



**Inland Revenue**  
Te Tari Taake

# **Tax treatment of transactions under the Emissions Trading Scheme**

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**Brent Lewers**



# Outline

- Status
- Big picture
- Transaction by transaction
- GST



# Status

- Some tax changes already in law
- Some currently before Parliament, but stable
- Extensive consultation on tax rules
- No tax submissions to Special Select Committee



# New tax rules for emissions units

Starting point:

- tax rules unclear
- sometimes gave the wrong result

Desired end product:

- Clear rules, easy to follow
- Consistency with ETS
- Consistency with ordinary tax principles
- No revenue grab, but no revenue leakage



# Basic tax concepts

- All transactions on revenue account (assessable / deductible)
- Accrual accounting applies
- GST zero-rated



# What are the transactions?

- Purchase (NZ or overseas)
- Receive from government
- Sell (NZ or overseas)
- Surrender



# Purchase

- Purchase of units is deductible
- BUT units still held at year end brought back into account at cost
- So units sit on books at year end as an asset
- NO market movement adjustments

# Award of “free” units

- Units allocated to compensate for new liability to surrender units OR increased costs (typically energy)
- No immediate recognition of income when govt allocates units
- Income from free allocation recognised as relevant surrender liability or increased costs emerge on matching basis\*

# Sale of units

- Emission units revenue account property
  - so sales always taxable
- Cost base = cost
  - original cost if FIFO
  - otherwise weighted average cost
- Sale of “free” unit therefore taxable
- Sale of purchased unit taxable if unit sold for more than cost



# Surrender of unit

- Tax deduction calculated on accruals basis by reference to surrender liability (just like accrual of any other expense)
- Actual surrender has no tax significance



# GST

- All transactions in emissions units zero-rated (so GST applies at nil percent)
- GST input tax incurred in making supply is fully-claimable
- Simplifies compliance and facilitates trading on international markets
- Where govt awards “free” units, business sometimes treated as making a contra supply. This supply also zero-rated.

