Explanatory note

General policy statement
This Bill introduces measures foreshadowed in the 2005 general election campaign. The measures—

• provide tax relief to working families delivered via enhancements to the Working for Families package:
• introduce a full interest write-off for student loan borrowers present in New Zealand:
• grant an amnesty to write-off penalties on overdue student loan assessments for non-resident borrowers who undertake to the Commissioner of Inland Revenue that they will meet all of their obligations under the Student Loan Scheme Act 1992 for a two-year period.

Annual income tax rates for the 2005–06 tax year are set by this Bill.

Part 1
Annual rates of income tax for 2005–06 tax year
This part sets the annual income tax rates that will apply for the 2005–06 tax year. The rates that will apply are those in Schedule 1 of the Income Tax Act 2004.
Part 2
Amendments to Income Tax Act 2004
Enhancing the Working for Families package
These enhancements increase the income level at which abatement of family assistance starts (from $27,500 to $35,000). They reduce the rate of abatement (from 30% to 20%).

Part 3
Amendments to Student Loan Scheme Act 1992
Student loans full interest write-off
Student loan borrowers who are personally present in New Zealand for 183 consecutive days or more will receive a full interest write-off.

Borrowers who are overseas for 184 or more consecutive days will not receive a full interest write-off. If a borrower returns to New Zealand for 31 days or less in a period of 183 consecutive days, the time in New Zealand will be counted as if the borrower had remained overseas.

Once a borrower has returned to New Zealand for more than 183 consecutive days, any interest charged from the first day the borrower was personally present in New Zealand will be written off. If a borrower travels overseas for 31 days or less in a period of 183 consecutive days, the time overseas will be counted as if the borrower had remained in New Zealand.

There are a number of possible discretionary exemptions to the 183-day requirement for a full interest write-off, for example, if a borrower is unexpectedly delayed overseas, or is studying at a postgraduate level overseas.

It is proposed that these changes will apply for the 2006–07 and subsequent tax years.

Student loans amnesty
Non-resident student loan borrowers who have overdue student loan assessments when the amnesty commences will be eligible for the write-off of penalties charged on those overdue assessments, if they meet the conditions provided.

The amnesty starts on 1 April 2006 and finishes on 31 March 2007. It applies to both those non-resident borrowers who have advised
Inland Revenue of their departure and those who have failed to do so. Borrowers will be entitled to the benefit of the amnesty if they give an undertaking to the Commissioner of Inland Revenue that they will fully comply with all of their obligations under the Student Loan Scheme Act 1992 for a two-year period. Overdue assessments will be added back to the loan balance on the date they originally became due and be subject to interest from that date. Borrowers who give an undertaking to meet their obligations for a two-year period and fail to adhere to it may have a proportion of any assessments which have been added back to the loan balance and written-off penalties reinstated.

Clause-by-clause analysis

Clause 1 is the Title clause. It is intended that the Bill will be divided, at the committee of the whole stage, into 3 separate Bills. Part 1 will become a Taxation (Annual Rates of Income Tax 2005–06) Bill. Part 2 will become an Income Tax Amendment Bill. Part 3 will become a Student Loan Scheme Amendment Bill.

Clause 2 gives the commencement date for the Act.

Part 1
Annual rates of income tax for 2005–06 tax year


Part 2
Amendments to Income Tax Act 2004


Clause 5 amends section KD 2(6) to provide for an increase in the income level at which abatement of family assistance starts, and for a reduction in the rate of that abatement.

Clause 6 replaces schedule 12—Amount that, for purposes of section KD 5(6), is deemed to be equivalent of an annual amount consequent to the increase in the family assistance abatement threshold.
Part 3

Amendments to Student Loan Scheme Act 1992

Part 3 of the Bill contains various amendments to the Student Loan Scheme Act 1992, which is called “the principal Act” in that Part (see clause 7) and also in this part of the explanatory note.

Clause 8 replaces the definition of total interest rate in section 2 of the principal Act to allow the total interest rate to be set by regulations.

Clause 9 amends section 37 of the principal Act to provide new disclosure requirements.

Clause 10 amends the heading to section 38 of the principal Act.

Clause 11 inserts a new heading immediately after section 38 of the principal Act concerning full interest write-offs for borrowers present in New Zealand or who have been granted an exemption.

Clause 12 inserts new sections 38AA to 38AK in the principal Act. New section 38AA provides criteria and conditions for full interest write-offs for certain borrowers. New sections 38AB to 38AD provide periods for which a borrower must be present in, or absent from, New Zealand for the purpose of determining whether or not a borrower is entitled to a full interest write-off. New sections 38AE to 38AJ provide exemptions and conditions to the general rules in new sections 38AB to 38AD. New section 38AK sets out the terms of the full interest write-off.

Clause 13 inserts a new heading immediately before section 38A of the principal Act.

Clause 14 amends section 41 of the principal Act, providing that a base interest write-off or an interest reduction can only be granted for up to 2 years for any 1 borrower.

Clause 15 inserts new sections 45A to 45D in the principal Act. These new sections provide for an amnesty from late payment penalties for eligible borrowers who meet the condition in new section 45B. New section 45C provides for interest to be charged on amounts on which penalties are written-off. New section 45D provides for the re-institution of penalties if the amnesty conditions are breached.

Clause 16 provides for relevant regulation-making powers, amending section 87 of the principal Act.
Hon Dr Michael Cullen

Taxation (Annual Rates and Urgent Measures) Bill

Government Bill

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16 Regulations

1—1

1—1
The Parliament of New Zealand enacts as follows:

1 Title
This Act is the Taxation (Annual Rates and Urgent Measures) Act 2005.

2 Commencement
This Act comes into force on the date on which it receives the Royal assent.

Part 1
Annual rates of income tax for 2005–06 tax year

3 Rates of income tax for 2005–06 tax year
(1) Income tax imposed by section BB 1 of the Income Tax Act 2004 must, for the 2005–06 tax year, be paid at the basic rates specified in Schedule 1 of that Act.


Part 2
Amendments to Income Tax Act 2004

4 Income Tax Act 2004
This Part amends the Income Tax Act 2004.

5 Calculation of subpart KD credit
(1) In section KD 2(6),—
   (a) in paragraph (a) of the definition of full-year abatement,—
       (i) “$27,500” is replaced by “$35,000”; and
       (ii) “30 cents” is replaced by “20 cents”;
   (b) in paragraph (b) of the definition of full-year abatement,—
       (i) “$27,500” is replaced by “$35,000”; and
       (ii) “30 cents” is replaced by “20 cents”.

(2) Subsection (1) applies for the 2006–07 and subsequent tax years.
6 Schedule 12—Amount that, for purposes of section KD 5(6), is deemed to be equivalent of an annual amount

(1) Schedule 12 is replaced by the Schedule 12 in the Schedule of this Act.

(2) Subsection (1) applies for the 2006–07 and subsequent tax years.

Part 3
Amendments to Student Loan Scheme Act 1992

7 Student Loan Scheme Act 1992 called principal Act in this Part

In this Part, the Student Loan Scheme Act 1992 is called “the principal Act”.

8 Interpretation

Section 2 of the principal Act is amended by repealing the definition of total interest rate, and substituting the following definition:

“total interest rate means,—

“(a) in respect of the tax year ending on 31 March 2006, the sum of the base interest rate and the interest adjustment rate:

“(b) in respect of each subsequent tax year, the rate prescribed in respect of that tax year by regulations made under section 87 in the last 6 months of the immediately preceding tax year.”

9 Borrower to advise Commissioner of absence from New Zealand

(1) Section 37(1) of the principal Act is amended by adding the word “; and”, and also by adding the following paragraph:

“(c) any information that the Commissioner reasonably requires in order to determine whether the borrower is entitled to the full interest write-off set out in section 38AK.”

(2) Section 37 of the principal Act is amended by repealing subsections (2) and (3), and substituting the following subsection:
“(2) When a borrower who is absent from New Zealand becomes aware that he or she will be absent from New Zealand for a period of more than 3 months, he or she must, as soon as practicable after becoming so aware, provide the Commissioner with the information required by subsection (1).”

10 Non-resident borrower to advise Commissioner of return to New Zealand
The heading to section 38 of the principal Act is amended by omitting the words “Non-resident borrower”, and substituting the word “Borrower”.

11 New heading substituted
The principal Act is amended by omitting the heading below section 38, and substituting the heading “Full interest write-off for borrowers present in New Zealand or granted an exemption”.

12 New sections 38AA to 38AK inserted
The principal Act is amended by inserting, before section 38A, the following sections:

“38AA Full interest write-off for certain borrowers
“(1) A borrower is entitled to the full interest write-off set out in section 38AK if—
“(a) the borrower satisfies the 183-day requirement in section 38AB; or
“(b) the Commissioner grants an exemption to the borrower under section 38AE or section 38AJ.

“(2) The conditions in section 38AK(2) apply to subsection (1).

“38AB 183-day requirement
“(1) A borrower satisfies the 183-day requirement if that borrower is personally present in New Zealand for a period of 183 or more consecutive days after 31 March 2006.

“(2) For the purposes of subsection (1), a borrower is treated as being personally present in New Zealand if the borrower is personally absent from New Zealand for a period, or periods in the aggregate, of 31 days or less during what would otherwise have been a period of 183 or more consecutive days that would have satisfied the 183-day requirement.
“(3) A borrower who satisfies the 183-day requirement is entitled to the full interest write-off set out in section 38AK for the period commencing on the first day within the 183-day period on which that person was personally present in New Zealand and, subject to section 38AC, for each subsequent day.

“38AC Full interest write-off ceases if borrower is personally absent from New Zealand for 184 days

“(1) A borrower ceases to satisfy the 183-day requirement in section 38AB if that borrower is personally absent from New Zealand for a period of 184 or more consecutive days (a 184-day absence).

“(2) For the purposes of subsection (1), a borrower is treated as being personally absent from New Zealand if the borrower is personally present in New Zealand for a period, or periods in the aggregate, of 31 days or less during what would otherwise have been a 184-day absence.

“(3) A borrower who has had a 184-day absence ceases to be entitled to the full interest write-off set out in section 38AK for the period commencing on the first day within the 184-day period on which that person was personally absent from New Zealand and, subject to section 38AB, for each subsequent day.

“(4) Subsection (3) is subject to the Commissioner granting an exemption to a borrower under section 38AE or section 38AJ.

“38AD Treatment of partial days

For the purposes of sections 38AB and 38AC, if a borrower is personally present in New Zealand for part of a day, that borrower is treated as being personally present in New Zealand for the whole of that day and not being personally absent from New Zealand for any part of that day.

“38AE Power of Commissioner to grant exemptions to borrowers who do not satisfy 183-day requirement

“(1) On the application of a borrower who does not satisfy the 183-day requirement in section 38AB, the Commissioner may, if the Commissioner considers that it is fair and reasonable to do so, grant an exemption to the 183-day requirement to that borrower if the principal reason that the borrower does not satisfy the 183-day requirement is because—
“(a) the borrower was personally absent from New Zealand in the service in any capacity of the Government of New Zealand; or
“(b) the borrower was personally absent from New Zealand because he or she was working as a volunteer or for token payment for a charitable organisation named in regulations made under this Act (charity); or
“(c) of an unexpected delay; or
“(d) of an unplanned absence; or
“(e) the borrower is required to be personally absent from New Zealand because of the borrower’s employment or occupation; or
“(f) the borrower was personally absent from New Zealand because the borrower accompanied his or her wife or husband, civil union partner, or de facto partner (partner) overseas.

“(2) If the Commissioner grants an exemption under subsection (1), the Commissioner must specify either—
“(a) the start and end dates for the period for which the relevant borrower is treated as being personally present in New Zealand for the purposes of section 38AB; or
“(b) the conditions that must apply in order for the relevant borrower to be treated as being personally present in New Zealand for the purposes of section 38AB.

“(3) The Commissioner may grant an exemption—
“(a) under subsection (1)(b) in respect of any 1 borrower for a maximum aggregate period of up to 24 months; and
“(b) under subsection (1)(f) in respect of any 1 borrower whose partner was personally absent from New Zealand because the partner was working as a volunteer or for token payment for a charity, for a maximum aggregate period of up to 24 months.

“(4) The conditions in section 38AF apply to subsection (1)(c).
“(5) The conditions in section 38AG apply to subsection (1)(d).
“(6) The conditions in section 38AH apply to subsection (1)(e).
“(7) The conditions in section 38AI apply to subsection (1)(f).
“(8) A borrower who applies to the Commissioner under this section must supply the Commissioner with all information, and in the manner, that the Commissioner may reasonably
require in order to establish whether 1 of the grounds for the grant of an exemption in subsection (1)(a) to (f) applies.

“38AF Conditions to unexpected delay exemption
An applicant under section 38AE(1)(c) must—
“(a) have been a resident during the time in question; and
“(b) provide proof—
“(i) of the applicant’s intended return to New Zealand; and
“(ii) that if the applicant had returned to New Zealand as intended, the applicant would have satisfied the 183-day requirement in section 38AB; and
“(c) provide proof of the unexpected delay that resulted in the applicant not being able to return to New Zealand as intended; and
“(d) provide proof that the unexpected delay was due to an event or to circumstances beyond the reasonable control of the applicant, like (for example)—
“(i) an airline strike, personal illness, or death of a family member:
“(ii) a fire, flood, storm, earthquake, landslide, volcanic eruption, or other act of God:
“(iii) an explosion or nuclear, biological, or chemical contamination:
“(iv) sabotage, terrorism, or an act of war (whether declared or not).

“38AG Conditions to unplanned absence exemption
An applicant under section 38AE(1)(d) must—
“(a) have been a resident during the time in question; and
“(b) provide proof of the duration of the applicant’s unplanned personal absence from New Zealand; and
“(c) provide proof that the applicant’s unplanned absence was due to an event or to circumstances beyond the reasonable planning and control of the applicant, like (for example)—
“(i) the illness or death of a family member who is overseas:
“(ii) the applicant’s employer requiring the applicant to attend a conference overseas.
“38AH Conditions to employment or occupation absence exemption
An applicant under section 38AE(1)(e) must—
“(a) have been a resident during the time in question; and
“(b) have a permanent place of abode only in New Zealand; and
“(c) provide proof that the applicant receives either—
“(i) a source deduction payment as defined in section OB 2(1) of the Income Tax Act 2004; or
“(ii) income from a business that has a permanent place of business in New Zealand; and
“(d) provide proof that the majority of the applicant’s personal absences from New Zealand are because of the applicant’s employment or occupation.

“38AI Conditions to marriage, civil union, or de facto exemption
An applicant under section 38AE(1)(f) must—
“(a) have been a resident during the time in question; and
“(b) provide proof of the applicant’s relationship with his or her wife or husband, civil union partner, or de facto partner (partner); and
“(c) provide proof that the applicant’s personal absence from New Zealand was because the applicant was accompanying his or her partner overseas; and
“(d) provide proof that one of the following applies:
“(i) the applicant’s partner was personally absent from New Zealand—
“(A) in the service in any capacity of the Government of New Zealand; or
“(B) because he or she was working as a volunteer or for token payment for a charitable organisation named in regulations made under this Act; or
“(ii) the applicant’s partner satisfies the conditions in section 38AH; or
“(iii) the applicant’s partner satisfies the conditions in section 38AJ(2).
“38AJ Power of Commissioner to grant exemption to borrowers undertaking post-graduate study overseas

“(1) On the application of a borrower who does not satisfy the 183-day requirement in section 38AB, the Commissioner may, if the Commissioner considers that it is fair and reasonable to do so, grant an exemption to the 183-day requirement to that borrower if the borrower is undertaking full-time study at post-graduate level overseas.

“(2) An applicant under subsection (1)—

“(a) must provide the Commissioner with a document from the NZQA verifying that the applicant’s post-graduate course is at post-graduate level for the purposes of this section; and

“(b) must provide the Commissioner with evidence from the applicant’s overseas education provider verifying that the applicant is enrolled full-time in the post-graduate course verified by the NZQA; and

“(c) must supply the Commissioner with all other information, and in the manner, that the Commissioner may reasonably require in order to establish whether the ground for the grant of an exemption under subsection (1) applies.

“(3) If the Commissioner grants an exemption under subsection (1), the Commissioner must specify either—

“(a) the start and end dates for the period for which the relevant borrower is treated as being personally present in New Zealand for the purposes of section 38AB; or

“(b) the conditions that must apply in order for the relevant borrower to be treated as being personally present in New Zealand for the purposes of section 38AB.

“(4) In this section,—

“NZQA means the New Zealand Qualifications Authority established under Part 20 of the Education Act 1989

“study at post-graduate level means study that is assessed by the NZQA as being equivalent to levels 8, 9, or 10 on the New Zealand Register of Quality Assured Qualifications developed by the Authority under section 253(1)(c) of the Education Act 1989.
“38AK Terms of full interest write-off

“(1) When a borrower is entitled to a full interest write-off under section 38AA, the amount of interest calculated on the borrower’s loan balance must be reduced to zero.

“(2) Subsection (1)—

“(a) applies only to interest chargeable on or after 1 April 2006; and

“(b) applies to the days on which a borrower is personally present in New Zealand in accordance with the requirements of sections 38AB to 38AD; and

“(c) applies to the days on which a borrower is treated as being personally present in New Zealand under section 38AB or section 38AE(2) or section 38AJ(3); and

“(d) does not apply to the days on which a borrower is personally present in New Zealand but is treated as being personally absent from New Zealand under section 38AC.”

13 New heading inserted
The principal Act is amended by inserting, immediately above section 38A, the heading “Full interest write-off for certain students”.

14 Conditions for base interest write-off
(1) Section 41 of the principal Act is amended by adding the word “; and”, and also by adding the following paragraph:

“(c) a maximum aggregate of 2 tax years in respect of any 1 borrower.”

(2) Section 41 of the principal Act is amended by adding, as subsection (2), the following subsection:

“(2) Subsection (1)(c) applies from 31 March 2006.”

15 New heading and sections 45A to 45D inserted
The principal Act is amended by inserting, after section 45, the following heading and sections:
Amnesty from payment of late payment penalties

45A Amnesty in respect of late payment penalties
“(1) The Commissioner must write-off any late payment penalties to which a borrower has become liable under section 44 (late payment penalties) if—
“(a) the Commissioner is satisfied that the borrower is a non-resident on 31 March 2006; and
“(b) the borrower meets the condition in section 45B(1); and
“(c) the Commissioner receives an application (in any form or manner acceptable to the Commissioner) by or on behalf of that borrower before the close of 31 March 2007.
“(2) This section applies—
“(a) from 31 March 2006; and
“(b) only to those late payment penalties that the borrower is already liable to pay on the date on which the Commissioner receives the borrower’s application under subsection (1)(c).

45B Conditions of amnesty
“(1) The condition that a borrower must meet for the purposes of section 45A(1)(b) is that the borrower must give an undertaking to the Commissioner that he or she will, for the whole of the 2 years after the date on which the Commissioner receives the borrower’s application under section 45A(1)(c), meet all of his or her obligations under this Act.
“(2) In accordance with the borrower’s undertaking given under subsection (1), the borrower must meet all of his or her obligations under this Act for the whole of the 2 years after the date on which the Commissioner receives the borrower’s application under section 45A(1)(c).

45C Effect of amnesty on repayment obligation and interest
“(1) If the Commissioner writes-off late payment penalties under section 45A(1), the repayment obligations on which those penalties were written-off (the relevant repayment obligation) must be added to the relevant borrower’s loan balance with effect from the date that the relevant repayment obligation was originally due.
“(2) The relevant repayment obligation is subject to interest at the total interest rate that applied over the period of non-payment on the daily amount outstanding.

“45D Repayment obligation and penalties may be reinstated if amnesty condition breached

“(1) If the Commissioner is satisfied that a borrower has breached the condition in section 45B(2), the Commissioner may, at his or her discretion, reinstate so much of the late payment penalties written-off under section 45A in respect of that borrower as the Commissioner considers fair and reasonable in the circumstances.

“(2) In order to reinstate part or all of a late payment penalty under subsection (1), the Commissioner may reverse all or any part of an action that occurred under section 45C.

“(3) The Commissioner must, as soon as practicable after reinstating a late payment penalty, give the borrower written notice of—

“(a) the amount of that penalty; and

“(b) any action taken under subsection (2).”

16 Regulations

(1) Section 87(1)(a)(ii) and (iii) of the principal Act is repealed.

(2) Section 87(1) of the principal Act is amended by inserting, after paragraph (a), the following paragraphs:

“(ab) specifying a formula or methodology by, and other requirements against, which the following interest rates must be set or reset for the purposes of this Act:

“(i) the base interest rate; and

“(ii) the interest adjustment rate; and

“(iii) the total interest rate:

“(ac) determining, in accordance with the formula or methodology and requirements specified under paragraph (ab), the following interest rates that are to apply in respect of any tax year:

“(i) the base interest rate; and

“(ii) the interest adjustment rate; and

“(iii) the total interest rate.”

(3) Section 87(1) of the principal Act is amended by inserting, after paragraph (ba), the following paragraph:
“(bb) specifying a list of charitable organisations for the purposes of section 38AE(1)(b).”.

(4) Section 87(2) and (3) of the principal Act is repealed.

(5) Section 87(4) of the principal Act is amended by inserting, after the expression “subsection (1)(a)”, the words “or subsection (1)(ac)”. 
**Schedule 12**

**Amount that, for purposes of section KD 5(6), is deemed to be equivalent of an annual amount**

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<th>Column 1</th>
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### Schedule 12—continued

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<td>Amount exceeds $119,000 but does not exceed $120,500</td>
<td>120,500</td>
</tr>
<tr>
<td>Amount exceeds $120,500</td>
<td>the number of complete dollars comprised in the annual amount</td>
</tr>
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