

**i** This is a reissue of BR Pub 09/01. For more information about earlier publications of this Public Ruling see the Commentary to this Ruling.

## **PAYMENTS MADE BY PARENTS OR GUARDIANS OF STUDENTS TO STATE SCHOOLS – GST TREATMENT**

### **PUBLIC RULING - BR Pub 14/06**

This is a public ruling made under s 91D of the Tax Administration Act 1994.

#### **Taxation Laws**

This Ruling applies in respect of ss 8 and 10(2) and the definition of "consideration" in s 2 of the Goods and Services Tax Act 1985.

#### **The Arrangement to which this Ruling applies**

The Arrangement is the payment of amounts (whether described as "school fees", "voluntary contributions", "activity fees" or otherwise) by parents or guardians of pupils who are enrolled at a State school (including schools integrated within the state system of education under the Private Schools Conditional Integration Act 1975) and who are not international students under the Education Act 1989 to the Board of Trustees of such a school.

#### **How the Taxation Laws apply to the Arrangement**

The Taxation Laws apply to the Arrangement as follows:

Payments made by parents or guardians of children, who are enrolled at a State school and who are not international students under the Education Act 1989, to the Board of Trustees of such a school for the purpose of a general fund to assist with meeting school costs, are not consideration for the supply of education to which there is a statutory entitlement and that the Board has a statutory obligation to provide free of charge. Therefore, GST is not payable on such amounts.

If other services, not integral to the supply of education services to which there is a statutory entitlement, are supplied on the basis that the supply is conditional on payment being made for such services, the payment is consideration for that supply. GST is chargeable on payments made in those circumstances.

#### **The period or tax year for which this Ruling applies**

This Ruling will apply for the period 21 June 2013 to 20 June 2018.

This Ruling is signed by me on the 28th day of August 2014.

**Susan Price**

Director, Public Rulings

## COMMENTARY ON PUBLIC RULING BR PUB 14/06

This commentary is not a legally binding statement, but is intended to provide assistance in understanding and applying the conclusions reached in Public Ruling BR Pub 14/06 (“the Ruling”).

The subject matter covered in the Ruling was previously dealt with in Public Ruling BR Pub 09/01 (*Tax Information Bulletin* Vol 21, No 3 (May 2009)) and before that in Public Ruling BR Pub 03/04 (*Tax Information Bulletin* Vol 15, No 7 (July 2003)). The Ruling applies for the period from 21 June 2013 to 20 June 2018.

Legislative references are to the Goods and Services Tax Act 1985 unless otherwise stated. Relevant legislative provisions are reproduced in the Appendix to this commentary.

### Background

1. The Ministry of Education issued an updated circular (Education circular 2013/06) on 13 June 2013 that provides advice on the rights of Boards of Trustees, proprietors, parents and students in respect of requests for donations and other forms of payments in schools. The Education circular explains the types of payments that Boards of Trustees and proprietors can seek from parents and students at state and integrated schools. The circular states that no payments sought from parents are compulsory except for the attendance dues payable to the proprietors of integrated schools and charges by schools for voluntary purchases of goods and services. There should be no charges associated with the delivery of the **curriculum and there are no school “fees” or “levies” in state or integrated schools.**
2. According to the circular, schools may ask parents for contributions for general or specific purposes. In addition, on occasion schools may offer for sale consumables, stationery, clothing and activities that enhance, but are not part of, the delivery of the curriculum. These things can be charged for by the school, but students are not obliged to buy them.
3. This Ruling addresses whether payments (however described) made by parents to state and integrated schools are subject to GST.

### **Statutory framework**

4. Under s 93 of the Education Act 1989 (“Education Act”), every state school must have a Board of Trustees. State primary and secondary schools are controlled and managed by their Boards of Trustees. **A school’s Board must perform its functions and exercise its powers so every student at the school can attain their highest possible standard in educational achievement: s 75(1) of the Education Act.** Under s 75(2), except to the extent that any enactment or the general law of New Zealand provides **otherwise, a school’s Board has complete discretion to control the management of the school as it thinks fit.** Grants are paid out of public money to Boards for the purpose of administering their schools: s 79 of the Education Act.
5. **The Private Schools Conditional Integration Act 1975 (“PSCI Act”)** enables private schools originally established to provide education with a special character to become part of the state system of education as an integrated

school. As with other state **schools, an integrated school's controlling** authority is its Board of Trustees: s 25(5) of the PSCI Act.

6. Every Board must have a written charter. The purpose of the charter is to establish the missions, aims, objectives, directions and targets of the school **Board that will give effect to the Government's national education guidelines and the Board's priorities: s 61** of the Education Act.
7. The effect of a school charter is that it is an undertaking by the Board to the Minister of Education to take all reasonable steps to ensure the school is managed, organised and administered for the purposes set out in the school charter and the school, its students and community achieve the aims and objectives set out in the school charter: s 63 of the Education Act. A school charter will not take effect if the Secretary for Education determines it is inconsistent with the Education Act or the national administration guidelines: s 63A of the Education Act.
8. The national education guidelines are defined in s 60 of the Education Act as being:
  - all the national education goals, foundation curriculum policy statements, national curriculum statements, national standards, and national administration guidelines, for the time being in force under section 60A
9. Section 60A(1)(c) of the Education Act sets out the national administration guidelines, which the Minister may publish from time to time:
  - (c) National administration guidelines, which are guidelines relating to school administration and which may (without limitation)—
    - (i) set out statements of desirable codes or principles of conduct or administration for specified kinds or descriptions of person or body, including guidelines for the purpose of section 61:
    - (ii) set out requirements relating to planning and reporting including—
      - (A) scope and content areas, where appropriate:
      - (B) the timeframe for the annual update of the school charter:
      - (C) **broad requirements relating to schools' consultation with parents, staff, school proprietors (in the case of integrated schools) and school communities, and the broad requirements to ensure that boards take all reasonable steps to discover and consider the views and concerns of Maori communities living in the geographical area the school serves, in the development of a school charter:**
      - (D) variations from the framework for school planning and reporting for certain schools or classes of schools, based on school performance:
    - (iii) communicate the Government's policy objectives:
    - (iv) set out transitional provisions for the purposes of national administration guidelines.
10. Under s 3 of the Education Act, everyone who is not an international student (that is, generally, a New Zealand citizen or resident) is entitled to free enrolment and free education at any state school during the period beginning on their 5th birthday and ending on the 1<sup>st</sup> of January after their 19th birthday.
11. Students enrolled at an integrated school are entitled to free education on the same terms and conditions as students enrolled at other state schools: s 35(1) of the PSCI Act. However, the proprietors of an integrated school may require payment of attendance dues as a condition of enrolment and attendance: s 36 of the PSCI Act. The money received from attendance dues can be used only for improvements to the school buildings and associated facilities as may be required by any integration agreement, for

capital works required by the Minister of Education under s 40(2)(d) of the PSCI Act and for meeting debts, mortgages, liens or other charges relating to the school premises: s 36(3) of the PSCI Act. Attendance dues paid to the proprietors of integrated schools are subject to GST, being payments to secure the enrolment of a pupil in a school for which the proprietors provide the buildings and ensure the special character: *Turakina Maori Girls College Board of Trustees v CIR* (1993) 15 NZTC 10,032 (CA).

12. Each year, parents or guardians of students enrolled at state schools may be asked by school Boards to pay a nominated amount to assist with meeting school costs. Schools may refer to these payments as "donations", "voluntary contributions", "fees" or the like. In the case of integrated schools, such payments are in addition to attendance dues payable to, and contributions sought by, the proprietors.

## **Application of the legislation**

### **Scheme of the Goods and Services Tax Act 1985**

13. Under s 8(1) of the GST Act, GST is chargeable on the supply of goods and services by a registered person in the course or furtherance of a taxable activity carried on by that person by reference to the value of the supply. The value of the supply is the consideration provided for the supply (including both monetary and non-monetary consideration): s 10(2) of the GST Act.
14. GST is chargeable on payments made to the Board of Trustees of a state school that is a **registered person if such payments are "consideration"**, as defined in the GST Act. Generally, the Board of Trustees of a state school will be a registered person, as the activities of a school Board are a taxable activity for GST purposes. This is on the basis that every Board of Trustees of a state school is a Crown entity for the purposes of the Crown Entities Act 2004: s 7(1)(d). Under s 2 of the GST Act, a Crown entity is a **"public authority"** and, pursuant to s 6(1)(b), **the term "taxable activity"** includes the activities of any public authority. Section 5(6) of the GST Act deems that a school Board (as a public authority) is supplying goods and services where it brings to charge revenue received from the Crown for the supply of outputs (in this case, the supply of education services). For example, the operational funding received by school Boards from the **Crown is "revenue from the Crown" and is the consideration** for the supply of those services.
15. Any other amounts received by a school Board will also be subject to GST where **the amount is "consideration" for GST purposes.**
16. As discussed later in this commentary, a payment from a parent for services that a school Board has a statutory obligation to provide free of charge is not consideration. However, a payment from a parent for other services, not integral to the supply of education services, is consideration. To make this distinction it is necessary to understand what is **"consideration" and what education services a school Board has a statutory obligation to provide free of charge.**

### **Consideration**

17. **The statutory definition of "consideration" is wider than the contract law meaning of the term.** In *The Trustee, Executors and Agency Co NZ Ltd v CIR* (1997) 18 NZTC 13,076 (HC), Chisholm J commented in respect of the definition of "consideration" at 13,085:

In the context of this matter I am not persuaded that it is helpful or appropriate to reflect upon the ordinary meaning of the word. The statutory definition extends the ordinary meaning and it is the scope of the extended statutory definition which needs to be determined.

18. The following principles can be drawn from the cases on the statutory definition of "consideration".

- Under the first part of the definition of "consideration", it is irrelevant whether the payment is voluntary. No contract between the person making the supply and the person providing the consideration is necessary. The supply need not be made to the person who makes the payment: *Turakina*. In *Turakina*, McKay J, referring to the definition, said at 10,036:

It is clear from this definition that the supply of any service for consideration is part of a "taxable activity" under sec 6, even though it is to a person other than the person who provides the consideration. Likewise, the value of the supply is to be measured by the consideration, whether or not the consideration is provided by the person to whom the service is supplied. It is not necessary that there should be a contract between the supplier and the person providing the consideration, so long as the consideration is "in respect of, in response to or for the inducement of the supply".

- The supply also need not be made by the person who receives the payment. In the *Trustee, Executors* case, Chisholm J said at 13,086:

...in my opinion the crucial factor is the strength of the connection between the payment and the supply. If there is sufficient proximity between the supply and payment to satisfy the requirement that the payment is "in respect of" (or "in response to, or for the inducement of") the supply of goods then the payment qualifies as "consideration" notwithstanding that the payment is made to a third party.

- Although the statutory definition of "consideration" is wider than the contract law meaning, not every payment a registered person receives is "consideration" for GST purposes. A distinction is drawn between a payment in respect of the payee's taxable activity and a payment that is consideration for a supply of goods and services: *The Director-General of Social Welfare v De Morgan* (1996) 17 NZTC 12,636 (CA).

- For a payment to be "consideration" within the first part of the definition there must be a sufficient relationship between the making of the payment and the supply of goods or services. See *CIR v NZ Refining Co Ltd* (1997) 18 NZTC 13,187 (CA); *Chatham Islands Enterprise Trust v CIR* (1999) 19 NZTC 15,075 (CA); *Taupo Ika Nui Body Corporate v CIR* (1997) 18 NZTC 13,147 (HC); *Trustee, Executors; Rotorua Regional Airport Limited v CIR* (2010) 24 NZTC 23,979 (HC).

- In *NZ Refining*, Blanchard J said at 13,193:

It is fundamental to the GST Act that the tax is levied on or in respect of supplies. It is not a tax on receipts or on turnover; it is a tax on transactions: *CIR v Databank Systems Ltd*. It is therefore necessary, as Mr Green submitted, to distinguish between supplies and the taxable activity (as defined in s 6) in the course of which they are made. The definition in s 6 itself requires a nexus between a supply and consideration, as does s 10.

The tax itself is levied by s 8 on a supply in the course or furtherance of a taxable activity and is "by reference to the value of that supply". Section 10 provides that the value of a supply is "to the extent of the consideration for the supply" the amount of the money involved or the non-monetary open market value of the consideration. Already, before turning to the definition of "consideration", it can be seen that, again, a linkage between supply and consideration is requisite to the imposition of the tax.

**The definition of "consideration", though broad, cannot and does not dispense with that requirement. To constitute consideration for supply a payment must be made for that supply, though it need not be made to the supplier nor does the supply have to be made to the payer.**

**There is a practical necessity for a sufficient connection between the payment and the supply. The mechanics of the legislation will otherwise make it impossible to collect the GST.** [Emphasis added]

- An expectation that the payee will supply goods and services is not enough. It is not sufficient that the person who receives the payment carries out some activity that has the effect of benefiting either the person making the payment or some other person. It is also not sufficient that the payment enables the payee to carry on its activity. Hence, a payment by the Crown to a charitable trust the Crown had established to promote the economic development and well-being of **the Chatham Islands' inhabitants and the provision of services** in the interests of the community was not consideration for GST purposes. The trustees were fulfilling their fiduciary duties under the trust, and the payment was not an inducement for the performance of services by the trustees: *Chatham Islands*.
- The expression "in respect of, in response to, or for the inducement of" in the definition of "consideration" involves an element of reciprocity: *Taupo Ika Nui; Chatham Islands; Rotorua Regional Airport*.
- It is necessary to consider the legal arrangements between the parties to determine whether a payment is consideration. In the *Chatham Islands* case, Blanchard J commented at [17]:

Although the linkage or nexus between a payment and the activity to which it gives rise may be very broad, it is still necessary to have regard to the legal form which is being employed:

... in taxation disputes the Court is concerned with the legal arrangements actually entered into ... not with the economic or other consequences of the arrangements.

(*C of IR v New Zealand Refining Co Ltd* (1997) 18 NZTC 13,187 at p 13,192 citing *Marac Life Assurance Ltd v C of IR* [1986] 1 NZLR 694 at p 706 [also reported as *Marac Life Assurance Ltd v C of IR; C of IR v Marac Life Assurance Ltd* (1986) 8 NZTC 5,086 at pp 5,097, 5,098]. The tax being one on transactions, it is necessary to pay close attention to the legal nature of what has been done.

## **Statutory arrangement relating to provision of education in state schools**

### **Role and accountability of school Boards**

19. In *Maddever v Umawera School Board* [1993] 2 NZLR 478 (HC), Williams J discussed the role of school Boards at 505:

The [Education Act 1989] was based on *Administering for Excellence: The Report of the Task Force to Review Education Administration* (the Picot report (1988)) which found that the existing administrative structure of the Education Act 1964 was over-centralised and overly complex. Its recommendations for change were largely implemented in the Education Act 1989, the title of which states that it is "An Act to reform the administration of education". The statute brought about a marked devolution of decision making away from the Minister of Education and the Department of Education so that schools became the basic unit of education administration. The primary mechanisms in the statute to achieve the legislative objectives were the novel concept of Boards of Trustees who were given by s 75 broad powers to manage schools and the idea of the school charter.

20. Williams J then referred to the requirements relating to charters in s 61 of the Education Act and went on to say at 505:

It is thus clear that the [Education Act 1989] contemplates that the board, in consultation with the Minister, should have a significant role in determining the **school's educational goals and a degree of independence in deciding how those goals should be achieved. While the Ministry of Education influences a school's broad objectives through the application of the national educational guidelines established under s 60A ... and the Minister also has a power of approval of school charters, the** guidance thus provided is in rather general terms. It is for the parents, staff and other persons to largely determine the distinctive character of the charter for a particular school.

21. Williams J noted that the accountability of school Boards was achieved in several ways, including the requirement that Boards must adhere to their charters.
22. The policy of the Education Act, therefore, is to decentralise the administration of education so that Boards of Trustees are responsible for the control and management of the schools. Although school Boards have considerable power to manage schools, such powers are subject to any enactment and the law of New Zealand: sections 72 and 75(2) of the Education Act. The Education Act provides for several ways to achieve accountability by Boards, including the obligation for Boards to adhere to their school charters (which must incorporate guidelines specified by the Minister of Education for the education services to be provided).

### **What are education services?**

23. The term "education" is defined in the *Concise Oxford Dictionary* (12<sup>th</sup> ed, 2011) as:
- the process of educating or being educated. > the theory and practice of teaching. > information about or training in a particular subject.
24. It is possible to define the limits of the obligation of school Boards to provide education services (and, therefore, the scope of the entitlement to free education). The national education guidelines issued by the Minister of Education specify:
- the outcomes desired from the school system;
  - the policy concerning teaching, learning, and assessment for the purposes of underpinning and giving direction to how curriculum and assessment responsibilities are to be managed;
  - the subjects in which education is to be provided (including areas and levels of knowledge).
25. The Minister of Education specifies through national education guidelines or by regulation, in broad terms, the type, level, and standard of instruction or education to be provided in state schools.
26. Every school must have a school charter. The purpose of the charter is to establish the missions, aims, objectives, directions and targets of the **school Board that will give effect to the Government's national education guidelines and the Board's priorities: s 61 of the Education Act.** Although the Board has a significant **role (through the preparation of the school's charter) in determining the school's aims and objectives and how these** are to be achieved, the charter does not take effect if the Secretary for Education determines that it is inconsistent with the Education Act or the national administration guidelines: s 63A of the Education Act. The effect of a school charter is that it is an undertaking by the Board to the Minister

of Education to take all reasonable steps to ensure the school is managed, organised and administered for the purposes set out in the school charter and the school, its students and community achieve the aims and objectives set out in the school charter: s 63 of the Education Act.

27. Therefore, school Boards have an obligation to provide education that complies with the requirements of the national education guidelines. New Zealand citizens and residents (or children who are otherwise domestic students and not international students under the Education Act 1989) have a statutory right to free enrolment and free education at any state school: s 3 of the Education Act 1989. The provision of free education in state schools is supported by a grant by the Crown: s 79 of the Education Act.

### **Ministry of Education circular**

28. The Ministry of Education (which is responsible for developing the national education guidelines and reviewing school charters) issued on 13 June 2013 a circular (Education circular 2013/06) to Boards of Trustees and principals of state and integrated schools and the proprietors of integrated schools on the rights of Boards, proprietors, parents, and students in respect of requests for donations and other forms of payments in schools.

#### **The Ministry's views are as follows.**

- No payments sought from parents are compulsory except for the attendance dues payable to the proprietors of integrated schools and charges by schools for voluntary purchases of goods and services. When communicating with parents, Boards of Trustees must clearly distinguish between requests for donations and charges. The Ministry of Education stated in Education circular 2013/06 that:
  - Requests for payment must make a clear distinction between attendance dues, charges, and donations - **and between Board of Trustees' and Proprietors' items.**
  - Ideally, invoices should specify attendance dues (for state-integrated schools) and charges for agreed optional goods or services only. Strictly speaking, Boards of **Trustees and Proprietors cannot "invoice" donations as** non-payment of donations does not give rise to a debt that is owed. On the other hand, it can make practical sense to list all requests for payments in a single document. In such cases, it must be made very clear which payments are voluntary and which are not. It is misleading to include a donation within a total which is **described as "owed" by a family.**
- No charge may be imposed for materials used in delivering the curriculum, such as photocopying charges, charges for using musical instruments or computer facilities. The most a school Board could do is ask for a donation in the same way as it does for a general donation. This is because the statutory right to free education implies that there should be no charge for materials or equipment used in the delivery of the curriculum. However, students may be charged for the hire of musical instruments owned by the school and used outside the delivery of the music curriculum. A charge may be made for costs involved in project work (such as the production of a T-shirt in a design class) but only if the student agrees to take ownership of the finished product. Schools cannot insist that the students take the finished product home.
- **No charge may be imposed for a student's attendance at a school camp that is part of the school's curriculum,** including part of the content of a particular course at the school. The Ministry of Education considers it is reasonable for parents to be asked to contribute towards the cost of food and towards the costs that are involved in

travel to and from the camp. Such a request is a request for a donation. Students may not be excluded from attending a camp that is part of curriculum delivery. If students are given the choice of participating in a school camp that does not form part of the delivery of the curriculum, a charge may be imposed by the school.

- Students should not be excluded from activities organised away from school as part of the curriculum (for example, field work in geography, biology and outdoor education programmes) because of an inability or unwillingness to pay. The Ministry of Education stated in Education circular 2013/06 that:

It is reasonable to request parents to pay a donation towards the travel costs which are connected with such activities as geography and biology and outdoor education programmes, provided that staff have made every effort to minimise costs by ensuring that the activities are held as close to the school as possible.

Students may not be excluded from entry into a subject or participation in trips that are part of the curriculum delivery because of an inability or unwillingness to pay.

- Boards cannot require a student to purchase a workbook that accompanies a course and in which answers are written. Boards of Trustees may sell workbooks, but purchase cannot be compelled. Once a parent has opted to purchase, the cost becomes an enforceable charge. The Ministry of Education states in Education circular 2013/06 that if a workbook is made compulsory then a Board of Trustees may only ask for a donation towards the costs.
  - No charge may be imposed for programmes such as Reading Recovery, English for Speakers of Other Languages, special education services (speech therapy, behaviour or learning difficulties), or music tuition from Itinerant Teachers of Music. In Education circular 2013/06, the Ministry of Education notes that additional resourcing is provided to schools for these programmes as part of the conventional curriculum or through the Ongoing Resourcing Scheme, Specialist Education Services, or Special Education Grant.
  - No charge may be imposed where secondary schools purchase tertiary level courses that they offer to senior students as part of the school **programme**. However, where the school merely facilitates a student's enrolment in a tertiary course, meaning the student would be enrolled only part time at the school, the student would be required to pay the fees associated with the tertiary course.
  - A charge may be imposed for in-school activities at which attendance is voluntary and conditional on payment being made, such as performances by visiting drama groups, lunchtime sport or education outside the classroom (EOTC) opportunities.
  - Under the national education guidelines Boards are required to report on student progress and Boards are subject to the Official Information Act 1982 and Privacy Act 1993. Therefore, Boards are not entitled to **withhold items such as students' reports or leaving certificates** to encourage parents to pay school donations or resolve unpaid debts for goods or services the school has provided.
29. The Commissioner accepts the Ministry of Education's **views**, as expressed in Education circular 2013/06. The supply of services that are necessary to the supply of education services (in which a school Board has an obligation under its charter to provide instruction and in which participation by students is compulsory) are within the scope of education

services to which there is a statutory entitlement to receive free of charge. Services that are necessary to the supply of education services include:

- the use of materials or goods necessary for delivering the curriculum (for example, the use of computers, photocopying charges for materials used in delivering the curriculum, and materials for practical subjects (such as woodwork));
  - the right to participate in activities that are a compulsory part of the curriculum (for example, camps that are part of the curriculum or fieldwork in geography or biology); and
  - the provision of programmes such as Reading Recovery, English for Speakers of Other Languages, and special education services (for speech therapy or behavioural or learning difficulties).
30. There is a distinction between the supplies described above and supplies made in circumstances where the supply made is not necessary to the supply of education services and students have a choice as to whether to receive the supply. Examples of such supplies include:
- Goods supplied where there is a very clear take-home component, such as stationery or materials, where a student is entitled to ownership of a finished product from practical classes, such as woodwork. In such circumstances a school may not insist that the student take ownership of such goods.
  - Attendance at, or participation in, activities that are voluntary.

### **Whether sufficient relationship between payment and a supply**

31. Pursuant to s 5(6) of the GST Act, where a school Board brings to charge as revenue amounts received from the Crown, such as operational grants for the supply of education services, that supply is deemed to be a supply for GST purposes. The amounts paid by the Crown are consideration, being a payment made in respect of the supply of services.
32. The grant the Crown provides for the supply of education services in terms of the undertaking given to the Minister of Education may be taxed only once, but GST is chargeable on any separate supply the Board makes to parents: *Case R34* (1994) 16 NZTC 6,190; *Suzuki NZ Ltd v CIR* (2001) 20 NZTC 17,096 (CA).
33. In *Suzuki*, the taxpayer had an obligation to repair defective vehicles under a warranty the taxpayer gave to its customers. In turn, the taxpayer had a warranty from its parent company (from which the taxpayer had purchased the vehicles) and had received payments from the parent company for carrying out the obligations of the parent company **under the parent company's warranty. There were two separate** supplies: the supply of repair services under the warranty to customers and the supply of repair services to satisfy the obligations of the parent company under its warranty. As two separate supplies were made, the Court of Appeal did not accept that the Commissioner had sought to impose tax on the same supply (at [24]).
34. The Court of Appeal said at [23]:
- This is simply an instance of the common enough situation in which performance obligations under two separate contracts with different counter-parties overlap, so that performance of an obligation under one contract also happens to perform an obligation under another. In such case a supply can simultaneously occur for GST

purposes under both contracts. There is a nexus in both cases between the performance and the consideration given by the other party.

35. In some circumstances an existing statutory obligation may mean that there is an insufficient relationship between the payment and a supply. Two GST cases have related to a situation where the parties had statutory rights or obligations outside any contractual relationship there might have been between the parties: *Television NZ Ltd v CIR* (1994) 16 NZTC 11,295 (HC); *Case U1* (1999) 19 NZTC 9,001.
36. The *Television NZ* case concerned payments the Department of Maori Affairs made to the Broadcasting Council (whose assets and liabilities were later vested in Television New Zealand) for the purpose of a training scheme operated by the Broadcasting Council (and later Television New Zealand) for Maori trainees. The **taxpayer's argument was that a supply** had not been made for the payment because, in collaborating with the Department of Maori Affairs, the Broadcasting Council was merely discharging a statutory obligation to be a good employer (which included operating a personnel policy that complied with the principle of being a good employer, including recognition of the aims and aspirations of Maori, the employment requirements of Maori, and the need for greater involvement of Maori as employees of the Broadcasting Council).
37. Tompkins J held that the Broadcasting Council had made a supply of services, being the provision of the training programme. There was a contractual obligation to provide the services, and the fact the supply was in accordance with the statutory obligations of the Broadcasting Council did not affect the conclusion that a supply was made under the contract.
38. Under contract law, the performance of a statutory duty is not consideration, although the undertaking of something more than the bare discharge of the duty can be good consideration: *Ward v Byham* [1956] 2 All ER 318 (CA); *Williams v Williams* [1957] 1 All ER 305 (CA). The *Television NZ* case is consistent with that principle. There was reciprocity between the Broadcasting Council and Department of Maori Affairs. Payment would not have been made if the services had not been provided. The Broadcasting Council had discretion about how it would carry out its statutory obligation to be a good employer. The provision of training services under the agreement with the Department of Maori Affairs was in **accordance with the Broadcasting Council's statutory obligations, but there** was no direct and specific statutory obligation to provide the training.
39. In *Case U1*, the taxpayer had granted a lease under which the tenant had an obligation to pay rates (in addition to rental). The tenant was an **"occupier" under the Rating Powers Act 1988 (being the lessee of a** property under a lease for a term of not less than 12 months). Under that Act the occupier had primary liability to pay rates. The issue in *Case U1* was whether the payment of rates formed part of the consideration for the lease. (Hence, the issue considered in *Case U1* is slightly different from that considered in the *Television NZ* case.) Judge Barber considered and rejected the argument that the payment of rates was consideration (as the **obligation contained in the lease to pay rates was "in respect of" the** lease). He also rejected the argument that the payment of rates by the lessee was part of the inducement to persuade the landlord to lease the **farm at the rental figure agreed on and was also part of the lessee's** response to the granting of the lease. Judge Barber considered that the lease merely recorded the legal position and was not consideration, as the **payment of rates by the lessee satisfied the lessee's own statutory** obligation rather than an obligation of the lessor. (However, the payment

of rates by a lessee under a lease would be part of the consideration for the lease if the lessor was primarily liable for the payment of rates and the lessee had accepted an obligation under the lease to meet the lessor's liability.)

40. In the *Television NZ* case, the statutory obligation was expressed in general terms. However, in *Case U1*, the lessee had a specific statutory obligation to pay rates.
41. Payments made by parents or guardians may supplement the Crown grant to the school. School Boards have a considerable degree of autonomy as to how their funds are used. How the amounts paid are used is not the test of whether a supply is made for the payment: *Chatham Islands Turakina* also confirms that how payments are used does not determine the nature of the supply for the payments. In *Turakina*, the court (at 10,037) rejected the taxpayers' argument that because attendance dues were applied to meet mortgage obligations of the proprietors of the schools, the attendance dues were paid for exempt supplies (being the payment or collection of any amount of interest, principal, or any other amount in respect of a debt security in terms of ss 14(1)(a) (previously s 14(a)) and 3(1)(ka) of the GST Act).
42. There is an expectation that amounts paid by parents will be used for the purposes of the school. However, the Commissioner considers that, as the supply of education services is not conditional on payment being made by parents and as students have a statutory right to receive education services in a state school free of charge if they are domestic students, there is an insufficient relationship between the payments and the supply of education services to which there is a statutory entitlement. In addition, the Commissioner considers that when the payments made by parents are not made for any particular purpose and the school Boards do not undertake any obligations in return for payment, this supports the conclusion that there is not a sufficient relationship between the payment and any other supply: *Chatham Islands*.
43. Some school Boards may attempt to collect amounts unpaid by withholding items (for example, reports, leaving certificates or school magazines) until payment is made. It is possible to argue that, although school Boards have an obligation to the Minister of Education to supply education services, if there is a threat to withhold education services unless payment is made, there is a separate obligation to parents to supply education services under a separate transaction with the parents. On that basis it could be argued that the payments are consideration, being a payment for the inducement of the supply of education services.
44. The relationship between the pupils and the school Board is based at least partly on the Education Act: *Grant v Victoria University of Wellington* [2003] NZAR 185 (HC); *A-G v Daniels* [2003] 2 NZLR 742 (CA). There is a statutory right to free education. School Boards have a corresponding statutory obligation to provide education in state schools free of charge. Although Boards may represent that education services would not be supplied if payment is not made, the true legal nature of the transaction is that the Board cannot require payment for the supply of education services as students have a statutory entitlement to receive education free of charge. In the *Chatham Islands* case, Tipping J commented at [25]:

GST is payable on transactions. When deciding whether a particular transaction is of a kind which attracts GST, it is important to analyse carefully its legal characteristics.

45. A person may waive a statutory benefit conferred on that person under a statute if the waiver does not infringe some public right or public policy: *Bowmaker Ltd v Tabor* [1941] 2 All ER 72 (CA); *Reckitt & Colman (NZ) Ltd v Taxation Board of Review* [1966] NZLR 1032 (CA). To determine whether a statutory right to free education can be waived, it is appropriate to consider whether the purpose of the legislation under which the right is conferred would be infringed by the waiver or contracting out: *Johnson v Moreton* [1978] 3 All ER 37 (HL); *Lieberman v Morris* (1944) 69 CLR 69 (HCA).
46. Sections 20 and 25 of the Education Act require all New Zealand citizens and residents between the ages of 6 and 16 to be enrolled at a state-registered school and to attend the school. Private schools must satisfy requirements as to the suitability of premises, staffing, equipment, and curriculum and, in order to be registered, must give students tuition no lower in standard than that of tuition given to students enrolled at state schools: s 35A of the Education Act. The purpose of the PSCI Act was to enable private schools, originally established to provide education of a special character, to be brought within the state system of education as integrated schools. As with other schools in the state system, the Board of an integrated school is responsible for providing education free of charge to its pupils.
47. Parents can choose to have their children educated at non-state schools. It could be argued that in that sense the statutory entitlement to free education can be waived. However, the public policy objective expressed in the Education Act is that all children are to receive education of a minimum standard. The provision of public funding for education and the entitlement to free education are intended to ensure that cost is not a barrier to access to education. That free education is provided for a public purpose is confirmed by the 1993 statement of national education goals (*New Zealand Gazette* No 58, 29 April 1993), which states:
- Education is at the core of our nation's efforts to achieve economic and social progress. In recognition of the fundamental importance of education, the Government sets the following goals for the education system of New Zealand**
1. The highest standards of achievement, through programmes which enable all students to realise their full potential as individuals, and to develop the values needed to become full members of New Zealand's society.
  2. **Equality of educational opportunity for all New Zealanders, by identifying and removing barriers to achievement ...**
  - ...
  6. Excellence achieved through the establishment of clear learning objectives, monitoring student performance against those objectives, and programmes to meet individual need.  
[Emphasis added]
48. Therefore, it can be argued that the right to free education is not solely a private right. If Boards were able to impose a requirement for the **payment of "fees" and individual parents were able to waive the right to free education**, the purpose of the legislation would be infringed.
49. Although school Boards have wide discretion to manage and control schools, such powers cannot be exercised in a manner inconsistent with a statutory provision: s 72 and 75(2) of the Education Act. The **Commissioner's view is that school Boards do not have the power to require payment as a condition of the provision of education or any other**

services or items that are properly regarded as being integral to the supply of education to which there is a statutory entitlement. The Commissioner acknowledges that, given that an illegal activity can be a taxable activity and given that the definition of “consideration” does not require a contract to exist between the supplier and recipient for a payment to be consideration, payment need not be enforceable for the payment to be consideration. Therefore, the fact the transaction is invalid because the parties do not have the power to enter into a transaction, does not mean the transaction would not be recognised for GST purposes: *C & E Commrs v Oliver* [1980] 1 All ER 353 (QBD). However, the statutory entitlement to education cannot be altered by a representation that education services are conditional on the payment of “fees”.

50. Therefore, contributions paid to the Board of Trustees of a state school, whether for general or specific purposes, are not consideration for the supply of education services, even if there were a representation that reports or other information relating to the assessment of students would be withheld unless payment was made (albeit contrary to the legal position). However, if school Boards supplied other goods or services beyond the supply of education services on the basis that the supply was conditional on payment being made, the payment would be consideration for that supply. If a contribution made includes a charge for an item that is beyond the supply of education services, such as a school magazine, there will be a case for apportionment of the payment. Section 10(18) of the GST Act states:

Where a taxable supply is not the only matter to which a consideration relates, the supply shall be deemed to be for such part of the consideration as is properly attributable to it.

## Conclusion

51. Amounts paid by parents are not consideration for the supply of education services to which there is a statutory entitlement. This is for the following reasons:
- The definition of consideration under the GST Act is not the same as the contract law definition. A contract is not required between parents and school Boards for the payments to be consideration for GST purposes: *Turakina*. However, for the payments to be consideration for a supply, there must be a sufficient relationship between payments and a supply: *NZ Refining; Chatham Islands; Suzuki; Trustee, Executors*.
  - As there is a statutory right to free education, in circumstances where an amount is not paid for any particular purpose or for the undertaking of any specific obligation there will not be a sufficient connection between the payments and a supply. This is so even though there is an expectation that the payments would be used for the taxable activity: *Chatham Islands; NZ Refining*. The fact the amounts paid by parents to Boards may be used to meet the cost of things not covered by the Crown grant does not establish the necessary connection that the amounts are paid for services of a particular nature: *Turakina; Chatham Islands*.
  - GST consequences are determined on the basis of the legal character of the transaction: *Chatham Islands*. The relationship between parents and school Boards is based on the Education Act, which requires Boards of state schools to provide education and entitles students to free enrolment and education at state schools, and the

PSCI Act, which entitles students enrolled at integrated schools to free education on the same terms and conditions as in state schools. The true legal nature of the arrangement between parents and the school Board is that school Boards have a statutory obligation to provide free education and students have a right to free education. The supply of education services is not conditional on the payment being made, and payment is not required for the supply of education services.

- It is possible to argue that where a representation is made that education services would be withheld if payment is not made, the **payments would be made "in respect of, in response to or for the inducement of" the supply of education services.** However, as there is a statutory entitlement to free education in state schools, the true legal position is that education services would be provided whether or not payment was made. Therefore, there would not be a sufficient connection between the payment of general or specific **"fees" and the supply of education services** to which there is a statutory entitlement.
  - A statutory right conferred on a person may be waived only if the waiver does not infringe the purpose of the legislation: *Bowmaker Ltd v Tabor*; *Reckitt & Colman (NZ) Ltd v Taxation Board of Review*; *Johnson v Moreton*; *Lieberman v Morris*. The purpose of the Education Act is that all children should receive education of a minimum standard, and there should be no barriers to access to such education. That purpose would be infringed by a waiver of the right to free education and an ability of school Boards to require the payment of **"fees" for education.**
  - The scope of the obligation to provide education services is defined by **the national education guidelines and by the school's charter (into which the guidelines are incorporated).** The supply of reports and other information relating to the assessment of students is integral to the supply of education services, and such information must be supplied free. The amounts would not be consideration, even if there were a representation that the supply of such information would be withheld unless payment was made (albeit contrary to the legal position).
52. Therefore, GST is not payable on amounts paid for the purpose of a general fund to assist the school with meeting costs or for activities that are an integral part of the curriculum that the school has an obligation to provide and in which participation by pupils is compulsory. However, if other services not integral to the supply of education services are supplied on the basis that the supply is conditional on payment being made, the payment will be consideration for that supply. If a separate charge is not made for such an item, apportionment may apply: s 10(18) of the GST Act.
53. For payments made by parents or guardians to schools to be consideration, it must be possible to identify a supply of goods or services other than the supply of education services that the schools must supply in terms of their charters. The issues that need to be considered are:
- whether what is provided to students is within the scope of the statutory entitlement to education services; and
  - if the supply made is outside the scope of the statutory entitlement, whether there is a sufficient relationship between the supply and the payment.

## **Examples**

54. The following examples are included to assist in explaining the application of the law. It is assumed for the purposes of the following examples that the students are not international students.

### ***Example 1 – General donation***

55. Each year the Board of Trustees of a state school asks parents or guardians of students enrolled at the school to make a contribution to assist with meeting school costs. The Board is not required to use the contribution for any particular purpose. The contribution is paid for the general purposes of the school, such as the school library, swimming pool, and shared computer facilities, all of which are facilities available to any student.
56. The payment is not consideration for the supply of education services as there is a statutory entitlement for students to receive education free of charge. As the payment is received for the general purposes of the school and the Board of Trustees does not undertake any obligation to supply any goods or services, such payments are not consideration for a supply of a different nature by the Board. Therefore, GST is not chargeable on the payments.

### ***Example 2 – Payment for materials***

57. Students at a state school are asked to pay an amount for materials used in a clothing class. The students are not required to take ownership of the completed item but will not be entitled to ownership unless payment is made.
58. A charge cannot be made for the use of materials necessary for the delivery of education services to which there is a statutory entitlement. However, a charge can be made for the right to ownership of an item completed using such materials. The payment is not consideration for the use of the materials, as the use of such materials is necessary for the provision of instruction in the subject. However, if a student elects to take ownership of the completed item, the payment is consideration for the right to ownership of the item and the Board is liable to account for GST in respect of the payment.

### ***Example 3 - Photocopying***

59. In addition to the general school donation, parents of students at a state school are asked to pay photocopying charges for materials (such as articles, extracts from textbooks, or homework exercises) used in teaching, even though such materials should be provided free of charge.
60. The payment is not consideration. It is implicit in the right to free education that there should be no charge for the cost of materials used in the delivery of the curriculum. The provision of photocopied materials necessary for teaching is integral to the supply of education services. GST is not chargeable on the payment.
61. However, if a student chooses to purchase a photocopied school magazine produced by students, the payment made would be consideration for the supply of that item and GST would be chargeable on the payment.

#### **Example 4 – School camp**

62. Students at a state school are asked for a donation towards the costs of a school camp (such as a Year 12 Outdoor Education camp, or beginning-of-year camps for the whole of Year 9). Attendance at the camp is a **compulsory part of the school's curriculum**. The donation amount is not subject to GST. This is because the payment is not consideration for the supply of education services as there is a statutory entitlement for students to receive education free of charge. The camp forms part of the supply of education services by the school. The student will have been entitled to attend the camp regardless of whether payment was made. Therefore the payment does not have the requisite nexus to the supply for it to be consideration.

#### **Example 5 – Stationery and work books**

63. A state school charges students for stationery packs and optional workbooks that students are entitled to keep. The payment is made for the supply of the stationery and the work book and is consideration. Therefore, GST is chargeable on the payment.
64. (The school may occasionally waive a payment for stationery by some students but this does not mean that the payments for stationery made by other students are not made for the supply of stationery.)

#### **Example 6 – Visiting drama group**

65. A drama group puts on a performance at a state school. Attendance by students is optional but if students do wish to attend a charge is payable. The payment is consideration for the right to attend the performance and GST is chargeable on the payment.
66. Note, however, that when students are **required** to attend a drama performance as part of the curriculum, there is no obligation on parents to pay. Any payment by parents towards the cost of their child attending such a compulsory performance will not be subject to GST.

#### **Example 7 – Advance payment of charges**

67. The Board of Trustees of a state school asks parents or guardians of students enrolled at the school to make a single payment in advance, in return for future items to be supplied by the school such as stationery and visiting drama groups and which the family has agreed to receive. Advance payment can also include an amount for a take-home item (such as a letterbox to be made in workshop technology) where the student has chosen to take that item home.
68. These goods and activities are not integral to the supply of education that the school has a statutory obligation to provide. The payment is made for the right to participate in the activities to which the payment relates or for the right to ownership of an item. The entitlement of students to these rights is conditional on payment being made and GST is chargeable on the payment.

## References

### Expired Ruling(s)

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### Subject references

Education  
GST  
State integrated schools  
State schools

### Legislative references

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3, 20, 25, 60, 60A, 61, 63, 63A, 72, 75, 79, 93  
Goods and Services Tax Act 1985  
5(6), 6(1)(b), 8(1), 10(2), 10(18) and the  
definitions of "consideration" and "public  
authority" in s2  
Private Schools Conditional Integration Act 1975  
25(5), 35(1), 36

### Case references

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*Turakina Maori Girls College Board of Trustees v  
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*Ward v Byham* [1956] 2 All ER 318 (CA)  
*Williams v Williams* [1957] 1 All ER 305 (CA)

### Other references

Education circular 2013/06  
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## Appendix – Legislation

### Goods and Services Tax Act 1985

1. Section 8(1) provides:

#### **8 Imposition of goods and services tax on supply**

(1) Subject to this Act, a tax, to be known as goods and services tax, shall be charged in accordance with the provisions of this Act at the rate of 15% on the supply (but not including an exempt supply) in New Zealand of goods and services, on or after 1 October 1986, by a registered person in the course or furtherance of a taxable activity carried on by that person, by reference to the value of that supply.

2. The value of the supply is determined under s 10(2), which states:

(2) Subject to this section, the value of a supply of goods and services shall be such amount as, with the addition of the tax charged, is equal to the aggregate of,—

(a) to the extent that the consideration for the supply is consideration in money, the amount of the money:

(b) to the extent that the consideration for the supply is not consideration in money, —

(i) the open market value of that consideration, if subparagraph (ii) does not apply; or

(ii) the value of the consideration agreed by the supplier and the recipient, if subsection (2B) applies.

3. The definition of “consideration” in s 2 provides:

**consideration**, in relation to the supply of goods and services to any person, includes any payment made or any act or forbearance, whether or not voluntary, in respect of, in response to, or for the inducement of, the supply of any goods and services, whether by that person or by any other person; but does not include any payment made by any person as an unconditional gift to any non-profit body: