

Tax loss carry-back

Overview

- To assist businesses with cashflow
- Can carry loss back from 2020 to 2019 to obtain refund, or reduce 2020's tax bill (or obtain refund) against an expected 2021 loss
- Can access by including losses carried back in tax return, or filing an estimate with Inland Revenue

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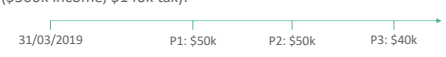
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Tax loss carry-back

Claiming loss in taxpayer's return

The Baking Company Limited: 2020

- 2020 income year – provisional tax paid under uplift as follows (\$500k income, \$140k tax):



- 2021: \$200k of losses expected
- This loss can be carried back to reduce the amount of income and tax for 2020 (\$300k profit with tax of \$84k)

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Tax loss carry-back

Claiming loss in taxpayer's return

The Baking Company Limited: 2020

- Company files 2020 tax return, including \$200k expected loss as part of tax calculation
- Receives refund of \$56k (\$140k paid less \$84k tax liability) of its 2020 provisional tax paid
- If you have already paid tax and carry losses back: refund (if tax has been overpaid)
- If you have not yet already paid tax and expect to carry back losses: lower amount payable than previously anticipated

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Tax loss carry-back
 Claiming loss in taxpayer's return

The Baking Company Limited: 2021

- 2020 tax return filed on basis of expected loss in 2021
- 2021 (actual): the Baking Company made a profit, so should not have received refund from 2020
- Refunded tax needs to be repaid to Inland Revenue
- Refunded tax needs to be purchased from a tax pool at the *date of refund*, as correct amount of tax paid on each instalment date before losses carried back

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Tax loss carry-back
 Filing an estimate for loss carry-back

The Baking Company Limited: 2020

- 2020 income year – provisional tax paid as follows (\$500k income, \$140k tax):

- Can file estimate with Inland Revenue with reduced expected profit amount of \$300k
- If you file an estimate, income tax must be paid evenly across provisional tax instalment dates
- In example above, the company has paid enough tax at each date in order to spread tax evenly over each instalment date

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Tax loss carry-back
 Filing an estimate for loss carry-back

The Baking Company Limited: 2020

- 2020 income year – provisional tax paid as follows (\$500k income, \$140k tax):

- Files estimate with Inland Revenue with reduced expected profit amount of \$300k and obtain refund
- If company makes a profit in 2021, tax will be due equally over each instalment date in 2020 – \$56k refund will need to be purchased across the provisional tax instalment dates:

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Tax loss carry-back
Using tax pooling

Three things:

- If loss is less than expected, you may have to repurchase tax at a date earlier than the date of refund
- Estimation takes taxpayer out of standard uplift provisional tax regime, so tax is due equally over each instalment
- Inland Revenue could impose a 20% shortfall penalty if estimate is not considered fair and reasonable

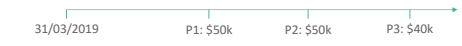
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Tax loss carry-back
Using tax pooling

The Baking Company Limited: 2020

- If company deposited instead of making payments to Inland Revenue



31/03/2019 P1: \$50k P2: \$50k P3: \$40k

- Company can get tax refunded out of tax pool without filing an estimate with Inland Revenue
- Company remains under the (concessionary) standard uplift provisional tax regime

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Tax loss carry-back
Using tax pooling

- Tax pooling offers you additional flexibility around tax payments
- Depositing preserves options available to a taxpayer going forward

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