

1. The basics



> Imputation - what is it?

- > Imputation Credit Account (ICA) maintained by New Zealand companies $_{\odot}\,$ 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)
- Measured on voting interests (shareholder decision-making rights)
 Corporate shareholders
- > Imputation debit balance further tax payable to cover debit balance

X TAX TRADERS

2. Tax pooling transactions



INFIRE TAX POOLING

INFIRD TAX POOLING

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 (basecase)

mp Doruce Los Scharlo (Lose Lose) Company Ahas a standard balance date of 31 March 20X2. Underthe standard uplift (from Company X-s20X1 residual income tax), Company Ahas a 20X2 provisional tax obligation of \$300k Company Ahas an opening ICA credit balance of \$50k.

 $\mathbb{X}_{\mathrm{traders}}^{\mathrm{TAX}}$

Hypotheti	cal sce	nario				
		Ifficient funds as at the August 20X1 (P1).	first instalme	nt date, so Con	npany Adeposits \$1	LOOk
the tax pool	dSdl ZO	August 20X1 (F1).				
Section OB the amount		(3): company will have ited.	an imputatio	n credit, and th	ne credit dateis the	day
Date	F	Partic ulars	Debit	Credit	Balance	
31 March 20	X1 (Op en ing balan ce			\$50k	Cr
28 August 2	0X1 1	fax pool deposit		\$100k	\$150k	Cr
		the date of deposit.				

Tax pooling transactions Purchases

Hypothetical scenario

In February 20X2, CompanyArealised they missed their second instalment, so they make a purchase of \$100k from the tax pool with an effective date of 15 January 20X1 (P2).

Section OB 6(1) and (3)(a): a credit arises for Company Ain relation to the purchase of funds, but timing on the ICA credit depends on what happens with the purchased funds. If funds are transferred to Inand Revenue, credit arises on the effective date of payment of tax(with the ICA retrospectively updated, if applicable*).

\$150k Cr

\$250k Cr

INFIRE TAX POOUNG

28 August 20X1 Tax pool deposit \$100k 15 January 20X2 Tax pool purchase* \$100k

P2 credit recorded if and when funds transferred to Inland Reven

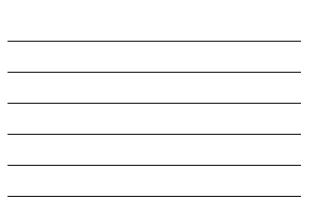
Particulars

X TRADERS

Date







Tax pooling transactions Refund/transfer of purchased funds

Hypothetical scenario On 1 March 20X2, Company Aneed funds, so they sell their P2\$100k purchase from the tax pool (with the intention of repurchasing this a later date). Here is the ICA as at the date of but just before the refund (amount not yet transferred to Inland Revenue): Date Particulars Debit Credit Balance

	arch 20X1	Balance		\$50k	Cr
28 Au	ugust 20X1	Tax pool deposit	\$100k	\$150k	Cr
[TBC: 20X2	15 January	[Tax pool purchase (retained in tax pool)]	[TBC:\$100k]	\$150k	Cr

	ing transactors in the second se		funds		
Section OB 34/35:	enario and (c):credit dateisth the refund/transfer deb er the refund (ICA retros	oit will work in	the same way	as a deposit refund	i
Date	Particulars	Debit	Credit	Balance	
31 March 20X1	Balance			\$50k	Cr
31 March 20X1	Tax poolrefund(1March 20X2)*	\$50k		-	
28 August 20X1	Tax pool deposit		\$100k	\$100k	Cr
1 March 20X2	Tax pool purchase		\$100k	\$200k	Cr
1 March 20X2	Tax pool refund	\$50k		\$150k	C
	asearises on date of refund tICA balance (\$50k) at prior 20X2).				
				INPIRE 5	NX PC

Swaps	ling transa	cuons			
would like to swap Although a cashle will arise for the '	cenario 20X1, Company Arealises p \$50k of their deposit fr sss transaction, the sale v refund' (section OB 34(3) (ICA retrospectively up	om 20X2 P1 t vill be treated 4)). The purch	o 20X1 P3. as a refund to ase will give ris	Company A, so a d	ebit
Date	Partic ulars	Debit	Credit	Balance	
Date 31 March 20X1	Particulars Balance			Balance \$50k	Cr
					Cr
31 March 20X1	Balance Tax poolsale (1	Debit			Cr
31 March 20X1 31 March 20X1	Balance Tax pool sale (1 November 20X1)*	Debit	Credit	\$50k -	
31 March 20X1 31 March 20X1 7 May 20X1 28 August 20X1 P3 credit entry reco	Balance Tax pool sale (1 November 20X1)* Tax pool purchase*	Debit \$50k	Credit \$50k \$100k	\$50k - \$50k \$150k	Cr

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 Ahas a standard balance date of 31 March 20X2. Under the standard uplift (from Company A's 20X1 residual income tax), Company Ahas a 20X2 provisional tax obligation of \$300k.

Company Ahas an opening ICA credit balance of \$50k. The company has sufficient funds as at P1, so Company Adeposits \$100k in the tax pool as at P1.

X TAX TRADERS

Breach in shareholder continuity Deposits/Refunds

Hypothetical scenario

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

Here's the original ICA (after the changein 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			

	n sharehol 'Refunds (cont		onti nui	ty	
Hypothetical s Here is the I CA res	c enario tated (ICA retrospective	ly amended, i	if applicable*):		
Date	Particulars	Debit	Credit	Balance	
31 March 20X1	Balan ce			\$50k	Cr
31 March 20X1	Refund (1September 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 refundo date of refund. Ad	purchased funds is offset fir justing credit en try on 20 Sep	stly against ICA b tember 20X1 fo	alance at prior3 rICA double deb	1 March, and remain it.	der on



Breach in shareholder continuity Purchases

- Hypothetical scenario

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

 Company Apurchases \$100k for P2 (with the funds remaining in the tax pool)

 Company Apays ad ixidend on 31 March 20X2 (using all the credits in the ICA)

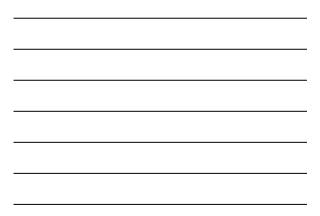
 A breach in shareholder continuity (>34%) occurs on 10 April 20X2

 On 1 May 20X2, Company Arequests that \$50k of the P2 taxpurchase is transferred to Infard Revenue, with the other \$50k sold to another taxpayer in the pool
 Here is the ICA before the above events

	Partic ulars	Debit	Credit	Balance	
31 March 20X1	Balance			\$50k	Cr
28 August 20X1	Tax pool deposit		\$100k	\$150k	Cr
31 March 20X2	Dividend payment	\$150k		-	
TRADERS				INPIRE 1	AX POOL

Z84 August 20X1 Tax pool deposit 5100k 5150k 5150k Cf 15 Jan 20X2 Tax purchase \$50k* \$200k Cf 31 March 20X2 Dividend payment \$150k \$50k* \$20k* Cf 31 March 20X2 Tax purchase refind \$50k* \$50k* . . 10 April 20X2 Breach in share holder continutly fallswint) \$50k* \$50k* \$50k Dr 11 May 20X2 Tax purchase \$50k* \$50k* \$50k* \$50k* Dr 12 My 20X2 Tax purchase \$50k* \$50k* \$50k* \$50k* Dr 14 My 20X2 Tax purchase \$50k*	Breach i Purchases	n sharehol S (cont)	der co	ontinui	ty	
28 August 20X1 Tax pool deposit \$100k \$110k \$150k Cr 15 Jan 20X2 Tax purchase \$50k* \$200k Cr 31 March 20X2 Dividend payment \$150k \$50k* \$50k* Cr 31 March 20X2 Tax purchase refind \$50k* \$50k* - . 10 April 20X2 Breach in share holder continutly (algument) \$50k* \$50k* . . 11 May 20X2 Tax purchase \$50k* \$50k* . . . 12 May 20X2 Tax purchase \$50k* \$50k* . . . 12 May 20X2 Tax purchase \$50k* \$50k* . . 22 550k credit entyr recorded if an dwhen funds transferred to initied for purchased funds for \$6k* appinst 1C to hamee. . . .			h the I CA retr	ospectively up	dated, if applicable	*):
15 Jan 20X2 Tax purchase 5504 52000 Cr 31 March 20X2 Dividend payment 5150k 5504 Cr 31 March 20X2 Tax purchase refind 5504 5504 Cr 30 April 20X2 Breach is hareholder 5504 5504 5506 Dr 10 April 20X2 Tax purchase for the start start of the start st	Date	Particulars	Debit	Credit	Balance	
31 March 20X2 Dividend payment \$150k \$50k* \$50	28 August 20X1	Tax pool deposit		\$100k	\$150k	Cr
31 March 20X2 Tax purchase refund \$50k* \$50k 10 April 20X2 Breach in shareholder continuity(adjustment) \$50k* \$50k 1 May 20X2 Tax purchase \$50k \$50k 2 550k cordit entry recorded if and when funds transferreito inland Revenue. Further \$50k credit entry 4 May 20X2 for refund of purchased funds for darkset funds for the approximation of the approximation. Debit for edular of purchased funds for the approximation of the approximation of the approximation of the approximation.	15 Jan 20X2	Tax purchase		\$50k*	\$200k	Cr
10 April 20X2 Breach in shareholder Continuity (adjustment) 11 May 20X2 Tax purchase S50k S50k Dr 22 S50k cordit entry recorded if and when funds transferreito Inland Reenue. Further S50k credit entry 4 May 20X2 Torreindofpurchased (Incide Tourbanet)	31 March 20X2	Dividend payment	\$150k		\$50k*	Cr
torn the second se	31 March 20X2	Tax purchase refund	\$50k			
P2 \$50 k credit en try recorded if an dwh en funds transferred to In land Revenue. Further \$50 k credit en try a May 20 X2 forrefund of puch ased funds. Debit for nefund of puchased fundsis offset again st ICA balance a	10 April 20X2		\$50k*	\backslash	\$50k	Dr
May 20X2 forrefund of purchased funds. Debit for refund of purchased funds is offset against ICA balance a	1 May 20X2	Tax purchase		\$50k		

Swaps					
Hypothetical	cenario				
but forgot to mak	now 1 March 20X2. Com ke a deposit at P2. Compa er a breach in shareholde	any Awould lik	e to swap \$50	c of their P1 deposi	
Here is the I CA af	ter the change in shareho	lding, but bef	ore 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		-	



Tax pool Swaps	lingtransa	ctions			
Hypothetical sco Here is the ICA aft	enario er the swap (with the ICA	retrospectiv	ely updated, il	applicable*):	
Date	Particulars	Debit	Credit	Balance	
31 March 20X1	Balance			\$50k	Cr
31 March 20X1	Tax poolsale*	\$50k			
28 August 20X1	Tax pool deposit		\$100k	\$100k	Cr
	Breach in shareholder continuity	\$100k		-	
1 December 20X1	continuity				
1 December 20X1 15 January 20X2	Tax purchase*		\$50k	\$50k	

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Download your complimentary **Tax Pooling Toolkit:** taxtraders.co.nz/caanz



