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## THE GST APPORTIONMENT RULES

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**THE GST APPORTIONMENT RULES**

**SECTION I: MEANING OF 'INPUT TAX'**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b>(1) Input tax defined</b></p> <p>1. Tax charged on goods and services acquired <i>for the principal purpose of making taxable supplies.</i>  <b>[Old s. 3A(1)(a)]</b></p> <p>2. Tax charged on imported goods <i>applied or acquired for the principal purpose of making taxable supplies.</i>  <b>[Old s. 3A(1)(b)]</b></p> <p>3. The tax fraction of the consideration paid for secondhand goods acquired for <i>the principal purpose of making taxable supplies.</i>            [Subject to various limitations, as under the new rules]  <b>[Old s. 3A(2) &amp; 3A(3)]</b></p>	<p><b>(1) Input tax defined</b></p> <p>1. Tax charged under s. 8(1) – the main charging provision for taxable supplies made in NZ - on goods and services acquired.  <b>[s. 3A(1)(a)]</b></p> <p>2. Tax charged on imported goods.  <b>[s. 3A(1)(b)]</b></p> <p>3. A secondhand goods input tax deduction can be claimed for secondhand goods situated in NZ and bought by a registered person if:            (a) The supply is not a taxable supply; and            (b) The supply is not                (i) A supply of goods previously supplied to a registered person who paid GST on importation (whether they were registered at the time of paying GST on importation or became registered later); and                (ii) A supply of goods made by a non-resident (whether or not they made the earlier supply referred to in (i) above); and            (c) The goods acquired for making taxable supplies are:                (i) Not financial services that have been zero-rated under s. 11A(1)(q) or (r) because the registered person makes at least 75% taxable supplies; or                (ii) Financial services that have been zero-rated under s. 11A(1)(q) or (r) because the registered person makes at least 75% taxable supplies, and the goods have not been owned or used by the person or an associate before the acquisition.</p> <p><b>[s. 3A(1)(c) &amp; (2) as amended by s. 208(1) of the Annual Rates, Returns Filing, and Remedial Matters Act 2012 (“Annual Rates Tax Act 2012”)]</b>            [For the calculation of the deduction under s. 3A(3) see <b>Section I (2) on page 4</b>]</p>

**THE GST APPORTIONMENT RULES**

**SECTION I: MEANING OF 'INPUT TAX' (CONTINUED)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b><u>(2) Calculation of the secondhand goods input tax deduction under s. 3A(3)</u></b></p> <p>Section 3A(3) applied, as it does in the case of the new rules.</p> <p>[See the column on the right.]</p> <p><u>Note: Tax fraction in s. 3A(3) means the tax fraction that applies at the time of supply.</u></p>	<p><b><u>(2) Calculation of the secondhand goods input tax deduction under s. 3A(3)</u></b></p> <p>(a) If the supplier and the recipient are associated and the supply is not a deemed supply on cessation of registration, and the consideration relates only to the supply, the lesser of:</p> <ul style="list-style-type: none"> <li>(i) The GST paid by the supplier; and</li> <li>(ii) The tax fraction of the price paid by the recipient; and</li> <li>(iii) The tax fraction of the open market value of the supply.</li> </ul> <p>(b) If the supplier and the recipient are associated and the supply is a deemed supply under s. 5(3) on cessation of registration and the consideration is treated as the open market value under s. 10(7A), the lesser of:</p> <ul style="list-style-type: none"> <li>(i) The tax fraction of the consideration as valued under s. 10(7A); and</li> <li>(ii) The tax fraction of the price paid by the recipient; and</li> <li>(iii) The tax fraction of the open market value of the supply.</li> </ul> <p>(c) If the supplier and the recipient are associated and the supply is a deemed supply under s. 5(3) on cessation of registration and the consideration is valued under s. 10(8) because the goods and services were acquired before 1 October 1986, the lesser of:</p> <ul style="list-style-type: none"> <li>(i) The tax fraction of the consideration as valued under s. 10(7A); and</li> <li>(ii) The tax fraction of the price paid by the recipient; and</li> <li>(iii) The tax fraction of the open market value of the supply.</li> </ul> <p>(d) If the supplier and the recipient are associated and the supply is not the only matter to which the consideration relates, the lesser of:</p> <ul style="list-style-type: none"> <li>(i) The tax fraction of the purchase price paid by the recipient; and</li> <li>(ii) The tax fraction of the open market value of the supply</li> </ul> <p>(e) In all other cases the tax fraction of the consideration in money for the supply.</p>

**THE GST APPORTIONMENT RULES**

**SECTION I: MEANING OF 'INPUT TAX' (CONTINUED)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b><u>(3) Land supplied between associated persons</u></b></p> <p>N/A</p>	<p><b><u>(3) Land supplied between associated persons</u></b></p> <p>If a supply wholly or partly consists of land and is part of an arrangement involving more than 2 associated parties and more than 1 supply:</p> <p>(a) The rule in s. 3A(3)(a) (set out on page 4 above) does not apply; and</p> <p>(b) Instead, the input tax for the supply must not be more than the amount accounted for as output tax for all supplies that are part of the arrangement.</p> <p><b>[s. 3A(3B)]</b></p>
<p><b><u>(4) Pre-registration acquisitions from an associated person</u></b></p> <p>N/A</p>	<p><b><u>(4) Pre-registration acquisitions from an associated person</u></b></p> <p>For a supply of goods or services meeting the requirements of s. 21B (1)(a)(i) and (b) – i.e. acquired pre-registration and applied to make taxable supplies after registration, and GST was charged under s. 8(1) – when the goods or services were acquired from an associated person:</p> <p>The amount of input tax must not be more than the amount accounted for as output tax by the supplier of goods or services.</p> <p><b>[s. 3A(3C)</b> as amended by s. 208(2) of the <i>Annual Rates Tax Act 2012</i> effective from 1 April 2011]</p>
<p><b><u>(5) No input tax deduction on importation for mere delivery of goods</u></b></p> <p>This rule was previously set out in s. 3A(4).</p>	<p><b><u>(5) No input tax deduction at importation for mere delivery of goods</u></b></p> <p>Input tax paid on importation cannot be deducted to the extent to which the goods are used for, or are available for use in, making taxable supplies that involve:</p> <p>(a) The delivery of goods to a person in NZ; or</p> <p>(b) The arranging or making easier the delivery of goods to a person in NZ.</p> <p><b>[s. 20(3C)(b)</b> as amended by s. 214(2) of the <i>Annual Rates Tax Act 2012</i> effective from 1 April 2011]</p>

THE GST APPORTIONMENT RULES

SECTION II: WHAT HAPPENS AT ACQUISITION

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(1) General rules at acquisition</b></p> <p><b>General rule:</b> A full input tax deduction was available at acquisition of goods and services acquired for the principal purpose of making taxable supplies.</p> <p>[s. 20(3)(a)]</p> <p><u>Rules for one-off output tax adjustments at acquisition:</u></p> <p>(a) If the registered person chooses to do so, a <i>one-off output tax adjustment</i> could be made <i>at acquisition</i>, for goods and services that will be used to also make non-taxable supplies.</p> <p>[Old s. 21C(1)(a)]</p> <p>(b) If a <i>one-off output tax adjustment</i> was made, later adjustments were required to reflect later changes in use of 20% or more (see <b>Section IV (1)</b> on <b>page 13</b>).</p> <p>[Old s. 21C(2)]</p> <p>(c) If the acquisition replaced goods or services with an existing pattern of use, <i>the one-off adjustment</i> for non-taxable use could be based on the pattern of use in the 12 months before replacement.</p> <p>[Old s. 21B(1)]</p> <p>(d) If the acquisition was of new goods and services, or replaced those without an existing pattern of use, the <i>one-off adjustment</i> was based on a provisional allocation made on the date of acquisition (followed by a recalculation 12 months later).</p> <p>[Old s. 21B(3)]</p>	<p><b>(1) General rules at acquisition</b></p> <p>(a) <b>General rule:</b> Input tax paid at acquisition [or, in the case of secondhand goods, input tax determined under the secondhand goods input tax rules in <b>sections 3A(2) and 3A(3)</b> – see <b>Section I (1) &amp; (2)</b> on <b>pages 3-4</b>] may be deducted only to the extent to which the goods or services acquired are used for, or available for use in, making taxable supplies.</p> <p>The exemption in <b>s. 20(3D)</b> and the rule for non-residents in proposed <b>s. 20(3L)</b> override this general rule – see page 7 below.</p> <p>[s. 20(3C)]</p> <p>(b) <b>Estimation of percentage intended use to make taxable supplies:</b> The “<i>percentage intended use</i>” - the extent to which goods or services are intended to be used by the person for making taxable supplies expressed as a percentage of total use - must be estimated at acquisition using a determination method that provides a fair and reasonable result.</p> <p>[s. 20(3G) &amp; s. 21G(1)(b)]</p> <p>(c) Percentage intended use of a motor vehicle can be based on a log book that is used for income tax purposes.</p> <p>[s. 21(5) as inserted by s. 216 of the <i>Annual Rates Tax Act</i> effective from 1 April 2011]</p> <p>(d) <u>Input tax deduction at acquisition is:</u></p> <p>[% intended use] x [full input tax deduction]</p> <p>[s. 20(3H) &amp; s. 20(3I)]</p> <p>(e) <u>No further annual adjustments for goods and services with a GST exclusive value of \$5,000 or less</u>, but a final adjustment is available under s. 21F (see <b>pages 19-20</b>) if a full input tax deduction was not claimed at acquisition.</p> <p>[s. 21(2)(b)]</p>

**THE GST APPORTIONMENT RULES**

**SECTION II: WHAT HAPPENS AT ACQUISITION (CONTINUED)**

'OLD' APPORTIONMENT RULE	RULES FROM 1 APRIL 2011
<p><b><u>(2) Adjustment exemption for insignificant exempt supplies</u></b></p> <p>Where goods and services acquired for the principal purpose of making taxable supplies were also used to make exempt supplies:</p> <p><b><u>When exemption applies:</u></b> There was no deemed supply of the goods and services used to make exempt supplies <i>in a taxable period</i>, if the supplier has reasonable grounds for believing that the value of exempt supplies, <i>in the 12 months starting with the taxable period</i>, will not exceed the <u>lesser of</u>:</p> <p>(i) 5% of total consideration for taxable and exempt supplies;</p> <p>(ii) \$90,000.</p> <p><b><u>Frequency of test:</u></b> The test was repeated in each subsequent taxable period while the goods and services were used to make exempt supplies.</p> <p>[Old s. 21(4)]</p>	<p><b><u>(2) Adjustment exemption for insignificant exempt supplies</u></b></p> <p>Where goods and services acquired are to be used to make both taxable and exempt supplies:</p> <p><b><u>When exemption applies:</u></b> An acquisition input tax adjustment will not be required where the registered person has reasonable grounds for believing that <i>for the first adjustment period</i>, the value of exempt supplies, will not exceed the <u>lesser of</u>:</p> <p>(i) 5% of the total consideration for taxable and exempt supplies; and</p> <p>(ii) \$90,000.</p> <p>[s. 20(3D)]</p> <p><b><u>Full input tax deduction upon acquisition:</u></b> If the above requirement is met, the full input tax deduction can be claimed at acquisition.</p> <p>[s. 20(3C) &amp; 20(3D) &amp; 21(2)(a)]</p>
<p><b><u>(3) General rules for non-residents</u></b></p> <p>N/A</p>	<p><b><u>(3) General rules for non-residents</u></b></p> <p>(a) For a non-resident person who is registered under s. 54B, input tax may be deducted only to the extent to which the goods or services are used for, or are available for use in, making taxable supplies, treating all the supplies made by the person as if they were made and received in New Zealand.</p> <p>(b) Despite this, a non-resident person who is registered under s. 54B and who principally makes supplies of financial services, may for the purposes of calculating the amount of input tax, choose to use a fair and reasonable method of apportionment agreed with the Commissioner, as set out in s. 20(3E) – see <b>Section III (1) on page 8</b> below.</p> <p>[s. 20(3L) &amp; (3M) inserted by s. 130(6) of the <i>Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Act 2013</i> effective from 1 April 2014.</p>

THE GST APPORTIONMENT RULES

SECTION III: WHAT HAPPENS AT ACQUISITION – SPECIAL RULES

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(1) Providers of financial services:</b></p> <p><b>Main rule:</b> A full input tax deduction could be claimed at acquisition if goods and services were acquired for the principal purpose of making taxable supplies (including the supply of zero-rated financial services).</p> <p>[s. 20(3)(a)]</p> <p><b>A one-off adjustment:</b> could be made at acquisition for goods and services also used to make non-taxable supplies (see <b>Section II (1)</b> on <b>page 6</b>).</p> <p><b>Zero-rating under s. 11A(1)(q) &amp; (r):</b> A provider of financial services could, in a taxable period, elect under <b>s. 20F</b>, for <i>financial services supplied</i> in that and subsequent taxable periods, to be <i>zero-rated taxable supplies</i> under <b>s. 11A(1)(q) and 11A(1)(r)</b>, on the grounds that the financial services are supplied to:</p> <p>(a) A person whose taxable supplies (other than zero-rated financial services) are at least 75% of the value of total supplies, in</p> <p>(i) A 12-month period that includes the taxable period; or</p> <p>(ii) Some other period acceptable to the Commissioner.</p> <p>(b) A group company, if the group's taxable supplies (other than zero-rated financial services), to persons outside the group, are at least 75% of the value of total supplies, in a 12-month period that includes the taxable period (or some other period acceptable to the Commissioner).</p> <p>[s. 11A(1)(q) &amp; (r) - <i>unchanged</i>]</p> <p><b>Special input tax deduction under section 20C:</b> A further special input tax deduction was available under <b>section 20C</b>, for financial services supplied, in a taxable period, by a 1<sup>st</sup> supplier to a 2<sup>nd</sup> supplier of financial services, to the extent that the financial services supplied by the 2<sup>nd</sup> supplier, in that taxable period, are zero-rated under <b>s. 11A(1)(q) and (r)</b>.</p> <p>[s. 20(3)(h) &amp; s. 20C - <i>unchanged</i>]</p>	<p><b>(1) Providers of financial services:</b></p> <p>1. <b>Apportionment methods:</b> A registered person (including a group of companies) that principally makes supplies of financial services may <i>choose a fair and reasonable method of apportionment</i> at acquisition.</p> <p>(a) The method must be agreed with the Commissioner;</p> <p>(b) The method must have regard to the tenor of <b>sections 20(3C) to (3J)</b>;</p> <p>(c) This will mean determining the percentage intended use to make taxable supplies, including supplies that are zero-rated under <b>sections 11A(1)(q) &amp; (r)</b>.</p> <p>[s. 20(3E)]</p> <p>2. <b>Sections 11A(1)(q) and (r) unchanged:</b> They continue to apply. See under <b>Old Rules</b> in the column on the left.</p> <p>3. <b>The special input tax deduction under section 20C for financial services supplied by a 1<sup>st</sup> supplier to a 2<sup>nd</sup> supplier of financial services:</b> continues to be available. (See under <b>Old Rules</b> in the column on the left.) The deduction is based on actual supplies made in a taxable period and is for a portion of the input tax incurred by the 1<sup>st</sup> supplier, in making exempt supplies to the 2<sup>nd</sup> supplier in the taxable period.</p> <p>The deduction to the 1<sup>st</sup> supplier is based on:</p> <p>(a) The percentage of exempt financial services supplied to the 2<sup>nd</sup> supplier; and</p> <p>(b) The percentage of zero-rated financial services which the 2<sup>nd</sup> supplier makes to 3<sup>rd</sup> parties.</p> <p>[s. 20(3)(h) &amp; 20C]</p> <p>4. <b>If the consideration for a supply of financial services between associated persons is more than the open market value</b> and the supply is zero-rated under <b>s. 11A(1)(q) or (r)</b>, or gives rise to a deduction under <b>s. 20C</b>, the consideration is treated as being the open market value of the supply.</p> <p>[s. 10(3B)]</p> <p>(See also <b>Section V (5)</b> on <b>page 25</b>)</p>



**THE GST APPORTIONMENT RULES**

**SECTION III: WHAT HAPPENS AT ACQUISITION – SPECIAL RULES (CONTINUED)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b><u>(2) Imported services: output and input tax at acquisition</u></b></p> <p><b>Rule 1:</b> <i>Output tax was payable at acquisition, by a NZ resident recipient, on the value of services supplied or costs allocated by a non-resident to the recipient in a taxable period if:</i></p> <p>(a) <i>The value of the recipient's taxable supplies, for the 12 months ending with the taxable period, were less than 95% of the value of the recipient's total supplies for that 12 month period; and</i></p> <p>(b) <i>The value of the recipient's taxable supplies, for the 12 months beginning with the taxable period, are not expected, on reasonable grounds, to be at least 95% of the value of the recipient's total supplies for that 12 month period; and</i></p> <p>(c) <i>The services would have been a taxable supply, if supplied by a registered person in NZ.</i></p> <p><b>[Old ss. 8(4B) &amp; 8(4C)]</b></p> <p><b>Rule 2:</b> <i>The supply was treated as made by the recipient of the supply.</i>  <b>[s. 5B]</b></p> <p><b>Rule 3:</b> <i>The value of the supply was the consideration for the supply.</i>  <b>[s. 10(3E)]</b></p> <p><b>Rule 4:</b> <i>If the recipient and the supplier were associated persons, or the recipient was a branch or division of the supplier, and the consideration was less than the open market value, it was deemed to be the open market value, unless the consideration was, or would have been, tax deductible to the recipient.</i>  <b>[ss. 10(3C) &amp; (3D)]</b></p> <p><b>Rule 5:</b> <i>If output tax was payable, a full input tax deduction could be claimed if the recipient acquired the services for the principal purpose of making taxable supplies. In that case, the recipient could choose to also make a one-off output tax adjustment at acquisition, to reflect the non-taxable use of the services.</i>  <b>[s. 20(3)(a) &amp; Old s. 21C(1)(a)]</b></p>	<p><b><u>(2) Imported services: output and input tax at acquisition</u></b></p> <p>1. <b>Rule 1:</b> <i>Output tax is payable at acquisition, by a NZ resident recipient on the value of services supplied or costs allocated by a non-resident to the recipient, in a taxable period if:</i></p> <p>(a) <i>The recipient estimates, at the time of acquisition, that the percentage intended use of the services is less than 95%; and</i></p> <p>(b) <i>The services would have been a taxable supply, if supplied by a registered person in New Zealand.</i></p> <p><b>[s. 8(4B) &amp; 8(4C)]</b></p> <p>2. <b>Rule 2:</b> <i>The supply is treated as being made by the recipient of the supply.</i>  <b>[s. 5B]</b></p> <p>3. <b>Rule 3:</b> <i>The value of the supply is the consideration for the supply.</i>  <b>[s. 10(3E)]</b></p> <p>4. <b>Rule 4:</b> <i>If the recipient and the supplier are associated persons, or the recipient is a branch or division of the supplier, and the consideration is less than the open market value, it is deemed to be the open market value, unless the consideration is, or would have been, deductible by the recipient for NZ tax purposes.</i>  <b>[s. 10(3C) &amp; (3D)]</b></p> <p>5. <b>Rule 5:</b> <i>If output tax is payable, an input tax deduction on acquisition is available based on the formula:</i></p> <p><b>[% intended use] x [full input tax deduction]</b></p> <p>Where: the "full input tax deduction" is the output tax payable.</p> <p><b>[s. 20(3H) &amp; 20(3I)]</b></p> <p><b>(See also Section V (6) on page 26)</b></p>

**THE GST APPORTIONMENT RULES**

**SECTION III: WHAT HAPPENS AT ACQUISITION – SPECIAL RULES (CONTINUED)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b>(3) Goods and services acquired by non-profit bodies: input tax at acquisition</b></p> <p>Goods and services acquired by a non-profit body, other than to make exempt supplies, were treated as acquired for the principal purpose of making taxable supplies.  <b>[Old s. 3A(4A) – repealed]</b></p> <p>A full input tax deduction was available at acquisition of goods and services acquired to make other than exempt supplies.  <b>[s. 20(3)(a)]</b></p>	<p><b>(3) Goods and services acquired by non-profit bodies: input tax at acquisition</b></p> <p>To the extent a non-profit body <u>that is resident in New Zealand</u> uses goods and services other than for making exempt supplies:</p> <p>(a) They are treated as being used to make taxable supplies, and:</p> <p>(b) A corresponding input tax deduction can be made at acquisition.</p> <p><b>[s. 20(3K)</b> as amended by <b>s. 130(5)</b> of the <i>Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Act 2013</i> effective from 1 April 2014]</p> <p>(c) The input tax deduction is based on percentage intended use in making other than exempt supplies. (See <b>Section II (1)</b> on <b>page 6</b>)</p> <p>(d) An amendment to s. 20(3K) in s. 190(1) of the <i>Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Act 2014</i> makes the concession in s. 20(3K) effective in relation to the definitions of “percentage actual use” and “percentage intended use” from 1 April 2011. This will eliminate any uncertainty regarding the application of this concession.</p> <p><b>[s. 20(3H) &amp; 20(3I)</b> and <b>s. 190(1)</b> of the <i>Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Act 2014</i>]</p>

**THE GST APPORTIONMENT RULES**

**SECTION III: WHAT HAPPENS AT ACQUISITION – SPECIAL RULES (CONTINUED)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(4) Zero-rated land acquisitions: output tax at acquisition</u></b></p> <p>N/A</p>	<p><b><u>(4) Zero-rated land acquisitions: output tax at acquisition</u></b></p> <p><b><u>Rule 1:</u></b> The recipient (acquirer), of a supply of goods and services that is zero-rated because it consists wholly or partly of land, must calculate the GST (“<i>the nominal GST component</i>”) that would have been charged if the supply had not been zero-rated, treating the consideration paid as if it were the value of the supply.</p> <p><b>[s. 20(3)(a)(i) &amp; 10(7B)]</b></p> <p><b><u>Rule 2:</u></b> The recipient must determine the extent to which they intend to use the zero-rated goods or services to make taxable supplies.</p> <p><b>[s. 20(3)(a)(ii)]</b></p> <p><b><u>Rule 3:</u></b> The recipient must account for output tax equal to the proportion of the nominal GST component relating to non-taxable use of the goods <u>and services</u>.</p> <p><b>[s. 20(3)(a)(iii) as amended by s. 214(3) of the Annual Rates Tax Act 2012]</b></p> <p><b><i>Note:</i></b> There is a new definition of “land” – refer to the separate PDF <b><i>GST Land Transactions Rules</i></b> for this definition and the details on the new rules including when a land transaction must be zero-rated and the treatment of incorrectly zero-rated land transactions.</p>

**THE GST APPORTIONMENT RULES**

**SECTION III: WHAT HAPPENS AT ACQUISITION – SPECIAL RULES (CONTINUED)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(5) Mixed-use assets acquisitions: output tax at acquisition</u></b></p> <p>N/A</p>	<p><b><u>(5) Mixed-use assets acquisitions: output tax at acquisition</u></b></p> <p>For a supply of a mixed-use asset to which <b>s. 20G</b> applies, the <u>recipient</u> must:</p> <p>(a) At acquisition:</p> <p>(i) Identify the nominal amount of tax that would be chargeable on the value of the supply, as if the value were equal to the consideration charged for the supply, at the rate set out in s. 8(1);</p> <p>(ii) Determine the extent to which they intend to use the goods, as described in <b>s. 20(3G)</b> – i.e. in making taxable supplies, expressed as a percentage of total use; and</p> <p>(iii) Account for input tax for the amount calculated under <b>s. 20(3G)</b> and <b>20(3H)</b></p> <p><b>[s. 20(3JB)(a)</b> inserted by <b>s. 130(4)</b> of the <i>Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Act 2013</i>, to apply to supplies of land or improvements to land from the date of assent - 17 July 2013, and to supplies relating to mixed-use assets that are boats or aircraft from 1 April 2014.]</p> <p><u>At acquisition</u> it will therefore be necessary, under <b>s. 20(3JB)(a)</b> to:</p> <p>(a) If the supply is zero-rated under s. 11(1)(mb), identify the nominal GST at 15% of the consideration;</p> <p>(b) Determine the extent to which the goods are to be used to make taxable supplies, expressed as a percentage of total use;</p> <p>(c) Account for input tax based on the percentage intended use to make taxable supplies:</p> <p><b>(Full input tax deduction) x (% intended use)</b></p> <p>The input tax formula in <b>s. 20G(1)</b> does not apply at acquisition.</p> <p>[Refer to the separate PDF attachment <i>The GST Mixed-use Assets Rules</i> for all of the details on the GST treatment.]</p>

THE GST APPORTIONMENT RULES

SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(1) When change of use adjustment calculations must be done</u></b></p> <p>At the end of the relevant <i>taxable period</i> when there is a change of use from taxable to non-taxable, or non-taxable to taxable, or a change in mixed use, <u>there were three adjustment options:</u></p> <p><b><u>Option 1</u></b></p> <p>(a) <u>A one-off output tax adjustment</u> in the 1st taxable period of change of use, providing that:</p> <p>(i) If there were further changes in use of 20% or more, adjustments had to be made in later taxable periods;</p> <p>(ii) For new goods or services, or replacements without an existing pattern of use, the one-off adjustment was a provisional allocation and had to be recalculated 12 months after the date of acquisition.</p> <p>[Old s. 21C(1)(a), 21C(2) &amp; 21B]</p> <p>(b) <u>A one-off input tax adjustment</u> in the first taxable period in which there was a change of use, was <i>only allowed for</i>:</p> <p>(i) Capital assets with a cost &lt; \$18,000;</p> <p>(ii) Goods and services wholly applied to make taxable supplies upon IRD approval based on:</p> <p>a. The nature of the goods or services;</p> <p>b. Whether period-by-period or annual adjustments were practical;</p> <p>c. Whether a previous one-off adjustment had been made.</p> <p>[Old s. 21G(1A) &amp; 21H]</p> <p><b><u>Option 2</u></b></p> <p>A series of adjustments could be made in each taxable period in which there was a change of use or mixed use.</p> <p>[Old s. 21C(1)(b) &amp; 21G(1)(a)]</p> <p><b><u>Option 3</u></b></p> <p>A series of adjustments could be made in each year in which there was a change of use or mixed use.</p> <p>[Old s. 21C(1)(c), &amp; 21G(1)(b)]</p>	<p><b><u>(1) When change of use adjustment calculations must be done</u></b></p> <p>Change of use adjustment calculations must be made <u>at the end of every adjustment period</u> to ascertain whether an adjustment is required.</p> <p>[s. 21(1)]</p> <p>An <u>adjustment upon disposal</u> must be made when the asset is disposed of.</p> <p>(See <b>Section IV (9) &amp; (10)</b> on pp. 20 - 21)</p> <p>A <u>one-off "wash-up" adjustment</u> applies, effective from 30 June 2014, when a change occurs, for an unbroken period of at least 2 years, to either a total taxable use or a total non-taxable use.</p> <p>(See <b>Section IV (8)</b> on page 19)</p> <p><b><u>Adjustment periods:</u></b></p> <p>1. <u>The first adjustment period</u> starts on the date of acquisition and ends, as chosen, on:</p> <p>(a) The 1<sup>st</sup> balance date after acquisition; or</p> <p>(b) The 1<sup>st</sup> balance date at least 12 months after acquisition.</p> <p>[s. 21G(2)(a)]</p> <p>2. <u>Subsequent adjustment periods</u> start on the day after the earlier adjustment periods end, and end 12 months later on the last day of the taxable period corresponding to end of the 1<sup>st</sup> adjustment period.</p> <p>[s. 21G(2)(b)]</p> <p>3. There is a limit to the number of adjustments. (See <b>Section IV (7)</b> on page 18)</p> <p>4. <u>The final adjustment period</u>, if the asset is disposed of before the limit on adjustments is reached, ends on the date before the asset is disposed of.</p> <p>[s. 21G(7B) inserted by s. 220 of the <i>Annual Rates Tax Act 2012</i> applying from 2 November 2012, the date of assent.]</p> <p><b><u>Note:</u></b> There are three circumstances when adjustments are not required to be made – see <b>Section IV (2)</b> on page 14 below)</p>

THE GST APPORTIONMENT RULES

SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE (CONTINUED)

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(2) Adjustment exemptions:</b></p> <p><b>Application of exemption:</b></p> <p>There was no deemed supply of the goods and services used to make exempt supplies <i>in a taxable period</i>, if the supplier had reasonable grounds for believing that the value of exempt supplies, <i>in the 12 months starting with the taxable period</i>, would not exceed the <u>lesser of</u>:</p> <p>(a) 5% of total consideration for taxable and exempt supplies; and</p> <p>(b) \$90,000.</p> <p><b>Frequency of test:</b> The test was repeated in each subsequent taxable period while the goods and services were used to make exempt supplies.</p> <p>[Old s. 21(4)]</p>	<p><b>(2) Adjustment exemptions:</b></p> <p>No adjustments are required in the following circumstances:</p> <ol style="list-style-type: none"> <li>1. <b>Adjustment exemption 1:</b> No adjustment is required if the registered person has reasonable grounds for believing that <i>for the first adjustment period</i>, the value of exempt supplies, will not exceed the <u>lesser of</u>:           <ol style="list-style-type: none"> <li>(a) 5% of the total consideration for taxable and exempt supplies; and</li> <li>(b) \$90,000.</li> </ol> <p>[s. 20 (3D) &amp; 21(2)(a)]</p> </li> <li>2. <b>Adjustment exemption 2:</b> No adjustment is required if the value of the goods and services is less than \$5,000.</li> </ol> <p>[s. 21(2)(b)]</p> <ol style="list-style-type: none"> <li>3. <b>Adjustment exemption 3:</b> No adjustment is required if:           <ol style="list-style-type: none"> <li>(a) The difference between the percentage intended use on acquisition and the percentage actual use for the relevant adjustment period is less than 10%; and</li> <li>(b) The amount of the adjustment does not exceed \$1,000.</li> </ol> </li> <li>4. <b>Adjustment exemption 4:</b> No adjustment is required if:           <ol style="list-style-type: none"> <li>(c) The difference between the previous actual use calculated for the most recent adjustment period in which an adjustment was made and the percentage actual use for the relevant adjustment period is less than 10%; and</li> <li>(d) The amount of the adjustment does not exceed \$1,000.</li> </ol> <p>[s. 21(2)(c) &amp; (d)]</p> </li> </ol> <p><b>(Note:</b> For exemptions 3 &amp; 4, a calculation would need to be done anyway, to ascertain if the \$1,000 threshold has been breached. For more see <b>Section IV (3)</b> on <b>page 15</b> below).</p>

**THE GST APPORTIONMENT RULES**

**SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE (CONTINUED)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b>(3) Change of use adjustment calculations</b></p> <p>First, the extent to which goods and services were applied to make non-taxable supplies had to be determined.  Then adjustments were made.</p> <p><b><u>Determining the extent of non-taxable supplies:</u></b></p> <p>There were three alternative legislated methods:</p> <p>(a) Determine actual use in making non-taxable supplies ("Direct attribution" in the old IRD GST Guide –IR375);</p> <p>(b) Use a method approved by the Commissioner, if the method results in allocated amounts which are fair and reasonable;</p> <p>(c) <i>For determining the extent of exempt supplies only:</i> use the total value of exempt supplies for the taxable period as a percentage of the total value of all supplies for the taxable period.</p> <p><b><u>Adjustments</u></b></p> <p>(a) A one-off adjustment calculation; or</p> <p>(b) A period-by-period adjustment calculation; or</p> <p>(c) An annual adjustment calculation</p> <p>(See <b>Section IV (1)</b> on <b>page 13</b> above).</p> <p><i>(The IRD's old GST Guide – IR375 set out accepted period-by period and annual calculation methods using depreciation rates for capital assets).</i></p> <p><b>[Old s. 21A, 21C, 21E, 21F &amp; 21G]</b></p>	<p><b>(3) Change of use adjustment calculations</b></p> <p><b><u>Step 1: Identify percentage actual use:</u></b></p> <p>At the end of each adjustment period, determine the <i>percentage actual use</i> of the goods and services in making taxable supplies: based on the actual use in making taxable supplies expressed as a percentage of total use, <i>for the entire time from acquisition to the date of the adjustment.</i></p> <p><b><u>Note:</u></b> the percentage actual use of a motor vehicle can be based on a log book</p> <p><b>[s. 21A(a) &amp; 21G(1)(a) &amp; s. 21(5)</b> inserted by s. 216 of the <i>Annual Rates Tax Act 2012</i>]</p> <p><b><u>Step 2: Comparisons</u></b></p> <p>At the end of the 1<sup>st</sup> adjustment period, the <i>percentage actual use</i> is compared with the <i>percentage intended use at acquisition.</i></p> <p><b>[s. 21C(a)]</b></p> <p>At the end of subsequent adjustment periods, the <i>percentage actual use</i> is compared with the <i>percentage actual use in an earlier period that is the most recent period in which an adjustment has been made, or if no adjustment has been made, the percentage intended use at acquisition.</i></p> <p><b>[s. 21C(b)]</b></p> <p><b><u>Step 3: Determine percentage difference</u></b></p> <p>The <i>percentage difference</i> (if any) must be determined between the percentage actual use, and the percentage intended use (for the 1<sup>st</sup> period), or previous actual use (for later periods).</p> <p><b>[s. 21A(b) &amp; 21C]</b></p> <p><b><u>Step 4: Calculate an adjustment</u></b></p> <p>If the <i>percentage difference</i> at the end of an adjustment period is not zero, (and the &lt;10% exemptions do not apply – see <b>Section IV (2)</b> on <b>page 14</b>) an adjustment must be calculated by <i>multiplying the percentage difference by the full input tax deduction which could have been claimed at acquisition:</i></p> <p style="text-align: center;"><b>[Full input tax deduction] x [% difference]</b></p> <p><b><u>Note:</u></b> For zero-rated land supplies, the full input tax deduction is the <i>nominal GST component</i> (see <b>Section III (4)</b> on <b>page 11</b>).</p> <p><b>[s. 21A(c), 21D(1) &amp; 21D(2)]</b></p>

THE GST APPORTIONMENT RULES

SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE (CONTINUED)

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(4) Valuation rule for change of use adjustments</u></b></p> <p>When there was a change to a non-taxable use, or mixed taxable and non-taxable use, of goods and services acquired for the principal purpose of making taxable supplies, the consideration for the supply for non-taxable use, was the <u>lesser of</u>:</p> <p>(a) The cost of the goods and services, including any input tax deduction claimed; and</p> <p>(b) The open market value of the supply.</p> <p>[Old s. 10(8)]</p>	<p><b><u>(4) Valuation rule for change of use adjustments</u></b></p> <p>There is no valuation required when there is a change of use:</p> <p>The basis for all adjustments is the <i>full input tax deduction that would have been available on acquisition</i>.</p> <p>(See <b>Section IV (3)</b> on page 15 above)</p>
<p><b><u>(5) How the calculated adjustment is included in a GST return</u></b></p> <p><u>The adjustment was included in the GST return for the relevant taxable period</u> if it was:</p> <p>(a) A one-off change-in-use adjustment in the first taxable period; or</p> <p>[Old s. 21C(1)(a), 21C(2), 21B, 21G(1A) &amp; 21H]</p> <p>(b) A period-by period adjustment.</p> <p>[Old s. 21C(1)(b), 21G(1)(a), 21G(1A) &amp; 21H]</p> <p><b><u>If an annual adjustment was made</u></b> the adjustment was included in the GST return for the period covering the end of the year.</p> <p>[Old s. 21C(1)(c) &amp; 21G(1)(b)]</p> <p>(See also <b>Section IV (1)</b>)</p>	<p><b><u>(5) How the calculated adjustment is included in a GST return</u></b></p> <p><u>The calculated adjustment must be included in the GST return covering the last day of the adjustment period</u>:</p> <p>The adjustment is deemed to arise on the last day of the adjustment period.</p> <p>[s. 21(3) &amp; 21A(c)]</p> <p>(See <b>Section IV (3)</b> for the calculation methods.)</p> <p><b><u>If the percentage difference is positive</u></b> (which reflects an increase in taxable use) the person is entitled to an <i>additional deduction</i> equal to the calculated adjustment.</p> <p>This rule also applies to <b>mixed-use assets</b> – see <b>Section V (8)</b> on page 29.</p> <p>[s. 21D(3)(a) &amp; 20(3)(e) &amp; 20(3)(hb) for taxable supplies of land and improvements to land from 17 July 2013, and to supplies of other mixed-use assets from 1 April 2014.]</p> <p><b><u>If the percentage difference is negative</u></b> (reflecting an increase in non-taxable use) <i>output tax</i> must be paid equal to the adjustment.</p> <p>This rule also applies to <b>mixed-use assets</b> – see <b>Section V (8)</b> on page 29.</p> <p>[s. 21D(3)(b)]</p>



**THE GST APPORTIONMENT RULES**

**SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE (CONTINUED)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(6) When a calculated adjustment does not need to be included in a GST return</u></b></p> <p>N/A</p>	<p><b><u>(6) When a calculated adjustment does not need to be included in a GST return</u></b></p> <p><u>Exemptions apply so that a calculated adjustment need not be included in a GST return if:</u></p> <ol style="list-style-type: none"> <li>1. The exemption in <b>s. 21(2)(c)</b> applies if:           <ol style="list-style-type: none"> <li>(a) The difference between the percentage intended use (on acquisition) and the percentage actual use (for the adjustment period) is less than 10%; and</li> <li>(b) The adjustment calculated as:               <math display="block">\text{[input tax]} \times \text{[% difference]}</math>               is not more than \$1,000.               <p style="text-align: center;"><b>[s. 21(2)(c)]</b></p> </li> </ol> </li> <li>2. The exemption in <b>s. 21(2)(d)</b> applies if:           <ol style="list-style-type: none"> <li>(a) The difference between the percentage actual use (for the adjustment period) and the previous actual use for the most recent previous adjustment period <i>in which an adjustment was made</i> or if an adjustment has not been made, the percentage intended use on acquisition is less than 10%; and</li> <li>(b) The calculated adjustment:               <math display="block">\text{[input tax]} \times \text{[% difference]}</math>               is not more than \$1,000.               <p style="text-align: center;"><b>[s. 21(2)(d)]</b></p> </li> </ol> </li> </ol>

**THE GST APPORTIONMENT RULES**

**SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE (CONTINUED)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b><u>(7) Limit to number of adjustments</u></b></p> <p>There was no limit.</p>	<p><b><u>(7) Limit to number of adjustments</u></b></p> <p>The number of adjustments is limited as follows:</p> <p><b><u>For goods (other than land) and services the number of adjustment periods are:</u></b></p> <p>(a) The default number of adjustment periods; or</p> <p>(b) The number of years of estimated useful life in the tax depreciation tables.</p> <p>If one of the above is not chosen, the default number of periods will apply.  The choice cannot be changed once it is made.</p> <p><b>[s. 21G(4)]</b></p> <p><b><u>The default number of adjustment periods are:</u></b></p> <p>(a) <u>Two adjustments plus a final adjustment on disposal:</u> if the GST exclusive values range from more than \$5,000 to \$10,000.</p> <p>(b) <u>Five adjustments plus a final adjustment on disposal:</u> if the GST exclusive values range from more than \$10,000 to \$500,000.</p> <p>(c) <u>Ten adjustments plus a final adjustment on disposal:</u> if the GST exclusive values exceed \$500,000.</p> <p><b>[s. 21G(4)]</b></p> <p><b><u>There is no limit on the number of adjustments for land.</u></b></p> <p><b>Note:</b> <i>The expanded the definition of "land" does not apply for the purposes of this section. Therefore, there will be a limit to the number of adjustments in relation to shares in a flat-owning or office-owning company (unless a tax position has been taken already for an adjustment period that ends before 29/8/11, the date of the Royal assent of the Tax Administration Act).</i></p> <p><b>[s. 21G(5) &amp; amendments inserted by sections 235(1)(b) &amp; 235(2) of the Taxation (Tax Administration and Remedial Matters) Act 2011]</b></p>

**THE GST APPORTIONMENT RULES**

**SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE (CONTINUED)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(8) Final "wash-up" adjustment</b></p> <p>At the end of the relevant <i>taxable period</i> when there is a change of use from taxable to non-taxable, or non-taxable to taxable, or a change in mixed use, <u>the following one-off adjustment options were available:</u></p> <ol style="list-style-type: none"> <li>1. A <u>one-off output tax adjustment</u> in the 1st taxable period of change of use, providing that:           <ol style="list-style-type: none"> <li>(a) If there were further changes in use of 20% or more, adjustments had to be made in later taxable periods;</li> <li>(b) For new goods or services, or replacements without an existing pattern of use, the one-off adjustment was a provisional allocation and had to be recalculated 12 months after the date of acquisition.</li> </ol> </li> </ol> <p><b>[Old s. 21C(1)(a), 21C(2) &amp; 21B]</b></p> <ol style="list-style-type: none"> <li>2. A <u>one-off input tax adjustment</u> in the first taxable period in which there was a change of use, was <i>only allowed for</i>:           <ol style="list-style-type: none"> <li>(a) Capital assets with a cost &lt; \$18,000;</li> <li>(b) Goods and services wholly applied to make taxable supplies upon IRD approval based on:               <ol style="list-style-type: none"> <li>(i) The nature of the goods or services;</li> <li>(ii) Whether period-by-period or annual adjustments were practical;</li> <li>(iii) Whether a previous one-off adjustment had been made.</li> </ol> </li> </ol> </li> </ol> <p><b>[Old s. 21G(1A) &amp; 21H]</b></p>	<p><b>(8) Final "wash-up" adjustment</b></p> <ol style="list-style-type: none"> <li>1. A compulsory "wash-up" adjustment applies, effective from 30 June 2014, for all assets purchased for both taxable and non-taxable use but later used solely for one purpose. The criteria for the "wash-up" to be made, in new s. 21FB are:           <ol style="list-style-type: none"> <li>(a) The person must make an adjustment under s. 21A (ongoing adjustments) or s. 21B (goods acquired pre-registration); and</li> <li>(b) The person's use of the goods or services changes in an adjustment period to either total taxable use or total non-taxable use; and</li> <li>(c) The total taxable use or non-taxable use remains unchanged for an unbroken period (of up to two years) including the remainder of the adjustment period in which the use was changed, and the whole of the following adjustment period.</li> </ol> </li> <li>2. The "wash-up" adjustment must be performed in the 2nd adjustment period after the adjustment period in which the change occurred:           <ol style="list-style-type: none"> <li>(a) When the use changes to total taxable use, a "full input tax deduction", as defined in existing s. 21D(2)(a), is allowed (including any input tax paid by the recipient of a zero-rated supply of land), reduced by the input tax already deducted up to that time;</li> <li>(b) When the use changes to total non-taxable use, there will be a claw-back of the "actual deduction", as defined in existing s. 21F(3)(c), and all the input tax on the supply that has previously been claimed, including adjustments made, must be returned as output tax in the wash-up adjustment period.</li> </ol> </li> </ol> <p><b>[Section 21FB inserted by s. 191 of the <i>Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Act 2014</i>, effective from 30 June 2014]</b></p>

THE GST APPORTIONMENT RULES

SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE (CONTINUED)

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(9) Final adjustment upon disposal (not a section 11(1)(mb) acquisition</u></b></p> <p>No final adjustment was required or allowed when goods or services that were used partly for non-taxable purposes were disposed of in the course or furtherance of a taxable activity.</p> <p><i>A concession applied where a one-off adjustment in the first taxable period had been made in contemplation of a subsequent sale of the relevant goods or services:</i></p> <p>In that case, the subsequent sale was not treated as a sale in the course or furtherance of the taxable activity (i.e. no output GST was payable).</p> <p>[Old s. 21D]</p>	<p><b><u>(9) Final adjustment upon disposal (not a section 11(1)(mb) acquisition</u></b></p> <p>When goods and services (<i>other than goods and services acquired as part of a supply that included land that was zero-rated under section 11(1)(mb) – see Section IV (10) on page 21 below</i>) for which there has not been a full input tax deduction claimed, (including any adjustments made), are disposed of in the course or furtherance of a taxable activity:</p> <p><u>A final adjustment, which results in a final input tax deduction must be made as follows:</u></p> $\text{Output GST} \times \left( 1 - \frac{\text{Actual deduction}}{\text{Full input tax deduction}} \right)$ <p>Where:</p> <p><b>Output GST is:</b></p> <p>(a) <u>If the supply that included the disposal was not zero-rated:</u> the tax fraction of the consideration received for the disposal;</p> <p>(b) <u>If the supply that included the disposal was zero-rated:</u> 15% of the consideration received for the disposal.</p> <p><b>Actual deduction is:</b></p> <p>The cumulative input tax deduction (including adjustments) actually claimed before disposal.</p> <p><b>Full deduction is:</b></p> <p>The input tax paid on acquisition.</p> <p><u>There is a limit to this deduction:</u> when added to input tax deductions claimed before disposal, the total cannot exceed the input tax paid on acquisition. The final input tax deduction may be reduced to reflect this.</p> <p>[s. 21F including s. 21F(7) inserted by section 240(2) of the <i>Taxation (Tax Administration and Remedial Matters) Act 2011</i> applying from 1 April 2011]</p>

**THE GST APPORTIONMENT RULES**

**SECTION IV: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE (CONTINUED)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(10) Final adjustment upon disposal of goods (section 11(1)(mb) acquisition)</b></p> <p>N/A</p>	<p><b>(10) Final adjustment upon disposal of goods (section 11(1)(mb) acquisition)</b></p> <p>When goods and services acquired as part of a supply that included land that was zero-rated under s. 11(1)(mb), for which there has not been a full input tax deduction claimed, (including any adjustments made), are disposed of in the course or furtherance of a taxable activity:</p> <p><u>A final adjustment, which results in a final input tax deduction must be made as follows:</u></p> <p style="text-align: center;"><b>Output GST x [1 - Previous use]</b></p> <p>Where:</p> <p><b>Output GST is:</b></p> <p>(a) <u>If the supply that included the disposal was not zero-rated:</u> the tax fraction of the consideration received for the disposal;</p> <p>(b) <u>If the supply that included the disposal was zero-rated:</u> 15% of the consideration received for the disposal;</p> <p><b>Previous use is:</b></p> <p>The percentage intended use or the previous actual use <u>in the period before the period in which the disposal occurs.</u></p> <p><u>Note:</u> If the asset is disposed of before the limit on adjustments is reached, the period before the period in which the disposal occurs (the "final adjustment period") ends on the date before the asset is disposed of.</p> <p>[New <b>s. 21G(7B)</b> inserted by s. 220 of the <i>Annual Rates Tax Act 2012</i> applying from 2 November 2012, the date of assent.]</p> <p><b>There is a limit to this deduction:</b> when added to input tax deductions already claimed, the total cannot exceed the output tax paid on acquisition under <b>section 20(3)(a)(iii)</b> [see <b>Section III (4)</b> on <b>page 11</b>]. The final input tax deduction may be reduced to reflect this.</p> <p>[<b>s. 21F(4)-21F(7)</b> inserted by section 240(2) of the <i>Taxation (Tax Administration and Remedial Matters) Act 2011</i> effective from 1/4/11]</p>

THE GST APPORTIONMENT RULES

SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(1) Pre-registration acquisitions</b></p> <p>There were no special rules.</p> <p>The input tax deductions followed the rules set out above for change of use input tax deductions.</p>	<p><b>(1) Pre-registration acquisitions</b></p> <p>The following rules apply where goods and services used to make taxable supplies by a person <i>or a partnership</i>, were acquired by the person <i>or a partner</i> pre-registration:</p> <p>(a) With GST having been charged; or  (b) With GST paid on importation; or  (c) Secondhand, with the secondhand goods always having been in NZ, or imported with GST paid on importation.</p> <p><b>Main rule:</b> Input tax adjustments must take into account the initial (including pre-registration) period during which the goods or services were not used to make taxable supplies.</p> <p>In the case of secondhand goods the tax fraction that applied at the time the goods were purchased must be used.</p> <p><b>1<sup>st</sup> adjustment period rule:</b> The 1<sup>st</sup> adjustment period runs from acquisition to the 1<sup>st</sup> balance date following the change of use to make taxable supplies.</p> <p>The percentage actual use for the 1<sup>st</sup> adjustment period may be determined using a method that provides a fair and reasonable result.</p> <p>The standard rules apply after the end of the 1<sup>st</sup> adjustment period.</p> <p>For <b>mixed-use assets</b> the rules in <b>s. 20G</b> must be followed.</p> <p><u>The \$5,000 minimum threshold in s. 21B(4) has been repealed.</u> Input tax deductions can be claimed for all goods and services acquired before registration.</p> <p>[<b>s. 21B</b> as amended by s. 218 of the <i>Annual Rates Tax Act 2012</i> with effect from 1 April 2011, and <b>s. 132</b> of the <i>Livestock Tax Act</i> from 17 July 2013.]</p> <p><b>Special rule for an acquisition from an associated person:</b> Where goods and services <u>on which GST was charged</u> were acquired from an associated person, the amount of input tax cannot be more than the amount accounted for as output tax by the supplier of the goods and services.</p> <p>[<b>s. 3A(3C)</b> as amended by s. 208(2) of the <i>Annual Rates Tax Act 2012</i> from 1 April 2011]</p>

**THE GST APPORTIONMENT RULES**

**SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES (CONT.)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(2) Pre 1/4/11 acquisitions for which no adjustment was made or required under the old apportionment rules</u></b></p> <p>N/A</p>	<p><b><u>(2) Pre-1/4/11 acquisitions for which no adjustment was made or required under the old apportionment rules</u></b></p> <p>The following rules apply to goods and services acquired by a person before 1/4/11 for which no adjustment was made or required under the old apportionment rules before 1/4/11:</p> <p><b>Note: the rules below do not apply to the exclusions listed further below.</b></p> <p>(a) If input tax was deducted under s. 20(3), or the goods or services were zero-rated at the time of purchase, the person must apply the old apportionment rules in relation to the supply;</p> <p>(b) If no input tax was deducted under s. 20(3), the new GST apportionment rules apply.</p> <p><b>1st adjustment period:</b> The 1st adjustment period begins on the date on which the goods or services were acquired and ends on the 1st balance date falling after the later of:</p> <p>(a) The date on which the goods or services were first applied for making taxable supplies; or</p> <p>(b) The date on which the person becomes a registered person.</p> <p><b>Application exclusion 1:</b> These rules do not apply to goods or services that are referred to in <b>s. 21HB(1)</b> - i.e. goods or services acquired or produced by a person before 1/4/11 other than for the principal purpose of making taxable supplies, but because of the changes to the definitions of “dwelling” and “commercial dwelling”, they are treated, from 1 April 2011, as being used for making taxable supplies, and the person is a person who <u>must</u> be registered under <b>s. 51(1)</b> (i.e. not voluntarily registered): [see <b>Section V (3)</b> on <b>page 24</b> below.]</p> <p><b>Application exclusion 2:</b> this rule does not apply if a tax position has already been taken <b>between 1/4/11 and 4/9/11</b> (the date of introduction of the <i>Annual Rates Tax Bill</i>).</p> <p>[<b>s. 21HB(2B)(b) &amp; 21HB(2C)</b> inserted by s. 221(2) &amp; (3) of the <i>Annual Rates Tax Act 2012</i>]</p>

**THE GST APPORTIONMENT RULES**

**SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES (CONT.)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(3) Pre 1/4/11 acquisitions referred to in s. 21HB(1)</u></b></p> <p>N/A</p>	<p><b><u>(3) Pre 1/4/11 acquisitions referred to in s. 21HB(1)</u></b></p> <p>This is a transitional rule for previously exempt supplies that are now taxable supplies because of changes to the definitions of “dwelling” and “commercial dwelling”.</p> <p><u>The rule applies in the following circumstances:</u></p> <p>(a) Goods and services were acquired or produced before 1 April 2011; and</p> <p>(b) Were not acquired or produced for the principal purpose of making taxable supplies; and</p> <p>(c) Because of the changes to the definitions of “dwelling” and “commercial dwelling”, the goods or services are treated, from 1 April 2011, as being used for making taxable supplies; and</p> <p>(d) The person is a person who must be registered under <b>section 51(1)</b> (i.e. not voluntarily registered).</p> <p><b><u>Deemed acquisition on 1/4/11:</u></b> The goods or services are treated as having been acquired on 1 April 2011, at the original cost of the supply.</p> <p><b><u>Input tax deduction allowed under the new rules:</u></b> Input tax can be deducted under <b>section 20(3C)</b> to the extent to which a deduction has not been made under the old apportionment rules. The input tax deduction is subject to the new apportionment rules: input tax may be deducted only to the extent to which the goods or services are used for, or available for use in, making taxable supplies, unless the de-minimis exemption in s. 20(3D) applies <b>[s. 20(3C)]</b>.</p> <p><b><u>Normal adjustment period rules apply:</u></b> There are no special rules concerning the 1<sup>st</sup> or subsequent adjustment periods. The usual rules apply.</p> <p><b>[s. 21HB inserted by section 241 of the <i>Taxation (Tax Administration and Remedial Matters) Act 2011</i> – applies to supplies made on or after 1/4/11]</b></p>



THE GST APPORTIONMENT RULES

SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES (CONT.)

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(4) Concurrent uses of land</b></p> <p>There were no special rules.</p> <p>The general adjustment rules set out earlier apply.</p> <p>The valuation rule in the old <b>section 10(8)</b> applied to value land put to a non-taxable use (see the separate PDF <i>GST Land Transactions Rules – Section III (1)</i> on page 14).</p> <p>The application of these rules has been the subject of several tax cases.</p> <p>Difficult issues arose in relation to the value of the supply when land was temporarily put to a non-taxable use.</p>	<p><b>(4) Concurrent uses of land</b></p> <p>Where all or part of the same area of land is <u>simultaneously</u> used during an adjustment period for making concurrent taxable and non-taxable supplies (refer to the <b>Note</b> below), the following rules in <b>s. 21E</b> apply, unless the Commissioner agrees that some other calculation method may be used:</p> <p><b>Main rule:</b> The percentage actual use of the land to make taxable supplies, at the end of an adjustment period, is calculated as:</p> $\frac{\text{Consideration for taxable supply}}{\text{Total consideration for supply}} \times 100$ <p><b>Consideration for taxable supply</b> is the market value of the land at the time of the adjustment, but if the land is disposed of to a non-associated person during the adjustment period, the consideration is the amount it was sold for.</p> <p><b>Total consideration for supply</b> is the “consideration for taxable supply” (above) <i>plus</i> the (arm’s length) rental income <i>since acquisition</i>. If there was no rental income, the market value of the rental income that would have been received is used.</p> <p><b>Secondary rule:</b> If there are whole months of non-taxable use, the calculated <i>percentage taxable use</i> is reduced to reflect only the months of actual taxable use as follows:</p> $\frac{\text{Months of taxable use}}{\text{Months since acquisition}} \times \% \text{ Actual taxable use}$ <p><b>Note:</b> Under s. 235 of the <i>Taxation (Tax Administration and Remedial Matters) Act 2011</i>, the expanded the definition of “land” in <b>s. 2</b> does not apply unless a tax position has been taken already for an adjustment period that ends before 29/8/11, the date that Act received the Royal assent.</p> <p>[<b>s. 21E</b> including the amendment in s. 219 of the <i>Annual Rates Tax Act 2012</i> requiring simultaneous use of the same area of land.]</p>

**THE GST APPORTIONMENT RULES**

**SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES (CONT.)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b>(5) Suppliers of financial services</b></p> <p>There was no special concession for financial services. There was simply a requirement to choose a method that ensures a fair and reasonable result, and a <b>choice of 3 adjustment methods</b> to determine the proportion of exempt supplies:</p> <p><b>Method 1:</b> Actual use.</p> <p><b>Method 2:</b> An alternative method approved by the Commissioner if the method results in allocated amounts that are fair and reasonable.</p> <p><b>Method 3:</b> The proportion of the value of exempt supplies to total supplies for the taxable period.</p> <p>[Old s. 21A]</p> <p><b>The adjustments were made:</b></p> <p>(a) Every period (period-by period adjustments);  or  (b) Annually (annual adjustments).</p> <p>[See <b>Section IV (1)</b> on <b>page 13</b>]</p> <p><b>Note:</b> These rules do not apply if a one-off adjustment was made on acquisition (see <b>Section IV (1)</b> on <b>page 13</b>)</p>	<p><b>(5) Suppliers of financial services</b></p> <p>The following rules apply to suppliers of financial services for making post-acquisition change of use adjustments:</p> <p><b>Method for making adjustments:</b> A registered person who is a supplier of financial services may choose a fair and reasonable method, as agreed with the Commissioner, for making post-acquisition adjustments.</p> <p>(a) The method must have regard to the tenor of <b>sections 21A to 21H</b>;</p> <p>(b) The alternative method may be used individually or as a group of companies</p> <p>[s. 21(4)]</p> <p><b>Adjustment periods:</b> The standard adjustment period rules apply.  (See <b>Section IV (1)</b> on <b>page 13</b>)</p> <p>[s. 21G(2)]</p> <p><b>Adjustment calculations:</b> The standard rules for making adjustment calculations apply.  (See <b>Section IV (3)</b> on <b>page 15</b>)</p> <p>[s. 21A, 21C, 21D &amp; 21G]</p> <p><b>Exemptions:</b> The standard exemptions apply.  (See <b>Section IV (2)</b> on <b>page 14</b>)</p> <p>[s. 21(2)(a) to (d)]</p>

**THE GST APPORTIONMENT RULES**

**SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES (CONT.)**

‘OLD’ APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(6) Imported services:</b>  A NZ recipient who was treated as a supplier under <b>s. 8(4B)</b>, and who had to pay output tax had the following post-acquisition adjustments.</p> <p><u>Services acquired for the principal purpose of making taxable supplies:</u></p> <p>If a full input tax deduction had been claimed at acquisition, and a one-off output tax adjustment had not been made at the same time to reflect the non-taxable use of the services, either:</p> <p>(a) Period-by-period output tax adjustments had to be made to reflect the non-taxable use; or</p> <p>(b) Annual output tax adjustments had to be made to reflect the non-taxable use.</p> <p><b>[Old s. 21C(1)(b) &amp; (c)]</b></p> <p><u>Services not acquired for the principal purpose of making taxable supplies:</u> either:</p> <p>(a) Period-by-period input tax adjustments had to be made to reflect the taxable use; or</p> <p>(b) Annual input tax adjustments had to be made to reflect the taxable use.</p> <p><b>[Old s. 21G(1)]</b></p> <p><u>Supply by a non-resident subsequently cancelled or changed:</u></p> <p>Where a supply by a non-resident is subsequently cancelled or changed, or the consideration has been altered, or the services have been returned, a correction had to be made in the GST return, for the taxable period in which the requirement for the correction became apparent.</p> <p><b>[s, 25AA]</b></p>	<p><b>(6) Imported services:</b>  Post –acquisition adjustments for services treated as made in NZ under <b>s. 8(4B)</b>:</p> <p><u>If the % intended use estimated at acquisition was &lt; 95%, and output tax has been paid on the deemed supply:</u></p> <p>(a) At the end of the 1<sup>st</sup> adjustment period, the <i>percentage actual use</i> must be compared to the <i>percentage intended use</i>, and an adjustment must be made for any <i>percentage difference</i> unless an adjustment exemption applies;</p> <p>(b) At the end of the 2<sup>nd</sup> and subsequent adjustment periods, the <i>percentage actual use</i> is compared to the <i>previous actual use</i>, and an adjustment made for any <i>percentage difference</i> unless an adjustment exemption applies.</p> <p><b>[s. 21C(a) &amp; 21D and see (11) on page 12]</b></p> <p><u>If the percentage intended use was estimated at acquisition to be at least 95%, and there was therefore no deemed supply on acquisition:</u></p> <p>(a) As long as the <i>percentage actual use</i> at the end of each adjustment period is at least 95%, there is no deemed supply.</p> <p>(b) If the <i>percentage actual use</i> at the end of the any period is less than 95%, there is a deemed supply in that adjustment period.</p> <p>(c) The supply is treated as having been made on the last day of that adjustment period and output tax is payable on the deemed supply.</p> <p>(d) An input tax deduction can be claimed under section 20(3H) calculated as:</p> <p><b>[% Actual use] x [Full input tax deduction]</b></p> <p>(e) Further adjustments must be made as required under section 21D in later periods.</p> <p><b>[s. 8(4B) as amended by s. 210 &amp; s. 9(2)(h) as amended by s. 211 of the Annual Rates Tax Act 2012, effective from 1 April 2011]</b></p>

**THE GST APPORTIONMENT RULES**

**SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES (CONT.)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b>(7) Zero-rated land acquisitions</b></p> <p>There were no zero-rated supplies.</p> <p>For a recipient's post-acquisition obligations in relation to standard-rated supplies, refer to <b>page 13</b> for the details.</p> <p>(a) There were 3 choices for making adjustments:</p> <ul style="list-style-type: none"> <li>• A one-off adjustment on acquisition, plus further adjustments in certain circumstances;</li> <li>• Period-by-period adjustments; and</li> <li>• Annual adjustments.</li> </ul> <p>(b) No final adjustment to reduce output tax was required or allowed, but a concession applied whereby a disposal was ignored for GST purposes if a one-off adjustment had previously been made in anticipation of the sale.</p> <p><b>[Various replaced sections]</b></p>	<p><b>(7) Zero-rated land acquisitions</b></p> <p>After complying with the acquisition requirements under s. 20(3)(a), a recipient of a zero-rated supply of land must, in later adjustment periods, make adjustments under the apportionment rules in s. <b>20G</b> and 21 to 21H in relation to the taxable supply arising from any non-taxable use of the goods.</p> <p>[s. <b>20(3)(b)</b> with <b>20G</b> inserted in relation to the mixed-use assets rules – see <b>Section V (8)</b> on <b>page 29</b> below]</p> <ol style="list-style-type: none"> <li>1. <b><u>At the end of the 1<sup>st</sup> adjustment period</u></b>, the <i>percentage actual use</i> must be compared to the <i>percentage intended use</i>, and if there is a <i>percentage difference</i>, an adjustment must be made. [s. <b>21C(a) &amp; 21A</b>]</li> <li>2. <b><u>At the end of subsequent adjustment periods</u></b>, the <i>percentage actual use</i> must be compared to the <i>percentage intended use</i>, and if there is a <i>percentage difference</i>, an adjustment must be made. [s. <b>21C(b) &amp; 21A</b>]</li> <li>3. <b><u>There is no limit on the number of adjustments for land</u></b> (but the extended definition of land does not apply – see <b>Section IV (7)</b> on <b>page 18</b> above. [s. <b>21G(5)</b>]</li> <li>4. <b><u>Two adjustments must be made in the adjustment period in which the land is disposed of:</u></b> <ol style="list-style-type: none"> <li>(a) An adjustment for the final adjustment period, that begins on the day after the end of the adjustment period preceding the period in which the asset is disposed of, and ends on the date before the disposal; <p>[New s. <b>21G(7B)</b> inserted by s. <b>220</b> of the <i>Annual Rates Tax Act 2012</i> effective from 2 November 2012, the date of assent]</p> </li> <li>(b) A final adjustment upon disposal of the goods and services, whereby the output tax otherwise payable is reduced because a full input tax deduction has not been claimed (see <b>Section IV (10)</b> on <b>page 21</b>).</li> </ol> </li> <li>5. For <b><u>mixed-use land</u></b> see <b>Section V (8)</b> below.</li> </ol>

**THE GST APPORTIONMENT RULES**

**SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES (CONT.)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(8) Mixed-use assets</b></p> <p>N/A</p>	<p><b>(8) Mixed-use assets</b></p> <p>For a supply of a mixed-use asset to which <b>s. 20G</b> applies, the recipient must, post-acquisition, make adjustments under <b>s. 20G(4)</b> and <b>(5)</b> in relation to the taxable supply of the mixed-use asset.</p> <p><b>[s. 20(3JB)(b)</b> inserted by <b>s. 130(4)</b> of the <i>Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Act 2013</i> applying to taxable periods starting on or after 17 July 2013]</p> <ol style="list-style-type: none"> <li>1. Post-acquisition adjustments are contemplated only in relation to expenditure that is not solely income-earning use or solely private use.</li> <li>2. The general rules relating to the first and subsequent adjustment periods in <b>s. 21G(2)</b> and the number of adjustment periods in <b>s. 21G(4)</b> apply for the purposes of <b>s. 20G</b>.</li> <li>3. Under <b>s. 20G(4)</b>, the person must ascertain at the end of an adjustment period whether an adjustment is required to be made for any percentage difference in a supply of the asset for the period in relation to the actual use of the asset for making taxable supplies.  <b>[Amendments to s. 21G in s. 134 and s. 20G(4) inserted by s. 131]</b></li> <li>4. If an adjustment is required, the person must, at the end of the adjustment period: <ol style="list-style-type: none"> <li>(i) Identify the percentage actual use of the asset in accordance with the formula in <b>s. 20G(1)</b> for making taxable supplies; and</li> <li>(ii) Compare the percentage actual use with percentage intended use as described in <b>s. 20(3JB)</b> or previous actual use, as applicable; and</li> <li>(iii) If a percentage difference arises, make an adjustment for any percentage difference for the adjustment period, applying <b>s. 21D(3)</b> to the resulting amount.</li> <li>(iv) Under <b>s. 21D(3)</b>, there will be either an additional input tax deduction, or an output tax liability.</li> </ol> </li> </ol> <p><b>[s. 20G(5) in s. 131 and amendments to s. 21D in s. 133 of the <i>Livestock Tax Act</i> applying to supplies of land from 17 July 2013.]</b></p>

**THE GST APPORTIONMENT RULES**

**SECTION V: POST-ACQUISITION ADJUSTMENTS FOR CHANGE IN USE- SPECIAL RULES (CONT.)**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b><u>(9) Output tax on land applied to a non-taxable purpose</u></b></p> <p>No corresponding rule.</p>	<p><b><u>(9) Output tax on land applied to a non-taxable purpose</u></b></p> <ol style="list-style-type: none"> <li>1. When a person uses land for making taxable supplies and then fully devotes it to a non-taxable purpose before disposal, the person will arguably not be disposing of the land in the course or furtherance of their taxable activity, and, therefore, there will be no output tax liability on the sale.</li> <li>2. The suggested solution, in clause 163 of the <i>Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Bill</i>, which is targeted to land, was to extend the scope of s. 5(16) so that it applied to all subsequent supplies of land when input tax has been claimed (at present s. 5(16) applies only to dwellings).</li> <li>3. The revised s. 5(16), was to apply to a supply of "land or a dwelling" for which a registered person has a deduction under s. 20(3). A subsequent supply of all or part of the land or dwelling, or appurtenances belonging to or used with the dwelling, will be treated as a taxable supply.</li> <li>4. The supplier would be required to charge output tax and also perform the existing final adjustment on disposal calculation in section 21F.</li> <li>5. However, the rule has not been enacted.</li> </ol> <p><b>[Clause 163 of the <i>Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Bill</i> as originally introduced]</b></p>

**THE GST APPORTIONMENT RULES**

**SECTION VI: ADJUSTMENTS FOR FRINGE BENEFITS AND ENTERTAINMENT EXPENSES**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b>(1) Fringe Benefits</b> <i>(no change in the rules)</i></p> <p>The rules have not changed. They were the same as set out in the column on the right.</p>	<p><b>(1) Fringe Benefits</b> <i>(no change in the rules)</i></p> <p><b>General rule:</b> The provision or granting of a fringe benefit under the FBT rules is treated as a supply in the course or furtherance of a taxable activity.</p> <p><b>Taxable value of the fringe benefit is the consideration:</b> The consideration in money for the supply (i.e. the GST inclusive price at which the fringe benefit is provided) is the taxable value of the fringe benefit under the <b>Income Tax Act 2007 (ITA 2007)</b>.</p> <p>The consideration is reduced by any amount paid by the recipient.</p> <p>The tax fraction of the taxable value (reduced by any amount paid by the recipient) is returned in the FBT return relating to the fringe benefit and is treated as a payment of FBT under the <b>ITA 2007</b>.</p> <p><b>Time of supply:</b> The time of supply is the time at which the fringe benefit is provided or granted.</p> <p><b>Exclusion:</b> The consideration is treated as nil, and no GST is payable, if the supplier of the fringe benefit could not themselves have claimed an input tax deduction on the supply of the fringe benefit.</p> <p>This will be the case for fringe benefits arising from:</p> <ul style="list-style-type: none"> <li>(a) An exempt supply;</li> <li>(b) A zero-rated supply; or</li> <li>(c) A supply by the supplier in the course of making exempt supplies.</li> </ul> <p><b>[s. 21I, 10(7) &amp; 23A]</b></p>

**THE GST APPORTIONMENT RULES**

**SECTION VI: ADJUSTMENTS FOR FRINGE BENEFITS AND ENTERTAINMENT EXPENSES  
 (CONTINUED)**

'OLD' APPORTIONMENT RULES	RULES FROM 1 APRIL 2011
<p><b><u>(2) Entertainment expenses (no change in the rules)</u></b></p> <p>The rules have not changed. They were the same as set out in the column on the right.</p>	<p><b><u>(2) Entertainment expenses (no change in the rules)</u></b></p> <p><b>General rule:</b> Entertainment expenditure (including depreciation), which is non-deductible under <b>sections DD 1 to DD 3 of the ITA 2007</b>, is treated as a supply in the course or furtherance of a taxable activity.</p> <p><b>Tax deduction denied is the consideration:</b> The consideration in money for the supply (i.e. the GST inclusive price) is the amount of the income tax deduction denied.</p> <p><b>Time of supply:</b> The time of supply is the earlier of:</p> <ul style="list-style-type: none"> <li>(a) The time at which the income tax return relating to the denied deductions is filed; or</li> <li>(b) The latest time by which that income tax return must be filed.</li> </ul> <p>GST output tax must be returned in the taxable period that covers the time of supply.</p> <p><b>Exclusions:</b> Not treated as a supply are:</p> <ul style="list-style-type: none"> <li>(a) Entertainment allowances to employees.</li> <li>(b) Reimbursing payments that are exempt income under <b>sections CW17 to CW18 of the ITA 2007</b>.</li> </ul> <p>[s. 21I]</p>



**THE GST APPORTIONMENT RULES**

**SECTION VII: TRANSITIONAL ACCOUNTING RULES**

<b>'OLD' APPORTIONMENT RULES</b>	<b>RULES FROM 1 APRIL 2011</b>
<p><b>(1) Transitional accounting rules</b></p> <p><b>General rule:</b> The old rules in <b>old sections 21 to 21H</b> (“the old apportionment rules”) continue to apply to goods and services acquired before 1 April 2011, <b>unless:</b></p> <p>(a) No input tax was deducted and no adjustment was made before 1/4/11; or</p> <p>(b) The goods and services were previously exempt but are now taxable due to the change in the definitions of “dwelling” and “commercial dwelling”.</p> <p><b>(See the column on the right)</b></p> <p><b>Limits on adjustments under the old rules:</b></p> <p>(a) No adjustments can be made after 1 April 2011 for goods and services whose market value or book value on 1 April 2011 is \$5,000 or less.</p> <p>(b) No adjustments are required after 1 April 2013 for goods and services (other than land) whose market value or book value on 1 April 2011 is more than \$5,000 but not more than \$10,000.</p> <p>(c) No adjustments are required after 1 April 2016 for goods and services (other than land) whose market value or book value on 1 April 2011 is more than \$10,000.</p> <p>(d) There is no limitation or termination of adjustments for land acquired before 1 April 2011 and subsequently applied to a non-taxable use.</p> <p><b>[s. 21H]</b></p> <p><b>Note:</b> Under section 235(b) of the <i>Taxation (Tax Administration and Remedial Matters) Act 2011</i>, the expanded the definition of “land” does not apply to these transitional rules unless a tax position has been taken already for an adjustment period that ends before 29/8/11, the date of the Royal assent of that Act.</p>	<p><b>(1) Transitional accounting rules</b></p> <p>See the column on the left for the circumstances in which the old rules continue to apply.</p> <p><b>General rule:</b> The new apportionment rules apply to all goods and services acquired on or after 1 April 2011.</p> <p><b>Pre-registration acquisitions before 1/4/11:</b></p> <p>The new apportionment rules apply to goods and services acquired pre-registration before 1 April 2011 to make non-taxable supplies, which are applied post-registration after 1/4/11 to make taxable supplies.</p> <p><b>[s. 21B – refer to Section V (1) on page 22]</b></p> <p><b>Goods and services acquired before 1/4/11 dealt with under section 21HB:</b></p> <p>For the transitional rules that apply refer to <b>Section V (3) on page 24.</b></p> <p><b>Goods and services (other than those where s. 21HB applies) acquired before 1/4/11 where no adjustments were made or were required to be made under the old rules:</b></p> <p>For the transitional rules that apply refer to <b>Section V (2) on page 23.</b></p> <p><b>[s. 21 to 21H]</b></p>