

Māori authority tax rules

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The information in this guide is based on current tax laws at the time of printing.

Who is this guide for?

This guide is for people who administer the accounts for a Māori authority.

All Māori authorities must file a Māori authority income tax return - IR8 each year. They need to file even if they did not earn or distribute any income. However, a Māori authority can make a declaration to be excused from filing if it meets the non-active filing requirements of its underlying legal entity structure, for example a company or trust. For more information and the conditions for becoming non-active see **Declaration for trusts and estates not required to file returns – IR633** or the **Non-active company declaration – IR433**.

Like all other taxpayers, Māori authorities have general tax requirements and are required to maintain records about their business and non-business activities for seven years. You can find out more about record keeping and tax requirements at: ird.govt.nz/managing-my-tax/record-keeping.

There are also some special tax rules that apply to Māori authorities. These relate to:

- record keeping in a special account called the Māori authority credit account (MACA)
- attaching credits to distributions.

These are covered in more detail in this guide.

If you have elected to be a Māori authority, you must follow these rules. You can opt out at any time but must let us know. For more information see **Becoming a Māori authority - IR487**.

The Māori authority credit system

The Māori authority credit system shares many features of the company imputation rules. A Māori authority can choose to pass on the benefit of any income tax they've already paid to members, and any income tax refunds or credit transfers are limited to their available MACA balance.

What is a Māori authority credit?

The authority may attach a credit of income tax already paid to the distribution it makes to their members. The ability to attach credits to the distribution is to prevent profits from being taxed twice.

The amount attached to the distribution is called a **Māori authority credit**.

How the credit system works

The credit system applies to all income tax. The following example shows how it works.

<i>Example</i>	
Tax on Māori authority	
Māori authority profit	\$1,000
Tax at 17.5%	\$ 175
After-tax profit	\$ 825
Distribution paid to members	\$ 825
Retained earnings	Nil
Tax on member	
Distribution received	\$ 825
Māori authority credit	\$ 175
Taxable amount	\$1,000
Individual tax rate of 17.5%	\$ 175
Less Māori authority credit	\$ 175
Tax payable by member	Nil
Result for member	
Cash distribution received	\$ 825
Less tax payable	Nil
Net distribution after tax	\$ 825

Record keeping in the Māori authority credit account (MACA)

The MACA records:

- how much income tax a Māori authority has paid on its income
- Māori authority tax credits available for allocation with distributions.

It has:

- an opening balance
- credit and debit entries
- a closing balance.

Who must keep a MACA?

All Māori authorities must set up a MACA except:

- those whose rules don't allow it to distribute its income or property to members, or
- those that only derive exempt income, not including certain dividends, within a wholly owned group.

Period covered by the MACA

A MACA covers the period from 1 April in one year to 31 March in the following year, regardless of an authority's balance date. This period is called the MACA year or imputation year. An authority with a balance date other than 31 March cannot line up its MACA year with its accounting year.

Transactions recorded in the MACA

Opening balance

The opening balance of the MACA (which may be either a debit or credit) is the same as the closing balance of the preceding MACA year, unless the Māori authority has newly elected into the Māori authority regime.

When a Māori authority newly enters the Māori authority rules the first MACA return they file will have a nil opening balance.

Credit entries

These entries increase the credits available for distribution to members. They are recorded in dollar amounts.

1. New Zealand income tax paid during the tax year to meet a provisional tax obligation or to satisfy an income tax liability. There are exceptions for income tax paid in the following circumstances:
 - any income tax that would have been payable had the MACA year ended on the day immediately before the day the Māori authority became a Māori authority
 - income tax paid by using credits the Māori authority already holds in its MACA that it has received from income from another Māori authority
 - a payment of "further income tax" credited against any income tax or provisional tax that happens after the payment of the further income tax
 - an allocation of any overpayment of provisional tax by a Māori authority.
2. Further income tax the Māori authority paid to reduce the previous year's closing debit balance. For more information, see page 9.
3. Māori authority credits attached to distributions received from other Māori authorities.
4. Imputation credits attached to a dividend that is paid to the Māori authority.
5. FDP (foreign dividend payment) credits attached to dividends received by Māori authorities that don't have an FDP account.
6. An adjustment, which has subsequently been overturned, to offset a previous debit that has arisen from a determination that the credits are subject to an arrangement to obtain a tax advantage.
7. RWT deducted from income that the Māori authority receives.

In most cases, credit entries occur in the MACA on the date the transaction that caused them takes place - the date of payment. This happens regardless of the period it relates to.

Debit entries

These entries reduce the amount of credit available for distribution to members. Like credits, they're also recorded in dollar amounts.

1. Māori authority credits attached to the distributions paid by the Māori authority to its members.
2. The amount of any overpaid provisional tax allocated by the Māori authority to satisfy any provisional tax of another wholly owned Māori authority.
3. Income tax refunds received during the income year except where the refund:
 - is for income tax related to an income year where the Māori authority did not maintain a MACA
 - relates to a part of a year in which the Māori authority did not operate a MACA.
4. An "allocation debit" entry when the Māori authority credit ratio of any subsequent Māori authority taxable distribution differs from that of the "benchmark" distribution and a "ratio change declaration" hasn't been made. For more information, see below.
5. Refund of FDP paid to the Māori authority where the Māori authority is not a "foreign dividend account" company.
6. Adjustments when a change of shareholding of more than 34% has taken place. For more information see page 6.
7. Any overpaid income tax applied by Inland Revenue for tax liabilities other than income tax or provisional tax instalments.
8. An apportionment of income tax for the number of days the organisation was a recognised Māori authority.
9. An amount equal to the credit balance immediately before a Māori authority ceases to be a Māori authority.
10. Adjustments made when we consider an arrangement has been made to obtain a tax advantage.
11. Adjustments made to eliminate any unused credit balance affected by the loss of continuity if membership of the authority.

In most cases, a debit entry appears in the MACA on the date of the transaction.

Closing balance

This is the result of taking the opening balance and adding the credit entries then deducting the debit entries.

If the closing balance is a credit, the Māori authority has tax credits that it may choose to use by attaching credits to distributions. If the closing balance is a debit, this indicates that the authority has allocated more tax than it has paid. A payment of further income tax is required to be made by 20 June to clear the debit balance. A Māori authority distribution penalty tax of 10% will also be payable on the further income tax.

Benchmark distribution

A distribution is a transfer of value (such as a payment of interest, principal or dividend) from the Māori authority to its members. The first taxable Māori authority distribution made by a Māori authority in any tax year is called the benchmark distribution. This sets the ratio between the credits and dividends for all other distributions in the MACA year.

Māori authority credit ratio

This credit ratio is calculated using the following formula:

$$\frac{\text{Māori authority credit}}{\text{net distribution}}$$

where:

- Māori authority credit** is the amount of the Māori authority credit attached to the distribution and, if a Māori authority credit is not attached, that amount is zero.
- Net distribution** is the amount of the distribution by the Māori authority, not including any Māori authority credit.

If a Māori authority tries to distribute Māori authority credits at a higher ratio to the one set by its benchmark distribution, it will have to pay an "allocation debit" penalty, unless it declares the ratio change.

Ratio change declaration

If there are changes to the benchmark ratio of subsequent distributions the Ratio change declaration - IR407 form must be completed, including the declaration to ensure that the distribution and change in ratio is not part of an arrangement to obtain a tax advantage.

Note

If a MACA goes into debit throughout the year it must pay any debit balance that exists at 31 March on or before the following 20 June.

Attaching Māori authority credits to distributions

A Māori authority may choose whether or not to attach credits to the distributions it pays to its members. However, if it chooses to do so it must follow certain rules.

Māori authority tax rate and maximum ratio

The maximum amount of Māori authority credits that can be attached to distributions is 17.5%, being the rate of income tax the Māori authority pays at.

If this ratio is exceeded, the Māori authority would effectively be passing on tax credits to its members at a higher tax rate than what was paid.

Example

Māori authority profit	\$100.00
Tax @ 17.5%	\$ 17.50
Tax paid profit	\$ 82.50

The Māori authority has paid \$17.50 of tax on the \$82.50 available for distribution. The base ratio is therefore 21.21 cents in the dollar ($\$17.50 \div \82.50).

Ratio of tax credits to distributions

The tax rate determines the maximum ratio of Māori authority credits your Māori authority can attach to distributions it makes.

The ratio is expressed as 17.5:82.5, ie, you can attach \$17.50 of credits to each \$82.50 of distributions made.

Companies must hold 66% membership to pass on credits

Where a Māori authority is a company, credits can only be passed on to members of a Māori authority if at least 66% of those members remain with the authority from the time the credits arise, to the date they're distributed to the members. If the membership of a Māori authority changes by more than 34%, the Māori authority has lost membership continuity. This rule is set in place to prevent members who did not hold their shares at the time the Māori authority credit arose, being able to use the Māori authority credits they receive as part of any future distribution.

In this situation, a Māori authority must enter a debit entry into the Māori authority credit account (MACA).

Making distributions to Māori authority members

Types of distributions

Distribution type	Example
The amount paid or credited by the Māori authority to a member in any manner or under any name.	
A taxable bonus issue made by the Māori authority.	
An amount applied by the Māori authority exclusively for the member.	A Māori authority may pay a member's electricity bill. Although this amount is not paid or credited to the member, it's treated as a distribution as it's applied for the benefit of that member.
An amount advanced by the Māori authority to a member to the extent that the advancement is not a genuine investment by the Māori authority.	A Māori authority may extend an, interest-free loan to a member. As they would have received interest if they had invested that money in a bank, the interest forgone by the Māori authority is treated as a distribution to the member who received it.
Property disposed of by the Māori authority to a member without payment in cash or kind or where the payment is less than the market value of the property.	A Māori authority owns a hectare of land with a market value of \$30,000. If the Māori authority sells that land to a member for \$20,000, the \$10,000 difference between the market value and the actual price paid will be treated as a distribution to the member.
Property disposed of by a member to the Māori authority for more than the market value of the property.	A Māori authority member owns a hectare of land with a market value of \$30,000 that the Māori authority wishes to use for its own purposes. If the Māori authority were to pay \$40,000 for the land, the \$10,000 that the member receives over and above the market value of the land will be treated as a distribution.

Taxable and non-taxable distributions

When making distributions, Māori authorities cannot "stream", and must ensure that all members receive proportionate shares of both taxable and non-taxable incomes.

Taxable distributions include as their source:

- gross income of the Māori authority
- that gross income not exempt from tax.

Non-taxable distributions include as their source:

- exempt income
- tax paid income received under other tax type rules.

Example

A Māori authority of two members wishes to distribute \$2,000. Of the \$2,000, \$1,000 is a taxable Māori authority distribution, and the other \$1,000 is not. The Māori authority cannot "stream"* the taxable Māori authority distribution to the member who has most use for any Māori authority credits that may be attached. Instead, the Māori authority must distribute a \$500 taxable Māori authority distribution and a \$500 other distribution to each of the two members.

* "Stream" means to be selective about who gets allocated income or tax credits based on the best tax result. In the example the authority cannot allocate the non-taxable distribution to a member on say 39% marginal tax rate and allocate the \$1,000 taxable distribution to a member on 10.5% marginal tax rate.

Investment income reporting requirements

The requirement to provide more detailed information when paying taxable Māori authority distributions became compulsory as of 1 April 2020 under the investment income reporting provisions.

Māori authorities making taxable distributions to members are required to file the information by the 20th of the month following the distribution. The Māori authority must file resident withholding tax (RWT) returns to show the distribution, irrespective of whether RWT was deducted.

The following information is required about the Māori authority making the distribution:

- the name, IRD number and contact address of the authority
- the date the distribution is made
- the total amount of distributions made
- the total amount of tax withheld
- the total amount of Māori authority credits attached
- the Māori authority credit ratio.

The following information is required for each of the members who received a distribution:

- their name
- their contact details - email, street address or mobile phone number
- the amount and type of income paid to them
- the tax withheld
- the date the tax was withheld
- the Māori authority credits attached, if any.

If it is available, you need to also provide:

- the members IRD number
- their date of birth.

Unless an exemption has been granted, RWT returns must be filed electronically.

RWT returns only need to be filed for the months in which a distribution was made.

For more information on how to file RWT returns visit our website: [ird.govt.nz/filing investment income electronically](http://ird.govt.nz/filing-investment-income-electronically).

Deducting Resident withholding tax (RWT)

Both the RWT return and payment of RWT is due by the 20th of the month following the distribution.

When a Māori authority declares a distribution for all members. The Māori authority is required to account for RWT on the full amount declared, including distributions made to members that are unclaimed.

A Māori authority must deduct RWT in the following situations:

- the Māori authority chooses not to attach any Māori authority credits to the distribution
- Māori authority credits are attached at less than 17.5% of the gross distribution
- the member's IRD number is not recorded, and the distribution exceeds \$200

If the member's IRD number is not recorded and the distribution exceeds \$200, the RWT tax rate is 39%, reduced by any Māori authority credits attached, up to the maximum rate of 17.5%.

If members have received a distribution with RWT withheld up to 39% they still need to contact us to declare this income.

Example

A Māori authority makes a taxable distribution to a member, who has not provided their IRD number. The distribution is \$250.00, including \$43.75 in Māori authority credits. Because the member's IRD number is not recorded, and the distribution is over \$200, the Māori authority must deduct RWT to make up to 39% of the gross distribution.

Gross distribution	\$ 250.00
Māori authority credits	\$ 43.75
RWT	\$ 53.75
Total tax paid	<u>\$ 97.50</u>
Net distribution	\$ 152.50

The total tax paid by way of credits and RWT is \$97.50, which is 39% of the gross distribution of \$250. The member will receive the net distribution of \$152.50.

Example

A Māori authority makes a taxable distribution to a member, who has provided their IRD number. The distribution is \$90.00, including \$10.00 in Māori authority credits. Because the Māori authority credits are attached at less than 17.5% of the gross distribution the Māori authority must deduct RWT of \$5.75.

Gross distribution		\$ 90.00
Māori authority credits	\$ 10.00	
RWT	\$ 5.75	
Total tax paid		<u>\$ 15.75</u>
Net distribution		\$ 74.25

The total tax paid by way of credits and RWT is \$15.75, which is 17.5% of the gross distribution of \$90.00. The member will receive the net distribution of \$74.25.

Members' distribution statement

All Māori authorities maintaining a MACA and making distribution to their members must provide their members with a distribution statement. This tells them about distributions they receive and will enable members to ensure the income we hold for them is correct.

Filing end-of-year returns

What you must provide to us

At the end of each year all Māori authorities must complete and return the following returns to help us determine the right amount of tax has been paid.

- Income tax return: **Māori authorities - IR8**, unless they have an exemption . This return provides a complete statement of the authority's taxable income
- **Annual Māori authority credit account return - IR8J**

What to include on the IR8J

All Māori authorities maintaining a MACA must complete an end-of-year Annual Māori authority credit account return - IR8J.

You must show the following information in this return:

- opening balance
- amount and source of all debits • amount and source of all credits
- closing balance.

A Māori authority must file its IR8J return by the due date for filing its income tax return for the corresponding income year.

Limits on income tax refund

Income tax refunds will generally be limited to the amount of the credit closing balance at the preceding ended MACA year. This is because some of the credits that were in the MACA have already been attached to distributions paid to members.

The Māori authority will not be entitled to receive any income tax refunds while the MACA closing balance is nil or a debit.

Paying further income tax

If the MACA has a debit balance at 31 March the authority must make a payment of further income tax to clear the debit balance and must also pay a penalty of 10% of that closing balance. This is to encourage Māori authorities to have a credit closing balance. Both further income tax and Māori authority distribution penalty tax are due by 20 June following the end of the MACA year.

The authority gets a benefit from the further income tax payment. It can be used to meet any income tax liability that they become liable for after the payment is made.

Penalties that may apply

Overdue further income tax

Further income tax and Māori authority distribution penalty tax are due by 20 June following the end of the tax year in which the debit closing balance arose. Late payment penalties and interest may apply if payment is not made by the due date.

Late payment penalty

Late payment penalties will be incurred if there is an outstanding balance of over \$100 after 20 June.

The late payment penalties are charged in stages:

- 1% the day after the due date
- 4% seven days later

Note

If a Māori authority stops being a Māori authority and a debit balance exists, the authority must clear that debit no later than the last day on which the organisation is still a Māori authority. If this amount is not paid by the due date, late payment penalties may apply.

Debit interest

We charge debit interest on outstanding tax (including penalties) of more than \$100. Interest is charged from the day after the original due date, and interest is calculated daily. The interest rate is set by Government, based on market rates.

Interest you pay on underpayments of tax is a deductible expense for business purposes, and you can claim this expense on your income tax return.

For more information about penalties and interest, go to our guide **Penalties and interest – IR240** or go to ird.govt.nz/penalties

If you receive income from a Māori authority

It's important members receiving distributions from Māori authorities understand their own personal income tax responsibilities.

Distributions from Māori authorities have credits attached to them. If the amount of MACA credits exceeds the Māori authority member's tax liability for the financial year, the excess amount may be refunded to the member. However, if the member has any overdue tax payments Inland Revenue is entitled to use the excess Māori authority credits to meet any other tax payments payable by the member. If there's still a credit after all tax liabilities have been met, a refund can be issued.

Distribution statements

A member should also receive a distribution statement from a Māori authority. If you're a member, this information will assist you when completing and reviewing your personal income tax return or income tax assessment.

IRD numbers

If you're a member receiving taxable distributions from a Māori authority, make sure you give your IRD number to the Māori authority. The authority can then apply the current tax rate of 17.5% to the distribution, instead of the 39% no-notification rate that will apply if you don't supply your IRD number.

RWT paid

Any RWT paid on taxable Māori authority distributions should be included with total RWT paid on interest. However, it is essential to attach a note to the return to explain the source of RWT and why there was no accompanying interest income as this makes return processing more efficient.

Services you may need

myIR

You can manage your tax and entitlements online with a myIR account.

In myIR you can:

- check if you're due a refund
- keep up-to-date with your student loan
- check and update your Working for Families Tax Credit details
- review your KiwiSaver contributions
- manage your child support payments
- file returns
- update your contact and bank account details.

myIR is available 24 hours a day, seven days a week. Find out more, and register, at ird.govt.nz/myIR

Forgotten your user ID or password?

Request these online from the myIR login screen and we'll send them to the email address we hold for you.

ird.govt.nz

Go to our website for information and to use our services and tools.

- **Log in or register for myIR** - manage your tax and entitlements online.
- **Calculators and tools** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
- **Forms and guides** - download our forms and guides.

Useful publications

Forms and guides are available on our website at ird.govt.nz/forms-guides

Becoming a Māori authority – IR487

A guide to becoming a Māori authority including a Māori authority election.

Payments and gifts in the Māori community – IR278

Factsheet explaining the tax treatment of payments and gifts in the Māori community for the purposes of income tax, GST, and employing staff.

Penalties and interest – IR240

A guide to the different types of penalties and interest we may charge if you don't file or pay on time. It also tells you how you can reduce or avoid penalties.

Smart business – IR320

A guide containing information on record keeping, cashflow forecasting, and time management and basic tax responsibilities.

Kaitakawaenga Māori

Kaitakawaenga Māori deliver our services in a whānau, hapū and iwi centric way to ensure our customers have the tools to manage their tax affairs whether they are an individual or in business.

Kaitakawaenga Māori work with you to help you understand your tax obligations, and can provide one-to-one tax advice and information or tax training and seminars to groups.

You can request a visit from a Kaitakawaenga Māori by using our business advisory visit service.

Visit our website: ird.govt.nz/contactus/kaitakawaenga-maori

Need to speak with us?

Have your IRD number ready and call us on one of these numbers.

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

We're open 8am to 6pm Monday to Friday.

As part of our commitment to giving the best service to our customers we record calls. This helps us identify ways that we can improve our service.

Our self-service line is available 24 hours, 7 days a week. We offer a range of automated options, especially if you're enrolled with voice ID. Find out more at ird.govt.nz/contact-us

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may charge penalties if you do not.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them, and
- Statistics New Zealand (for statistical purposes only).

You can ask for the personal information we hold about you. We'll give the information to you and correct any errors, unless we have a lawful reason not to. Find our full privacy policy at ird.govt.nz/privacy

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process.

Find out more about making a complaint, and the disputes process, at ird.govt.nz/disputes