review and Assess:** Requires the student to value a particular contribution or quotation.

To conclude, reading the entire question is obviously important, but all too often overlooked.

> **Suggested Solutions**

Students will receive a suggested solution when a graded assignment is returned, generally via Stream (unless a hard copy is requested). Please note that the suggested answer is not intended to represent a ‘model’ answer. Its primary objective is to note the main points that should have been covered in a complete answer, to explain the marking system used, and to highlight common problems experienced in answering the question. Students should check the reasonableness of their answers against the suggested answer.

Suggested answers are typically more comprehensive than the answer expected from students and, therefore, it is not uncommon to find that they may exceed the word limit noted for a question.

> **Presentation of written work**

- All machine printed/written work must be submitted on A4 (21cm x 29.7cm) sized paper.
- Please print/write on one side of the paper only.
- Leave a 4cm margin on the left-hand side for marker’s comments.
- Use double-spaced or 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 and ID Number 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.
- **Do not** embellish the paper with a cover. Attach the appropriate **Honesty Declaration** on top of your work. This should give your full name, your student number, paper/offering coordinator, the paper name (Taxation), paper number (110.289), and assignment number.
> Assignment Submission

- **Manawatu Campus:** Place assignments in the assignment box at the School of Accountancy reception, SST 1.19.
- **Wellington Campus:** Submit assignments to the Assignment Box at the School of Accountancy Reception, Block 5, Floor C.
- **Albany Campus:** Please check with your Offering Co-ordinator as to the details for assignment submission.

Please do not email assignments as experience has shown they are likely to go amiss.

> Assignment Ethics

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
- have one person do the data entry for computer assignments and then turn in multiple copies

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

The University’s policies and regulations regarding plagiarism are outlined in the Massey University Calendar.

> Academic Dishonesty

In completing your assignments or sitting an examination, 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.

Plagiarism in an assignment may result in your assignment not being awarded any marks.
For guidelines on referencing, please refer to the section on *Referencing* in the section on Library Services and Referencing below.

> **Remarking of Assignments**

To ensure that students are correctly awarded the marks they deserve any request for a remark has to be submitted, to the appropriate Paper/Offering Co-ordinator, **within two weeks** from the date the assignments are returned to the students, or posted out, by NSATS (or returned by some other means), to the students. Any request **after** this timeframe will **not be accepted**.

The request for a remark **must** be based on **factual (not emotive)** grounds. In addition, students **must** clearly **identify** the points of contention accompanied with their reasons. It is, therefore, important that students check their answers against the suggested solutions before taking this path.
Postings, Contacts and Complaints

> Posting of Materials

You should have:

- On enrolment: the Administration Guide (including assignment questions) and the Study Guide.

> Contacts

Manawatu Students

Additional information concerning the 110.289 paper that is relevant to internal students, e.g. administrative changes and assignment marks etc. will be posted on the 110.289 notice board located outside room SST 1.27 in the Social Science Tower, or on Stream.

Make a habit of regularly checking this board/Stream for related information.

Wellington Students

Student notices will be posted on the notice board at the School of Accountancy reception, in Block 5, Floor C.

Albany Students

Please check with your Offering Co-ordinator as to the details.

Special Needs

Any student who has a special need should discuss their requirements with the Paper Co-ordinator as early as possible so that appropriate arrangements can be made well in advance.
<table>
<thead>
<tr>
<th>Problem</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have changed my address</td>
<td>Phone Massey Contact 0800 MASSEY (627739) or write to the Enrolment Office (copy to Paper Coordinator)</td>
</tr>
<tr>
<td>I have changed my name</td>
<td>Phone 0800 Massey (627739)</td>
</tr>
<tr>
<td>Did you get my assignment?</td>
<td>Phone Massey Contact 0800 MASSEY (627739)</td>
</tr>
<tr>
<td>I think I’ve missed a posting</td>
<td>Phone Massey Contact 0800 MASSEY (627739)</td>
</tr>
<tr>
<td>I am having difficulty with basic study skills</td>
<td>Refer to the <em>Extramural Handbook</em> for advice and support networks and to the Student Learning Centre</td>
</tr>
<tr>
<td>I don’t understand the assignment</td>
<td>Phone the Offering or Paper Coordinator</td>
</tr>
<tr>
<td>I think my grade is incorrect</td>
<td>Phone the Offering or Paper Coordinator</td>
</tr>
<tr>
<td>I think I should withdraw</td>
<td>Contact the Offering or Paper Coordinator before proceeding</td>
</tr>
<tr>
<td>I am going to withdraw</td>
<td>Phone Massey Contact 0800 MASSEY (627739) or write to the Enrolment Office (copy to Paper Coordinator)</td>
</tr>
<tr>
<td></td>
<td>(If you have the Registration Workbook use the “Application For Change of Papers or Programme” form)</td>
</tr>
<tr>
<td>I am having trouble/help!!</td>
<td>Email or phone Offering or Paper Coordinator</td>
</tr>
</tbody>
</table>

For general Massey University enquiries, phone 0800 MASSEY (0800 627739) or email contact@massey.ac.nz as your first point of call.

> **Complaints**

If you have any concerns or complaints about this paper, you should contact the Paper Coordinator in the first instance. If the 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

Stream

Your online learning environment

This paper makes use of the internet to help create an "online learning environment". At Massey University we use Stream as the preferred “online learning environment”.

The facilities in Stream are comprehensive and allow for 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.

This paper is categorised as:

Web-supported: You are encouraged to access the supporting online materials and resources. Access is voluntary, as online participation is likely to be a minor component of study.

Discussion Forum

Over the semester lecture notes, suggested solutions to the Test and Assignment may be posted on the Accountancy Stream teaching site: (http://stream.massey.ac.nz). Students should check this site from time to time for updated information.

There is a Discussion Forum on Stream available to 110.289 students. Please note that the Paper/Offering Co-ordinators do not participate in on-line discussion on a regular basis. This is a good place to discuss the review questions. Should you have any particular questions or concerns, we suggest that you e-mail directly the appropriate Paper/Offering Co-ordinator

Internet Links

http://www-accountancy.massey.ac.nz

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 Stream site might be experiencing.

The following School of Accountancy Handbooks can be downloaded from the School’s website. Each contains detailed paper descriptions and contact information for Paper Coordinators.
The following websites may provide useful information:

1. www.ird.govt.nz Official web site of the Inland Revenue Department
2. www.govt.nz Official web site of the New Zealand Government

> Accessing the Online Resources

You can access Stream via any computer connected to the internet. If you have an internet connection at home or elsewhere, you can access the Stream site for this paper at any time. It is also possible to access the online environment from work (seek permission first if from work as there may be access issues, e.g. firewall protection), friends’ computers, libraries or similar public access points such as internet cafes.

Access the resources through either:

1. **Online Learning** – under ‘Quick links’. There is information about Stream including FAQs on this page. Click on Stream Login.

2. **MyMassey** on the Massey home page ([http://www.massey.ac.nz](http://www.massey.ac.nz)). Then click on the Stream tile.

**Tip:** Use Option 1 when you first access Stream. Option 2 is the most direct route.
1 The name(s) of your course(s) will be listed here – click on the name to enter the paper

2 Institutional information

3 Links to tools (calendar etc) and other courses you have access to

Enter your Stream Student ID Number and your Stream password (4 digit pin). If you have previously changed your password, your new password will need to be entered.

This will take you to your Stream page, which will list all the Stream courses you are enrolled in. To enter the Stream site, click on the paper name. You will then be greeted with the home page.

Any queries:

Phone 0800 MASSEY (627 739)

Email: contact@massey.ac.nz

Contact hours of operation are 8.30am to 5.00pm, Monday–Friday.
The Library provides resources and help to support your study. Please don’t hesitate to contact the library personnel at any time if you need help finding information.

Distance Library Service

The Distance Library Service delivers course-related Library materials to students who are eligible (students studying predominantly extramural or block mode courses). For key information about using the Distance Library Service, see the Library For Extramurals section of our web site:

http://library.massey.ac.nz/patrontype/extramural.htm

and the printed Distance Library Service booklet. If you are uncertain about your eligibility, and/or you need a copy of the booklet, please contact the Distance Library Service.

How the Distance Library Service can help:

- **Books**: We deliver course-related books to your home and pay return postage within New Zealand for the books we send out.
- **Photocopies**: We photocopy study materials and post them to you, including journal articles, copies of three previous exam papers, and chapters of books not available for loan.
- **Note**: The Library must comply with the Copyright Act which restricts the amount that can be copied (normally one chapter or article, or 10 percent from any one publication).
- **Subject Searches**: If you are having trouble finding information, we can help with advice on how to search. We may also be able to get you started by carrying out a brief search on your behalf and sending you a list of useful material to select from.
- **Overseas Students**: We will supply materials to help you with your studies, but there may be some restrictions. Please contact us for more information.

When you are using the Library from a distance it is especially vital to plan ahead to allow plenty of time just in case the material or assistance you need is not immediately available.

Email: LibExtm@massey.ac.nz          Phone: 06 3505670 extn 2550
You can use the Library web site to find useful resources by:

- searching the Library catalogue to find and request books, journals, theses and more held at any of the Massey Libraries
- using Subject Guides (for article databases, encyclopedias and dictionaries, web sites in major subject areas)
- searching Article Databases (subject access to journal and newspaper articles often full-text online)
- printing copies of past exam papers

You can also get help on finding information:

http://library.massey.ac.nz/learnit/howtofind/home.htm

> **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**


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.


How to Cite a Personal Communication

Sometimes you will need to acknowledge personal communication as a source of information. This includes lecture notes, memos, e-mail messages, interviews and the like. Personal communication is NOT included in a reference list or bibliography – you should only cite personal communication in the text of your assignment: (e.g., A. Wright, personal communication, 19 October, 1994).

How to Reference Study Guide Material

If you cite articles or excerpts from books which are reprinted in Study Guides, refer to the article or book directly (your Study Guide should contain full bibliography information!)

If the material being cited is not part of a reprinted article or book, it should be referenced as follows;

- *Where the study guide has an identified author:*


- *Where the study guide has no identified author:*

How to Reference a Periodical

Periodicals are anything that is published on a regular basis – magazines, journals and newspapers. Sometimes it is difficult to distinguish between journals and magazines, but here is a general rule of thumb: if the articles in the periodical have a reference section (i.e. if they are sources in some academically conventional way) then it is regarded as a journal; if they do not have a reference section, then treat it as a magazine.

Periodicals are referenced as follows:

Titles and volume numbers of periodicals should be quoted in full and italicised (or underlined) followed by page numbers (not italicised).

Titles of articles should not be italicised, underlined or placed in inverted commas.

- **Magazine article**
  

- **Newspaper Article, No Author**
  

- **Newspaper Article, Author Known**
  

- **Other examples**
  

Assessment

Sample of Questions and Analyses/Justification (From 2006 Test)

For each of the following circle the most appropriate choice(s) which best justifies the issues raised in each of the questions/scenarios. In some cases there could be more than one “most” appropriate choice.

“Most appropriate” answer(s) are given in bold type.

Required:

(i) Circle your choice(s) on the answer sheets attached below; and
(ii) Provide an explicit analysis of the relevant tax principles applied in the question/scenario; and
(iii) Justify your choice(s).
(iv) Your analysis and justification should be no more than 100 words.

1. A cut to the company tax rate from 33c to 30c has been proposed. What effect may occur from this proposal?

(a) Increase overseas investment into New Zealand.
(b) Increase tax planning opportunities.
(c) Increase Government spending.
(d) Increase company dividends.

Analysis and justification:

Reducing the corporate tax rate should reduce the overall tax revenue for the Government, all other things being equal. A lower rate should increase productivity, encourage economic growth, and tax planning opportunities so there should be less need for Government subsidies to industry. A lower tax rate will also effectively mean a higher tax paid company profit and a corresponding increase in dividends available to shareholders.

2. The New Zealand government has decided to revamp the taxation of petrol. It proposes to base the excise tax at 10% of the NZ/US dollar exchange rate on any day, i.e. if the rate is 0.625 then the tax will be 6.25%. Which of Adam Smith’s canons of taxation will this proposal contravene?

(a) Certainty
(b) Equity
(c) Economy
(d) Convenience
Analysis and justification:
The tax concept under consideration is Adam Smith’s four principles of a good tax. Certainty is important as taxpayers should be able to order their affairs and know the rates of tax so that they can calculate the amount of tax they have to pay. Basing a tax on an exchange rate is a very uncertain method as it changes during the day, and the petrol retailers may not know whether to use today’s or yesterday’s rate. Although the NZ/US currency rate fluctuations are usually minimal, nonetheless the administrative cost in ensuring that the right rate is applied can be economically inefficient.

3. Permanent Differences for Deferred Tax result from:

(a) The difference between accounting and taxable income arising from the taxpayer’s method of depreciation.
(b) Income recognised for financial accounting purposes but not recognised for tax purposes.
(c) Expenses matched against financial accounting income but not deductible against gross taxable income.
(d) Income or expense being taken into account in different years for tax and accounting purposes.

Analysis and justification:
The tax principle under review is the difference in treatment of business transactions between financial accounting and tax. Permanent differences are those which cause accounting profit and assessable to be permanently different. For example, goodwill is amortised for accounting purposes, but it is never tax deductible.

4. The capital/revenue distinction is fundamental to a proper allocation of receipts to a taxpayer’s taxable income. It is said that sometimes “the spin of a coin” is a helpful way to ascertain this distinction. Which of the following situations will constitute a capital or “windfall” receipt?

(a) An individual recently sold off their shares in Fletcher Building Ltd. for a good profit; these shares were purchased 5 years ago as an investment.
(b) A restaurant operator sold the business for more than book value, the “profit” being attributed to personal goodwill.
(c) An employee loaned money to a staff member who subsequently was made redundant and fails to repay the mortgage.
(d) A sole trader who receives monetary compensation from a “loss of earnings” insurance; the insurance premiums had been previously deducted from business income.

Analysis and justification:
Focus is on capital receipts or “windfall gains” (i.e. non taxable vs assessable income). In (d) the situation will give rise to assessable income while (a) and (b) reflect situations where the receipts are capital gains. Choice (c) reflects a private transaction which is neither capital nor revenue; possibly a windfall gain [windfall gains include gains that are not earned but, rather, arise by virtue of luck, such as a win in a lottery, prizes and inheritances].
5. Fred, an employee claims reimbursement of travel expenses for the following journeys. Which of these journeys will not be deductible against his employer’s business income?

(a) Driving to work at 2 o’clock in the morning to check a computer malfunction.

(b) Collecting his employer’s personal gym equipment from Courier Post which is on his way to work.

(c) Travelling between two branches to set up a computer network.

(d) Driving to work when the buses are on strike.

Analysis and justification:

The focus is on the deductibility of expenses. Travel expenses are deductible to the extent that they are incurred in deriving income or carrying on a business – general permission. Under the general limitation provision no deduction is allowed where the expense is of a private nature, and journeys in (b) and (d) would come within this criteria; therefore not deductible.

Guidelines:

- Read each question carefully;
- Identify and clearly state, in your analysis/justification, the underlying tax principle/concept raised in the question;
- Examine the choices (of statements/scenarios) given, relate them to the question, and circle your choice(s);
- Expand on your analysis/justification in the form of a:
  - general discussion (see Analyses/justification to Questions 1, 2 and 3); or
  - point-by-point argument as to which of the choice(s) would be most appropriate (e.g. see Questions 4 and 5); or
  - detailed discussion which explicitly argues your examination of the stance you have taken.
Claudia Monet works full time as an art teacher at the Albany Art College. She also enjoys painting in the evenings and has enjoyed some success in selling her paintings at the annual Albany Art Exhibition in February 2009. A continual stream of orders for her work mean that she is now able to give up her teaching job and rent a gallery/studio in Browns Bay from 1 October 2009. She is in a de facto relationship with Peter Picasso (currently employed as a computer consultant) who is thinking about leaving his job to manage her gallery and her website. Sales of paintings totalled $58,000 for the year ended 31 March 2009.

Claudia has approached you, a tax accountant, for your advice on certain tax matters.

1. Claudia wants to know if, she can claim deductions for her paints, canvases and various expenses associated with the gallery/studio for the 2009/10 income year. Advise her giving reasons for your answer. (10 marks)

2. Claudia’s artist friend, Paul Renoir has registered for GST and she wants to know if she should register too, once she starts working in the gallery/studio. Briefly explain to her whether she needs to register for GST purposes. (6 marks)

3. Claudia is interested in exploring the possible business structures she could operate under. Outline two advantages and two disadvantages of operating her business as a sole trader, partnership, qualifying and non-qualifying company. Note that two of your points must relate to tax and two must relate to personal liability. (16 marks)

4. Discuss the tax deduction issues in terms of remuneration to Peter Picasso for each of the structures listed in (3) above. Identify the appropriate legislative references in your discussion. (8 marks)

5. Recommend an appropriate business structure for her gallery, justifying your recommendation with reasons. (5 marks)
6. Presentation – you must provide Claudia, your client, with professional advice. You will be marked on the way you present your arguments. You must also provide a list of references at the end of the assignment. (5 marks)

Notes

- Read and identify the issues.
- 5 marks are awarded for presentation – you must provide Claudia with professional advice. You will be marked on the way you present your arguments.
- Answer each question separately, applying it to the general scenario.
- When answering question (3) please clearly identify whether it is an advantage or disadvantage.
- Maximum word limit for the whole assignment is 1800 words (excluding references). The marker has a right to decline marking that part of your answer which is over the word limit.
- Provide a list of references/bibliography (in APA format) at the end of your assignment.
- Please use a font size of at least 11-12 to assist the marker.
Examinations

> Final Examination 2009

♦ The final examination comprises 70% of the final grade.
♦ The questions in the examination paper will be drawn from the learning objectives set down for each topic in this paper.
♦ There are two parts to this examination. Both parts must be answered; read the instructions carefully.
♦ Please note that this year’s exam paper is generally similar to the 2008 exam. However the order of the topics taught has changed in 2009 so some topics which were previously covered in the test will now be examined in the final exam. Note that the entire course is examinable in the final exam, but the emphasis is on the topics not covered in the assessments.

Note: Calculators without word storage features are permitted.

> Examination Date

Please check the date and time of the final examination from the Official Massey Examination Timetable.

> Past Examinations

The examination papers for 2008 and 2007 is given on the following pages.
INSTRUCTIONS:
Candidates are required to answer TEN (10) questions as follows:

SECTION A (COMPULSORY)
Answer both Questions 1 and 2. 60 marks

SECTION B
Answer any EIGHT (8) questions from Questions 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12. All questions are of equal marks. 40 marks

Total: 100 marks

Please note:
All questions are written in the context of the New Zealand tax system unless stated otherwise.

Yellow Answer Sheets:
Yellow answer sheets are provided with this examination for Section A, Question 1. You only need to hand in sections of the question paper that you have been required to write your answers on. You may access the whole question paper through the Massey Library website, after exam results have been published.

The use of non-programmable calculators is permitted in this examination.
SECTION A – COMPULSORY

Answer both questions in this section.

QUESTION 1: GENERAL TAX CONCEPTS [40 Marks]

For each of the following, circle the most appropriate choice(s) which best justifies the issues raised in each of the questions/scenarios. In some cases there could be a maximum of two choices. In addition, please provide (in no more than 100 words) an explicit analysis of the relevant tax principles which apply, and justify your choice(s).

Answer all the questions. Write your answers on the yellow answer sheets provided and secure these sheets inside the front cover of the blue answer book.

Marks are allocated as follows:

- One (1) mark for each most appropriate choice(s) circled [with a maximum of two (2) appropriate choices, where applicable]; and
- Two (2) marks for an explicit analysis/justification of the tax principle applied.

1. Fiscal drag is a phenomenon which causes:
   (a) Salary and wages to increase in times of inflation.
   (b) An increase in one’s tax burden because of inflation.
   (c) One’s income to move to a higher tax bracket.
   (d) A decrease in the effective tax rate on one’s income.

2. Rupert Bruce has 5,000 shares in a QC Ltd (a qualifying company) and another 50,000 shares in a public listed company. He borrowed $25,000 to purchase the shares in QC Ltd and for the 2007 tax year he paid interest of $3,500 on the loan. In the same tax year Rupert received dividends of $3,000 (which is exempt) from QC Ltd, and $4,500 (gross) from the public company. Is Rupert eligible to claim a deduction for any of the interest expense against the dividend income?
   (a) Yes; the full $3,500 against $7,500.
   (b) No; as the interest was paid in earning exempt income.
   (c) Yes; against the dividend income derived from his investment in QC Ltd., and to the extent of $3,000.
   (d) Yes; $500 against the dividend income from the public company.
3. John Johnston is an Australian citizen. He works in New Zealand between 1 August 2006 and 7 March 2007, travelling around New Zealand working as a fruit picker. He has a bank account with the Bank of Oz in Australia from which he has earned $1500 interest for the year ended 31 March 2007. His correct tax situation is as follows:

(a) He is a resident for New Zealand tax purposes as he has been in New Zealand for more than 183 days, and is liable to pay NZ tax on his fruit picking wages and his Australian interest income.
(b) He is a non-resident for New Zealand tax purposes as he has no permanent place of abode in New Zealand.
(c) He is a resident for New Zealand tax purposes as he has been in New Zealand more than 183 days and is liable to pay tax on his fruit picking wages, but not the Australian interest income.
(d) He is a non-resident for New Zealand Tax purposes as he has been in New Zealand for less than 183 days and is only liable to tax on his fruit picking wages.

4. The tax law relating to the trust regime contains specific provisions on the taxation of distributions of trust income as "beneficiary income". Which of the following situation(s) will result in the trust distribution being taxed in New Zealand as “beneficiary income”? (All beneficiaries are over 21 years of age)

(a) A distribution of current year's income from a qualifying trust to a NZ resident beneficiary.
(b) A distribution of current year's foreign income from a foreign trust to a non resident beneficiary.
(c) A distribution of previous year's income from a qualifying trust to a NZ resident beneficiary.
(d) Distributions of current year's income, from a foreign trust to a beneficiary who is resident in NZ.

5. The ability to carry forward losses or to transfer them to other group companies is subject to specific rules which restrict losses being "sold" to new owners. Which of the following statement(s) is/are true with regard to these rules?

(a) Losses incurred by a company in earlier years can only be offset against the current year's net income if there is a continuity of shareholder decision-making rights of a minimum 66% throughout the period from the beginning to the end of the current period.
(b) Losses incurred in the current year by one company in a group can be transferred to another company in the group if there is a commonality of shareholder decision-making rights of a minimum 49% throughout the current year.
(c) Losses incurred by a company in an earlier year can only be set against the current year if there is a continuity of shareholder decision-making rights of a minimum 49% throughout the period from the start of the year of the loss to the end of the current period.
(d) Where the voting interests of the companies do not reflect the true economic interests, the shareholder decision-making rights will also be determined by the market value interests of the shareholders.
Section A, Question 1 continued

6. Which of the following statement(s) is/are true of the New Zealand imputation system:

(a) The benchmark dividend is important because it sets the imputation credit ratio for all other dividends distributable for that imputation year.
(b) The New Zealand imputation system is an example of a ‘full integration’ system in which corporate tax is fully integrated with the income tax of shareholders.
(c) Resident and non-resident companies, operating in New Zealand, must maintain an Imputation Credit Account (ICA).
(d) A New Zealand resident company can attach imputation credits to a cash or non-cash dividend.

7. The New Zealand Fringe Benefit Tax was introduced to:

(a) Bring about equity by taxing non-cash benefits provided to business taxpayers.
(b) Widen the tax base by taxing non-cash benefits, provided to employees by employers, which had previously escaped taxation.
(c) Insist that employers pay all forms of employment income in cash.
(d) Permit the taxation of low value benefits.

8. When a benefit is provided to an employee as part of the employee’s employment the benefit may be caught under one of three regimes – income tax, entertainment expenditure, or fringe benefit tax regimes. Which of the following will come under the entertainment expenditure regime?

(a) Movie tickets, from employer (a close company) to an employee, which can be redeemed at any time by the employee.
(b) An employer who takes employees out to lunch to celebrate the Christmas season.
(c) An employer awards an employee with a television for being the best employee of the month. Employee makes the purchase on their credit card and was later reimbursed by the employer.
(d) Personal use of work tools, at the workplace.

9. Goods and Services Tax (GST) is a tax on the supply of most goods and services in New Zealand. Which of the following statement(s) is/are true?

(a) All business taxpayers are GST-registered persons.
(b) The invoice basis for accounting for GST is a combination of the hybrid basis and the payments basis.
(c) A GST-registered person must make an annual return of input and output tax to the Inland Revenue Department.
(d) The general rule for charging GST is that the time of supply is the earlier of invoicing or payment, with special rules for certain transactions such as hire purchase.

Section A, Question 1 continued over
Section A, question 1 continued

10. Some aspects of the taxation law applying to the farming industry are quite different from other businesses. Income Equalisation Schemes are examples, and the Main Income Equalisation Scheme:

(a) Allows farmers to smooth income fluctuations between income years.
(b) Allows farmers to make a cash deposit which result in a loss for that income year.
(c) Requires the farmer to make a deposit for a minimum of five years.
(d) Exempts the deposited amount from income tax.

11. “Permanent establishment” (PE) is a significant concept in e-commerce because the source country generally has the right to tax a non-resident taxpayer’s income from such activity. In the PE definition, as applied to e-commerce, which of the following situation(s) is/are considered a “permanent establishment”?

(a) The existence of a website in a particular country.
(b) The location of an Internet Service Provider.
(c) The location of computer equipment performing the activities of a preparatory or auxiliary nature.
(d) An interactive website which presents information and allows for the placing and fulfillment of orders.

12. In New Zealand a taxpayer is required to self-assess their own income tax liability. This requires the taxpayer to:

(a) Advise their employer as to the correct tax code so that the appropriate PAYE is deducted from their gross wages.
(b) Engage a tax agent to complete and furnish their tax return every income year.
(c) Consider the facts of their financial affairs and determine the amount of tax owing by interpreting and applying the tax law appropriately.
(d) Request a Notice of Assessment from the Commissioner of Inland Revenue advising taxpayer of their income tax liability.

[Total: 40 marks]
QUESTION 2: BUSINESS TAX RETURN AND COMPLIANCE

Antonio and Sophie Olivetti operate an exclusive Italian cafe in the upmarket suburb of Shangrila. They are in partnership and have been running the restaurant since 1 July 2005, and the business has a 30 June balance date.

For the year ended 30 June 2007 they recorded the following receipts and outgoings from their business bank account.

### Antonio and Sophie Olivetti Partnership
For Year Ended 30 June 2007

Statement of Cash Receipts and Outgoings (GST exclusive)

<table>
<thead>
<tr>
<th>Receipts:</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Till receipts</td>
<td>268,410</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outgoings:</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting fees</td>
<td>4,800</td>
</tr>
<tr>
<td>ACC levy</td>
<td>6,400</td>
</tr>
<tr>
<td>Advertising</td>
<td>1,600</td>
</tr>
<tr>
<td>Bank fees</td>
<td>410</td>
</tr>
<tr>
<td>Coolroom – purchased 1/1/2007</td>
<td>13,000</td>
</tr>
<tr>
<td>Drawings – A Olivetti</td>
<td>26,500</td>
</tr>
<tr>
<td>– S Olivetti</td>
<td>4,500</td>
</tr>
<tr>
<td>Food licence fee</td>
<td>1,620</td>
</tr>
<tr>
<td>Food purchases</td>
<td>22,430</td>
</tr>
<tr>
<td>Hireage of staffs’ uniforms</td>
<td>2,400</td>
</tr>
<tr>
<td>Hire of pot plants</td>
<td>1,500</td>
</tr>
<tr>
<td>Insurance – business</td>
<td>2,750</td>
</tr>
<tr>
<td>Interest on overdraft</td>
<td>1,520</td>
</tr>
<tr>
<td>Lease – EftPos machines</td>
<td>4,400</td>
</tr>
<tr>
<td>Motor vehicle expenses</td>
<td>8,200</td>
</tr>
<tr>
<td>Rent – restaurant premises</td>
<td>32,000</td>
</tr>
<tr>
<td>Salary – Antonio</td>
<td>20,000</td>
</tr>
<tr>
<td>Taxes: 2007 provisional – Antonio</td>
<td>15,000</td>
</tr>
<tr>
<td>– Sophie</td>
<td>7,000</td>
</tr>
<tr>
<td>Telephone and Tolls</td>
<td>1,640</td>
</tr>
<tr>
<td>Transport allowances to staff</td>
<td>2,560</td>
</tr>
<tr>
<td>Wages (gross)</td>
<td>27,000</td>
</tr>
<tr>
<td>Wine purchases</td>
<td>5,200</td>
</tr>
<tr>
<td>Total Outgoings</td>
<td>212,430</td>
</tr>
<tr>
<td>Receipts in excess of outgoings</td>
<td>$ 55,980</td>
</tr>
</tbody>
</table>

Section A, Question 2 continued over
Additional information as provided by Mr Olivetti:

1. **All figures are GST exclusive** (and ignore all GST issues when preparing the partnership return of income).

2. The partnership bought a second-hand Bedford van, on 1 October 2006 (for $8,000, exclusive of GST) and used it principally for business. For the short period it was used several mechanical problems arose and so Antonio decided to sell it on 15 April 2007 for $4,000.

   Meanwhile, on 12 February 2007, the partnership purchased a new Toyota van for $45,000, solely for freighting produce from the market, and to run other business related errands.

3. Antonio purchased a Subaru Legacy, on 1 September 2006 for $65,000, which he uses for both business and personal purposes. No log-book is kept to record the business mileage for this car but Antonio estimates that about 15% of its running would be business related.

4. Majority of the capital to start up the restaurant came from Antonio whilst Sophie’s contribution is made up by the services she provides in the running of the business. Consequently the partnership profits/losses, after salary, are to be split 70/30, which has been accepted by the IRD. There is no bona fide contract of service between Antonio and the partnership relating to his salary.

5. Motor vehicle expenses ($8,200) can be broken down as follows:

<table>
<thead>
<tr>
<th>Vans</th>
<th>Subaru</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrol</td>
<td>4,152</td>
</tr>
<tr>
<td>Registration</td>
<td>240</td>
</tr>
<tr>
<td>Servicing/repairs and maintenance</td>
<td>1,390</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,782</strong></td>
</tr>
</tbody>
</table>

6. Included in the tolls, made from the restaurant, was $870 worth of calls made to Antonio’s parents in Italy.
Section A, Question 2 continued

7. The following account balances as at 30 June were:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivables (corporate clients)</td>
<td>$8,500</td>
<td>$10,220</td>
</tr>
<tr>
<td>Rents payable</td>
<td>$5,000</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

8. The partnership derived gross interest income of $2,480 (RWT - $818.40) and a gross dividend of $1,500 (with $150 imputation credit attached) for the income year ended 31 March 2007.

9. The rates of depreciation applicable to the assets, acquired in the 2007 income year, are:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Basic Economic Rate (DV)</th>
<th>Basic Economic Rate (SL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cool-room</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>Motor vehicles (for transporting people, up to and including 12 seats)</td>
<td>30%</td>
<td>21%</td>
</tr>
<tr>
<td>Motor vehicles (for transporting light goods)</td>
<td>20%</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

Required (show all workings):

(a) Define Resident Withholding Tax (RWT) and calculate the amount of RWT paid/payable on the dividend derived by the partnership for the 2007 income year. (1.5 marks)

(b) Calculate the partnership's gross assessable income. (2 marks)

(c) For the 2007 income year, calculate the amount of depreciation loss which the partnership is entitled to deduct against the business income. Show all workings. (5 marks)
(d) Under the Income Tax Act 2004 a taxpayer is limited to deduct payments/expenses, against assessable income, to the extent that they are incurred in deriving business income. It also expresses that certain payments/expenses incurred by a business is not deductible.

(i) Explain whether the 'salary' to Antonio is a deductible expense against partnership income. (1 mark)

(ii) Identify and explain four (4) other payments/expenses which the partnership has incurred but are not deductible against its assessable income. (4 marks)

(e) Assume that the (correct) partnership income is $120,000. Ignoring personal rebates, calculate Antonio's residual income tax for the 2007 tax year. Show all workings. Tax rates applicable are:

- $0-$38,000 @ 19.5%
- $38,001–60,000 @ 33%
- $60,001+ @ 39 %

(2.5 marks)

(f) Is Antonio liable to pay 2007-08 provisional tax, and if so, why? If you find provisional tax is payable, state the amount. Also state the dates and the amounts he is required to make such payments to the Inland Revenue Department. (Assume Antonio’s 2006 individual tax return was filed on 30 June 2007.) (4 marks)

[Total: 20 marks]
SECTION B

Answer any eight (8) questions from Questions 3, 4, 5, 6, 7, 8, 9, 10, 11, and 12. Questions are of equal value.

QUESTION 3: TAX THEORY

Define and briefly outline how these concepts are interrelated:

(a) A tax base;
(b) A tax unit;
(c) An economic unit.  

[Total: 5 marks]

QUESTION 4: ACCOUNTING v TAX

Briefly discuss why accounting profit may differ from taxable income. Give two (2) examples to illustrate your answer. 

[Total: 5 marks]

QUESTION 5: TAX RESIDENCY

John Stringer, who normally resides in England, arrives in New Zealand on 10 December 2006 for a holiday. He has a working visa and to fund his holiday he does some work for New Zealand employers whilst here and returns to England on 13 April 2007. He has not visited New Zealand since then.

(a) Would John be regarded a tax resident in New Zealand during his visit here?  
   (2 marks)
(b) Would John be able to claim any rebates in the tax year ended 31 March 2007? 
   (3 marks)

[Total: 5 marks]

QUESTION 6: PARTNERSHIP STRUCTURE

Partnerships enable income to be spread over a number of people, thereby reducing the overall tax liability through the use of the lower tax rates. For the situations below briefly outline and explain:

(a) Other methods of splitting partnership income (besides the profit sharing ratio as stipulated in a partnership agreement) to enable various partners to receive a fair share for their work and contributions. 
   (3 marks)
(b) In a family partnership situation, what can the Commissioner of Inland do to prevent inappropriate income splitting? 
   (2 marks)

[Total: 5 marks]
QUESTION 7: TAXATION OF TRUST

John Bell sets up a discretionary trust by transferring his freehold property owned by him to the trustees of the trust. During the year ended 31 March 2007 the trust receives rents of $12,000 and incurs deductible expenses of $8,000. In February 2007 the trustees exercise their discretion and pay $3,000 to Mary, John’s 21 year old daughter, who has income in her own right of $70,000.

(a) Does the setting up of the trust, by John Bell, fall under tax evasion, tax avoidance or tax mitigation? Explain your answer. (2 marks)

(b) How much of the income is trustee income, and how much tax is payable on this income? (1 mark)

(c) How much of the income is beneficiary income, and how much tax will be paid on this income, and by whom? (2 marks)

[Total: 5 marks]

QUESTION 8: DIVIDEND IMPUTATION AND QUALIFYING COMPANY REGIME

For the following briefly explain:

(a) What is meant when it is said that company dividends paid out of revenue reserves are subject to “double taxation” under the classical system. (2 marks)

(b) Three (3) advantages for a company to join the Qualifying Company regime. (3 marks)

[Total: 5 marks]

QUESTION 9: FRINGE BENEFIT TAX

Briefly describe five (5) separate situations when benefits provided to employees, by an employer as part of the employment of the employees, are liable for Fringe Benefit Tax. [Total: 5 marks]

QUESTION 10: FARMING

In relation to the taxation of farm income, briefly explain the tax treatment of:

(a) development expenditures incurred by farmers; (3 marks)

(b) hay and supplementary feed for the livestock; and (1 mark)

(c) fertiliser and topdressing expenditure. (1 mark)

[Total: 5 marks]
QUESTION 11: GOODS AND SERVICES TAX

A person supplying goods and services in New Zealand is required to charge Goods and Services Tax (GST) when certain legal requirements are met. Identify and briefly outline four (4) of the key requirements.  

[Total: 5 marks]

QUESTION 12: DISPUTE RESOLUTION

In administering the tax law the taxpayer and the State are bound by rules which are a codification of common law or statutory variations (or reforms) of the common law. It is intensely procedural and part of the procedure involves the right of the taxpayer and/or Commissioner of Inland Revenue (representing the State) to dispute and challenge a tax assessment.

Outline, in general terms:

(a) how disputes arise; and  

(b) the purpose of the disputes procedures.  

[Total: 5 marks]
ANSWER SHEETS FOR TAX QUESTION 1: GENERAL TAX CONCEPTS

For each of the following, circle the most appropriate choice(s) which best justifies the issues raised in each of the questions/scenarios. In some cases there could be a maximum of two choices. In addition, please provide (in no more than 100 words) an explicit analysis of the relevant tax principles which apply, and justify your choice(s).

Answer all the questions. Write your answers on the yellow answer sheets provided and secure these sheets inside the front cover of the blue answer book.

Marks are allocated as follows:

- One (1) mark for each most appropriate choice(s) circled [with a maximum of two (2) appropriate choices, where applicable]; and
- Two (2) marks for an explicit analysis/justification of the tax principle applied.

[Total: 40 Marks]
1. Fiscal drag is a phenomenon which causes:

(a) Salary and wages to increase in times of inflation.
(b) An increase in one's tax burden because of inflation.
(c) One’s income to move to a higher tax bracket.
(d) A decrease in the effective tax rate on one’s income.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

2. Rupert Bruce has 5,000 shares in a QC Ltd (a qualifying company) and another 50,000 shares in a public listed company. He borrowed $25,000 to purchase the shares in QC Ltd and for the 2007 tax year he paid interest of $3,500 on the loan. In the same tax year Rupert received dividends of $3,000 (which is exempt) from QC Ltd, and $4,500 (gross) from the public company. Is Rupert eligible to claim a deduction for any of the interest expense against the dividend income?

(a) Yes; the full $3,500 against $7,500.
(b) No; as the interest was paid in earning exempt income.
(c) Yes; against the dividend income derived from his investment in QC Ltd., and to the extent of $3,000.
(d) Yes; $500 against the dividend income from the public company.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
3. John Johnston is an Australian citizen. He works in New Zealand between 1 August 2006 and 7 March 2007, travelling around New Zealand working as a fruit picker. He has a bank account with the Bank of Oz in Australia from which he has earned $1500 interest for the year ended 31 March 2007. His correct tax situation is as follows:

(a) He is a resident for New Zealand tax purposes as he has been in New Zealand for more than 183 days, and is liable to pay NZ tax on his fruit picking wages and his Australian interest income.
(b) He is a non-resident for New Zealand tax purposes as he has no permanent place of abode in New Zealand.
(c) He is a resident for New Zealand tax purposes as he has been in New Zealand more than 183 days and is liable to pay tax on his fruit picking wages, but not the Australian interest income.
(d) He is a non-resident for New Zealand Tax purposes as he has been in New Zealand for less than 183 days and is only liable to tax on his fruit picking wages.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

4. The tax law relating to the trust regime contains specific provisions on the taxation of distributions of trust income as “beneficiary income”. Which of the following situation(s) will result in the trust distribution being taxed in New Zealand as “beneficiary income”? (All beneficiaries are over 21 years of age)

(a) A distribution of current year’s income from a qualifying trust to a NZ resident beneficiary.
(b) A distribution of current year’s foreign income from a foreign trust to a non resident beneficiary.
(c) A distribution of previous year’s income from a qualifying trust to a NZ resident beneficiary.
(d) Distributions of current year’s income, from a foreign trust to a beneficiary who is resident in NZ.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
5. The ability to carry forward losses or to transfer them to other group companies is subject to specific rules which restrict losses being "sold" to new owners. Which of the following statement(s) is/are true with regard to these rules?

(a) Losses incurred by a company in earlier years can only be offset against the current year's net income if there is a continuity of shareholder decision-making rights of a minimum 66% throughout the period from the beginning to the end of the current period.

(b) Losses incurred in the current year by one company in a group can be transferred to another company in the group if there is a commonality of shareholder decision-making rights of a minimum 49% throughout the current year.

(c) Losses incurred by a company in an earlier year can only be set against the current year if there is a continuity of shareholder decision-making rights of a minimum 49% throughout the period from the start of the year of the loss to the end of the current period.

(d) Where the voting interests of the companies do not reflect the true economic interests, the shareholder decision-making rights will also be determined by the market value interests of the shareholders.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

6. Which of the following statement(s) is/are true of the New Zealand imputation system?

(a) The benchmark dividend is important because it sets the imputation credit ratio for all other dividends distributable for that imputation year.

(b) The New Zealand imputation system is an example of a 'full integration' system in which corporate tax is fully integrated with the income tax of shareholders.

(c) Resident and non-resident companies, operating in New Zealand, must maintain an Imputation Credit Account (ICA).

(d) A New Zealand resident company can attach imputation credits to a cash or non-cash dividend.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

7. The New Zealand Fringe Benefit Tax was introduced to:
(a) Bring about equity by taxing non-cash benefits provided to business taxpayers.
(b) Widen the tax base by taxing non-cash benefits, provided to employees by employers, which had previously escaped taxation.
(c) Insist that employers pay all forms of employment income in cash.
(d) Permit the taxation of low value benefits.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

8. When a benefit is provided to an employee as part of the employee’s employment the benefit may be caught under one of three regimes – income tax, entertainment expenditure, or fringe benefit tax regimes. Which of the following will come under the entertainment expenditure regime?

(a) Movie tickets, from employer (a close company) to an employee, which can be redeemed at any time by the employee.
(b) An employer who takes employees out to lunch to celebrate the Christmas season.
(c) An employer awards an employee with a television for being the best employee of the month. Employee makes the purchase on their credit card and was later reimbursed by the employer.
(d) Personal use of work tools, at the workplace.

Analysis and justification:
9. Goods and Services Tax (GST) is a tax on the supply of most goods and services in New Zealand. Which of the following statement(s) is/are true?

(a) All business taxpayers are GST-registered persons.
(b) The invoice basis for accounting for GST is a combination of the hybrid basis and the payments basis.
(c) A GST-registered person must make an annual return of input and output tax to the Inland Revenue Department.
(d) The general rule for charging GST is that the time of supply is the earlier of invoicing or payment, with special rules for certain transactions such as hire purchase.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

10. Some aspects of the taxation law applying to the farming industry are quite different from other businesses. Income Equalisation Schemes are examples, and the Main Income Equalisation Scheme:

(a) Allows farmers to smooth income fluctuations between income years.
(b) Allows farmers to make a cash deposit which result in a loss for that income year.
(c) Requires the farmer to make a deposit for a minimum of five years.
(d) Exempts the deposited amount from income tax.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
11. “Permanent establishment” (PE) is a significant concept in e-commerce because the source country generally has the right to tax a non-resident taxpayer’s income from such activity. In the PE definition, as applied to e-commerce, which of the following situation(s) is/are considered a “permanent establishment”?

(a) The existence of a website in a particular country.
(b) The location of an Internet Service Provider.
(c) The location of computer equipment performing the activities of a preparatory or auxiliary nature.
(d) An interactive website which presents information and allows for the placing and fulfillment of orders.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

12. In New Zealand a taxpayer is required to self-assess their own income tax liability. This requires the taxpayer to:

(a) Advise their employer as to the correct tax code so that the appropriate PAYE is deducted from their gross wages.
(b) Engage a tax agent to complete and furnish their tax return every income year.
(c) Consider the facts of their financial affairs and determine the amount of tax owing by interpreting and applying the tax law appropriately.
(d) Request a Notice of Assessment from the Commissioner of Inland Revenue advising taxpayer of their income tax liability.

Analysis and justification:

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
INSTRUCTIONS:
Candidates are required to answer TEN (10) questions as follows:

SECTION A (COMPULSORY)
Answer both Questions 1 and 2. 60 marks

SECTION B
Answer any EIGHT (8) questions from Questions 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12. All questions are of equal marks. 40 marks

Total: 100 marks

Please note:
All questions are written in the context of the New Zealand tax system unless stated otherwise.

Yellow Answer Sheets:
Yellow answer sheets are provided with this examination for Section A, Question 1. You only need to hand in sections of the question paper that you have been required to write your answers on. You may access the whole question paper through the Massey Library website, after exam results have been published.

The use of non-programmable calculators is permitted in this examination.
SECTION A – COMPULSORY

Answer both questions in this section.

QUESTION 1: GENERAL TAX CONCEPTS  [40 Marks]

For each of the following, circle the most appropriate choice(s) which best justifies the issues raised in each of the questions/scenarios. In some cases there could be a maximum of two choices. In addition, please provide (in no more than 100 words) an explicit analysis of the relevant tax principles which apply, and justify your choice(s).

Answer all the questions. Write your answers on the yellow answer sheets provided and secure these sheets inside the front cover of the blue answer book.

Marks are allocated as follows:

• One (1) mark for each most appropriate choice(s) circled [with a maximum of two (2) appropriate choices, where applicable]; and

• Two (2) marks for an explicit analysis/justification of the tax principle applied.

13. The New Zealand government, in its last budget, decided to withdraw the low income rebate, and to apply the lower tax band of 12.5% to all taxpayers from 1 October 2008, irrespective of their income. This is an example of:

a) Income splitting.
b) Tax simplification.
c) A regressive tax measure.
d) Administrative efficiency.

2. Under the New Zealand Income Tax legislation an “absentee” is defined as a person other than a person who is resident in New Zealand during any part of the tax year. Based on this definition, an absentee is:

a) A New Zealand (NZ) citizen who is out of the country for more than 183 days in a tax year and works outside of NZ.
b) A ‘visitor’ who is not a resident during any part of a tax year and subject to NZ income tax on income from personal services while present in NZ.
c) A non resident during any part of a tax year who is subject to NZ income tax on foreign-sourced income.
d) Not subject to NZ income tax at all as the person is not resident in NZ.

Section A, Question 1 continued over
Section A, Question 1 continued

3. A business taxpayer may have a balance date for accounting which is not the same as the standard tax year 31 March. Such taxpayers can elect to use their business balance date and align their accounting year with a corresponding tax year. Therefore, a taxpayer with a balance date of 31 July 2008 and net income of $75,000 has to file a return of income (assuming no tax agent) on:

a) A 2008 tax return showing net income of $75,000 with a return filing date of 7th July 2009.
b) A 2008 tax return showing net income of $50,000 with a return filing date of 7th November 2008.
c) A 2008 tax return showing net income of $75,000 with a return filing date of 7th November 2008.
d) A 2009 tax return showing net income of $75,000 with a return filing date of 7th July 2009.

4. Resident Withholding Tax (RWT) is a tax deducted by the payer from dividends and interest income paid to New Zealand tax residents. A feature(s) of the regime is (are):

a) The higher the amount of imputation credits attached to a dividend, the lower will be the amount of RWT that is required to be deducted from the dividend.
b) RWT is deductible from a New Zealand sourced dividend, irrespective of whether it is fully imputed or not.
c) All taxpayers who supply their tax file number to the payer of interest will have no RWT deducted.
d) Interest paid to a person with a Certificate of Exemption (COE), must have the maximum rate of RWT (39%) deducted from the payment.

5. A partnership is a business entity commonly used to run a business. There are some specific tax issues relating to partnerships. Which of the following statements is (are) true?

a) The partnership is not a legal entity but is still required to furnish a partnership return of income.
b) Interest paid to partners in respect of their initial capital contribution is deductible by the partnership.
c) In a family partnership, children over the age of 20, at the time the binding partnership contract is signed, can be admitted as partners.
d) A partnership is a good income splitting structure, because it enables the allocation of a higher share of profits to relatives than their contribution warrants.
6. The tax law relating to the trust regime contains specific provisions on the taxation of distributions of trust income especially to a minor beneficiary. Which of the following situation(s) may result in the trust distribution being taxed under the “minor beneficiary” rule?

a) A distribution of current year’s income from a qualifying/complying trust (set up by the parents of the beneficiaries) to a NZ resident beneficiary who is at least 16 years old at the trust balance date.

b) A distribution of current year’s income from a foreign trust (set up by the grandparents of the beneficiaries) to a non resident beneficiary.

c) A distribution of current year’s income from a qualifying/complying trust to a NZ resident beneficiary who is 15 years old at the trust balance date. This trust was set up by the parents of the beneficiary.

d) Distributions of income, to a resident beneficiary who is an infant child, from a qualifying/complying trust which was set up according to a will.

7. The Qualifying Company (QC) regime generally allows small companies to be treated in a similar manner as a partnership. Which of the following statements is (are) true about a Qualifying Company, which is not a Loss Attributing Qualifying Company?

a) Losses brought forward by a company before it becomes a qualifying company can be carried forward after the company becomes a qualifying company.

b) Shareholders of the company assume personal liability for their share of the company's tax if the company does not pay.

c) New companies must pay a qualifying company election tax (QCET) when they elect to join the qualifying company regime.

d) A qualifying company can distribute capital gains, tax free, because dividends without imputation credits are exempt in the hands of the shareholder.

8. Dividends distributed to a shareholder comprise assessable income to the recipient and subject to NZ income tax. Which of the following situations below will give rise to a dividend subject to income tax?

a) A qualifying company distributing fully imputed dividends to its (natural) shareholders.

b) Fin McNeish is a shareholder of McNeish Ltd. During the 2008 income year Fin bought a property, at market value, from the company for $50,000 more than the asset’s adjusted tax value.

c) Roly Ltd wholly-owns the shares of Babcock Ltd. Babcock Ltd distributes $100,000 (fully imputed) dividends to Roly Ltd.

d) A shareholder sells a property to a company for less than market value.
Section A, Question 1 continued

9. Generally, expenditure of a capital nature, incurred by a taxpayer, is not deductible except if the taxpayer is in the business of farming. Which of the following expenditure(s) would a farmer be permitted to fully deduct in the year the expenditure is incurred?

a) Destruction of weeds.
b) Repair of flood or erosion damage.
c) Cost of planting fruit trees.
d) Purchase of a farm tractor.

10. Goods and Services Tax (GST) is a tax on the supply of most goods and services in New Zealand. Which of the following statements is (are) true?

a) All business taxpayers are GST-registered persons.
b) The invoice basis for accounting for GST is a combination of the hybrid and the payments bases.
c) A GST-registered person must make an annual return of input and output tax to the Inland Revenue Department.
d) The general rule for charging GST is the time of supply which is the earlier of invoicing or payment, with special rules for certain transactions such as hire purchase.

11. Which of the following transactions is (are) liable for Fringe Benefit Tax?

a) A staff member drives her own vehicle to the airport and parks it there for the duration of a business trip. She receives reimbursement for petrol and parking expenses.
b) A company provided all the attendees at its annual conference with a business shirt which has the company name and logo prominently displayed on the pocket.
c) A church minister lives in the minister’s house next to the church. He pays no rent to the church for the use of the property.
d) A rail company allows its staff to travel on its railways by paying 10% of the standard fare to the public.

12. E-commerce, or internet business, differs from traditional business in many ways. While it has exacerbated some existing tax issues it has also created some new ones. In terms of the taxation of income from e-commerce, which of the following statements is (are) true?

a) An internet business is deemed to have a ‘permanent establishment’ in a tax jurisdiction if it is incorporated in that jurisdiction.
b) One of the issues facing taxation authorities, in terms of e-commerce, is the difficulties in identifying the parties behind internet transactions.
c) The taxation of income, from e-commerce, is based on the location of the website of the hosted business.
d) The principle of ‘neutrality’ is the lowest consideration in the development of taxation policies on e-commerce.

[Total: 40 marks]
Ren and Tim Potts are two brothers who operate R & T Electrical Services. They have been in partnership (50/50) for the past four years. In the current accounting year, ending 31 March 2008, the partnership recorded the following (GST exclusive):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total business revenue</strong></td>
<td>$245,070</td>
</tr>
<tr>
<td><strong>Outgoings:</strong></td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>$7,000</td>
</tr>
<tr>
<td>Interest on overdraft</td>
<td>$5,000</td>
</tr>
<tr>
<td>Insurance - business</td>
<td>$4,500</td>
</tr>
<tr>
<td>- household (Ren)</td>
<td>$2,400</td>
</tr>
<tr>
<td>Heat, light and power (business)</td>
<td>$4,800</td>
</tr>
<tr>
<td>Motor vehicle expenses - van</td>
<td>$7,700</td>
</tr>
<tr>
<td>- cars</td>
<td>$7,500</td>
</tr>
<tr>
<td>Office expenses</td>
<td>$2,200</td>
</tr>
<tr>
<td>Printing &amp; stationery</td>
<td>$1,650</td>
</tr>
<tr>
<td>2008 Provisional tax - Ren</td>
<td>$9,460</td>
</tr>
<tr>
<td>- Tim</td>
<td>$6,000</td>
</tr>
<tr>
<td>Rent – office premises</td>
<td>$15,500</td>
</tr>
<tr>
<td>Telephone &amp; tolls - business</td>
<td>$4,300</td>
</tr>
<tr>
<td>- home (Ren)</td>
<td>$2,700</td>
</tr>
<tr>
<td>2007 Terminal tax - Ren</td>
<td>$2,800</td>
</tr>
<tr>
<td>- Tim</td>
<td>$1,500</td>
</tr>
<tr>
<td>Typist/receptionist</td>
<td>$14,000</td>
</tr>
<tr>
<td>Wages – staff</td>
<td>$26,500</td>
</tr>
<tr>
<td><strong>Total Outgoings</strong></td>
<td>$125,510</td>
</tr>
</tbody>
</table>
Notes on the account supplied by Partners:

2. **All figures are GST exclusive** (and ignore all GST issues when preparing the partnership return of income).

3. The adjusted tax values of partnership assets, as at 1 April 2007, are:
   - Office furniture: $16,800;
   - Office equipment: $7,200;
   - Toyota Hi-Ace van: $24,000, purchased new in June 2005;
   - Ford Stationwagon: $22,000, purchased new in December 2006; and
   - Toyota Corona: $18,000, purchased second-hand in January 2007.

   The partnership has always applied the diminishing value method in calculating depreciation. For accounting purposes Ren and Tim have decided to adopt a 25% diminishing value (DV) write-off, on all the partnership depreciable assets, for this year.

3. The Stationwagon and Corona are used for business and private purposes. Motor vehicle records kept verify that the Stationwagon is privately used by Ren for 30% of the time. Tim privately uses the Corona for 10% of the time.

4. A room, in Ren’s house, is set aside as an office for the partners to conduct partnership business. The room measures 10% of the total size of the house, which is of brick and had cost Ren Potts a total of $350,000 (including land valued at $200,000) two years ago.

   Ren paid the following outgoings on the house during the year:

   $\begin{array}{l}
   \text{Repairs and maintenance (office room)} & 2,000 \\
   \text{Rates} & 3,400 \\
   \text{Heat, light and power} & 2,600 \\
   \text{Mortgage interest} & 4,500 \\
   \end{array}$

5. For the year Ren’s home telephone was used 70% of the time for business. The payment for the telephone and tolls were:

   $\begin{array}{l}
   \text{Business tolls} & 1,500 \\
   \text{Telephone rentals} & 720 \\
   \text{Private tolls} & 480 \\
   \end{array}$
Section A, Question 2 continued

6. For this accounting year, the partners agreed to pay Ren a salary of $15,000, in lieu of the extra hours he put in to complete a contract job. The amount has been credited to his current account. This has been documented in the partnership agreement but, the appropriate contract of service has not been drawn up as at balance date.

Other Additional Information:

7. Ren Potts derived the following gross income for the period ending 31 March, 2008:

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Amount</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest - ANZ Bank</td>
<td>2,500</td>
<td>(RWT: $825)</td>
</tr>
<tr>
<td>Interest - BNZ Finance Ltd</td>
<td>1,000</td>
<td>(RWT: $195)</td>
</tr>
<tr>
<td>Dividends - Ozzie (Aust) Ltd</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Dividends - Telecom (NZ) Ltd</td>
<td>1,000</td>
<td>(Imputed Cr. $250)</td>
</tr>
<tr>
<td>Tax deducted from Australian dividends</td>
<td>75</td>
<td>(which is lower than the NZ tax payable )</td>
</tr>
</tbody>
</table>

8. The rates of depreciation applicable, to the following assets, are:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Basic Economic Rate (DV)</th>
<th>Basic Economic Rate (SL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Motor vehicles (for transporting people, up to and including 12 seats)</td>
<td>30%</td>
<td>21%</td>
</tr>
<tr>
<td>Motor vehicles (for transporting light goods)</td>
<td>20%</td>
<td>13.5%</td>
</tr>
</tbody>
</table>
Section A, Question 2 continued

Required (show all workings):

(a) In calculating net income, a taxpayer who is operating a business is entitled to deduct expenses and/or losses to the extent they are incurred in carrying on the business for the purpose of deriving income. You are required to:

(i) Calculate the correct amount of depreciation loss, on each of the partnership motor vehicles which the Potts partnership is entitled to deduct against the partnership income. (3.5 marks)

(ii) In certain circumstances expenses, which would otherwise be of a private nature, are deductible. Identify and determine the amount of these deductible expenses. (5 marks)

(b) Assume that the (correct) partnership income is $115,000. Ignoring personal rebates/tax credits, calculate Ren Potts’:

(i) Gross assessable income (2.5 marks)

(ii) Residual and terminal income tax for the 2008 tax year. Show all workings. Tax rates applicable are:

$0-$38,000 @ 19.5%
$38,001-$60,000 @ 33%
$60,001+ @ 39%

(5.5 marks)

(c) Is Ren Potts liable to pay 2008-09 provisional tax, and if so why? If you find provisional tax is payable, calculate the amount. Also, state the dates and the amounts he is required to make to the Inland Revenue Department. (Assume Ren has correctly fulfilled his previous years’ tax obligations, and that he is not entitled to the GST-ratio method.) (3.5 marks)

[Total: 20 marks]
SECTION B

Answer any eight (8) questions from Questions 3, 4, 5, 6, 7, 8, 9, 10, 11, and 12. Questions are of equal value.

QUESTION 3: TAX THEORY

The New Zealand tax system is continually evolving. Looking at the changes in the past two years:-

(d) Outline two (2) tax proposals or legislation to the New Zealand tax system; and (1 marks)

(e) Discuss the impact of them on the New Zealand economy. (4 marks)

[Total: 5 marks]

QUESTION 4: CAPITAL v REVENUE

New Zealand does not have a Capital Gains Tax, per se. However, there are a few situations or particular transactions, giving rise to capital gains, which constitute assessable income under the New Zealand Income Tax Act 2007.

Required:

1. Identify two (2) transactions of this nature; and (1 mark)

2. Briefly explain how they give rise to a tax liability. (4 marks)

[Total: 5 marks]

QUESTION 5: TAX RESIDENCY

Rachael left New Zealand (NZ) and ceased to have a permanent place of abode here on 30 September 1996. She returns on holiday, from time to time, to visit friends. Each time, she is only present in NZ for two weeks a year. On 1 December 2006, Rachael decided to move back to NZ to live. She acquires a permanent place of abode on that date. Between 1 August 2006 and 19 May 2007, Rachael has also been present in NZ for 184 days.

In relation to the above:

(a) Is Rachael eligible for the transitional tax resident exemption? Discuss. (3 marks)

(b) Outline when the exemption period applies from. (1 mark)

(c) Outline when the exemption period ends. (1 mark)

[Total: 5 marks]

QUESTION 6: TAXATION OF TRUST
The Whitehead Family Trust is a qualifying/complying trust set up by Jonathon Whitehead and his wife Trudy. The beneficiaries are Jonathon, Trudy and their twins, Ariel and Ernie, both aged 17 years. For the income year ending 30 June 2008 the Trust derived net income of $75,000. In the trust deed, the trustees are to pay to Jonathon and Trudy (as the twins’ guardians) a total sum of $20,000 to cover, equally, Ariel's and Ernie’s general living expenses and college fees. No other distributions were made during the 2008 income year.

(a) Why do some people set up trusts? Briefly outline one (1) tax related advantage and one (1) non-tax related advantage.

(b) Calculate the amount of and briefly explain:
   (i) Beneficiary income; and
   (ii) Trustee income.

   [Total: 5 marks]
In terms of the Fringe Benefit Tax rules, are the following items ‘fringe benefits’? State and outline the reason(s) for your answer.

(a) The free use, by an employee’s family, of a holiday home owned by the employer.  
(2 marks)

(b) As the employee is required to be on the work site most of the time an employer provides the employee with a cottage, free of charge.  
(1.5 marks)

(c) An employer provides an employee with tools instead of paying a tool allowance.  
(1.5 marks)

[Total: 5 marks]

QUESTION 10: TAX COMPLIANCE

Following a report by the Waugh Tax Simplification Committee New Zealand introduced the Binding Rulings regime in April 1995. In terms of this regime:

(a) Identify and outline two (2) of the Government’s objectives for its introduction.  
(1 mark)

(b) There are four different types of binding rulings. Describe two (2) of them.  
(4 marks)

[Total: 5 marks]

QUESTION 11: GOODS AND SERVICES TAX

Marx works as a salaried sales representative for Superstar Limited. As his work involves travelling around Auckland, in search of customers, he is provided with a company-maintained motor car. Under the terms of his employment contract, the car is also available for Marx’s private use during the weekend and public holidays. During a tax class tutorial, the tutor asked Agnes to comment on the GST implications of Marx’s salary and the provision of the motor vehicle for private use. She responded: “Superstar Limited need not charge and account for GST both on Marx’s salary and the private use of the motor vehicle because they do not meet the definition of taxable supplies that need to be subject to GST in New Zealand.”

Briefly discuss the accuracy or otherwise of Agnes’ view.  
(5 marks)

[Total: 5 marks]
QUESTION 12: SELF-ASSESSMENT TAX SYSTEM

In terms of the Income Tax Act 2007 (and associated legislation), briefly explain:

(c) What is an “assessment”?  
   (1 mark)

(b) What is the significance of the “assessment” in relation to the dispute resolution process? Briefly discuss.  
   (2 marks)

(c) Describe two (2) roles/functions of the New Zealand Commissioner (of Inland Revenue) in relation to a self-assessing tax system.  
   (2 marks)

[Total: 5 marks]
ANSWER SHEETS FOR TAX QUESTION 1: GENERAL TAX CONCEPTS

For each of the following, circle the most appropriate choice(s) which best justifies the issues raised in each of the questions/scenarios. In some cases there could be a maximum of two choices. In addition, please provide (in no more than 100 words) an explicit analysis of the relevant tax principles which apply, and justify your choice(s).

Answer all the questions. Write your answers on the yellow answer sheets provided and secure these sheets inside the front cover of the blue answer book.

Marks are allocated as follows:

- One (1) mark for each most appropriate choice(s) circled [with a maximum of two (2) appropriate choices, where applicable]; and

- Two (2) marks for an explicit analysis/justification of the tax principle applied.

[Total: 40 Marks]
1. The New Zealand government, in its last budget, decided to withdraw the low income rebate, and to apply the lower tax band of 12.5% to all taxpayers from 1 October 2008, irrespective of their income. This is an example of:

a) Income splitting.
b) Tax simplification.
c) A regressive tax measure.
d) Administrative efficiency.

Analysis and justification:

___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________

2. Under the New Zealand Income Tax legislation an “absentee” is defined as a person other than a person who is resident in New Zealand during any part of the tax year. Based on this definition, an absentee is:

a) A New Zealand (NZ) citizen who is out of the country for more than 183 days in a tax year and works outside of NZ.
b) A ‘visitor’ who is not a resident during any part of a tax year and subject to NZ income tax on income from personal services while present in NZ.
c) A non resident during any part of a tax year who is subject to NZ income tax on foreign-sourced income.
d) Not subject to NZ income tax at all as the person is not resident in NZ.

Analysis and justification:

___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________

___________________________________________________________________
3. A business taxpayer may have a balance date for accounting which is not the same as the standard tax year 31 March. Such taxpayers can elect to use their business balance date and align their accounting year with a corresponding tax year. Therefore, a taxpayer with a balance date of 31 July 2008 and net income of $75,000 has to file a return of income (assuming no tax agent) on:

a) A 2008 tax return showing net income of $75,000 with a return filing date of 7th July 2009.

b) A 2008 tax return showing net income of $50,000 with a return filing date of 7th November 2008.

c) A 2008 tax return showing net income of $75,000 with a return filing date of 7th November 2008.

d) A 2009 tax return showing net income of $75,000 with a return filing date of 7th July 2009.

Analysis and justification:

___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________

4. Resident Withholding Tax (RWT) is a tax deducted by the payer from dividends and interest income paid to New Zealand tax residents. A feature(s) of the regime is (are):

a) The higher the amount of imputation credits attached to a dividend, the lower will be the amount of RWT that is required to be deducted from the dividend.

b) RWT is deductible from a New Zealand sourced dividend, irrespective of whether it is fully imputed or not.

c) All taxpayers who supply their tax file number to the payer of interest will have no RWT deducted.

d) Interest paid to a person with a Certificate of Exemption (COE), must have the maximum rate of RWT (39%) deducted from the payment.

Analysis and justification:

___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
5. A partnership is a business entity commonly used to run a business. There are some specific tax issues relating to partnerships. Which of the following statements is (are) true?

a) The partnership is not a legal entity but is still required to furnish a partnership return of income.

b) Interest paid to partners in respect of their initial capital contribution is deductible by the partnership.

c) In a family partnership, children over the age of 20, at the time the binding partnership contract is signed, can be admitted as partners.

d) A partnership is a good income splitting structure, because it enables the allocation of a higher share of profits to relatives than their contribution warrants.

Analysis and justification:

___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________

6. The tax law relating to the trust regime contains specific provisions on the taxation of distributions of trust income especially to a minor beneficiary. Which of the following situation(s) may result in the trust distribution being taxed under the “minor beneficiary” rule?

a) A distribution of current year’s income from a qualifying/complying trust (set up by the parents of the beneficiaries) to a NZ resident beneficiary who is at least 16 years old at the trust balance date.

b) A distribution of current year’s income from a foreign trust (set up by the grandparents of the beneficiaries) to a non resident beneficiary.

c) A distribution of current year’s income from a qualifying/complying trust to a NZ resident beneficiary who is 15 years old at the trust balance date. This trust was set up by the parents of the beneficiary.

d) Distributions of income, to a resident beneficiary who is an infant child, from a qualifying/complying trust which was set up according to a will.

Analysis and justification:

___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
7. The Qualifying Company (QC) regime generally allows small companies to be treated in a similar manner as a partnership. Which of the following statements is (are) true about a Qualifying Company, which is not a Loss Attributing Qualifying Company?

a) Losses brought forward by a company before it becomes a qualifying company can be carried forward after the company becomes a qualifying company.

b) Shareholders of the company assume personal liability for their share of the company’s tax if the company does not pay.

c) New companies must pay a qualifying company election tax (QCET) when they elect to join the qualifying company regime.

d) A qualifying company can distribute capital gains, tax free, because dividends without imputation credits are exempt in the hands of the shareholder.

Analysis and justification:

8. Dividends distributed to a shareholder comprise assessable income to the recipient and subject to NZ income tax. Which of the following situations below will give rise to a dividend subject to income tax?

a) A qualifying company distributing fully imputed dividends to its (natural) shareholders.

b) Fin McNeish is a shareholder of McNeish Ltd. During the 2008 income year Fin bought a property, at market value, from the company for $50,000 more than the asset’s adjusted tax value.

c) Roly Ltd wholly-owns the shares of Babcock Ltd. Babcock Ltd distributes $100,000 (fully imputed) dividends to Roly Ltd.

d) A shareholder sells a property to a company for less than market value.

Analysis and justification:
9. Generally, expenditure of a capital nature, incurred by a taxpayer, is not deductible except if the taxpayer is in the business of farming. Which of the following expenditure(s) would a farmer be permitted to fully deduct in the year the expenditure is incurred?

a) Destruction of weeds.
b) Repair of flood or erosion damage.
c) Cost of planting fruit trees.
d) Purchase of a farm tractor.

Analysis and justification:
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________

10. Goods and Services Tax (GST) is a tax on the supply of most goods and services in New Zealand. Which of the following statements is (are) true?

a) All business taxpayers are GST-registered persons.
b) The invoice basis for accounting for GST is a combination of the hybrid and the payments bases.
c) A GST-registered person must make an annual return of input and output tax to the Inland Revenue Department.
d) The general rule for charging GST is the time of supply which is the earlier of invoicing or payment, with special rules for certain transactions such as hire purchase.

Analysis and justification:
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
___________________________________________________________________
11. Which of the following transactions is (are) liable for Fringe Benefit Tax?

   a) A staff member drives her own vehicle to the airport and parks it there for the duration of a business trip. She receives reimbursement for petrol and parking expenses.

   b) A company provided all the attendees at its annual conference with a business shirt which has the company name and logo prominently displayed on the pocket.

   c) A church minister lives in the minister's house next to the church. He pays no rent to the church for the use of the property.

   d) A rail company allows its staff to travel on its railways by paying 10% of the standard fare to the public.

   Analysis and justification:

   _____________________________________________________________________
   _____________________________________________________________________
   _____________________________________________________________________
   _____________________________________________________________________
   _____________________________________________________________________
   _____________________________________________________________________

12. E-commerce, or internet business, differs from traditional business in many ways. While it has exacerbated some existing tax issues it has also created some new ones. In terms of the taxation of income from e-commerce, which of the following statements is (are) true?

   a) An internet business is deemed to have a 'permanent establishment' in a tax jurisdiction if it is incorporated in that jurisdiction.

   b) One of the issues facing taxation authorities, in terms of e-commerce, is the difficulties in identifying the parties behind internet transactions.

   c) The taxation of income, from e-commerce, is based on the location of the website of the hosted business.

   d) The principle of 'neutrality' is the lowest consideration in the development of taxation policies on e-commerce.

   Analysis and justification:

   _____________________________________________________________________
   _____________________________________________________________________
   _____________________________________________________________________
   _____________________________________________________________________
   _____________________________________________________________________
   _____________________________________________________________________