

Information on available Tax Relief for Drought affected farmers

Income Equalisation Scheme

Income equalisation deposits have the effect of taking taxable profit out of one year and moving it to a future year. This defers the tax payable on the income and can also move it from a higher tax bracket into a lower one.

Inland Revenue will allow late deposits for the 2019 year up until **30 April 2020**.

Deposits for the 2020 year must be made within 30 days of filing the tax return.

Ordinarily deposits must remain in the scheme for 12 months. For deposits relating to 2019 and 2020 tax years Inland Revenue Department will allow immediate withdrawals.

You must send an election to Inland Revenue Department along with the amount you wish to deposit in the scheme. From 16 April 2020 this can be done electronically rather than by cheque. You should still allow up to 20 working days for the application to be processed and the funds repaid.

The income is taxable in the tax year in which the withdrawal is made unless you elect to make it taxable in the year earlier.

You also can not make a deposit in a year in which you receive a withdrawal.

Considerations

To get the best benefit out of the scheme you should consider your 2019 taxable income as well as estimated 2020 taxable income and budgeted 2021 taxable income.

For example, you would not want to do a late deposit and early withdrawal from 2019 if your 2020 income is high due to selling down capital stock in the drought. You would be better off to leave the funds in the scheme until after 30 June to shift the income forward to the 2021 tax year and/or doing a deposit out of the 2020 year.

Provisional Tax Estimates

Any taxpayer can estimate their provisional tax liability down rather than paying on the standard calculation of last year plus 5% if their taxable income has reduced. From the 2020 year provisional tax only needs to be paid if your Residual Income Tax is greater than \$5,000 (increased from \$2,500). Care needs to be taken as Use of Money interest is charged if you underestimate your liability.

Instalment arrangements

If you are unable to pay your tax (Income tax, GST, PAYE) in full on its due date you can apply for a repayment plan. Applications can be made online and will be accepted if the amount is repaid within 2 years and the monthly repayment is greater than \$80. Inland Revenue will not charge any late payment penalties but will charge use of money interest on instalment arrangements.

Tax Pooling

Tax pooling allows you to finance your tax liabilities at cheaper interest rates than the Inland Revenue Use of Money Interest Rates. They are also more flexible than Inland Revenue with their repayments. Tax Pooling can only be used for Income Tax not other tax types.

Tax Debt Write-off

Taxpayers who are experiencing serious financial hardship can apply to have some or all of their outstanding tax written off. The threshold for serious financial hardship is set high and you will need to provide a statement of financial position and a cashflow forecast with your application.

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