

Imputation credits and tax pooling



An overview

15 Sept 2020






About Tax Traders

- > Fastest Growing Tax Pooling Intermediary
- > CA ANZ Exclusive Tax Pooling Business Partner
- > Preferred partner to major accounting firms and corporates
- > Only tax pool with integrated Inland Revenue data
- > Market leader in tax technology, making the complex as simple as possible for you and your team






Exclusive Tax Pooling Business Partner


What we'll cover today

1. Imputation and Imputation Credit Accounts (ICAs) –the basics
2. Tax pooling transactions and imputation credits:
 - > Deposits
 - > Purchases
 - > Financing
 - > Refunds
 - > Swaps
3. Breaches in shareholder continuity and tax pooling transactions
4. Where to record imputation credit transactions (IR4)
5. ICA debit balances and tax pooling

1. The basics

- > Imputation – what is it?
- > Imputation Credit Account (ICA) – maintained by New Zealand companies
 - o Maintained on an annual basis (1 April to 31 March)
 - o Debits and credits
- > Imputation ratio – currently a maximum permitted ratio of 28/72
- > Shareholder continuity of 66% (only shareholders that incurred the tax are entitled to benefit)
 - o Measured on voting interests (shareholder decision-making rights)
 - o Corporate shareholders
- > Imputation debit balance – further tax payable to cover debit balance


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2. Tax pooling transactions

Range of tax pooling transactions available to taxpayers:

- > Deposits
- > Purchases
- > Financing
- > Refunds
- > Swaps

Section references are to the Income Tax Act 2007. Purchases and sales of tax in the examples are at 0% for illustrative purposes only.

Hypothetical scenario (base case)
 Company A has a standard balance date of 31 March 20X2. Under the standard uplift (from Company A's 20X1 residual income tax), Company A has a 20X2 provisional tax obligation of \$300. Company A has an opening ICA credit balance of \$50k.


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Tax pooling transactions


Deposits

Hypothetical scenario
 The company has sufficient funds as at the first instalment date, so Company A deposits \$100k in the tax pool as at 28 August 20X1 (P1).

Section OB 5(1) and (3): company will have an imputation credit, and the credit date is the day the amount is deposited.

Date	Particulars	Debit	Credit	Balance	
31 March 20X1	Opening balance			\$50k	Cr
28 August 20X1	Tax pool deposit		\$100k	\$150k	Cr

P1 credit recorded on the date of deposit.



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3. Breach in shareholder continuity

Breach of shareholder continuity and tax pooling:

- > Deposits/Refunds
- > Purchases
- > Financing (not covered – same treatment to tax purchases, once settled)
- > Swaps

Hypothetical scenario (base case)
 Company A has a standard balance date of 31 March 20X2. Under the standard uplift (from Company A's 20X1 residual income tax), Company A has a 20X2 provisional tax obligation of \$300k. Company A has an opening ICA credit balance of \$50k. The company has sufficient funds as at P1, so Company A deposits \$100k in the tax pool as at P1.

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Breach in shareholder continuity


Deposits/Refunds

Hypothetical scenario

Let's say that Company A has a change in shareholding on 1 September 20X1 (i.e. more than a 34% change in shareholding), and they subsequently request a refund of their deposit on 20 September 20X1.

Here's the original ICA (after the change in shareholding but before the refund request):

Date	Particulars	Debit	Credit	Balance	
31 March 20X1	Balance			\$50k	Cr
28 August 20X1	Tax pool deposit		\$100k	\$150k	Cr
1 September 20X1	Change in shareholding	\$150k		-	

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Breach in shareholder continuity


Deposits/Refunds (cont...)

Hypothetical scenario

Here is the ICA restated (ICA retrospectively amended, if applicable*):

Date	Particulars	Debit	Credit	Balance	
31 March 20X1	Balance			\$50k	Cr
31 March 20X1	Refund (1 September 20X1)	\$50k		-	
28 August 20X1	Tax pool deposit		\$100k	\$100k	Cr
1 September 20X1	Change in shareholding	\$100k		-	
20 September 20X1	Refund of deposit	\$50k		\$50k	Dr
20 September 20X1	Section OB 26(2)(a) adjustment		\$50k	-	

Debit for refund of purchased funds is offset firstly against ICA balance at prior 31 March, and remainder on date of refund. Adjusting credit entry on 20 September 20X1 for ICA double debit.

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Breach in shareholder continuity

Purchases

Hypothetical scenario

In February 20X2, Company A realised they missed their P2 payment. Let's say then:

- Company A purchases \$100k for P2 (with the funds remaining in the tax pool)
- Company A pays a dividend on 31 March 20X2 (using all the credits in the ICA)
- A breach in shareholder continuity (>34%) occurs on 10 April 20X2
- On 1 May 20X2, Company A requests that \$50k of the P2 tax purchase is transferred to Inland Revenue, with the other \$50k sold to another taxpayer in the pool

Here is the ICA before the above events...

Date	Particulars	Debit	Credit	Balance	
31 March 20X1	Balance			\$50k	Cr
28 August 20X1	Tax pool deposit		\$100k	\$150k	Cr
31 March 20X2	Dividend payment	\$150k		-	



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Breach in shareholder continuity

Purchases (cont...)

Hypothetical scenario

Here is the ICA after the above events (with the ICA retrospectively updated, if applicable*):

Date	Particulars	Debit	Credit	Balance	
28 August 20X1	Tax pool deposit		\$100k	\$150k	Cr
15 Jan 20X2	Tax purchase		\$50k*	\$200k	Cr
31 March 20X2	Dividend payment	\$150k		\$50k*	Cr
31 March 20X2	Tax purchase refund	\$50k*		-	
10 April 20X2	Breach in shareholder continuity (adjustment)	\$50k*		\$50k	Dr
1 May 20X2	Tax purchase		\$50k	-	

* P2 \$50k credit entry recorded if and when funds transferred to Inland Revenue. Further \$50k credit entry at 1 May 20X2 for refund of purchased funds. Debit for refund of purchased funds offset against ICA balance at prior 31 March.



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Tax pooling transactions

Swaps

Hypothetical scenario

Let's say that it is now 1 March 20X2. Company A is expecting a reduced RIT from the prior year, but forgot to make a deposit at P2. Company A would like to swap \$50k of their P1 deposit to P2. There was however a breach in shareholder continuity on 1 December 20X1.

Here is the ICA after the change in shareholding, but before the swap:

Date	Particulars	Debit	Credit	Balance	
31 March 20X1	Balance			\$50k	Cr
28 August 20X1	Tax pool deposit		\$100k	\$100k	Cr
1 December 20X1	Breach in shareholder continuity	\$150k		-	



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The image shows the cover of a brochure titled "My Tax Pooling Toolkit". The cover features a scenic landscape with a blue sky, a body of water, and golden grass in the foreground. The text on the cover includes "My Tax Pooling TOOLKIT" and "Get the most out of your business by pooling your tax". The Tax Traders logo is visible at the bottom left of the cover.



We're here to help
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The image shows a promotional graphic for Tax Traders. It features a scenic landscape with a blue sky, a body of water, and dark rocks in the foreground. The text includes "We're here to help", the email address "team@taxtraders.co.nz", the phone number "0800 829 872", and the Tax Traders logo with the tagline "INSPIRED TAX POOLING".
