



Inland Revenue
Te Tari Taake

CORPORATES

National Office
107 Manners Street
Private Bag 39984
Wellington.
New Zealand

Facsimile – Level 3: (04) 802 7207

28 March 2000

MAR 2000

Chief Executive
Wellington Regional Council
Box 11646
Wakefield Street
Wellington

Dear Sir/Madam

Payments to Elected Members
Our **Ref:** WNICORPSIHMD

On 19 April 1999, the Department issued a letter to all Local Authorities setting out their tax obligations in regard to payments to elected members e.g. Mayors and Councillors.

I would like to clarify the tax treatment of payments to elected members for reimbursement of expenditure.

As stated, elected members are not employees for tax purposes. Their income from the Local Authority falls within the scope of the Income Tax (Withholding Payment) Regulations 1979 under Honoraria. These Regulations require tax to be deducted from all payments made to elected members at the rate of 33c per \$1.

However, Regulation 7 of the Income Tax (Withholding Payments) Regulations 1979 allows the Commissioner to deem a portion of a withholding payment to be 'expenditure incurred in the production of the payment' and therefore exempt from withholding tax deductions.

After further discussions with interested parties, it has been decided to apply Regulation 7 and allow payments to elected members for the reimbursement of expenditure to be exempt from the withholding tax, provided that the following conditions have been met:

1. The expenditure must have been incurred by the elected member in the course of duties performed on behalf of the Local Authority; and
2. The expenditure must be reimbursed on receipt of the appropriate receipts or invoices by the Local Authority. The Local Authority will need to maintain records to verify the reimbursements made.

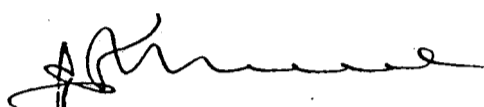
Please note that this exemption applies to reimbursements for specifically identified items of expenditure. The exemption does not apply to any allowances, such as motor vehicle allowances.

Any expenditure reimbursed and treated as exempt from tax should not be claimed as a deduction in the income tax return of the elected member.

An elected member may also obtain relief by applying for a Special Tax Rate Certificate or an Exemption Certificate. A Special-Tax Rate Certificate would vary the rate at which Withholding Tax is deducted and an Exemption Certificate exempts the recipient from Withholding Tax deductions in relation to payments received in relation to the specific occupation.

Should you have any queries regarding this matter, please contact Helen McDermott on 04-802-6162 or by email at helen.mcdermott@ird.govt.nz.

Yours faithfully



John Moreno
Manager (Corporates)