

Taxation

1. INTRODUCTION	1
Introduction	1
<i>Tax as a practice area</i>	1
<i>Tax law easier than ever before</i>	1
<i>Risk of detection low</i>	2
<i>Practitioners duty to clients</i>	3
<i>Course content</i>	3
<i>Seminar format</i>	3
<i>Statutory references</i>	4
2. CROSS-BORDER ISSUES	5
Overview	5
Residency and source requirements	5
<i>General</i>	5
<i>Permanent place of abode</i>	5
<i>Taxable "activities" in New Zealand</i>	8
Gifting issues	9
<i>Case law</i>	11
<i>Burden of proof</i>	12
Offshore investments and activities by non-residents in New Zealand	12
<i>Gains, interest and dividends derived</i>	13
<i>The financial arrangement rules</i>	13
<i>Exchange gains</i>	13
<i>Withholdings</i>	14
<i>Transfer pricing rules</i>	16
<i>Thin-capitalisation rules</i>	17
<i>Foreign investment fund rules</i>	17
<i>Controlled foreign company rules</i>	20
<i>Offshore company controlled from New Zealand</i>	21
<i>Goods and services tax</i>	21
<i>Proposed amendments in Taxation (annual rates, gst and miscellaneous provisions) bill</i>	22
3. PROPERTY TRANSACTIONS	24
Overview	24
CD 1: Limited form of capital gains tax	24
<i>Definition of "land"</i>	24
<i>Speculating in land</i>	24
<i>Principal residence exemption</i>	25
<i>"Undertaking" or "scheme"</i>	26
<i>Commencement</i>	27
<i>Development activity</i>	27

<i>"Significant expenditure"</i>	28
<i>Work "customarily" undertaken</i>	29
<i>"Old" scheme / "new" scheme</i>	29
<i>Work of a "minor nature"</i>	29
<i>Recognising profit</i>	30
<i>Time of supply for GST</i>	31
<i>Activity is business of dealing in land, developing or dividing land, or erecting buildings</i>	34
<i>Associated persons rules</i>	34
<i>Deductions and losses</i>	35
<i>Not every gain brought to account</i>	35
4. TRUSTS	37
Overview	37
Basic trust mechanism	37
<i>Income</i>	37
<i>Non-qualifying trust: treatment of income and distributions</i>	38
<i>Qualifying trust: treatment of income and distributions</i>	39
Taxing minors at 33%	40
Sham trusts and nominees	43
Definition of "settlor"	45
Minor subdivisions undertaken by trusts	46
Distributions to sub-trusts: natural love and affection	47
Gift duty	48
Deemed registration of trusts	49
Charitable trusts	50
5. ACQUISITION / SALE OF BUSINESS ASSETS	52
Overview	52
Sale of business assets normally tax-free	52
<i>Sale part of or incident of ordinary business</i>	52
<i>The Myer Emporium case</i>	53
<i>Sale of shares of business</i>	55
<i>Buildings, plant, equipment and motor vehicles</i>	57
<i>Goodwill</i>	57
<i>Sales of software</i>	59
<i>Land (see also discussion Chapter 3)</i>	62
<i>Trade marks and intellectual property</i>	62
<i>Licence agreements</i>	62
<i>Patents</i>	63
<i>Timber</i>	63
<i>Financial arrangements</i>	63
<i>Book debts</i>	63
<i>Trading stock</i>	63

<i>Compensation or restraint payments</i>	65
<i>Other assets</i>	65
<i>Depreciation recapture</i>	65
<i>Continuity requirements</i>	65
<i>Deferred settlements and varying purchase price</i>	65
<i>Losses arising on sale of capital items</i>	66
Acquisition costs	66
<i>Normally non-deductible</i>	66
<i>Contest between vendor and purchaser</i>	66
<i>Deduction for borrowing costs</i>	66
GST and "going concern" treatment	67
<i>Share sale</i>	67
<i>Asset sale</i>	67
6. PROVIDING SERVICES	69
Overview	69
Employee remuneration	69
<i>Monetary remuneration</i>	69
<i>Payments must be "in respect of or in relation to employment"</i>	70
<i>Test of contract of employment</i>	70
Non-taxable receipts	71
<i>Restrictive covenant payments</i>	71
<i>Inducement payments</i>	74
<i>Payments for humiliation, loss of dignity and injury to feelings.</i>	76
<i>Gifts</i>	76
<i>Share option or purchase schemes</i>	77
<i>Reimbursing allowances</i>	78
<i>Employees for non-resident employers</i>	79
Superannuation fund withdrawal tax	79
The attribution rule for personal services	79
Fringe benefits	83
<i>Non-cash benefits taxed</i>	83
<i>What is a fringe benefit?</i>	83
<i>Definitions of employer and employee</i>	85
<i>Avoiding FBT</i>	85
<i>Shareholder-employees</i>	85
<i>Valuation of benefits</i>	86
<i>Exemption for unclassified benefits</i>	86
<i>Particular FBT issues</i>	86
7. CONCLUSION	89