



20 August 2008

Jim Gordon
Inland Revenue Tax Policy Unit
PO Box 2198
Wellington 6140

Dear Jim

Aircraft Overhaul Provisions - Deductibility

Further to our meeting of August 6 2008, I can confirm after consulting within the membership of the Aviation Industry Association that it is preferable to approach the issues of taxation within the industry from a robust and sustainable basis than the present arrangements including QB0057.

There is no doubt that if QB0057 were applied there would be a strong reaction from Industry pointing to the unfairness of the change, given the long-standing nature of the interpretation in respect of deductibility, without a concomitant law change. Industry would view Inland Revenue as both judge and jury and react accordingly.

As discussed, there is a view that such a "circus" can be avoided by taking a principled approach to the whole issue of taxation within the Industry. We do not endorse any practices that result in the revenue under collecting tax, nor do we think it equitable that other companies are over taxed. The objective in resolving the issues highlighted by QB0057 must be to develop a tax treatment that is consistent with the economic position of the taxpayers as well as being efficient to adopt at a practical level.

To that end, we propose the immediate convening of a small industry/agency working party to work with you to develop an appropriate approach together with acceptable transitional arrangements. This will almost inevitably require a specific change in tax law. As an indication of the commitment of the Industry to deal with this issue we have retained Kevin Best at PricewaterhouseCoopers (who I understand is known to you) to assist us.

Given the Industry's commitment to developing and agreeing a rational way forward, it would be inappropriate to continue with the promulgation of QB0057. Accordingly, I would request that the QB0057 be withdrawn or, at the very least, left in draft form pending this matter being dealt with more substantially and, in particular, on a principled basis.

The Association looks forward to working with you and we can assure you that work undertaken will be of a constructive nature.

Yours sincerely

Irene King CEO