



## INCOME EQUALISATION

### How does it work?

The income equalisation scheme allows taxpayers to deposit income from farming, fishing or forestry with Inland Revenue. The money is paid into a special account and earns interest at 3% per annum on amounts left on deposit for more than 12 months. The interest paid becomes part of the deposit for tax purposes. **The deposit is held for a maximum period of five years.**

Deposits are tax deductible in the year for which they are made. And withdrawals (including interest) are assessable in the year for which they are made.

In normal circumstances an amount may not be withdrawn unless it's been on deposit for at least 12 months.

Just after 31 March each year Inland Revenue sends a statement to all taxpayers who have income equalisation deposits, showing their current balance and any interest credited to the account.

### Deposits, deposit restrictions and interest

#### Making a deposit

The general rule when a deposit is made is that it is accepted for the tax year in which the deposit is received. **To be deductible in any income year, the deposit must be made within the specified period after the end of that income year. This is the shorter of:**

**six months after the balance date; or  
one month after the due date for filing the return.**

Inland Revenue can allow an extension of time for making a deposit.

Deposits made to the scheme reduce the taxable income for the year of the deposit by the amount deposited.

#### Restrictions on deposits

**The minimum deposit is \$200. Deposit amounts can't exceed your net income** from your business in the year the deposit is accepted.

#### New deposit from a refund

If a refund has been made in a tax year, a deposit cannot be made after that date for the same period unless the IRD is satisfied that all of the refund has been used in your business. The refund may be able to be used as a deposit for the previous tax year if an election is made in the specified period or by the required date for that tax year.

#### Interest on deposits

**Interest of 3% per annum** will apply where a deposit is left in the scheme for a period of 12 months or more. Interest paid becomes part of the deposit and is credited at 31 March each year or when the deposit is refunded.

Interest is not treated as income in the tax year it is credited only in the tax year when the deposit is refunded.

The expiry date of a deposit will be five years from the end of the accounting year in which the deposit was made.

Resident withholding tax (RWT) is liable to be deducted from any interest paid.

### **Requesting a refund**

A refund can be requested for part or all of a deposit. **Generally a refund cannot be made if the deposit has been in the scheme for less than 12 months.**

### **Refund for adverse events or hardship**

A refund of amounts deposited for less than six months may be made where the refund is required for the taxpayer for one or more of the following:

- to enable the purchase of replacement livestock as the result of a self-assessed adverse event or
- to avoid the taxpayer suffering serious hardship or
- for any other reason at the Commissioner's discretion.

When an application for a refund is made, the amount of the refund is gross income in the year in which the application for a refund is received. If the taxpayer elects in the specified period or in the time allowed for the refund to be deemed to be made for the previous income year then it will be income in that year.

If a refund has been granted in a tax year, a deposit cannot be made after that date for the same period unless the IRD is satisfied that all of the refund has been used in the taxpayer's business.

### **Tax credits**

In the tax year a deposit is made your taxable income is reduced by the amount deposited which reduces the amount of tax payable. In the tax year an application for refund is made, the amount is included as income and increases your tax payable. You can claim a tax credit in the tax year an application for a refund has been made if the amount of tax calculated to pay is higher than you would have been liable for on the original amount deposited.

### Disclaimer.

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