



Inland Revenue
Te Tari Taake

IR274
April 2024

Imputation

A guide for New Zealand companies

Introduction

The dividend imputation system lets companies pass on to their shareholders credits for the New Zealand income tax paid by the company. This means that shareholders get the benefit of the income tax the company has paid.

Imputation applies to income tax paid by New Zealand resident companies for all income years from 1989 onwards.

In this guide

Part 1 of this guide is a general explanation of how the imputation system works and gives a basic explanation of a Māori authority credit.

Part 2 explains the ICA (imputation credit account). A company records in this memorandum account the amount of income tax it pays, which it can pass on as tax credits with the dividends it pays to its shareholders. This part also gives a brief explanation of a Māori authority credit account (MACA).

Part 3 covers imputation groups, which are companies that operate their imputation accounts together.

Part 4 explains the special imputation rules relating to cooperative companies.

Part 5 outlines how shareholders are taxed for dividends they receive, and the impact on the income of an overseas shareholder.

Part 6 provides the Inland Revenue contact details you may need for more information on imputation.

Tax year and income year

The term **tax year** is a global concept across all tax activities in New Zealand. Each tax year ends on 31 March of the relevant year. For example, the 2024 tax year runs from 1 April 2023 to 31 March 2024.

The term **income year** means a company's income year ending at its balance date.

- Most companies have a standard balance date of 31 March. Their income year runs from 1 April to 31 March of the following year, which aligns with the tax year.
- If a company has a non-standard balance date, its income year will follow a different timeline from the tax year, for example, 1 October to 30 September. These companies should get professional tax advice if they need help with the timing of imputation.

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Contents

Introduction	2	Part 4 - Cooperative companies	25
Tax year and income year	2	Background	25
ird.govt.nz	2	Cash distributions treated as dividends	25
How to get our forms and guides	2	Imputation credits and notional distributions	25
Part 1 - Imputation overview	4	Other imputation rules for cooperative companies	26
Imputation - a basic explanation	4	Part 5 - Shareholders receiving imputed dividends	27
The reason for imputation	4	Benefit for New Zealand-resident shareholders	27
The difference imputation makes	4	Determining the amount of credit in certain cases	27
Related tax credit systems	4	Allocation ratio	29
Research and development (R&D) loss tax credit	4	Non-resident shareholders	29
Part 2 - ICA (imputation credit account)	5	Foreign investor tax credits (FITC)	29
Who must keep an ICA	5	Part 6 - Services you may need	30
Māori authority credit account (MACA)	5	0800 self-service numbers	30
Australian companies with New Zealand shareholders (trans-Tasman imputation)	5	Need to speak with us?	30
New Zealand companies with shareholders in Australia	6	Tax Information Bulletin (TIB)	30
Period covered by the ICA	9	If you have a complaint about our service	30
Transactions recorded in the ICA	9	Privacy	30
Significance of the ICA closing balance	10		
Annual imputation return	11		
Rules for allocating imputation credits to dividends	12		
Limits on income tax refunds	14		
Change of shareholder continuity	14		
Transferring imputation credits between commonly owned companies	15		
Ceasing to be an ICA company	15		
Assessments and disputes	16		
Penalties and interest	16		
Documentation of dividends	17		
Part 3 - Imputation groups	18		
Eligibility to form a group	18		
How to form a group	18		
Maintaining a group ICA	21		
Groups' annual imputation returns	21		
Maintaining a resident imputation subgroup ICA	22		
Changing imputation groups	22		

Part 1 - Imputation overview

Imputation - a basic explanation

Imputation is a system that allows companies to pass on to their shareholders the benefit of the New Zealand income tax they have already paid. Companies can do this by **imputing** (attaching to the dividends they pay out) credits for the income tax the company has already paid. The amount **imputed** is called an imputation credit.

When the **shareholders** receiving these dividends fill in their income tax returns, they include in their gross income not only the dividend they receive from the company, but also the imputation credit attached to it. They can then claim credit against their income tax liability for the amount of the imputation credit attached to the dividend.

The reason for imputation

The imputation system was introduced to make sure that, as far as possible, company profits are taxed once only, at the marginal tax rate of the company's shareholders.

Before imputation, a company paid income tax on its profits, then the shareholders paid tax again when the profits were distributed in the form of dividends.

The imputation system allows shareholders a credit for the income tax the company has already paid, so company profits are not taxed twice.

The difference imputation makes

	Without imputation	With imputation
Tax on company		
Company profit	\$ 1,000.00	\$ 1,000.00
Company income tax at 28%	\$ 280.00	\$ 280.00
After-tax profit	\$ 720.00	\$ 720.00
Share of profits to shareholders	\$ 720.00	\$ 720.00
Retained earnings	Nil	Nil
Tax on shareholder		
Share of profits distributed	\$ 720.00	\$ 720.00
Imputation credit attached	Nil	\$ 280.00
Taxable amount	\$ 720.00	\$ 1,000.00
Tax (RWT) at 33%	\$ 237.60	\$ 330.00
Less imputation credit	Nil	\$ 280.00
Tax payable by shareholder	\$ 237.60	\$ 50.00
Result for shareholder		
Share of profits received	\$ 720.00	\$ 720.00
Less tax payable	\$ 237.60	\$ 50.00
Net dividend after tax	\$ 482.40	\$ 670.00

This shows how the shareholder receives a greater net dividend when imputation is used.

Related tax credit systems

Some other tax credit systems are connected to imputation or use similar practices, such as memorandum accounts.

Life insurers

A life insurer must operate a policyholder credit account (PCA), which interacts with the ICA (imputation credit account). If you need more information about how a PCA operates, please contact:

Team Leader
Significant Enterprises, Services
Inland Revenue
Private Bag 39010
Wellington Mail Centre
Lower Hutt 5045
Phone 0800 443 773

Māori authority credits

If you're a Māori authority, you use the Māori authority credit system. This is similar to a company imputation credit.

The Māori authority credit system allows authorities to pass on to their members the benefit of the income tax they have already paid.

Māori authorities can do this by attaching to the distributions they pay out, credits for the income tax which the authority has already paid, so profits aren't taxed twice.

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

For more information on this system and to see if you must keep a Māori authority credit memorandum account (MACA), refer to our guide **Becoming a Māori authority - IR487**.

Research and development (R&D) loss tax credit

For income years beginning on or after 1 April 2015, you may be able to **cash out** (have refunded) up to 28% of any tax losses associated with an eligible R&D (research and development) activity.

You may be eligible to apply for the credit if your company:

- is a loss-making company
- is a tax resident in New Zealand, and
- expenditure on R&D salary and wages is 20% or more of your total salary and wage expenditure.

However, you will need to be aware that no credit balance due to provisional or income tax paid will arise in an imputation credit account of a company that has claimed the R&D tax credit until that company has repaid the cashed-out amounts. This is to maintain tax neutrality with companies who are not able to cash out losses.

For more information and examples on the R&D loss tax credit go to ird.govt.nz/research-and-development/loss-tax-credit

Part 2 - ICA (imputation credit account)

An ICA is simply a memorandum or record-keeping account that a company maintains. Its purpose is to keep track of how much tax a company has paid, and how much credit for that tax is available to pass on to shareholders.

You use the information in the ICA to complete your imputation return each tax year.

Who must keep an ICA

Every New Zealand-resident company, and any other organisation considered a company for tax purposes, must keep an ICA.

This includes unit trusts, cooperative companies, life insurance companies and statutory producer boards. It also includes group investment funds (except for certain income).

Companies **not** required to keep an ICA are:

- companies not resident in New Zealand
- companies resident in New Zealand, but treated as non-resident because of a double tax agreement (with the exception of the Australian double tax agreement from 15 March 2017)
- trustee companies (except any group investment funds deriving category A income)
- companies whose constitution prohibits their income or property from being distributed to any proprietor, member, or shareholder
- companies whose income is wholly exempt from income tax, unless the income is exempt because it consists of:
 - foreign dividends derived by a New Zealand resident company or trustee of a group investment fund
 - dividends paid before 1 April 1996 to a unit trust manager or a trustee or manager of a group investment fund
 - inter-company dividends between companies in a 100% commonly owned group
- local authorities
- a subsidiary company of the Accident Compensation Corporation to which section 266 of the Accident Compensation Act 2001 applies
- a Māori authority
- a look-through company (LTC).

Māori authority credit account (MACA)

A MACA is a memorandum or record-keeping account. Its purpose is to keep track of how much tax a Māori authority has paid, and how much credit for tax is available to pass on to the members.

Who must keep a MACA?

All Māori authorities are required to set up a MACA except:

- a Māori authority whose rules do not allow them to distribute their income or property to any of their members, or

- a Māori authority whose entire income is not liable for income tax, unless this income consists of:
 - foreign dividends derived by a New Zealand-resident company or trustee of a group investment fund, or
 - dividends paid before 1 April 1996 to a unit trust manager or a trustee or manager of a group investment fund.

What should you do if you are a Māori authority?

Find out more information on a MACA in our guide **Becoming a Māori authority - IR487**.

Australian companies with New Zealand shareholders (trans-Tasman imputation)

Australian companies can elect to maintain an ICA in New Zealand. This is to address the double taxation on certain trans-Tasman investments by allowing electing companies to pass on imputation credits for New Zealand tax paid, to their shareholders.

Companies that make a valid election are referred to as Australian imputation credit account companies and are subject to all the New Zealand domestic, administrative and legislative requirements for imputation. Any differences to the rules for Australian ICA companies are detailed in the relevant sections of this guide.

Eligibility

Australian companies and unit trusts are eligible to elect to maintain a New Zealand ICA provided:

- their Australian residence is determined by a provision which tests whether the company is **resident in Australia** (the provision uses the existing New Zealand residence rules but with application to Australia)
- the company is not treated, under a double taxation agreement, as a resident in a country other than Australia or New Zealand
- they meet all the existing New Zealand eligibility criteria (with the exception of the residency criteria) set out in **Who must keep an ICA**.

All the companies in the same wholly owned group as the electing company will be jointly liable for any further income tax, penalties and interest incurred.

Where an ICA company tie breaks to Australia under the Australia/New Zealand Double Tax Agreement, no election is required, it will automatically become an Australian ICA company. You will still need to register using the **Trans-Tasman imputation election - IR488** form.

Making an election

The Australian company must provide an election to us, at least 30 days before the payment of any dividend including a New Zealand imputation credit. An imputed dividend can be paid only after this notice period has passed.

For all other purposes, the election start date is retrospective to the beginning of the tax year in which we receive the election.

Australian companies wanting to elect to maintain a New Zealand ICA can either register online through our website, or complete the **Trans-Tasman imputation election form - IR488**.

If the Australian company is not already a New Zealand taxpayer, an IRD number will be issued for the maintenance of the ICA.

More information

Details of the background and legislation are available from:

- **Tax Information Bulletin (TIB) Vol 16, No 1 (February 2004)**
- the trans-Tasman imputation page at ird.govt.nz

New Zealand companies with shareholders in Australia

New Zealand companies can elect into the Australian franking (or imputation) rules. You can go to the Australian Taxation Office website www.ato.gov.au/businesses for more information.



Inland Revenue
Te Tari Taake

Trans-Tasman imputation election form

IR 488
March 2011

- Use this form if you are an Australian company electing to maintain a New Zealand imputation credit account under section OB 2 of the New Zealand Income Tax Act 2007.
- Please answer all the questions and make sure you sign the declaration over the page. For more information go to the trans-Tasman page on our website www.ird.govt.nz
- Complete a separate *Election to form an imputation group (IR 473)* if required. This is available on our website.

Name of the Australian organisation	<input type="text"/>	
Trading name (if different from above)	<input type="text"/>	
Organisation type	<input type="radio"/> private company	<input type="radio"/> public company <input type="radio"/> unit trust
Australian tax file number (TFN)	<input type="text"/>	
Australian business number (ABN)	<input type="text"/>	
Street address (Please show a physical address. Do not show a box number or rural delivery number)	<input type="text"/>	
	Street address	
	<input type="text"/>	
	Suburb and city	
	<input type="text"/>	
	Country	
	<input type="text"/>	
Postal address (Complete only if different to the street address)	<input type="text"/>	
	Street address or box number	
	<input type="text"/>	
	Suburb	Town or city
	<input type="text"/>	
	Country	
	<input type="text"/>	
Do not show your New Zealand tax agent's address here. If you have a New Zealand tax agent they maintain a client list with us.		
Main business activity	<input type="text"/>	
Is this organisation a New Zealand resident for tax purposes?	<input type="radio"/> Yes <input type="radio"/> No	
New Zealand IRD number (if already allocated)	(8 digit numbers start in the second box. 1 2 3 4 5 6 7 8) <input type="text"/>	
Is this organisation deemed resident under any DTA in a country other than NZ or Australia?	<input type="radio"/> Yes <input type="radio"/> No	
Date of election	<input type="text"/>	
	Day	Month Year
Date company intends to pay first "imputed" dividend	<input type="text"/>	
	Day	Month Year
The company's election will be effective from the start of the imputation year in which the election is received. Elections must be made at least 30 days prior to the payment of any "imputed" dividend.		



*IR488

Details of the company structure. Continue on a separate sheet if necessary.

Parent company	IRD number	TFN
<input type="text"/>	<input type="text"/>	<input type="text"/>
New Zealand subsidiaries	IRD number	
<input type="text"/>	<input type="text"/>	
<input type="text"/>	<input type="text"/>	
<input type="text"/>	<input type="text"/>	
<input type="text"/>	<input type="text"/>	

Shareholding details (optional)	Number of New Zealand shareholders	<input type="text"/>	Number of Australian shareholders	<input type="text"/>
	Total shareholding percentage	<input type="text"/> %	Total shareholding percentage	<input type="text"/> %

Print the name, address and personal IRD number or TFN of each shareholder (private company), or at least two directors or executive office holders (other organisations). Continue on a separate sheet if necessary.

Name	IRD number	TFN
<input type="text"/>	<input type="text"/>	<input type="text"/>
Designation or title	Address	
<input type="text"/>	<input type="text"/>	
Name	IRD number	TFN
<input type="text"/>	<input type="text"/>	<input type="text"/>
Designation or title	Address	
<input type="text"/>	<input type="text"/>	
Name	IRD number	TFN
<input type="text"/>	<input type="text"/>	<input type="text"/>
Designation or title	Address	
<input type="text"/>	<input type="text"/>	
Name	IRD number	TFN
<input type="text"/>	<input type="text"/>	<input type="text"/>
Designation or title	Address	
<input type="text"/>	<input type="text"/>	

Contact details

Name	<input type="text"/>		
Accounting firm (if applicable)	<input type="text"/>		
Phone numbers	() <input type="text"/>	() <input type="text"/>	() <input type="text"/>
	Business	After hours	Mobile
Fax number and email address	() <input type="text"/>	<input type="text"/>	
	Fax	Email	

Declaration

I declare that the electing organisation is entitled to make an election under section OB 2 of the Income Tax Act 2007 and that the information given on this form is true and correct.

Signature	<input type="text"/>
Date	<input type="text"/> / <input type="text"/> / <input type="text"/>

Name of authorised person	<input type="text"/>
Designation/title	<input type="text"/>

Privacy Act 1993 Inland Revenue is authorised to collect the information required to assess your liabilities and entitlements under the Acts we administer. We may exchange information about you with countries we have an information supply agreement with, New Zealand government departments and their agencies.

Send this form to:
 Chief Advisor (International Audit)
 Inland Revenue Department
 PO Box 2198
 Wellington 6140
 New Zealand

Period covered by the ICA

An ICA covers the period from 1 April to 31 March in the following year, regardless of a company's balance date. This period is called the tax year. A company with a balance date other than 31 March cannot align its tax year with its accounting year.

Transactions recorded in the ICA

The ICA is used to maintain a record of the balance of imputation credits available for allocation with dividends. For each tax year, the company uses it to record:

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

Opening balance

The opening balance of the ICA (either debit or credit) is exactly the same as the closing balance for the preceding tax year. For a new ICA company, the opening balance is nil.

Credit entries

Credits to an ICA increase the amount currently available for allocation to dividends the company pays to its shareholders. The main credit entries are:

- New Zealand income tax paid by the company for 1989 and subsequent income years to meet a provisional tax obligation or end-of-year tax liability (does not include imputation additional tax or use-of-money interest)
- the portion of any amount attributed under the personal services attribution rules that represents the tax that would have been paid on the income
- imputation credits attached to dividends the company receives from other companies
- RWT deducted from interest and dividends the company has received
- residential land withholding tax (RLWT) deducted from the sale or transfer of residential property in New Zealand, less any RLWT paid back to the company and/or transferred to outstanding amounts
- further income tax that a company may have paid to reduce a closing debit balance for the previous year (pages 10 and 11)
- tax allocated to a company by another wholly owned company that has overpaid its provisional tax
- an adjustment to offset a previous debit that has arisen from a determination that the imputation credits are subject to an arrangement to obtain a tax advantage, which has subsequently been overturned
- payment(s) of qualifying company election tax (QCET) made from 17 May 2007 onwards.

Additional credit entries for Australian companies include payment of:

- NRWT on interest, dividends or royalties
- non-resident contractors' withholding tax
- non-resident shippers' tax
- non-resident film renters' tax
- non-resident insurers' tax.

In most cases, credit entries occur in the ICA on the date the transaction that causes them takes place, for example the date of payment. This happens regardless of the period it relates to.

Note

Where an ICA company automatically becomes an Australian ICA company because its residence tie-breaks to Australia under the New Zealand/Australia Double Tax Agreement, any accumulated imputation credits up until the point of becoming an Australian ICA company are included in the trans-Tasman ICA. This is done by making a credit entry in the first trans-Tasman ICA return and equal debit entry in the final New Zealand ICA return. These entries are for administrative purposes only and do not change the imputation credit origination dates for shareholder continuity purposes.

Examples - date of credit

Source of credit	Date of credit
Company pays 2023 end-of-year income tax on 7 February 2024.	7 February 2024 (2024 tax year)
Company pays instalment of 2023 provisional tax on 28 August 2023.	28 August 2023 (2024 tax year)
Company pays instalment of 2023 provisional tax on 7 May 2023.	7 May 2023 (2024 tax year)
Company receives a dividend with an imputation credit amount attached on 31 March 2023.	31 March 2023 (2023 tax year)

Payments that do not cause credit ICA entries

The following payments **do not** cause a credit entry in a company's ICA:

- income tax paid by a company on income it received simply as a trustee
- income tax paid when a company was not an ICA company
- income tax paid by offsetting foreign investor tax credits (FITC) (page 29)
- income tax paid by offsetting further income tax (page 10)
- income tax paid by offsetting imputation credits (page 27)
- income tax paid by a group investment fund deriving category A income to the extent that income tax does not exceed the company's schedular income tax liability for category A income
- payment of QCET before 17 May 2007.

Debit entries

Debits to an ICA reduce the amount currently available for allocation to dividends paid to shareholders. The main debit entries are:

- imputation credits attached to dividends that a company pays to its shareholders
- an adjustment when a change of shareholding of more than 34% has occurred (page 14)
- income tax refunds received during the income year, except:
 - a refund of income tax paid for an income year when the company was not an ICA company (a proportional adjustment is needed if the company became an ICA part-way through an income year)

- if there's already been a debit entry because of an adjustment to a change of shareholding and the refund is of income tax paid before that change
- if there's already been a debit entry because of an adjustment to a change of shareholding and the refund is an FITC refund from a supplementary dividend paid before the change (FITC is explained on page 29)
- overpaid income tax transferred to cover income tax due for 1988 or earlier income years
- overpaid income tax transferred to cover other types of tax owed by the company
- an adjustment when the credit ratio has altered and a ratio change declaration has not been made (page 13)
- tax allocated by a company to another wholly owned company that has underpaid its provisional tax
- cancellation of notional credits in circumstances where qualifying company dividend methodology has been adopted as a result of the attribution rules
- an adjustment if the company has made an on-market acquisition of its own shares
- an adjustment when a company ceases to be an ICA company (page 15)
- the amount of a credit in the company's ICA (equal to the amount of the imputation credit shown for the personal services under the personal attribution rules) if the company's financial statements are adjusted to reflect an amount attributed under the personal attribution rules
- adjustments made when we consider that an arrangement has been made to obtain a tax advantage
- the total amount of the company's R&D loss tax credits, minus the total amount of previous imputation debit entries for R&D loss tax credits from previous years. The amount of this debit entry is limited to the amount of New Zealand income tax paid by the company in the current year to meet a provisional tax obligation or end-of-year tax liability.

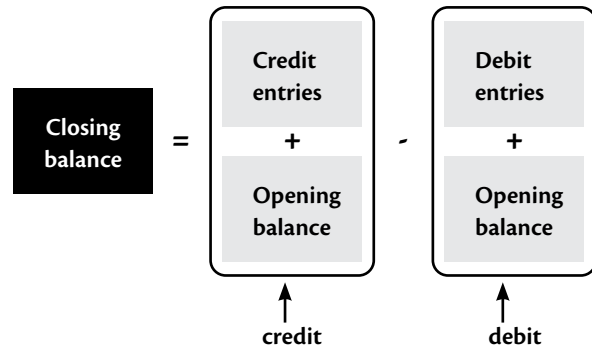
Additional debit entries for Australian companies include refunds of:

- NRWT on interest, dividends or royalties
- non-resident contractors' withholding tax
- non-resident shippers' tax
- non-resident film renters' tax
- non-resident insurers' tax.

As with credit entries to the ICA, in most cases the date that a debit entry occurs in the ICA is the date the transaction causing the entry takes place.

Closing balance

At 31 March each year, a company must balance its ICA. It does this by adding all the credit entries (including the opening balance if it's a credit) and deducting all the debit entries (including the opening balance if it's a debit). The final sum is the closing balance.



Significance of the ICA closing balance

If the closing balance is nil or in credit

If the ICA closing balance is nil or a credit no further action is required. The company simply carries the closing balance forward as the opening balance for the next tax year.

If the closing balance is a debit

The ICA can have a debit balance at any time during the tax year. If the balance is a debit at the end of the tax year the company must make a payment to clear the account. The payment the company must make is called **further income tax**. When a company has to pay further income tax, it must also pay a penalty of 10% of the closing balance. This penalty is called **imputation penalty tax**.

Further income tax and imputation 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 (page 16).

When payment is made towards the ICA debit, it will first go towards any late payment penalties and interest before being credited to further income tax and imputation penalty tax. The amount credited to further income tax is treated as being a payment towards income tax for the income year the payment is made in. This payment will show in the income tax account for that year as a credit transfer.

However, the payment cannot be used to pay tax arrears.

A company can choose to credit an income tax payment made after the end of the income year to its further income tax liability. Refer to the following example.

Example

A company with a 31 March balance date has an ICA closing debit balance at 31 March 2023 of \$4,500.00 plus 10% penalty tax of \$450.00 – due 20 June 2023.

The company chooses to use its P3 payment for 2023 provisional tax (PT) paid 7 May 2023 to clear the 2023 ICA.

2019 ICA account	
\$4,500.00	ICA assessment / debit closing balance
+ \$ 450.00	10% imputation penalty tax
\$4,950.00	Due 20/06/2019
- (\$4,950.00)	Credit transferred from 2019 INC (P3) at 07/05/2019
\$0.00	
2020 INC account	
+ (\$4,500.00)	Credit transfer (from 2023 ICA at 07/05/2023)

The provisional tax payment clears the debit ICA balance of \$4,500 and the imputation penalty tax of \$450. Because the \$450 is a penalty only \$4,500 is **transferred** into income tax for 2024. The transferred credit is not able to be used to pay any 2023 income tax shortfall because it can only be used for current or future income tax years. This could mean the company has not paid enough provisional tax for 2023.

Further income tax for Australian companies

Australian ICA companies that pay further income tax will not generally have a New Zealand income tax liability. In these cases the company may gross up the further income tax paid into a loss, and transfer that loss to another group company, using the following formula:

$$\frac{a}{b}$$

Where:

- a is the amount of further income tax that is paid by the company and not credited against an income tax liability
- b is the company tax rate for the relevant tax year.

Using the example above (of a debit closing balance), if an Australian company has a further income tax payment of \$3,000 for the 2023-24 income year this would be divided by 28% to give a loss of \$10,714.29.

Australian companies should attach a letter to their imputation return, advising that this option has been taken.

The receiving company may claim the loss in their following year's income tax return. For example, further income tax payment made on 20 June 2023 for an ICA debit for the year ended 31 March 2023 may be claimed in the receiving company's 2024 income tax return. An explanation of the loss entry should also be attached to the return.

Relief for qualifying companies from paying further income tax

If the company is a qualifying company and the debit ICA balance arose because the company received an income tax refund, its liability to pay further income tax may be reduced.

In this situation, a qualifying company that has a debit imputation balance at the end of the year, or when it ceases to be an ICA company, may have its further income tax liability reduced by an amount calculated using the following formula:

$$\text{refunds} - \text{credits}$$

Where:

- **refunds** is the total amount of all refunds of income tax paid to the company, before the debit balance creating the liability for further income tax arises
- **credits** is the total amount of all credits to the company's ICA, for the period that runs from the tax year in which the first refund was received to the time the calculation is made.

A company in this situation will need to make an adjustment in its imputation return for that year.

Our **Qualifying companies - IR435** guide has more details.

Annual imputation return

At the end of each tax year, every company that maintains an ICA must complete an annual imputation return. The company can file this return on a separate **Annual imputation return - IR4J**, or it can use the imputation return included with the **Companies income tax return - IR4**.

The **Company tax return guide - IR4GU** explains how to fill in the imputation return.

Non-active companies can apply to be exempt from filing a return if they fill in a **Non-active company declaration - IR433**.

Australian companies with no New Zealand income tax liability will be issued with a separate IR4J.

Due date for filing the imputation return

A company must file its imputation return by the due date for filing its income tax return for the corresponding income year.

The return due date for Australian ICA companies is 31 July following the end of the tax year, for example, 31 July 2024 for the year ending 31 March 2024.

Companies that file returns late may be charged a late filing penalty.

The ICA return must show:

- the opening and closing balance of the ICA for the tax year
- the amount and source of all debits and credits that have arisen during the tax year
- the amount of any further income tax payable
- the amount of any imputation penalty tax.

Ratio change disclosure

We also require a company to make a disclosure in its imputation return if certain ratios increase or decrease by more than 20% from one year to the next. There are two ratios to be considered:

1. The fraction equal to:

$$\frac{a}{b}$$

Where:

- a is the total of all ICA credits attached to all dividends paid by the company during the tax year
- b is the total amount of all dividends paid by the company during the tax year.

2. The fraction equal to:

$$\frac{a}{b}$$

Where:

- a is the total of all debits arising in the company's ICA during the tax year
- b is the total of all credits arising in the company's ICA during the tax year.

If either of these ratios increase or decrease by more than 20% from the equivalent ratio in the preceding tax year, the company must state this in its annual imputation return. It must also explain why the change occurred.

Rules for allocating imputation credits to dividends

A company may choose whether or not to attach imputation credits to dividends it pays to its shareholders.

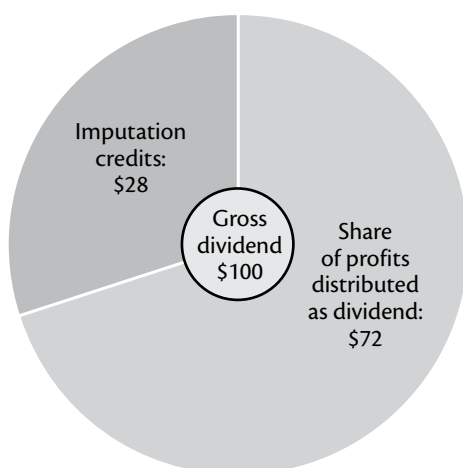
However, if it chooses to do this it must follow certain rules.

Maximum imputation ratio

If a company decides to attach imputation credits to dividends it pays, there's a maximum ratio of credit to dividend that can be allocated. The maximum ratio limits the imputation credit that can be attached as follows:

- 38.89% of the share of profit amount:
Up to 38.89 cents of imputation credit can be attached to each \$1 of share of profit.
- 28% of gross dividend:
Each \$1 of gross dividend (ie, share of profit plus imputation credits) can consist of up to 28 cents of imputation credit.

The imputation ratio is represented using the format 28:72. This indicates the latter proportion of 28 cents of credit attached to each 72 cents of the share of profit amount - see diagram below.



The net dividend paid to the shareholder may also involve deducting RWT from the share of profit - see the next page for more details.

If this ratio is exceeded, the company would effectively be passing on more imputation credits to its shareholders than the amount of tax the company has paid on its profits from which those dividends were paid.

Example

Company profit:	
income year 2023-24	\$ 100
Tax @ 28%	\$ 28
Profit after tax	\$ 72

The company has paid \$28 income tax on the \$72 available for distribution as dividends. This is why the maximum imputation ratio is 28:72.

Australian companies distributing dividends to New Zealand shareholders

Even if an Australian ICA company's payment of a dividend is made in Australian dollars, the relevant entries to the ICA must be in New Zealand dollars.

These companies may, when paying an Australian dollar dividend, use the New Zealand dollar equivalent at the time of declaring the dividend for all purposes of the imputation rules. This concession depends on there being no more than three months between the declaration and the payment of the dividend.

An Australian ICA company can use this concessionary rate to calculate the RWT it must pay to us if it:

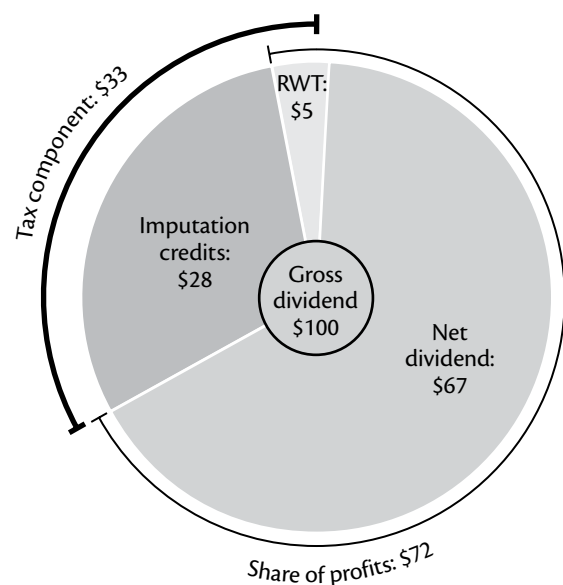
- qualifies for the concessionary rate for the calculation of its imputation credits.
- is liable for RWT on resident passive income in the form of a dividend.

RWT payable on dividends

The rate of RWT payable on a dividend is 33% of the gross amount (the share of profits plus any imputation). However, any imputation credit attached to the dividend reduces the amount of RWT that the company needs to deduct before it pays the dividend to the shareholder.

If the total of imputation credits is less than the 33% RWT due, the company paying the dividend must deduct RWT to bring the total deductions up to 33% of the gross dividend (unless the shareholder holds a certificate of exemption from RWT). There's more information about this in our guide **Resident withholding tax on dividends - IR284**.

In the diagram below, the dividend has been fully imputed, ie, the maximum of 28:72 imputation credit has been attached.



Shareholders exempt from RWT

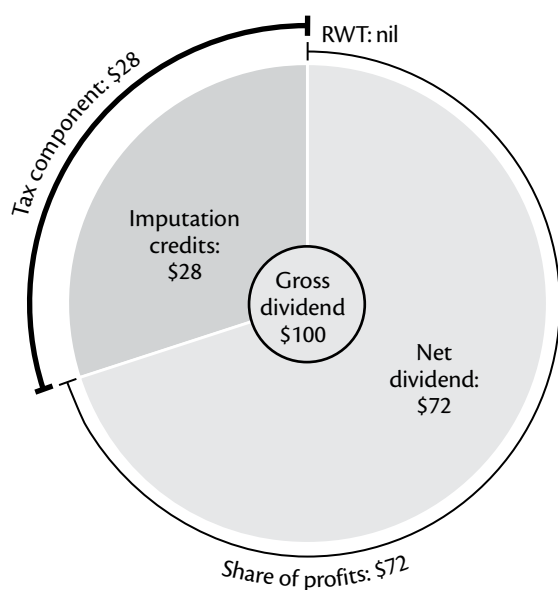
If a shareholder holds a certificate of exemption from RWT, the company does not deduct any RWT, no matter how many imputation credits are attached. The net dividend the shareholder receives is the full amount of the share of profits.

In these cases, the shareholder will generally still be liable to pay any RWT on that dividend income when they complete their annual income tax return.

The diagram below shows the proportions of amounts in a fully imputed dividend in such cases.

Note

A company that pays a fully imputed dividend to another company on or after 1 April 2017 can choose not to deduct RWT.



Benchmark dividend

The first dividend paid by a company in a tax year is called the **benchmark dividend**. This sets the required ratio between the company's credits and dividends for the rest of that tax year, ie, the **benchmark dividend ratio**.

Example

A company pays a benchmark dividend with \$2 of imputation credit attached for every \$10 of dividend. This sets the company's benchmark dividend ratio for the tax year at 2:10 or 20%. Every subsequent dividend the company pays during that tax year must have credits attached at a ratio of 2:10.

Similarly, if the benchmark dividend has **no** credits attached, the company cannot attach credits to any subsequent dividends it pays in the same tax year.

An exception to this rule applies if:

- the subsequent dividend is not paid as part of an arrangement to get a tax advantage, **and**
- the company completes a **Ratio change declaration - IR407** form.

Exception

The benchmark dividend rules do not apply to supplementary dividends paid under the foreign investor tax credit (FITC) rules. An explanation of these rules is on page 29.

Ratio change declaration

The **Ratio change declaration - IR407** form is a statutory declaration a company must complete if it wants to change the ratio of a subsequent dividend from the ratio of its benchmark dividend. The IR407 requires the company to make a statutory declaration that the ratio change has not occurred as part of an arrangement to provide a tax advantage.

The company must send us the IR407 **before** it pays the subsequent dividend.

Allocation debit

The ICA will be debited with an amount called an **allocation debit** if the ratio of a subsequent dividend is different from the benchmark dividend and either of the following applies:

- the company is required to send us a ratio change declaration, but does not do this before it pays the dividend, or
- the subsequent dividend was paid as part of a tax advantage arrangement.

The allocation debit is calculated using this formula:

$$(a \times b) - c$$

Where:

- is the total amount of all dividends paid during the tax year, excluding any credits attached
- is the lesser of:
 - the imputation ratio of the dividend with the greatest imputation ratio of all dividends paid during the tax year, or
 - the maximum imputation ratio permitted
- is the total of all imputation credits attached to all dividends paid during the tax year.

Allocation debit example

2 June 2023	
Benchmark dividend paid	\$1,000
Imputation credit attached	\$ 200
Imputation ratio	2:10
2 December 2023	
Subsequent dividend paid	\$1,000
Imputation credit attached	\$ 100
Imputation ratio	1:10
Allocation debit calculation:	
a total dividends paid	\$2,000
b greatest imputation ratio	2:10
c total imputation credits	\$ 300

$$\text{Allocation debit} = (2,000 \times 2 \div 10) - 300 = \$100$$

The allocation debit of \$100 is debited to the ICA.

This reduces the amount of credit available for the shareholders.

Tax advantage arrangements

The imputation system includes special rules to prevent shareholders from buying and selling shares to redirect imputation credits to certain shareholders. There are also rules to prevent companies from **streaming** credits to redirect them to certain shareholders. All these rules exist because all shareholders have borne the company tax, so the credits should be allocated to them in proportion to their shareholding.

The rules to prevent companies streaming credits do not apply to supplementary dividends paid under the FITC rules.

Limits on income tax refunds

If a company's income tax return works out to a refund, the amount that can be refunded will generally be limited to the amount of the credit closing balance in the company's ICA at the end of the most recently ended tax year. If the ICA's closing balance is nil or a debit, the company is only entitled to receive an income tax refund if it's a qualifying company. Our guide [Qualifying companies - IR435](#) has more details.

If the income tax refund is more than the ICA closing credit balance, we'll release only the amount of the tax refund equal to the ICA credit balance, and carry the rest of the refund (the excess imputation credits) forward as a credit against the company's next income tax payment or provisional tax payment.

Special provisions and deemed adjustments

Any non-refundable overpayment may instead be offset against income tax due for any income year. A special provision allows certain refunds to be issued by deeming the ICA balance to be increased if all these criteria are met:

- A debit adjustment has been made because of a change in shareholding.
- The debit adjustment occurred:
 - before the date the ICA balance is calculated
 - at the end of the tax year, on ceasing to be an ICA company
 - the date an imputation return was filed.
- The refund relates to income tax paid before the date of the debit adjustment.

The ICA balance is deemed to be increased by the amount of the debit adjustment made. This allows a refund to be issued. Once it has been issued, there are special rules to make sure a **double debit** does not occur.

Interim imputation returns

A company may file an interim imputation return at any time during the tax year. It may want to do this if its income tax refund is limited by the closing imputation balance at the end of the previous tax year, but more credits have arisen in its ICA since that time.

In this situation the company can file an interim imputation return to show that the credit balance in the ICA is now sufficient to allow the remainder of the income tax refund to be released. The interim imputation return must cover the period from 1 April to a date not more than 7 days before the date the company files the interim imputation return.

Example

At 20 April 2023 a company's income tax account shows:

2022 tax refund due	\$ 6,000
ICA credit balance at 31 March 2023	\$ 300
Maximum refund is	<u>\$ 300</u>
Balance of 2022 credit retained	\$ 5,700

The company files an interim imputation return on 20 June 2023 showing that the balance in the ICA at 16 June 2023 was a credit of \$7,000. The balance of \$5,700 can now be released.

Note

Even if a company files an interim imputation return for a tax year, it must still complete an annual imputation return covering the period 1 April to 31 March of that tax year.

Change of shareholder continuity

Imputation credits can only be passed on to shareholders if at least 66% of the company's voting rights and/or market value interests haven't changed hands, from the date the credits arose in the ICA to the date when they are passed on to the shareholders - refer to page 15 for special rules for qualifying companies.

Shareholders' economic interests in a company are generally measured by reference to their direct and indirect voting interests in the company. In certain circumstances the shareholders' economic interests in a company will also be determined by the market value of interests in the company. This happens when the voting interests do not reflect the true economic interests held in the company. For more information about this, refer to our [Tax Information Bulletin \(TIB\) Vol 3, No 7 \(April 1992\)](#).

If a company's shareholder interests change by more than 34%, the company has lost shareholder continuity. In this situation it must enter a debit in its ICA to eliminate any unused credit balance.

Example 1

Kokako Adventures Ltd is a company with 7 shareholders, whose voting interests are shown in the table below. On 31 January 2023, Lucy sold a 25% shareholding to Robert and a 10% shareholding to Justin. Justin was an existing shareholder, but Robert is a new shareholder. There have been no other shareholding changes since 31 December 2022.

Shareholder	Shareholding 31/12/22	Shareholding 31/01/23	Lowest voting interest
Jack	5%	5%	5%
James	15%	15%	15%
Amber	25%	25%	25%
Lucy	40%	5% ¹	5%
Justin	10%	20% ²	10%
Adam	5%	5%	5%
Robert	0%	25% ³	0%
Total	100%	100%	65%

¹ 40% – 25% - 10% = 5%

² 10% + 10% = 20%

³ 0% + 25% = 25%

The lowest voting interests of the shareholders have changed by 35% (100% – 65%), so the credit balance in the ICA must be eliminated by entering a debit of the same amount as the credit.

Example 2

Kereru Steel Ltd has 3 shareholders, whose shareholdings are shown in the table below. On 31 January 2023 Jasper sold his 20% shareholding to Ozzy. This change was less than 34%, so it wasn't great enough to cause the company to lose shareholder continuity at that date.

However, Jasper sold a further 15% shareholding to Brent at 31 March 2023, and this change, when combined with the previous change, made a 35% change of shareholding, resulting in a loss of shareholder continuity at 31 March 2023.

Shareholder	Shareholding 31/12/22	Lowest shareholding 31/01/23	Interest for 31/12/22 to 31/01/23	Lowest shareholding 31/03/23	Interest for 31/12/22 to 31/03/23
Jasper	100%	80%	80%	65%	65%
Ozzy	0%	20%	0%	20%	0%
Brent	0%	0%	0%	15%	0%
Total	100%	100%	80%	100%	65%

The credit entries in Kereru Steel Ltd's ICA over the same period are:

Date	Item	Amount	Balance
31/12/2022	Balance		\$,1000 CR
15/01/2023	Credit arising from tax paid	\$100	
			\$1,100 CR
15/03/2023	Credit arising from tax paid	\$200	
			\$1,300CR

The \$1,000 ICA credit balance as at 31 December 2022 will be lost due to the loss of shareholder continuity as at 31 March 2023. The \$100 credit that arose on 15 January 2023 will also be lost as a result of the 2 shareholding changes totaling 35% on 31 January 2023 and 31 March 2023.

The \$200 credit that arose on 15 March 2023 will not be lost because the change of shareholding between 15 March 2023 and 31 March 2023 is only 15%.

The ordering rule in the imputation system states that ICA credits are offset against any debits in the order in which the credits arose. If Kereru Steel had attached \$1,100 of imputation credits to dividends paid out before 31 March 2023 there would be no debit adjustment to the ICA at 31 March 2023. The \$200 credit balance on hand would represent the \$200 tax payment made on 15 March 2023.

Change of shareholding for qualifying companies

The shareholder continuity requirement does not apply to qualifying companies. These special rules apply instead.

When a company ceases to be a qualifying company there's a debit to the ICA of the lesser of these amounts:

- the balance at that time (after attaching maximum possible imputation credits to the dividends paid during the tax year and up to that time), or
- the greatest previous debit in the ICA at the date of any previous breach of the 66% continuity rule.

Transferring imputation credits between commonly owned companies

Companies that are commonly owned (ie have at least 66% common voting interests), but are not wholly owned (ie 100% common voting interests), can elect to transfer imputation credits as part of a loss grouping transaction (ie a subvention payment, loss offset or a combination of the 2).

The maximum amount of imputation credits which can be transferred is 28% of the total loss grouping transaction.

A company can only elect to transfer imputation credits as part of loss grouping transactions that relate to the 2017-18 and later income years.

For more information, including about how to make an election to transfer imputation credits, refer to the **Tax Information Bulletin (TIB) Vol 29 No 5 (June 2017) at pages 110 to 113**.

Ceasing to be an ICA company

A company will cease to be an ICA company if it's unable to keep an ICA. This will happen when the conditions listed under **Who must keep an ICA** on page 5 no longer apply to the company.

Imputation requirements when ceasing to be an ICA company

In any of these situations the company must file an imputation return within 2 months of the cease date. The return should cover the period from the previous 1 April (the first day of the current tax year) to the last day on which the company is an ICA company.

If the company has a debit balance in its ICA on cessation, it must pay further income tax to clear the debit balance (page 10).

If the closing balance is a credit, a debit entry equal to the amount of the credit must be made to the company's ICA to bring its balance to nil. The entry is dated as at the date of cessation and the benefits of the credit balance are lost.

For more information on the obligations of a company that's being liquidated, refer to the **Tax Information Bulletin (TIB) Vol 6, No 11 (April 1995)**.

Australian ICA companies

An Australian company that has elected to maintain an ICA can revoke this election at any time, or it will lapse if the company ceases to be eligible to maintain an ICA. These cessations are effective for all purposes other than paying imputed dividends, until the end of that tax year.

The effect is that a debit will arise in the ICA for the same amount as any credit balance, ie, the company will lose its existing imputation credits. Such credits cannot be reinstated should the company re-elect to maintain an ICA or if its eligibility is restored and an election is made.

Imputed dividends cannot be paid from the date that either:

- we receive the revocation, or
- eligibility ceases.

Neither the revocation nor the lapse in eligibility will affect the obligations of the Australian company that arose while the company was maintaining an ICA.

We have the discretion to revoke an Australian company's election in the event of an actual or potential breach in the imputation rules, including:

- non-payment of further income tax, penalties and interest without entering into an arrangement with us to remedy the default
- non-filing of imputation returns, or
- we have reasonable grounds to believe the Australian company will incur and default on liability for further income tax, penalties and interest.

We're not obliged to accept the re-election of any company whose election we have revoked previously, if the company cannot satisfy us that the reasons for revocation will not occur again.

An Australian company's revocation is also effective immediately for the purposes of paying imputed dividends, but for all other purposes it's effective from the end of that tax year.

Note

Where an ICA company tie breaks to Australia under the Australia/New Zealand Double Tax Agreement it remains an Australian ICA company until it becomes a NZ resident company. Any balance will move with the company between the regimes.

Assessments and disputes

Assessments

We'll issue a notice of assessment only when a company files an annual imputation return that works out to a debit balance. We will not issue a notice of assessment for returns with nil or credit balances.

If we disagree with the imputation return a company files, we'll generally issue a **Notice of proposed adjustment - IR770**. In limited cases we may issue an assessment instead. For example, if the assessment:

- reflects an agreement between the company and us, or
- corrects a simple and obvious mistake in the return.

Disputes

If you disagree with an imputation assessment you can follow our formal disputes process. Find out more about the disputes process at ird.govt.nz/disputes

Penalties and interest

There are 4 types of imputation penalties on further income tax:

- imputation penalty tax
- late payment penalty
- shortfall penalties, and
- late filing penalties for Australian companies.

Imputation penalty tax

If a company has a debit balance in its ICA at 31 March in any year, it automatically incurs a 10% penalty on the further income tax due (unless the relief provision applies - page 11). This penalty serves 2 purposes.

- It penalises the company for having a debit closing balance.
- It deters the company from having a debit closing balance in following years.

Late payment

We may charge you a late payment penalty if you miss a payment or it's late. We'll also charge you interest if you don't make your tax payment by the due date.

If you cannot pay your tax by the due date, please call us. We'll look at your payment options, which may include an instalment arrangement, depending on your circumstances.

Go to ird.govt.nz/managing-my-tax/penalties-and-interest/penalties-and-debt for more information.

Shortfall penalties

A shortfall penalty is a percentage of a tax shortfall (or tax deficit) that results from certain actions. There are 5 categories of fault and the penalty increases according to the seriousness of the fault, as shown below.

Action	Penalty
Not taking reasonable care	20%
Unacceptable tax position	20%
Gross carelessness	40%
Abusive tax position	100%
Evasion	150%

These penalties are fully explained in our guide **Penalties and interest - IR240**.

Late filing penalties for Australian companies

A late filing penalty of \$250 may be imposed on Australian companies that do not file their annual imputation account returns on time.

Amounts under \$100

Interest and late payment penalties are not charged on outstanding amounts less than \$100.

Documentation of dividends

Company dividend statement

When a company declares a dividend, it must complete and retain the dividend distribution details on a company dividend statement at the time the dividend is declared.

The company dividend statement must contain:

- the number of shares for which the dividend was declared (or for a bonus issue, the number of shares included in the bonus issue)
- the date the dividend was declared
- the date the dividend was paid
- the total amount paid as dividends or the amount of the bonus issue
- the total amount of imputation credits attached
- the imputation ratio of the dividend
- the applicable exchange rate used when a dividend is paid in Australian dollars by an Australian company
- any other information we require.

Submitting company dividend statements

The company must send its dividend statement(s) to us within the time allowed for filing its income tax return. These can be sent attached to the income tax return, or separately.

Australian companies should attach the dividend statement to their imputation return.

Shareholder dividend statement

When a company pays a shareholder a dividend with any imputation credit attached, it must give the shareholder a shareholder dividend statement at the time it pays the dividend.

This statement must be in a form approved by us, and show the following details:

- name of the company
- date of payment of the dividend
- name, address and IRD number of the shareholder receiving the dividend
- amount of any RWT deducted
- amount of any NRWT deducted
- amount of the dividend paid to the shareholder, excluding imputation credits
- the amount of any imputation credits attached
- total of the dividend plus any imputation credit attached
- any other information we require.

Australian companies paying a dividend with an imputation credit attached are required to specifically use the term **New Zealand imputation credit** on the shareholder dividend statement. This is because the term **imputation credit** is also used in Australia for Australian credits of company tax attached to dividends.

Part 3 - Imputation groups

Companies can elect to form imputation groups.

Because Australian companies fall within the imputation rules, they may also elect to form, or be part of an imputation group.

Imputation grouping enables any Australian or New Zealand company within a wholly owned group to pay an imputed dividend using imputation credits gained by any Australian or New Zealand company within the group from:

- tax any of those companies have paid, or
- imputation credits attached to dividends received by any of those companies that are shareholders of other companies.

More information

For more information about imputation grouping go to ird.govt.nz/imputation

Eligibility to form a group

Companies are entitled to form an imputation group if they meet these requirements:

- The companies must each maintain an ICA.
- They must be wholly owned groups of companies resident in either New Zealand or Australia, but not resident for double tax agreement purposes in another country.
- Qualifying companies may only form an imputation group if all members of the group are qualifying companies.
- Mining companies may only form an imputation group if all members of that group are mining companies.
- Members of a consolidated group may only be part of an imputation group if all members of the consolidated group become the imputation group.
- Members of more than 1 consolidated group may only be part of an imputation group if the existing credits in the consolidated imputation accounts have the same shareholder continuity profile.
- There must be no arrangement to defeat the intent and application of the imputation rules.

Trans-Tasman imputation groups

It's possible to have either imputation groups with New Zealand or Australian-only members. Imputation groups that have any combination of New Zealand **and** Australian members are known as **trans-Tasman imputation groups**.

How to form a group

Nominated companies

Imputation groups must nominate 1 member of the group as an agent of the group for the purposes of the imputation rules. This company will be known as the **nominated company**.

The nominated company must be a member of the imputation group, and if the imputation group is also a trans-Tasman imputation group (has Australian and New Zealand members), the nominated company must be a New Zealand company. The same company must also be the nominated company of the associated resident imputation subgroup.

Consolidated groups

Where a consolidated group forms or joins an imputation group, the nominated company of the consolidated group must give notice that all the members of the group are eligible and wish to be part of the imputation group.

Resident imputation subgroups

Trans-Tasman imputation groups must also form and operate a resident imputation subgroup account. The subgroup consists of all the New Zealand members of the trans-Tasman imputation group.

Making an election

An imputation group is formed and eligible companies join an existing imputation group from the beginning of the tax year in which we receive the notice of election. For example, an election received on 20 March 2024 will apply for the entire 2024 tax year, 1 April 2023 to 31 March 2024.

Companies wanting to form an imputation group should complete an **Election to form an imputation group - IR473** form.



Inland Revenue
Te Tari Taake

Election to form an imputation group

IR473
February 2018

- This form contains imputation group elections and the election of the nominated company
- Please complete all the relevant questions on the form. If you need help, read the notes on the back.

Company elections

To be completed by all companies forming the imputation group. If there are more than three companies forming the group, complete another election notice and attach it to this one.

Is this an election to form a trans-Tasman imputation group (contains one or more Australian companies)? Yes No

We elect that the undersigned companies shall become an imputation group to be known as:

Name of imputation group

with application from
Day Month Year

and agree that the companies:

- are eligible to form an imputation group under section FN 4 of the Income Tax Act 2007.
- shall be jointly and severally liable for the imputation group's further income tax, civil penalties and interest.

Company or consolidated group

Name

IRD number (8 digit numbers start in the second box.)

Current ICA balance \$ (tick one) Credit Debit

Signatory's name Signature

Designation or title Date

Company or consolidated group

Name

IRD number

Current ICA balance \$ (tick one) Credit Debit

Signatory's name Signature

Designation or title Date

Company or consolidated group

Name

IRD number

Current ICA balance \$ (tick one) Credit Debit

Signatory's name Signature

Designation or title Date



*IR473

Consolidated group election

Nominated company name

On behalf of the consolidated group named below, I authorise that all members of the:

Consolidated group name

IRD number

are eligible, and have agreed to be part of this imputation group.

Signatory's name Signature

Designation or title / /
Date

Telephone number

Election of nominated company

I elect on behalf of the imputation group that:

Company name

IRD number

shall be the nominated company of the imputation group and will act as agent of the group and its members.

Signatory's name Signature

Designation or title / /
Date

Telephone number

Notes

IRD number of the imputation group

We will give the imputation group an IRD number when we process this election form.

Criteria for forming an imputation group

All companies forming the imputation group must be wholly-owned. Each company must be also eligible to be part of an imputation group, i.e meets all the following criteria:

- resident in New Zealand or Australia, and
- maintains an imputation credit account
- is not a qualifying company unless all members are qualifying companies
- is not a mining company, unless all members are mining companies
- is not a member of a consolidated group, unless all members of the consolidated group meet all of the above criteria and also elect to be members of the imputation group
- members of more than one consolidated group may only be part of an imputation group if the existing credits in the consolidated imputation accounts have the same shareholder continuity profile
- there must be no arrangement to defeat the intent and application of the imputation rules

All Australian companies electing to be part of an imputation group must also complete a *Trans-Tasman imputation election (IR488)* form. This is available from our website www.ird.govt.nz

Elections from consolidated groups

The nominated company of an electing consolidated group should complete the "Consolidated group election" section on this page. Details also need to be provided on page 1 of this form.

Application date of elections

An election applies from the start of the imputation year in which we receive it. The imputation year covers the period 1 April to 31 March regardless of companies' balance dates.

Nominated company

One member of the imputation group must be the nominated company. Where the group has both Australian and New Zealand members, the nominated company must be a New Zealand resident and responsible for the resident imputation subgroup filing requirement.

Privacy Act 1993 Meeting your tax obligations involves giving accurate information to Inland Revenue. We ask you for information so we can assess your liabilities and entitlements under the Acts we administer.

You must, by law, give us this information. Penalties may apply if you do not.

We may exchange information about you with the Ministry of Social Development, Ministry of Justice, Department of Labour, Ministry of Education, New Zealand Customs Service, Accident Compensation Corporation or their contracted agencies. Information may be provided to overseas countries with which New Zealand has an information supply agreement. Inland Revenue also has an agreement to supply information to Statistics New Zealand for statistical purposes only.

You may ask to see the personal information we hold about you by calling us on 0800 377 774. Unless we have a lawful reason for withholding the information, we will show it to you and correct any errors.

Postal address:

Inland Revenue
PO Box 39010
Wellington Mail Centre
Lower Hutt 5045

Maintaining a group ICA

The ICA of an imputation group operates just like the ICA of a New Zealand-resident company. It has an opening balance, credit and debit entries and a closing balance. Once the imputation group has formed, all the members' debits and credits are recorded in the group's ICA, not the individual company's ICA.

Opening balance

The following table shows how the ICA's opening balance is determined when the group is formed.

When an imputation group forms, there is generally no credit for an opening balance. The general rule is that there is no credit for an opening balance in the account when a consolidated group, company or person starts a memorandum account. The following table shows the exceptions for particular types of groups.

Type of group	Opening balance
Imputation group converts to a consolidated group	Consolidated group's opening balance
2 or more consolidated imputation groups combine	Sum of all consolidated groups' current balances immediately before combining
Resident imputation subgroup forms	Trans-Tasman imputation group's balance

Credit and debit entries

When more than 1 consolidated group forms or joins an imputation group, all the existing entries in the ICA become entries in the ICA of the imputation group.

Otherwise, credits are basically the same as those for a company ICA, for example:

- income tax paid
- further income tax
- imputation credits attached to dividends received
- certain transfers of credits from other credit accounts
- for Australian members - NRWT, non-resident contractors' withholding tax and schedular taxes (shippers, film renters and insurance) paid by that company.

Debits include, for example:

- imputation credits attached to dividends paid by a group member
- refunds of income tax
- any unused credit balance after a breach of continuity of shareholder rules (page 14)
- credit balance if the group ceases to exist
- certain transfers to other credit accounts
- for Australian members - refunds of NRWT, non-resident contractors' withholding tax and schedular taxes (shippers, film renters and insurance) paid by that company.

Refer to pages 9 and 10 for a more complete list of possible debits and credits.

Closing balances

While the pre-grouping balances of the members' individual ICAs are not transferred to the imputation group's ICA, credits can be used to offset to the extent of the group's ICA debit. This is subject to shareholder continuity being maintained.

Like standard ICAs, if the balance at 31 March is a debit, the group must make a payment (called further income tax) to clear the account. An imputation penalty tax of 10% of the closing payment is also payable. Both amounts are due by 20 June following the end of the tax year.

Normally, an ICA company gets the benefit from the payment of further income tax as an income tax credit.

Because the imputation group has no income tax liability an election to transfer the corresponding credit to any or all of the group members to offset their income tax liability is allowed. Attach a letter to the imputation return telling us how you want to action the transfer.

Groups' annual imputation returns - IR4J

The group representative will file one IR4J, taking in all the transactions for each member of the group.

Members of imputation groups should complete individual ICA returns with their annual **Companies income tax return - IR4**. The individual ICAs will generally record the balance to the date of consolidation.

If a member of a consolidated group has a nil balance at all times during the imputation year, they will not be required to file an individual **Imputation credit account return - IR4J** or a **Māori authority credit account return - IR8J**. Member entities that do not have a nil balance at all times during the year are still required to file IR 4J or IR8J returns.

This change applies from 2021 tax year and onwards.

Return due dates

Returns for New Zealand and trans-Tasman groups are due on the same dates as if they were not grouped.

If the group has all Australian members, the due date is 31 July after the end of the tax year.

Limits on income tax refunds

Companies in an imputation group can request a refund only if that refund does not cause the ICA to go into debit. If a company in an imputation group receives a refund without requesting it, the company has the choice of either returning it to us or filing an updated ICA that shows sufficient credit to allow the release of the refund.

Maintaining a resident imputation subgroup ICA

As already described, special requirements apply for trans-Tasman imputation groups. When entries arise to the trans-Tasman imputation group's ICA that, had the imputation group not been formed, would have been entered in the ICA of a New Zealand member, these must also be entered into the resident imputation subgroup's ICA.

Should a debit balance remain in the resident imputation subgroup's ICA at 31 March, further income tax will be payable. In these cases the nominated company of the trans-Tasman imputation group will file an imputation return and pay the further income tax under their own IRD number.

When such further income tax is paid, the payment is credited to the ICAs of both the:

- trans-Tasman imputation group, and
- resident imputation subgroup.

Changing imputation groups

Notifying changes to a group's members

The **Imputation group maintenance form - IR475** is available for imputation groups to add or cease members or change nominated companies.

Ceasing to be part of a group

Companies may either cease to be eligible to be in an imputation group (eg, no longer part of the wholly owned group) or choose to opt out.

Members who want to leave an imputation group can elect to do so on an IR475.

Generally, a company wishing to leave a group does so either on the date specified on the notice of election to cease, or at the beginning of the tax year when we receive the notice.

Where a company ceases to be eligible to be a member, the departure from the imputation group occurs either on the day eligibility ceases if an election is made, or from the beginning of the tax year in which the cessation of eligibility arose.

If a New Zealand member leaves an imputation group that is a trans-Tasman imputation group, it will also leave the resident imputation subgroup.

Ceasing to be a group

Although 2 or more companies are eligible to form an imputation group, the group may continue to exist if it's reduced to 1 member and that member is itself the nominated company.

Where an entire imputation group ceases, they should notify us in writing.



Inland Revenue
Te Tari Taake

Imputation group maintenance form

IR475
March 2024

Use this form to make one or more of the following elections (tick the ones that apply):

- Election to join an existing imputation group
 Election to leave an imputation group
 Change of the nominated company of an imputation group

If you need help completing this form, please read the notes on the back page.

Election to join an existing imputation group

Name of imputation group

(8 digit numbers start in the second box. 1 2 3 4 5 6 7 8)

Current ICA balance

\$.

The undersigned company (or all companies in the consolidated group) agree and are eligible to:

- join an imputation group under section FN 4 of the Income Tax Act 2007
 - be jointly and severally liable for the imputation group's further income tax, civil penalties and interest.

Name of new member
or consolidated group

IRD number

Current ICA balance

\$.

Is this a mining company to which section CU 22 of the Income Tax Act 2007 applies?

Yes No

Is this a qualifying company to which section HA 2 of the Income Tax Act 2007 applies?

Yes No

Is this a consolidated group to which section FM 1 and FM 2 of the Income Tax Act 2007 applies?

Yes No

Signatory's name

Signature

Designation or title

/ /
Date

Election to leave an imputation group

The undersigned company elects to leave the imputation group known as:

Name of imputation group

IRD number

Balance date

Day Month Year

The company's membership will cease from the start of the imputation year in which the election is received, unless the company requests a later date in the box provided.

Day Month Year

Name of company or
consolidated group

IRD number

Signatory's name

Signature

Designation or title

/ /
Date



*IR475

Change of the nominated company of an imputation group

Name of exiting nominated company

IRD number

shall cease to be the nominated company of the imputation group known as:

Name of imputation group

IRD number

Name of new nominated company

IRD number

shall become the newly selected nominated company from:

Day Month Year

Signatory's name

Signature

Designation or title

/ /
Date

Notes

Entering an existing group

A company that joins an existing imputation group will be treated as a member of the group from the start of the income year in which it notifies us.

A newly incorporated company can join an existing group from the beginning of the income year of incorporation.

A newly acquired company can join an existing group from the day it becomes eligible to be a member.

All other elections will apply from the beginning of the following income year.

Leaving an imputation group

If a company is choosing to leave the group, unless a later date is requested, membership will cease from the beginning of the income year in which we are notified.

If the company is no longer eligible or entitled to membership, unless a later date is requested, membership will cease from the beginning of the income year in which it became ineligible or no longer entitled. The company may use the date that it is no longer to be treated as part of the imputation group however the company must notify us within 30 days after the date on which eligibility or entitlement to part of the group ended. We may agree to extend the 30 day period if it is reasonable in the circumstances to do so.

If a company leaves the group in the same year that it joined the company is treated as leaving on the same day it joined.

If there is no nominated company for the group this will mean membership of all companies ceases at the beginning of the income year.

Liquidation will mean membership of the group ceases during the income year, on the day of liquidation, and not the beginning of the income year.

Change in nominated company

It is the exiting nominated company's responsibility to advise us if there is to be an alternative nominated company for the imputation group. The change of a nominated company will apply from 30 days after the date we receive the notice, unless a later date is specified on the notice.

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer. We may also exchange information about you with some government agencies and another country.

For full details of our privacy policy go to ird.govt.nz/privacy

Send this form to Postal address:

Inland Revenue
PO Box 39010
Wellington Mail Centre
Lower Hutt 5045

Part 4 - Cooperative companies

Background

Cooperative companies are liable for income tax in the same way as other mutual associations, so they must keep an ICA.

Cooperative companies can declare dividends in the same way as other companies. In this case the normal imputation rules (explained in Part 1) apply. They can also pass on imputation credits to their shareholders by:

- attaching a credit to a cash distribution, or
- making a notional distribution with a credit attached.

However, a cooperative company can make each of the above distributions only once in any income year.

Cash distributions treated as dividends

If a cooperative company makes a cash distribution, it can elect not to claim the amount of the distribution as a deduction. In these cases the distribution is treated as if it were a dividend.

Any election not to deduct the amount of the cash distribution must be in writing and be sent to us on or before the day the distribution is made.

Determining the amount distributed

The amount of the cash distribution allocated to each shareholder is based on produce transactions.

Produce transactions:

- are between a cooperative company and its shareholders
- involve the acceptance or supply of produce that is trading stock, or goods that are trading stock
- are purchases, sales, or other acquisitions, or disposals of the produce or goods between the company and its shareholders, so long as this is a principal activity of the company.

Calculating total imputation credits

If a cooperative company decides to attach imputation credits to a cash distribution, the total of all imputation credits to be attached is calculated according to the following formula:

$$a \times \frac{b}{1 - b}$$

Where:

- a is the total amount of the cash distribution (excluding any imputation credits)
- b is the company income tax rate for the income year that covers the most recently ended tax year.

Calculating credits to distribute to individuals

Once the total imputation credit has been determined, the amount to be allocated to each shareholder is calculated according to the following formula:

$$\frac{c}{d} \times e$$

Where:

- c is the shareholder's share of the cash distribution (excluding the imputation credit)
- d is the total amount of the cash distribution (excluding any imputation credit)
- e is the total of all imputation credits attached to the cash distribution.

Example

Total cash distribution for the year	\$ 300,000
Shareholder's share	\$ 15,000

Total imputation credit:

$$a \times \frac{b}{1 - b} = \frac{\$300,000 \times 28}{72} = \$116,666$$

Shareholder's share of imputation credit:

$$\frac{c}{d} \times e = \frac{\$15,000 \times \$116,666}{\$300,000} = \$5,833$$

The shareholder returns dividend income of \$20,833 (\$15,000 plus \$5,833) and claims an imputation credit of \$5,833.

Imputation credits and notional distributions

Cooperative companies may also allocate imputation credits to shareholders by making a **notional distribution**.

If they choose to do so, they must first calculate the amount of the imputation credit to be allocated to each shareholder and then calculate the amount of the notional distribution.

Calculating the shareholder's imputation credit

The imputation credit is calculated using this formula:

$$\frac{a}{b} \times c$$

Where:

- a is the total amount payable to or by the shareholder for the year for produce transactions
- b is the total of all amounts payable to or by all shareholders for the year for produce transactions
- c is the total of all imputation credits attached to the notional distribution.

Example

Piopio Fruit Ltd is a shareholder of a cooperative company.

Amount payable to Piopio Fruit Ltd for produce transactions	\$ 10,000
Total amounts payable to all shareholders for produce transactions	\$ 140,000
Total imputation credits	\$ 15,000

Imputation credit allocated to Piopio Fruit Ltd:

$$\frac{\$ 10,000}{\$ 140,000} \times \$ 15,000 = \$ 1,071$$

Calculating the notional distribution

The notional distribution is calculated using this formula:

$$\frac{a}{b} - a$$

Where:

- a is the amount of imputation credit allocated to the shareholder
- b is the company income tax rate for the income year that covers the most recently ended tax year.

Example

Imputation credit as calculated previously	\$1,071
2019-20 company income tax rate	28%

$$\frac{\$ 1,071}{0.28} - \$ 1,071 = \$ 2,754$$

Piopio Fruit Ltd returns dividend income of \$3,825 (\$2,754 plus \$1,071) and claims an imputation credit of \$1,071.

Other imputation rules for cooperative companies**Imputation ratio and benchmark**

Unlike other companies that make cash or notional distributions, the rules relating to the imputation ratio and benchmark dividend (pages 12 and 13) don't apply to cooperative companies. Imputation credits can be attached to a cash distribution at different rates even if a notional distribution has been made.

The cooperative companies' exemption from the imputation ratio and benchmark dividend rules does not apply to dividends paid based on shareholding, ie, the exemption only relates to distributions based on produce transactions.

Statutory producer boards

Most of the imputation rules apply to statutory producer boards in a similar way to how they apply to cooperative companies.

However, there are some differences. For more information about imputation and statutory producer boards, please contact:

Team Leader
 Significant Enterprises, Services
 Inland Revenue
 PO Box 39010
 Wellington Mail Centre
 Lower Hutt 5045
 Phone 0800 443 773

Part 5 - Shareholders receiving imputed dividends

Benefit for New Zealand-resident shareholders

The advantage of the imputation system for New Zealand-resident shareholders is that they can benefit from the income tax paid by the company.

When a company allocates imputation credits to the dividends it pays to its shareholders, it passes on to them the credit for these tax payments.

When New Zealand-resident shareholders file their tax returns, they include in their taxable income both the dividend they received and the amount of the imputation credits. They can then offset the credit amount against their income tax payable.

If they receive excess imputation credits, these are not refundable. Instead, they are used as described below.

Treatment of excess imputation credits

Income year	Shareholder type	Treatment
2006 and onward	Individuals Unincorporated clubs/societies	Carry excess forward to reduce any tax liability in the following year. Deemed losses generated before 2006 continue to be carried forward until offset against taxable income.
	Companies Estates Trusts Māori authorities Incorporated clubs/societies	Convert excess to a deemed loss.

Converting excess imputation credits into a loss

The amount of the deemed loss is calculated using the following formula:

$$\frac{a}{b}$$

Where:

- a is the amount of imputation credits unable to be used in payment of the year's income tax
- b is **either**:
 - the company income tax rate, if the shareholder is a company or if the imputation credits that give rise to the credit of tax are assessable as category A income of the trustee of a group investment fund, **or**
 - the extra emolument rate, in any other case.

Example

The 2023 income tax return of a shareholder who is a company showed the following:

Net dividends received	\$ 16,000
Imputation credits attached	\$ 6,000
Loss from business income	\$ 5,000
2023 taxable income	\$ 17,000
Tax at 28%	\$ 4,760
Less imputation credits	\$ 6,000
Excess imputation credits	\$ 1,240

Because the shareholder is a company taxpayer and the income is for the 2023 year the excess imputation credits are converted to a loss by dividing them by 28%.

$$\frac{\$1,240}{0.28} = \$4,428$$

The \$4,428 is carried forward and used to reduce the shareholder's taxable income in the following year.

Determining the amount of credit in certain cases

Credit distributed to the beneficiary of a trust

If a trust receives a dividend that's been distributed as beneficiaries' income, any imputation credits attached to the dividend must be allocated to the beneficiaries according to the following formula:

$$a \times \frac{b}{c}$$

Where:

- a is the total of all imputation credits attached to all dividends distributed to the beneficiaries during the year
- b is the total distribution, including capital or non-taxable distributions, made to a particular beneficiary during the year
- c is the total distribution, including capital or non-taxable distributions, made to **all** beneficiaries during the year.

Note

If an imputation credit is limited by the formula then only that imputation credit the person actually receives is included in their assessable income rather than the full imputation credit.

Example

The Piwakawaka Booklovers Trust receives gross dividend income of \$16,000 which includes \$4,000 of imputation credits attached. The trust has 3 beneficiaries: Rose, Josie and Harry. The trustee makes distributions to the beneficiaries as follows:

	Gross dividend	Capital income	Total income
Rose	\$ 6,400	\$20,000	\$26,400
Josie	\$ 9,600	\$10,000	\$19,600
Harry	Nil	\$10,000	\$10,000
Total	\$16,000	\$40,000	\$56,000

The dividend's imputation credits are allocated to the beneficiaries as follows:

Rose

$$\$4,000 \times \frac{\$26,400}{\$56,000} = \$1,885.71$$

Josie

$$\$4,000 \times \frac{\$19,600}{\$56,000} = \$1,400.00$$

There is no calculation here for Harry because he received no dividends.

The residual imputation credits of \$714.29 (\$4,000 – \$1,885.71 – \$1,400) are lost.

Foreign investor tax credit (FITC) received by the beneficiary of a trust

When a beneficiary of a trust derives a supplementary dividend (under the FITC rules), the calculation for allocating imputation credits is different, in the following ways:

- Item **a** - imputation credits - in the preceding calculations includes all supplementary dividends paid to beneficiaries.
- The amount of the imputation credits for a particular beneficiary is reduced by the gross amount of supplementary dividends paid to that beneficiary.

There's an explanation of the FITC rules on page 29.

Example

Using the previous example, the Piwakawaka Booklovers Trust has a supplementary dividend of \$100 included in its dividend income. The dividend imputation credits attached are \$3,900 (reduced because a supplementary dividend is now paid) plus \$100 supplementary dividend = \$4,000. The supplementary dividend is distributed to Rose (who is a non-resident).

	Gross dividend	Capital income	Total income
Rose	\$ 6,500	\$20,000	\$26,500
Josie	\$ 9,600	\$10,000	\$19,600
Harry	Nil	\$10,000	\$10,000
Total	\$16,100	\$40,000	\$56,100

The dividend imputation credits are allocated to the beneficiaries as follows:

Rose

$$\$4,000 \times \frac{\$26,500}{\$56,100} = \$1,889.48 - \$100 = \$1,789.48$$

Josie

$$\$4,000 \times \frac{\$19,600}{\$56,100} = \$1,397.50$$

There is no calculation here for Harry because he received no dividends.

Partnerships

If a partnership derives a dividend with imputation credits attached, the proportion of the credits allocated to each partner is calculated using the following formula:

$$a \times \frac{b}{c}$$

Where:

- is the total of all imputation credits attached to dividends derived by the partners from the partnership
- is the income the partner receives from the partnership
- is the income of the partnership for the income year.

Example

Total partnership income for the year is \$40,000. This includes dividend income of \$10,000 and trading income of \$30,000.

The dividend has imputation credits attached of \$3,000. There are 2 partners:

- Sam receives 50% of the dividend income (\$5,000) and 40% of the trading income (\$12,000) = \$17,000 total.
- Michael receives 50% of the dividend income (\$5,000) and 60% of the trading income (\$18,000) = \$23,000 total.

Calculating each partner's share of the imputation credits:

Sam

$$\$3,000 \times \frac{\$17,000}{\$40,000} = \$1,275$$

Michael

$$\$3,000 \times \frac{\$23,000}{\$40,000} = \$1,725$$

Companies

Companies, including widely held savings vehicles, are limited in the amount of tax credit they can claim.

Allocation ratio

The amount of imputation credits that a company is permitted to allocate to shareholders is limited to a specific ratio - Part 2 has more details.

Non-resident shareholders

Unlike New Zealand-resident shareholders, imputation credits attached to a non-resident's dividend have no effect, because the dividend:

- is not assessable in New Zealand
- is unlikely to be taxable in the non-resident's own country
- cannot be claimed for a tax credit.

Where NRWT is deducted from any dividend paid to a non-resident the amount of NRWT deducted will not be reduced by the amount of imputation credits that are attached to the dividend paid to the non-resident shareholder.

There's more information about NRWT in our **NRWT - payer's guide - IR291**.

For more information on these changes refer to our **Tax Information Bulletin (TIB) Vol 7, No 11 (March 1996)**.

Foreign investor tax credits (FITC)

Special rules apply when a New Zealand-resident company has non-resident shareholders. These include the FITC rules. FITC reduce the maximum rate of tax (company tax and NRWT) paid in New Zealand by certain non-resident shareholders.

Note

From 1 February 2010, where fully imputed dividends are paid to a non-resident shareholder and that shareholder is a non-portfolio (greater than 10% direct voting interest) shareholder the dividend will be exempt from NRWT and the FITC rules will not apply.

Before the FITC rules were introduced, non-resident shareholders were effectively taxed twice on their income from New Zealand companies. The company itself paid income tax and then NRWT was deducted from the net profit distributed as dividends to the non-resident shareholders.

The FITC rules let New Zealand-resident companies pay a supplementary dividend to their non-resident shareholders and then claim an FITC credit in New Zealand to make up the supplementary dividend paid. The amount of FITC credit the company can claim is calculated as a portion of the imputation credits attached to dividends paid to non-resident shareholders.

The following comparison shows the result of claiming the FITC credit:

	Without FITC	With FITC
New Zealand company's profit before tax	\$ 100.00	\$ 100.00
Less income tax at company rate (28%)	\$ 28.00	\$ 28.00
Company's after-tax profit	\$ 72.00	\$ 72.00
Add back FITC claimed by company	\$ 0.00	\$ 12.71
Amount available for non-resident's dividend	\$ 72.00	\$ 72.00
Share of profits paid to non-resident shareholder	\$ 72.00	\$ 84.71
Less NRWT deducted @ 15%	\$ 10.80	\$ 12.71
Net dividend paid to non-resident shareholder	\$ 61.20	\$ 72.00

For more detailed information on the FITC rules, including calculating supplementary dividends, refer to our **Tax Information Bulletin (TIB) Vol 7, No 11 (March 1996)**

Special FITC rules

There are special imputation rules for FITC. Neither the imputation rules for benchmark dividends nor the anti-credit streaming rules apply to FITC attached to dividends (page 13). Under these special imputation rules, the supplementary dividend is treated as if it were not paid.

How the company claims FITC

The New Zealand-resident company claims FITC in its IR4 income tax return. FITC is allowed as a deduction against the company's income tax payable for the year in which it paid the dividend.

If the company has no tax liability for that year, FITC can be offset against income tax it has paid in any of the previous four income years. If the company is part of a wholly owned group, it can offset the FITC amount against the tax liability of another company in the group for the current or previous four income years.

If the company still has leftover FITC after that, it can carry the credits forward to future years, as long as it keeps at least 66% shareholder continuity.

When the FITC rules first apply

The FITC rules apply to all dividends with NRWT deducted. The FITC rules also apply to companies which pay supplementary dividends to non-resident portfolio shareholders (shareholders who hold less than 10% of a company's shares).

Cessation of FITC rules for dividends paid to non-portfolio investors

Where fully imputed dividends are paid to non-resident investors with a non-portfolio holding (those holding a 10% or greater voting interest in a company) or they're exempt from tax under a double tax agreement, an FITC credit will no longer be available from 1 April 2010.

Transitional rules will apply for a supplementary dividend holding company.

Part 6 - Services you may need

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 227 771

Find out more at ird.govt.nz/contact-us

0800 self-service number

Our 0800 self-service number, 0800 257 777, is open 7 days a week. Make sure you have your IRD number ready when you call.

For access to your account-specific information, you'll need to be enrolled with voice ID or have a PIN.

When you call, confirm what you want from the options given. If you need to talk with us, we'll re-direct your call to someone who can help you.

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. Subscribe at ird.govt.nz/subscribe and we'll send you an email when we publish each issue.

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

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer. We may charge penalties if you don't.

We may also exchange information about you with:

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

If you ask for the personal information we hold about you, we'll give it to you and correct any errors, unless we have a lawful reason not to. Call us on 0800 775 247 for more information. For full details of our privacy policy go to ird.govt.nz/privacy.

