

HOUSE OF REPRESENTATIVES

Supplementary Order Paper

Tuesday, the 13th Day of December 1977

INCOME TAX AMENDMENT (NO. 2)

Proposed Amendment

Hon. Mr TEMPLETON, in Committee, to move the following amendment:

Clause 43: To add, after *clause 42*, the following clause:

43. Trading stock valuation adjustment—The principal Act is hereby amended by inserting, after section 167, the following section:

“167A. (1) For the purposes of this section the term ‘trading stock’ includes anything produced or manufactured, and anything acquired or purchased for purposes of manufacture, sale, or exchange; but does not include—

“(a) Land and buildings, or any interest therein:

“(b) Livestock and other live animals:

“(c) Standing timber:

“(d) Bonds, debentures, shares, or other securities:

“(e) Choses in action:

“(f) Anything to which section 87 of this Act applies:

“(g) Anything in relation to any activities the income derived from which is exempt from income tax.

“(2) This section shall not apply to—

“(a) Any trading stock held by any taxpayer in respect of—

“(i) Any farming or agricultural business carried on by him:

“(ii) Any business carried on by him comprising rock oyster, mussel, or freshwater fish farming:

“(iii) Any business carried on by him comprising the construction of roads, dams, buildings, or other construction works:

“(iv) Any business of mining or quarrying any minerals carried on by him:

“(v) Any business consisting primarily or principally of importing into New Zealand, refining, or wholesale distribution of petroleum or petroleum products carried on by him:

“(b) Any taxpayer who is assessable for income tax under any of sections 199 to 203 of this Act except to the extent to which, in the opinion of the Commissioner, any proportion of sales of trading stock give rise to taxable income:

“(c) Any company to which section 42 of this Act applies:

“(d) Any company which carries on in New Zealand on behalf of a company to which section 42 of this Act applies the processing to the stage of primary metal or primary metal alloy of any mineral as defined in that section.

“(3) Subject to this section, where any taxpayer engaged in any business carried on in New Zealand for the whole of any income year holds at the commencement of that income year any trading stock in respect of that business, the Commissioner shall, in calculating the assessable income derived by that taxpayer from that business in that income year, allow a deduction of an amount equal to 5 percent of the value at the commencement of that income year of that trading stock as taken into account for the purpose of calculating that assessable income.

“(4) Where a taxpayer has, after the commencement of an income year, sold or otherwise disposed of or acquired a business in New Zealand which was carried on by any taxpayer immediately prior to the commencement of that income year, the deduction allowable under this section shall be an amount equal to 5 percent of an amount calculated in accordance with the following formula:

$$a \times b$$

365

Where—

a is an amount equal to the value of the trading stock of that business on hand at the commencement of that income year or at the date of the sale, disposal, or acquisition, whichever is the less; and

b is the number of days in that income year during which that business has been carried on by that taxpayer.

“(5) Where a taxpayer has, on or after the commencement of an income year, commenced to carry on a business in New Zealand which was not previously carried on by any other taxpayer during that income year, the deduction under this section shall be an amount equal to 5 percent of an amount calculated in accordance with the following formula:

$$a \times b$$

365

Where—

a is an amount equal to $\frac{2}{3}$ of the value of the trading stock of that business at the end of that income year; and

b is the number of days in that income year during which that business has been carried on by that taxpayer.

“(6) Where, during any income year, any taxpayer carries on 2 or more businesses, this section shall apply to each of those businesses as if it were the only business carried on by the taxpayer.

“(7) Where any apportionment of any trading stock is required for the purposes of this section, and any question arises as to the basis or manner of such apportionment, it shall be determined by the Commissioner.

“(8) Where the Commissioner is satisfied that the volume of trading stock or the basis of valuation of trading stock has been manipulated so as to gain an unfair advantage under this section, he may calculate the amount of the deduction in respect of so much of that trading stock and at such value as he considers fair and reasonable.

“(9) Where the Commissioner is satisfied that arrangements have been made between a taxpayer and another person with a view to the affairs of the taxpayer and of that other person being so arranged or conducted that this section would, but for this subsection, have effect more favourably in relation to that taxpayer than would otherwise have been the case, the amount of any deduction to which the taxpayer is entitled shall not exceed the amount of the deduction to which that taxpayer would, in the opinion of the Commissioner, have been entitled if those arrangements had not been made.

“(10) Every reference in this section to an income year shall, where the taxpayer furnishes a return of income under section 15 of this Act for an accounting year ending with an annual balance date other than the 31st day of March, be deemed to be a reference to the accounting year corresponding with that income year, and, in every such case, this section shall, with any necessary modifications, apply accordingly.”

EXPLANATORY NOTE

This amendment inserts a new section 167A in the principal Act to provide for a trading stock valuation adjustment.

Subsection (1) defines trading stock for the purpose of the section.

Subsection (2) excludes trading stock held by certain types of business from the operation of the section.

Subsection (3) provides for a deduction equal to 5 percent of the value of trading stock held at the commencement of any income year where the business is carried on for the whole of the income year.

Subsections (4) and (5) provide for a proportionate deduction where the business is not carried on for the whole income year.

Subsection (6) provides, in the case of 2 or more businesses carried on by a taxpayer, for each business to be treated separately.

Subsection (7) provides for apportionment of trading stock.

Subsection (8) covers the position of excess or over-value trading stock.

Subsection (9) is the normal anti-avoidance provision.

Subsection (10) is the normal provision to cover cases where a taxpayer's accounting year does not coincide with an income year.