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## Announcements

Special Issue: Papers by John Prebble and Sybrand van Schalkwyk on Value Added Tax on Financial Transactions

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**LEGAL SCHOLARSHIP NETWORK: LEGAL STUDIES RESEARCH PAPER S ERIES**
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## "Value Added Tax and Financial Services"

Asia-Pacific Tax Bulletin, Vol. 10, pp. 363-370, 2004
Victoria University of Wellington Legal Research Paper No. 29/2013

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Value added tax (VAT) is a relatively modern development. Designers of VAT recognized from the outset that the way in which financial institutions are remunerated creates significant difficulty when the tax is applied to their services. Administrative difficulties relate to imposing invoice-based VAT on service fees charged as part of the margin between buy and sell rates. Theoretical reasons relate to arguments that financial services should not be taxed under a consumption tax because, it is argued, financial services are not consumed in the way in which goods and services are consumed. Because of these difficulties, most jurisdictions have opted to exempt financial services from VAT. However, the commonly accepted reasons to exempt financial services from VAT are not compelling, since financial services are no different in relevant respects from other services. Moreover, there are methods by which financial services could be brought within the VAT base. Furthermore, although exemption is the simplest way for a VAT to treat financial services, it causes significant distortions in the economy.

## "Defining Interest-Bearing Instruments for the Purposes of Value Added Taxation"

Asia-Pacific Tax Bulletin, Vol. 10, pp. 418-426, 2004
Victoria University of Wellington Legal Research Paper No. 30/2013

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This is the second of a series of four articles on the taxation of financial services under a value added tax. The first article considered whether, from a theoretical viewpoint, financial services should be included under a value added tax. It concluded that the arguments in favour of treating financial services in the same manner as any other service outweighed the arguments against doing so.

This second article considers the definition of interest bearing financial instruments in some detail. It also considers the kinds of activities that qualify as financial services in relation to the instruments. The definition of financial services is important where a different type of treatment is applied to

financial services. If financial services were taxed like any other service, then no definition would be needed. However, where, as in New Zealand, supplies of financial services can be exempted, the definition of financial services becomes very important. Alternatively, if some financial services are to be zero rated or taxed but not others, then it is necessary to have a global definition of financial services followed by individual definitions of the particular kinds of service that are to be brought within the tax base one way or the other. This article begins by considering interest-bearing instruments.

"Imposing Value Added Tax on Interest-Bearing Instruments and Life Insurance"
Asia-Pacific Tax Bulletin, Vol. 10, pp. 471-468, 2004
Victoria University of Wellington Legal Research Paper No. 31/2013

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Exemption of financial services from Value Added Tax (VAT) is commonly accepted as being an anomaly in the New Zealand goods and services tax legislation. While exempting financial services from VAT is attractive to the legislature because it is a simple way of addressing the difficulties of applying VAT to financial services, it causes significant distortions, for instance tax cascading, which in turn causes price distortions. The application of VAT to interest-bearing financial instruments and life insurance is complicated by the way in which financial intermediaries charge for these services.

The first part of this article investigates how interest-bearing instruments can be taxed under VAT, and the second part how life insurance can be taxed under VAT. There are several options for the treatment of interest-bearing instruments. They can be exempted, zero-rated, or included in the tax base. In this last category, there are three possible methods of including interest-bearing instruments: the invoice, cash flow, and truncated tax flow systems. The last is recommended because policy makers have come to realize that the cash flow system cannot be applied without significant modification.

"Imposing Value Added Tax on the Exchange of Currency"
Asia-Pacific Tax Bulletin, Vol. 10, pp. 469-483, 2004
Victoria University of Wellington Legal Research Paper No. 32/2013

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Exemption of financial services from Value Added Tax (VAT) is commonly accepted as being an anomaly in the New Zealand goods and services tax legislation. While exempting financial services from VAT is attractive to the legislature because it is a simple way of addressing the difficulties of applying VAT to financial services, it causes significant distortions, such as tax cascading, which in turn causes price distortions. The application of VAT to services that bring about the exchange of currency is one instance where financial services could be included in the VAT base. Services bringing about the exchange of currency are a species of financial service, but are inherently different from other financial services since they are relatively simpler than other financial services.

Reasons advanced for exempting financial services in general do not necessarily apply to services bringing about the exchange of currency.
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## About this eJournal

The Victoria University of Wellington was founded in 1899 to mark the Diamond Jubilee of the reign of Queen Victoria of Great Britain and of the then British Empire. Law teaching started in 1900. The Law Faculty was formally constituted in 1907. The first dean was Richard Maclaurin (1870-1920), an eminent scholar of both law and mathematics. Maclaurin went on to lead the Massachussetts Institute of Technology as President in its formative years. Early professors included Sir John Salmond (1862-1924), still one of the Common Law's leading scholars. His texts on jurisprudence and torts have gone through many editions and remain in print.

Alumni include Sir Robin Cooke (1926-2006), one of the leading judges of the British Commonwealth. As Baron Cooke of Thorndon, he sat on over 100 appeals to the Judicial Committee of the House of Lords, one of very few Commonwealth judges ever appointed to do so.

Since 1996 the Law School has occupied the Old Government Building in central Wellington. Designed by William Clayton and opened in 1876 to house New Zealand's then civil service, the building is a particularly fine example of Italianate neo-Renaissance style. Unusually among large colonial official buildings of the time it is constructed of wood, apart from chimneys and vaults.

The School is close to New Zealand's Parliament, courts, and the headquarters of government departments. Throughout Victoria's history, our law teachers have contributed actively to policy formation and to law reform. As a result, in addition to many scholarly articles and books, the Victoria SSRN pages include a number of official reports.

Victoria graduates approximately 230 LLB and LLB(Hons) students each year, and about 60 LLM students. The faculty has an increasing number of doctoral students. Ordinarily there are ten to twelve students engaged in PhD research.

Victoria University observes the British system of academic ranks. In North American terms, lecturers and senior lecturers are tenured doctrinal scholars, not legal writing teachers. A senior lecturer corresponds approximately to a North American associate professor in rank.

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