

Part F – Recharacterisation for certain arrangements and entities

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Introductory provision

FA 1 What this subpart does

This subpart alters the tax treatment of certain commercial arrangements by—

- (a) recharacterising either their nature or that of the amounts derived under the arrangements; and
- (b) providing rules for the treatment of the parties to the arrangement.

Defined in this Act: amount, arrangement, tax

Origin: new

Debentures and shares

FA 2 Recharacterisation of certain debentures

Treatment of debenture and interest

- (1) A profit-related debenture or a substituting debenture is treated for tax purposes as a share under paragraph (b) of the definition of **share**, and the interest payable under the debenture is treated as a dividend.

No deduction

- (2) A company issuing either a profit-related debenture or a substituting debenture is denied a deduction under section DB 8C (Profit-related or substituting debentures) for—
 - (a) interest payable under the debenture; or
 - (b) expenditure or loss incurred in connection with the debenture; or
 - (c) expenditure or loss incurred in borrowing the money secured by or owing under the debenture.

When interest fixed to certain rates or indices

- (3) Subsection (2) does not apply to a profit-related debenture if the rate of interest payable under it is determined by a fixed relationship to—
 - (a) banking rates; or
 - (b) general commercial rates; or
 - (c) economic, commodity, industrial, or financial indices.

Profit-related debenture

- (4) In this section, a **profit-related debenture** means a debenture with a floating rate of interest that is set from time to time by reference to—
- (a) the dividend payable by the company issuing the debenture; or
 - (b) the profits of the company issuing the debenture, however measured.

Substituting debenture

- (5) In this section, a **substituting debenture**—
- (a) means a debenture issued by a company to a shareholder or class of shareholder of the company when the amount of the debenture is determined by reference to 1 or more of the following aspects of the shares in the company held by the shareholder or class of shareholder at the time the debenture is issued or at an earlier time:
 - (i) the number of shares; or
 - (ii) the available subscribed capital of the company calculated under the slice rule set out in section CD 15 (Ordering rule and slice rule); or
 - (iii) a reference to any other quality of the shares:
 - (b) does not include a debenture that is a convertible note.

Shares or available subscribed capital in another company

- (6) A debenture is also a substituting debenture if the shares or the available subscribed capital of the company held by the shareholder or class of shareholder include shares or available subscribed capital of any other company, whether or not the company is being, or has been, liquidated.

Amount of debenture

- (7) For the purposes of subsections (5) and (6), the amount of the debenture means the principal sum secured by or owing under the debenture.

Terminating provisions

- (8) For the treatment of profit-related debentures issued before October 1986, see section FZ 1 (Treatment of interest payable under debentures issued before a certain date).

Relationship with agency rules

- (9) Section HK 12 (Company deemed agent of debenture holders) does not apply to a profit-related debenture described in this section, or to an amount paid or payable under it.

Defined in this Act: amount, available subscribed capital, company, convertible note, debenture holder, debentures, deduction, dividend, interest, issue, liquidation, loss, money, NRWT rules, pay, profit-related debenture, RWT rules, share, shareholder, slice rule, substituting debenture, tax

- (2) FC 1(1), FC 2(2)
- (3) FC 1(3)
- (4) FC 1(1)
- (5) FC 2(1), (3), (4)
- (6) FC 2(5)
- (7) FC 2(5)
- (8) FC 1(1)
- (9) FC 1(2)

FA 3 Recharacterisation of certain dividends: recovery of cost of shares held on revenue account

When this section applies

- (1) This section applies to the amount of a dividend derived from shares that are revenue account property of a person when—
 - (a) the payment of the dividend realises or recovers the price the person paid for the shares; and
 - (b) the payment is made at the person's control or direction, or is part of a scheme that includes the acquisition of the shares and the payment of the dividend.

Treatment of amount derived

- (2) The dividend is treated as an amount derived on a sale of the shares, but only to the extent to which the sum of the dividend and the actual amount realised by the person on the disposal of the shares is not more than the cost to the person of acquiring the shares.

Dividend and income

- (3) Despite subsection (2), a dividend taken into account under this section remains a dividend derived by the person in the tax year, and the amount of the dividend is income of the person.

Defined in this Act: amount, consideration, control, dividend, income, pay, revenue account property, share, tax year

- Origin:
- (1) FC 3(1)(a), (b)
 - (2) FC 3(1)
 - (3) FC 3(2)

FA 4 Recharacterisation of shareholder's base: company repurchasing share

When this section applies

- (1) This section applies to a shareholder in a company in relation to an off-market cancellation of shares by the company when—
- (a) the shareholder holds the share as revenue account property; and
 - (b) after the cancellation, they continue to hold some shares of the same class.

When whole amount treated as dividend

- (2) If the whole of the amount that the shareholder receives for the cancellation is treated as a dividend, the following paragraphs apply:
- (a) the shareholder is not regarded as having disposed of the cancelled share, except for the purpose of determining whether they have derived a dividend; and
 - (b) the amount is added to the cost of the shareholder's remaining shares of the same class under subsection (6).

Below market value of shares

- (3) If subsection (2) does not apply, and the amount paid by the company is less than the market value of the shares at the time when notice is first given of the cancellation either by the shareholder or the company, the following paragraphs apply:
- (a) an amount calculated using the formula in subsection (4) is added to the cost of the shareholder's remaining shares of the same class under subsection (6); and
 - (b) the amount is excluded from the cost of the share being cancelled so that the shareholder is denied a deduction under section DB 18B (Cancellation of shares held as revenue account property) for the amount unless the share is trading stock of the shareholder; and
 - (c) section GD 1 (Sale of trading stock for inadequate consideration) does not apply.

Formula

- (4) The formula referred to in subsection (3)(a) is—

$$\text{cost of share} = (\text{cost before cancellation} \times \frac{\text{amount from cancellation}}{\text{market value}})$$

Definition of items in formula

- (5) In the formula,—
- (a) **cost of share** is the cost of the cancelled share to the shareholder;
 - (b) **cost before cancellation** is the total cost to the shareholder of all their shares of the same class immediately before the cancellation;

- (c) **amount from cancellation** is the amount derived by the shareholder from the company for the cancellation:
- (d) **market value** is the total market value of all the shareholder's shares of the same class immediately before the cancellation.

Adding amount to cost of shares

- (6) The amount referred to in subsection (2)(b) or (3)(a) must be fairly divided among and added to the cost of the shareholder's remaining shares of the same class when taking into account, at any time after the cancellation, the cost of the remaining shares under subpart EB (Valuation of trading stock (including dealers' livestock)), or otherwise.

Defined in this Act: amount, cancellation, company, consideration, deduction, dividend, market value, notice, off-market cancellation, revenue account property, share, shareholder, shares of the same class, trading stock

Origin:	(1)	FC 4(a)–(d)
	(2)	FC 4(e), (f)
	(3)	FC 4(e)
	(4)	FC 4(f)(i), (ii)
	(5)	FC 4(f)
	(6)	FC 4(f)

Leases

FA 5 Assets acquired and disposed of after deduction of payments under lease

When this section applies

- (1) This section applies when—
 - (a) a person leases, rents, or hires an asset that is—
 - (i) plant, machinery, or other equipment; or
 - (ii) a motor vehicle; or
 - (iii) a temporary building; and
 - (b) they are allowed a deduction for the rental payments; and
 - (c) they acquire the asset and later dispose of it for an amount that is more than the amount paid to acquire the asset.

Amount of income

- (2) The amount is income of the person under section CG 7 (Recoveries after deduction of payments under lease).

Apportionment

- (3) If the asset is disposed of together with other assets, the total consideration must be apportioned to reflect the respective market values of the assets.

Disposal below market value

- (4) If the asset is disposed of without consideration or for a consideration that is less than market value at the date of disposal, the asset is treated as having been disposed of at its market value.

Associated persons acquiring asset

- (5) Subsection (2) applies if a person or a person associated with them acquires the asset, whether from the person or not, and disposes of it for an amount that is more than the amount paid to acquire it. Association is determined at the time of acquisition by the associated person.

Transfers on settlement of relationship property

- (6) Subsection (4) does not apply to a disposal on a settlement of relationship property. Subsection (5) does not apply to an acquisition on a settlement of relationship property.

Defined in this Act: amount, arrangement, associated person, consideration, deduction, income, market value, motor vehicle, pay, settlement of relationship property, tax year, temporary building

Origin:	(1)	FC 5(1)(a), (b)(i)
	(2)	FC 5(1)
	(3)	FC 5(3)(a)
	(4)	FC 5(3)(b)
	(5)	FC 5(1)(b)(ii)
	(6)	FC 5(1)(b)(ii), (3)(b)

Finance leases

FA 6 Recharacterisation of amounts derived under finance leases

When a lessor leases a personal property lease asset to a lessee under a finance lease, the lease is treated as a sale of the lease asset by the lessor to the lessee on the date on which the term of the lease starts, and—

- (a) the lessor is treated as giving a loan to the lessee for the lease asset; and
(b) the lessee is treated as using the loan to buy the lease asset; and

- (c) the financial arrangements rules apply to the recharacterised arrangement (apart from section FA 10(3)(a)(ii) which overrides this paragraph).

Defined in this Act: amount, finance lease, financial arrangements rules, interest, lessee, lessor, personal property lease asset

Origin: FC 8F

FA 7 Determining amount of loan

Value to lessor

- (1) For a lessor under a finance lease, the amount of the loan is determined under section EW 32 (Consideration for agreement for sale and purchase of property or services, hire purchase agreement, specified option, or finance lease).

Value to lessee

- (2) For a lessee under a finance lease, the amount of the loan is determined under sections EW 32 and EW 33 (which relate to the value of consideration under the financial arrangements rules).

Defined in this Act: amount, consideration, finance lease, financial arrangements rules, lease, lessee, lessor

Origin: (1) FC 8A, OB 1 “consideration”, “lessor’s disposition value”
(2) FC 8A, OB 1 “consideration”, “lessee’s acquisition cost”

FA 8 Deductibility of expenditure under finance lease

Lessee treated as owner

- (1) The lessee under a finance lease is treated as the owner of the personal property lease asset for the purposes of subpart EE (Depreciation).

Lessor not owner

- (2) The lessor under a finance lease is not treated as the owner of the personal property lease asset for the purposes of subpart EE.

Defined in this Act: finance lease, lessee, lessor, personal property lease asset

Origin: (1) FC 8B(1)
(2) FC 8B(1)

FA 9 Treatment when lease ends: lessee acquiring asset

Acquisition treated as sale

- (1) When the lessee under a finance lease acquires the personal property lease asset by the date on which the term of the lease ends, the acquisition is treated as a sale under section FA 7.

Income on disposal

- (2) If the lessee under a finance lease disposes of the lease asset for an amount that is more than the consideration they paid for it, the difference is income of the lessee under section CC 11 (Lessee acquiring lease asset on expiry of term of lease).

Associated persons

- (3) Subsection (2) also applies to an acquisition and disposal of the lease asset by a person associated with the lessee under a finance lease. The difference is income of the lessee in the tax year in which they dispose of the asset.

Defined in this Act: amount, associated person, consideration, finance lease, income, lease, lessee, personal property lease asset, tax year, term of the lease

Origin:	(1)	FC 8B(2)
	(2)	FC 8E
	(3)	FC 8E

FA 10 Treatment when lease ends: lessor acquiring asset

When this section applies

- (1) This section applies when a finance lease ends by the date on which its term ends.

Acquisition by lessor at end of lease

- (2) If the lessee does not acquire the personal property lease asset by the date on which the term of the lease ends, the lessor is treated as having acquired it on that date at its guaranteed residual value. If there is no guaranteed residual value, the consideration is treated as zero.

Further sale, assignment, or lease

- (3) For the purposes of subsection (2), if the lessor sells, assigns, or leases the lease asset to another person under another finance lease on or after date on which the term of the original lease ends, the consideration is treated as follows:
 - (a) if the consideration is more than the lessor's notional acquisition price in subsection (2), the amount of the difference,—
 - (i) to the extent to which it is paid by the lessor to the lessee under the original finance lease, is added to the acquisition price; and
 - (ii) to the extent to which it is not paid by the lessor to the lessee under the original finance lease, is income of the lessor under section CC 12 (Lessor acquiring lease asset on expiry of term of lease) in the tax year in which the original lease term ends:

- (b) if the consideration is less than the lessor's notional acquisition price in subsection (2), and the lessee is required to pay the amount of the deficit to the lessor, that amount is subtracted from the acquisition price.

Acquisition by lessor when lease ends early

- (4) If the lease is terminated before the end of its term and the lessee does not acquire the lease asset, the lessor is treated as acquiring it for an amount calculated using the formula—

$$\text{outstanding balance} - \text{release payment.}$$

Definition of items in formula

- (5) In the formula,—
 - (a) **outstanding balance** is the amount of the outstanding balance of the loan on the date on which the lease is terminated:
 - (b) **release payment** is the amount the lessee paid to be released from their obligations under the lease.

Relationship with section EE 38

- (6) Subsections (2) and (3) override section EE 38 (Consideration for purposes of section EE 37).

Defined in this Act: amount, consideration, finance lease, guaranteed residual value, income, lease, lessee, lessor, loan, outstanding balance, pay, personal property lease asset, tax year, term of the lease

Origin:	(1)	FC 8B(3)
	(2)	FC 8B(3)
	(3)	FC 8D
	(4)	FC 8C
	(5)	FC 8C
	(6)	FC 8B(3)

FA 11 Consecutive or successive finance leases

When this section applies

- (1) This section applies for the purposes of sections FA 6 to FA 10 if—
 - (a) the lease is a consecutive or a successive lease that, under the definition of **lease**, is treated as part of the original lease because the same personal property lease asset is leased to the same lessee; and
 - (b) the total lease runs for more than 75% of the lease asset's estimated useful life, although the lessor and lessee did not contemplate at the start of the term of the original lease that it would.

Adjustment required

- (2) The lessor and lessee must each adjust their income and expenditure calculated for the lease, and include the adjustment in a return of income for the tax year in which the adjustment is made.

Amount of adjustment

- (3) The amount of the adjustment is calculated in relation to the period described in subsection (5) using the formula—

finance lease income - finance lease expenditure - operating lease income + operating lease expenditure.

Definition of items in formula

- (4) In the formula,—
- (a) **finance lease income** is the income that would have been derived under the lease if the lease were a finance lease:
 - (b) **finance lease expenditure** is the expenditure that would have been incurred under the lease if the lease were a finance lease:
 - (c) **operating lease income** is the income derived under the lease as if the lease were an operating lease:
 - (d) **operating lease expenditure** is the sum of deductions allowed if the lease were an operating lease.

Adjustment period

- (5) The period starts on the date on which the lease starts and ends on the last day of the tax year in which the lease becomes a finance lease.

Adjustment positive

- (6) If the adjustment is positive, the amount is income of the lessor or the lessee under section CH 7 (Adjustments under consecutive or successive finance leases).

Adjustment negative

- (7) If the adjustment is negative, the amount is expenditure incurred by the lessor or the lessee in the tax year in which the adjustment is made.

Defined in this Act: amount, associated person, deduction, estimated useful life, finance lease, income, lease, lessee, lessor, operating lease, personal property lease asset, return of income, tax year, term of the lease

Origin:	(1)	FC 8H
	(2)	FC 8H
	(3)	FC 8I(2)
	(4)	FC 8I(2)
	(5)	FC 8I(1)
	(6)	FC 8I(3)(a)
	(7)	FC 8I(3)(b)

Hire purchase agreements

FA 12 Recharacterisation of amounts derived under hire purchase agreements

When a person (**the seller**) provides personal property other than livestock or bloodstock to another person (**the buyer**) under a hire purchase agreement, the agreement is treated as a sale by the seller to the buyer on the date on which the term of the agreement starts, and—

- (a) the seller is treated as giving a loan to the buyer for the property; and
- (b) the buyer is treated as using the loan to buy the property; and
- (c) the financial arrangements rules and other provisions of this Act apply to the arrangement as recharacterised.

Defined in this Act: amount, bloodstock, financial arrangements rules, hire purchase agreement, livestock, personal property, this Act

Origin: FC 9, FC 10

FA 13 Agreements recharacterised as sale with finance provided

Value to the seller

- (1) For a seller under a hire purchase agreement, the amount of the loan is determined under section EW 32 (Consideration for agreement for sale and purchase of property or services, hire purchase agreement, specified option, or finance lease).

Value to the buyer

- (2) For a buyer under a hire purchase agreement, the amount to the buyer is determined under sections EW 32 and EW 33 (which relate to the value of consideration under the financial arrangements rules).

Defined in this Act: amount, consideration, financial arrangements rules, hire purchase agreement

Origin: (1) FC 10(1)(a), OB 1 “consideration”, “lessor’s disposition value”
(2) FC 10(1)(b), OB 1 “consideration”, “lessee’s acquisition cost”

FA 14 Deductibility of expenditure or loss under hire purchase agreement

Buyer treated as owner

- (1) The buyer in section FA 12 is treated as the owner of the property for the purposes of subpart EE (Depreciation).

Seller not owner

- (2) The seller in section FA 12 is not treated as the owner of the property for the purposes of subpart EE.

Discounted or bad debts

- (3) Subsection (4) applies if the seller takes an amount calculated under section FA 15 into account as the cost of trading stock or in the calculation of their net income for an income year.

No deduction for the seller

- (4) The seller is denied a deduction under section DB 11 or DB 23 (which relate to debts sold at a discount and bad debts) for an amount owing under the hire purchase agreement.

Defined in this Act: amount, deduction, hire purchase agreement, income year, net income, property, tax year, trading stock

Origin:	(1)	FC 10(1)(c)
	(2)	FC 10(1)(c)
	(3)	FC 10(5)(c)
	(4)	FC 10(5)(c)

FA 15 Treatment when agreement ends: seller acquiring property

When this section applies

- (1) This section applies, subject to sections FA 16 and FA 17, when—
- (a) a hire purchase agreement described in section FA 13 ends by the date on which its term ends or after that date; and
 - (b) the buyer does not acquire ownership of the property; and
 - (c) the seller is associated with the buyer does not acquire ownership of the property.

Sale of property

- (2) The seller is treated as buying the property from the buyer for an amount equal to the outstanding balance calculated under subsection (3), and the buyer is treated as selling the property to the seller for that amount. The date of the sale is the date the agreement ends.

Outstanding balance

- (3) The outstanding balance is the amount calculated using the formula—
- $$\text{net balance due} - \text{buyer's termination payment} + \text{seller's termination payment}.$$

Definition of items in formula

- (4) In the formula,—
- (a) **net balance due** is the net balance due under the hire purchase agreement on the date the agreement ends less any costs and expenses referred to in section 31(2)(c) and (d) of the Credit (Repossession) Act 1997:
 - (b) **buyer’s termination payment** is the sum of the following amounts, as applicable:
 - (i) an amount paid by the buyer, or an associated person, to the seller, or an associated person, under the agreement; and
 - (ii) an amount paid as a consequence of the ending of the agreement; and
 - (iii) an amount required to be taken into account by the buyer under the base price adjustment in section EW 31 (Base price adjustment formula) or by the seller in item “a” of the formula in section EZ 35(1) (Income and expenditure where financial arrangement redeemed or disposed of):
 - (c) **seller’s termination payment** is the sum of the following amounts, as applicable:
 - (i) an amount paid by the seller, or an associated person, to the buyer, or an associated person, under the agreement; and
 - (ii) an amount paid as a consequence of the ending of the agreement; and
 - (iii) an amount required to be taken into account by the buyer under the base price adjustment in section EW 31 or by the seller in item “b” or “c” of the formula in section EZ 35(1) or (2).

Base price adjustment

- (5) For the purposes of section EW 31, the outstanding balance is taken into account as the consideration paid by the buyer to the seller under the hire purchase agreement.

Defined in this Act: amount, associated person, consideration, financial arrangement, hire purchase agreement, income, outstanding balance, property

- Origin:
- (1) FC 10(2)
 - (2) FC 10(2)(a), (b)
 - (3) OB 1 “lessee’s outstanding balance”, “lessor’s outstanding balance” “net balance due”
 - (4) OB 1 “lessee’s outstanding balance”, “lessor’s outstanding balance” “net balance due”
 - (5) FC 10(5)(a)

FA 16 Treatment when agreement ends: when seller is cash basis person

When this section applies

- (1) This section applies for the purposes of section FA 15 when the seller is a cash basis person.

Reduction

- (2) The amount treated as the seller's purchase price in section FA 15(2) is reduced by an amount for accrued but unpaid interest on the hire purchase agreement calculated using the formula—

$$\text{accrual income} - \text{income.}$$

Definition of items in formula

- (3) In the formula,—
- (a) **accrual income** is the amount of income that would have been derived under 1 of the spreading methods for payments under the hire purchase agreement if—
- (i) the seller were not a cash basis person; and
 - (ii) section EW 31 (Base price adjustment formula) did not apply to the seller and the agreement in the income year when the agreement ends:
- (b) **income** is the amount of the seller's income from payments received under the hire purchase agreement.

Defined in this Act: amount, cash basis person, hire purchase agreement, income, income year, interest, pay, spreading method

Origin:	(1)	FC 10(3)
	(2)	FC 10(3)
	(3)	FC 10(3)

FA 17 Treatment when agreement ends: when buyer is cash basis person

When this section applies

- (1) This section applies for the purposes of section FA 15 when the buyer is a cash basis person.

Reduction

- (2) The amount treated as the buyer's sale price in section FA 15(2) is reduced by an amount for accrued but unpaid interest on the hire purchase agreement calculated using the formula—

$$\text{accrual expenditure} - \text{expenditure.}$$

Definition of items in formula

- (3) In the formula,—
- (a) **accrual expenditure** is the amount of accrual expenditure that would have been incurred under 1 of the spreading methods for payments under the hire purchase agreement if—
- (i) the buyer were not a cash basis person; and
 - (ii) section EW 31 (Base price adjustment formula) did not apply to the buyer and the agreement in the income year when the agreement ends:
- (b) **expenditure** is the amount of expenditure incurred by the buyer and treated as interest under the hire purchase agreement.

Defined in this Act: accrual expenditure, amount, cash basis person, hire purchase agreement, income year, interest, pay, spreading method

Origin:	(1)	FC 10(4)
	(2)	FC 10(4)
	(3)	FC 10(4)

FA 18 Treatment of amounts paid in income years after agreement ends

When this section applies

- (1) This section applies for the purposes of section FA 15 when an amount that is liable to be paid under a hire purchase agreement is paid in an income year that is later than the income year in which the agreement ends.

Liability under agreement

- (2) If the buyer is liable to pay the amount under the terms of the agreement to the seller, the amount is income of the seller under section CC 13(2) (Amounts paid in income years after hire purchase agreement ends).

Payment after end of agreement

- (3) If the seller pays the amount to the buyer under the agreement and, consequent on the ending of the agreement, the amount was not taken into account under section FA 15, the amount is treated as—
- (a) expenditure incurred by the seller in the income year in which the amount is paid; and
 - (b) income of the buyer under section CC 13(3), if they have been allowed a deduction in relation to the property under the agreement in the income year in which the amount is paid.

Associated persons

- (4) In this section, the seller or the buyer includes a person associated with them.

Defined in this Act: amount, associated person, deduction, hire purchase agreement, income, income year, pay, property

- Origin:
- (1) FC 10(5)(d)-(f)
 - (2) FC 10(5)(d)
 - (3) FC 10(5)(e), (f)
 - (4) FC 10(5)(d)-(f)

Subpart FB – Transfers of relationship property

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FB 1 Transfers on settlement of relationship property

When this subpart applies

- (1) This subpart sets out the tax treatment when property is transferred on a settlement of relationship property.

Treatment of parties to agreement

- (2) In general terms, and subject to the individual provisions in this subpart, the tax consequences for the parties to the agreement are deferred, and the person to whom the property is transferred is treated as having taken the actions in relation to the property that the person transferring the property has taken.

Defined in this Act: settlement of relationship property, tax

Origin: (1) new
(2) new

FB 2 Personal property

When this section applies

- (1) This section applies for the purposes of sections CB 3 (Personal property acquired for purpose of disposal) and CB 4 (Business of dealing in personal property) when personal property, or an interest in personal property, is transferred on a settlement of relationship property.

Transfer at cost

- (2) The transfer is treated as a disposal and acquisition of the property for an amount that equals the cost of the property or, as applicable, the interest in the property, to the transferor.

Further disposal treated as dealing

- (3) If, after the transfer, the transferee disposes of the property, they are treated in relation to the disposal as carrying on a business of dealing in the property.

Defined in this Act: amount, business, personal property, settlement of relationship property

Origin: (1) FF 4
(2) FF 4(a), (b)
(3) FF 4(c)

FB 3 Land acquired for certain purposes or under certain conditions

When this section applies

- (1) This section applies for the purposes of Part D (Deductions), and sections CB 5 to CB 10, CB 12, CB 15, CB 18, and CB 21 (which relate to the disposal of land acquired for certain purposes or under certain conditions) when land was acquired for a purpose set out in or under the conditions set out in any of those sections, and the land is transferred on a settlement of relationship property.

Transfer at cost

- (2) The transfer is treated as a disposal and acquisition for an amount that equals the total cost of the land to the transferor at the date of transfer.

Date of acquisition

- (3) The transferee is treated as having acquired the land on the date it was acquired by the transferor.

Further disposal

- (4) For the tax consequences if the transferee disposes of the land, see section FB 5.

Defined in this Act: amount, date of transfer, dispose, land, settlement of relationship property, tax

Origin:	(1)	FF 6(1)(a)
	(2)	FF 6(1)(a)(i)-(ii)
	(3)	FF 6(1)(a)(iii)
	(4)	new

FB 4 Land under scheme for major development or division

When this section applies

- (1) This section applies for the purposes of Part D (Deductions) and section CB 11 (Disposal: amount from major development or division and not already in income) when land is transferred on a settlement of relationship property.

Transfer at market value plus expenditure

- (2) If the transferor has already begun an undertaking or scheme of the kind referred to in section CB 11, the transfer is treated as a disposal by them for an amount that equals the sum of—
- (a) the market value of the land on the date on which they began the undertaking or scheme;
 - (b) the expenditure that they have incurred in carrying out the undertaking or scheme before the date of transfer.

Expenditure incurred by transferee

- (3) For the purposes of subsection (2), the transferee is treated as having incurred expenditure—
- (a) in acquiring the land of an amount equal to the market value referred to in subsection (2)(a); and
 - (b) in carrying out the undertaking or scheme of an amount equal to the expenditure in subsection (2)(b).

When scheme not begun at date of transfer

- (4) If no undertaking or scheme as described in subsection (2) has begun at the date of transfer, the transferee is treated as having acquired the land for an amount that equals the total cost of the land to the transferor at the date of transfer.

Further disposal

- (5) For the tax consequences if the transferee disposes of the land, see section FB 5.

Defined in this Act: amount, date of transfer, dispose, income, land, market value, settlement of relationship property, tax

Origin:	(1)	FF 6(1)(b)
	(2)	FF 6(1)(b)(i)-(ii)
	(3)	FF 6(1)(b)(ii)
	(4)	FF 6(1)(b)(iii)
	(5)	new

FB 5 Treatment on disposal of land

When this section applies

- (1) This section applies for the purposes of sections FB 3 and FB 4 when the transferor and the transferee are not associated persons.

Persons treated as associated

- (2) If the transferee disposes of the land, section CB 13 (Transactions between associated persons) applies as if the transferor and the transferee were associated persons.

Land disposed of by mortgagee

- (3) If a mortgagee disposes of land because the transferee defaults under the mortgage, the disposal is treated as a disposal of land.

Defined in this Act: associated person, dispose, land, mortgage

Origin:	(1)	FF 6(1)(a)(iv), (b)(iv)
	(2)	FF 6(1)(a)(iv), (b)(iv)
	(3)	FF 6(2)

FB 6 Timber or right to take timber

When this section applies

- (1) This section applies for the purposes of section CB 22 (Disposal of timber or right to take timber) when timber, or a right to take timber, is transferred on a settlement of relationship property.

Transfer at cost of timber at date of transfer

- (2) The transfer is treated as a disposal and acquisition for an amount that equals the total cost of timber, or the right to take timber, to the transferor at the date of transfer.

Defined in this Act: amount, date of transfer, settlement of relationship property, right to take timber, timber

Origin:	(1)	FF 7(1)
	(2)	FF 7(2)

FB 7 Land with standing timber

When this section applies

- (1) This section applies for the purposes of section CB 23 (Disposal of land with standing timber) when—
- (a) land with standing timber on it is transferred on a settlement of relationship property; and
 - (b) the standing timber does not consist of ornamental or incidental trees, as evidenced by a certificate given under section 44C of the Tax Administration Act 1994.

Transfer at cost of timber at date of transfer

- (2) The transfer is treated as a disposal and acquisition for an amount that equals the total cost of the timber to the transferor at the date of transfer.

Defined in this Act: amount, date of transfer, land, settlement of relationship property, standing timber, timber

Origin: (1) FF 7(3)
(2) FF 7(4)

FB 8 Patent applications and patent rights

When this section applies

- (1) This section applies for the purposes of sections CB 26 and DB 29 to DB 31 (which relate to patent applications and patent rights) when patent applications with complete specifications or patent rights are transferred on a settlement of relationship property.

Transfer: part of expenditure or cost of rights

- (2) The transfer is treated as a disposal and acquisition for an amount that equals, as applicable,—
- (a) expenditure referred to in section DB 29 (Patent rights: devising patented inventions) for which the transferor is denied a deduction; or
 - (b) the cost of the applications or rights referred to in section DB 30 (Patent rights acquired before 1 April 1993) for which the transferor is denied a deduction.

Defined in this Act: amount, deduction, patent rights, settlement of relationship property

Origin: (1) FF 8
(2) FF 8(a)

FB 9 Financial arrangements rules

Under section EW 10(6) (Financial arrangements to which financial arrangements rules apply) the financial arrangements rules do not apply to a financial arrangement entered into on or after 20 May 1999 and transferred on a settlement of relationship property after that date. For the application of the old financial arrangement rules, see section EZ 42(c) (Application of old financial arrangements rules).

Defined in this Act: financial arrangement, financial arrangements rules, income year, old financial arrangement rules, settlement of relationship property

Origin: FF 2

FB 10 Continuity provisions: shares and options

When this section applies

- (1) This section applies to modify sections OD 3 (Voting interests) and OD 4 (Market value interests) for the purposes of the application of the continuity provisions when a share, or option over a share, is transferred on a settlement of relationship property.

Treatment:

- (2) The transferee is treated as having acquired the share or option on the date it was acquired by the transferor, and to have held it at all times up to the date of transfer.

Defined in this Act: continuity provisions, date of transfer, option, settlement of relationship property, share

Origin: (1) FF 1
(2) FF 1(2)

FB 11 Pension payments to former employees

When this section applies

- (1) This section applies for the purposes of section DC 2 (Pension payments to former employees) when a person is entitled to the payment of a pension from a former employer, and because of a settlement of relationship property, the employer pays some or all of the amount of the pension to another person.

Deduction for employer

- (2) Section DC 2(1) and (2) applies to the amount paid as if it were the payment of a pension to the transferor under the settlement.

Defined in this Act: amount, employee, employer, pay, settlement of relationship property

Origin: (1) FF 17(1)
(2) FF 17(1)

FB 12 Pension payments to former partners

When this section applies

- (1) This section applies for the purposes of section DC 3 (Pension payments to former partners) when a person is entitled to the payment of a pension from a partner in a partnership or from any person, and because of a settlement of relationship property, the partnership, partner, or person pays some or all of the amount of the pension to another person.

Deduction for partner

- (2) Section DC 3 applies to the amount paid as if it were the payment of a pension to the transferor under the settlement.

Defined in this Act: amount, pay, settlement of relationship property

Origin: (1) FF 17(2)
(2) FF 17(3)

FB 13 Trading stock

When this section applies

- (1) This section applies for the purposes of subpart EB (Valuation of trading stock (including dealer's livestock)) when trading stock is transferred on a settlement of relationship property.

When transferor holds and uses stock in business

- (2) If the transferor used trading stock in carrying on a business and held the stock at the start of the year of transfer, the transfer is treated as a disposal by the transferor and an acquisition by the transferee for an amount equal to the greater of—
- (a) the value of the stock under section EA 1 (Trading stock, livestock, and excepted financial arrangements) for the transferor at the end of the income year before the year of transfer; or
 - (b) the value of the stock under section EA 1 for the transferee at the end of the year of transfer.

When transferor acquires and uses stock in business

- (3) If the transferor used the trading stock in carrying on a business and acquired the stock during the year of transfer, the transfer is treated as a disposal by the

transferor and an acquisition by the transferee for an amount equal to the cost of the stock to the transferor.

When transferor has not used stock in business

- (4) If the transferor did not use the trading stock in the carrying on of a business, the transfer is treated as a disposal by the transferor and acquisition by the transferee for an amount equal to the cost of the stock to the transferor.

When transferee disposes of stock

- (5) If, after a transfer under subsection (2) or (3), the trading stock was not used by the transferee in the carrying on of a business and they dispose of the stock at any time, the disposal is treated as a disposal of trading stock used by the transferee in the carrying on a business.

Specified livestock in dealing operation

- (6) For the purposes of subsection (2), trading stock does not include specified livestock unless it is used in a dealing operation to which section FB 14 applies.

Relationship with section GD 1

- (7) This section overrides section GD 1 (Sale or other disposal of trading stock for inadequate consideration).

Defined in this Act: acquire, amount, business, consideration, excepted financial arrangement, settlement of relationship property, specified livestock, tax year, trading stock, year of transfer

Origin:	(1)	FF 13
	(2)	FF 13(1)
	(3)	FF 13(1)
	(4)	FF 13(1)
	(5)	FF 13(2)
	(6)	FF 13(1)(a)(i)
	(7)	FF 13(3)

FB 14 Specified livestock

When this section applies

- (1) This section applies for the purposes of sections EC 8 to EC 26 (which relate to the valuation of specified livestock) when—
- (a) specified livestock is transferred on a settlement of relationship property; and
 - (b) the transferor used the livestock in the carrying on of a business other than a business of dealing in livestock, and held the livestock at the start of the year of transfer; and
 - (c) the value of the livestock is not determined under the herd scheme (see section FB 15).

Transfer at amount determined under subparts EA and EC

- (2) The transfer is treated as a disposal and acquisition for an amount equal to the value that the transferor determined under subpart EC (Valuation of livestock) and took into account in section EA 1 (Trading stock, livestock, and excepted financial arrangements) at the end of the income year before the year of transfer.

Relationship with section GD 1

- (3) This section overrides section GD 1 (Sale or other disposal of trading stock for inadequate consideration).

Defined in this Act: amount, business, excepted financial arrangement, herd scheme, income year, livestock, settlement of relationship property, specified livestock, year of transfer

Origin:	(1)	FF 13(1)(a)(i)
	(2)	FF 13(1)(a)(i)
	(3)	FF 13(3)

FB 15 Specified livestock valued under herd scheme

When this section applies

- (1) This section applies for the purposes of sections EC 8 to EC 26 (which relate to the valuation of specified livestock) when—
- (a) specified livestock is transferred on a settlement of relationship property and the transferor—
 - (ii) used the livestock in the carrying on of a business; and
 - (iii) held the livestock at the start of the year of transfer; and
 - (b) the value of the livestock is determined under the herd scheme—
 - (i) by the transferor at the end of the income year before the year of transfer; and
 - (ii) by the transferee at the end of the year of transfer.

Transfer at national average market value

- (2) The transfer is treated as a disposal and acquisition for an amount equal to the national average market value of the livestock for the year of transfer. If the transferor adopted a herd value ratio, the amount is equal to the national average market value of the livestock for the year of transfer multiplied by the herd value ratio applying in the income year before the year of transfer.

Defined in this Act: amount, business, herd scheme, herd value ratio, income year, market value, national average market value, settlement of relationship property, specified livestock, year of transfer

Origin:	(1)	FF 9
	(2)	FF 9

FB 16 Non-specified livestock: adjustments for enhanced production

When this section applies

- (1) Subsections (2) to (4) apply for the purposes of section EC 31 (Enhanced production) in an income year when—
 - (a) non-specified livestock is transferred on a settlement of relationship property; and
 - (b) because of the transfer, the transferee starts to derive, or once again derives, income from non-specified livestock.

Transferee not starting to derive income

- (2) The transfer does not give rise to the deriving of income from non-specified livestock. However, the transfer is taken into account in working out whether any later acquisition by the transferee of non-specified livestock means that they start to derive, or once again derive, income from non-specified livestock.

When subsection (5) applies

- (3) Subsection (5) applies when the transferee uses the non-specified livestock in deriving income and was not, before the transfer, deriving income from non-specified livestock.

Livestock being written down to standard value

- (4) If the year of transfer falls in the first or second year of the 3-year period referred to in section EC 31(1)(b), the transferee must apply section EC 31(2) as if they were the transferor and the transfer had not taken place.

Transferee not acquiring land for production

- (5) For the purposes of section EC 31(1)(a)(ii) and (iii), if land is transferred on a settlement of relationship property, the transferee is treated as having acquired the land on the date it was acquired by the transferor.

Defined in this Act: income, income year, land, non-specified livestock, settlement of relationship property, standard value, year of transfer

Origin:	(1)	FF 10(1)
	(2)	FF 10(1)
	(3)	FF 10(2)
	(4)	FF 10(2)
	(5)	FF 10(1)

FB 17 High-priced livestock

When this section applies

- (1) This section applies for the purposes of sections EC 32 to EC 37 (which relate to the valuation of high-priced livestock) when high-priced livestock is transferred on a settlement of relationship property.

Transfer at cost

- (2) The transfer is treated as a disposal and acquisition for an amount equal to the cost of the livestock to the transferor. The transferee is treated as having acquired the livestock on the day it was acquired by the transferor.

Straight-line method of valuation

- (3) In determining the value of the livestock at the end of the year of transfer, the transferee must take into account the amount referred to in subsection (2) reduced by the depreciation percentage of its cost price under section EC 34(2) (General rule). Subsection (4) overrides this subsection.

When diminishing value chosen

- (4) If the transferor had chosen to apply a diminishing value method to the valuation of the livestock, the transferee is treated as also having made that choice, and the reduction is calculated under section EC 34(3). But if the transferor had not chosen to apply the diminishing value method, the transferee may make a choice between the methods set out in section EC 34(2) and (3) only if the livestock was acquired by the transferor in the year of transfer.

Defined in this Act: amount, cost price, depreciation percentage, diminishing value method, high-priced livestock, settlement of relationship property, straight-line method, year of transfer

Origin:	(1)	FF 11
	(2)	FF 11(a)
	(3)	FF 11(b)
	(4)	FF 11(c), (d)

FB 18 Bloodstock

When this section applies

- (1) This section applies for the purposes of section EC 41 (Reduction: bloodstock not previously used for breeding in New Zealand) when bloodstock is transferred on a settlement of relationship property.

Use for breeding purposes in New Zealand

- (2) If the bloodstock has been used for breeding purposes in New Zealand by the transferor, then for valuation purposes by the transferee and the amount of reduction applying to the value of an animal, the bloodstock is treated as not having been used for breeding purposes in New Zealand by the transferor.

Defined in this Act: amount, bloodstock, New Zealand, settlement of relationship property

Origin:	(1)	FF 12
	(2)	FF 12

FB 19 Leased assets

When this section applies

- (1) This section applies when—
- (a) a person leases, rents, or hires plant, machinery, or other equipment, including a motor vehicle or a temporary building; and
 - (b) they are allowed a deduction in a tax year for an amount paid under the agreement to lease, rent, or hire; and
 - (c) they acquire the lease asset at any time, or a person associated with them acquires the asset; and
 - (d) either they, or the associated person, transfer the asset on a settlement of relationship property.

Income when transferee disposes of asset

- (2) If the transferee disposes of the asset for an amount that is more than the transfer amount, they are treated as deriving income as described in section FA 5 (Assets acquired and disposed of after deduction of payments under lease) in the tax year of the disposal of the asset of an amount equal to the lesser of—
- (a) the amount by which the amount derived on disposal is more than the transfer amount; or
 - (b) the sum of the amounts for which the transferor has been allowed a deduction.

Transfer amount

- (3) In this section, the **transfer amount** is the amount that equals, as applicable,—
- (a) the adjusted tax value of the asset at the start of the year of transfer; or
 - (b) if the asset was acquired by the transferor or the associated person during the year of transfer, the base value of the asset.

Defined in this Act: adjusted tax value, amount, associated person, consideration, deduction, income, income year, lease, motor vehicle, pay, settlement of relationship property, tax year, temporary building, year of transfer

Origin:	(1)	FF 14
	(2)	FF 14
	(3)	FF 14

FB 20 Mining assets

When this section applies

- (1) This section applies when a resident mining operator transfers on a settlement of relationship property an asset that they used immediately before the transfer in deriving assessable income from mining.

Transfer at cost, reduced value, or reduced expenditure

- (2) The transfer is treated as a disposal and acquisition for an amount equal to the least of—
- (a) the amount of expenditure incurred by the transferor in acquiring the asset;
 - (b) when the transferor has been allowed a deduction for an amount of depreciation loss in relation to the asset, the adjusted tax value at the start of the year of transfer;
 - (c) when the asset has been acquired as a result of mining exploration expenditure or mining development expenditure incurred by the transferor for which they have been allowed a deduction under sections DU 1 and DU 9(1) (which relate to mineral mining expenditure), the amount of expenditure not allowed as a deduction under those provisions.

Transferee's expenditure

- (3) The transferee is treated as having incurred expenditure in acquiring the asset equal to the amount determined under subsection (2).

When transferee not a resident mining operator

- (4) Subsections (5) and (6) apply when—
- (a) the transferor is treated as having disposed of the asset for an amount determined under subsection (2)(c); and
 - (b) the transferee is not a resident mining operator at and after the date of transfer.

Treatment of disposal and transferee

- (5) If the transferee disposes of the asset, they are treated as a resident mining operator in relation to the disposal, and the disposal is treated as a sale to which sections CU 3 and DU 2, and sections CU 12(1) and DU 9(1) (which relate to mining) apply.

Consideration for disposal

- (6) For the purposes of subsection (5), and sections CU 1 to CU 11, DU 1 to DU 8, and IH 4, the consideration for the disposal is the amount by which the amount derived on the disposal under subsection (5) is more than the amount determined under subsection (2)(c).

When transferee a resident mining operator

- (7) If the transferee is, at and after the date of transfer, a resident mining operator, and the transferor is treated as having disposed of the asset for an amount determined under subsection (2)(c), then for the purposes of sections CU 3, CU 10, DU 2, and DU 6, the transferee is treated as having acquired the asset as a result of mining exploration expenditure or mining development expenditure incurred by the transferee.

Defined in this Act: adjusted tax value, amount, assessable income, consideration, date of transfer, deduction, depreciation loss, income from mining, mining development expenditure, mining exploration expenditure, settlement of relationship property, resident mining operator, year of transfer

Origin:	(1)	FF 19
	(2)	FF 19
	(3)	FF 19(b), (d)
	(4)	FF 19(c)
	(5)	FF 19(c)
	(6)	FF 19(c)
	(7)	FF 19(d), (e)

FB 21 Depreciable property

When this section applies

- (1) This section applies when a person who has a deduction for an amount of depreciation loss for an item of property transfers the item on a settlement of relationship property.

Persons to whom section does not apply

- (2) This section does not apply if the person is a resident mining operator to whom section FB 20 applies.

Transfer at cost or adjusted tax value

- (3) The transfer is treated as a disposal and acquisition for an amount equal to, as applicable,—
 - (a) if the transferor acquired the item in the year of transfer, the cost of the item to them; or
 - (b) in any other case, the adjusted tax value of the item measured at the start of the year of transfer.

Treatment of transferee

- (4) In relation to amounts of depreciation loss for the item, the transferee—
 - (a) has an amount of depreciation loss for the item from the date of the transfer, whether or not the transferor has in fact had an amount of depreciation loss:
 - (b) is treated as having had an amount of depreciation loss equal to all amounts of depreciation loss that the transferor had for the item in income years before the year of transfer:
 - (c) does not have a greater amount of depreciation loss than that which the transferor would have had if they had kept the item.

When item is building

- (5) If the item is a building, the transferee's amount of depreciation loss must be determined having regard to the original cost of the building to the transferor.

Activities in year of transfer

- (6) If the item has been acquired, erected, installed, altered, extended, improved, or attached by the transferor in the year of transfer, the item is treated as if it were acquired, erected, installed, altered, extended, improved, or attached by the transferee in the income year.

Conditions applying to item

- (7) For the purposes of determining the rate that applies to the item under section EE 26(2)(b) or EZ 22(4) (which relate to depreciation rates for new assets), if either of the following conditions applied to the item when the transferor acquired or erected it, the condition is treated as applying to the item at the date of transfer:
- (a) the item had not previously been used by a person, or acquired or held by a person for their use; and
 - (b) if the item is a building or part of a building, it had not previously been occupied.

Defined in this Act: acquire, adjusted tax value, amount, date of transfer, depreciable property, depreciation loss, dispose, income year, property, resident mining operator, settlement of relationship property, year of transfer

Origin:	(1)	FF 16(1)
	(2)	FF 16(4)
	(3)	FF 16(2), (6), (7)
	(4)	FF 16(5)
	(5)	FF 16(8)
	(6)	FF 16(9)
	(7)	FF 16(9)

Subpart FC - Distribution, transmission, and gifts of property

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General rule

FC 1 What this subpart applies to

Types of distributions and gifts

- (1) This subpart provides a value for property that is disposed of under the following transactions:
 - (a) the transfer of a person's estate to an executor or administrator on the death of the person:
 - (b) the distribution of property by an executor, administrator, or trustee of a deceased person's estate to a beneficiary who is beneficially entitled to receive the property under the will or the rules governing intestacy:
 - (c) the distribution by a trustee of a trust to a beneficiary of the trust:
 - (d) the distribution in kind by a company in a transfer of value caused by a shareholding in the company under section CD 5 (When is a transfer caused by a shareholding relationship?):
 - (e) the making of a gift:
 - (f) the settlement of property by the trustee of a trust on the trustee of another trust, if authorised under—

- (i) a trust instrument as a power or advancement or resettlement:
- (ii) section 41 of the Trustee Act 1956 as the payment of money or the application of property.

Some definitions

- (2) In this subpart,—
- (a) **close relative** means a person within the second degree of relationship to the other person:
 - (b) **tax-base property** means—
 - (i) revenue account property:
 - (ii) an attributing interest in a FIF:
 - (iii) a financial arrangement other than an arrangement for which the deceased person, or their trustee, was a cash basis person:
 - (iv) an item for which a deduction for an amount of depreciation loss arises.

Defined in this Act: amount, attributing interest in a FIF, cash basis person, company, deduction, depreciation loss, distribution, FIF, financial arrangement, money, pay, property, revenue account property, settlement, transfer of value, trustee

Origin: (1) FI 1(3)
(2) new

FC 2 Transfer at market value

Market value

- (1) The transfer of property is treated as a disposal by the transferor and an acquisition by the transferee at the market value of the item for the transferor.

Date of transfer of estate of deceased person

- (2) For property referred to in section FC 1(1)(a), the disposal and acquisition is treated as occurring immediately before the death of the person.

Exceptions to general rule

- (3) Sections FC 3 to FC 6 override this subsection.

Defined in this Act: market value, property

Origin: (1) FI 2, FI 3
(2) FI 3(2)
(3) new

Exceptions for property transferred on death of person

FC 3 Property transferred to spouse or partner

When this section applies

- (1) This section applies in the circumstances described in section FC 1(1)(a) or (b) when property is transferred on a person's death to the surviving spouse, civil union partner, or de facto partner of the deceased person, but only if—
 - (a) the property is not tax-base property; and
 - (b) no person outside the second degree of relationship to the deceased person is beneficially entitled to the property.

Disposal to spouse or partner

- (2) The transfer of property to the surviving spouse, civil union partner, or de facto partner of the deceased person is treated as a transfer of property under a settlement of relationship property under subpart FB (Transfers of relationship property).

Defined in this Act: property, settlement of relationship property, tax-base property

Origin: (1) FI 4
 (2) FI 4

FC 4 Property transferred to close relatives and others

When this section applies

- (1) This section applies in the circumstances described in section FC 1(1)(b) when property is transferred on a person's death to a close relative or to a person exempt under section CW 36 (Charitable bequests) who is either—
 - (a) the sole beneficiary of the deceased person; or
 - (b) a beneficiary of the deceased person, and the sole beneficiary of all the tax-base property of the deceased person.

Treated as transfer under settlement of relationship property

- (2) The transfer is treated as a transfer of property on a settlement of relationship property for the purposes of subpart FB (Transfers of relationship property) if the following requirements are met:
 - (a) no life interest in the property is created; and
 - (b) no trust over the property is created, other than a trust to execute the will and administer the estate; and
 - (c) while the administration of the estate is continuing, the net income of the estate is distributed to the extent allowed—

- (i) under the will or the rules governing intestacy; and
- (ii) by the trustee's legal obligations.

Defined in this Act: close relative, net income, property, settlement of relationship property, tax-base property, trustee

Origin:	(1)	FI 5(1)
	(2)	FI 5(2)

FC 5 Land and forestry assets transferred to close relatives

What this section applies to

- (1) This section applies in the circumstances described in section FC 1(1)(a) or (b) when land or forestry assets are transferred on a person's death to a close relative.

Land

- (2) Sections CB 7 to CB 10 (which relate to the disposal of land) do not apply to the transfer of land that, if it had been disposed of by the deceased person, would have resulted in income under any of those sections.

Cost of land

- (3) If the land is transferred to a person who disposes of it within 10 years of its acquisition by the deceased person, and the person derives income under any of sections CB 7 to CB 10, the cost of land to the person is—
 - (a) the cost of the land incurred by the deceased person; and
 - (b) all other expenditure incurred by both the person and the deceased person that relate to the land for which no deduction has been allowed.

Timber

- (4) A transfer of timber, standing timber, or the right to take timber is treated as a transfer of property on a settlement of relationship property for the purposes of subpart FB (Transfers of relationship property).

Defined in this Act: close relative, deduction, dispose, income, interest, land, property, settlement of relationship property, right to take timber, timber

Origin:	(1)	FI 6, FI 7
	(2)	FI 5
	(3)	FI 5
	(4)	FI 6

FC 6 Transfer of prepaid property and certain financial arrangements

What this section applies to

- (1) This section applies, in the circumstances described in section FC 1(1)(a) or (b), to a transfer of a financial arrangement or property in relation to which the deceased person has, in the year of transfer, an unexpired portion of expenditure under section EA 3 (Prepayments).

Unexpired prepayments

- (2) If section EA 3 applies to the property transferred, the property must be valued under section EA 3(4) to (7), as if the date of transfer were the end of an income year.

Financial arrangements: cash basis person

- (3) If the property is a financial arrangement, and the trustee of the deceased's estate is a cash basis person under section EW 60(1) (Trustee of deceased's estate), the property must be valued at cost.

Defined in this Act: cash basis person, date of transfer, financial arrangement, income year, pay, property, trustee, year of transfer

Origin:	(1)	FI 8, FI 11
	(2)	FI 8
	(3)	FI 11