

**Tax pooling – what you need to know**

One option we recommend you consider using when provisional tax has been underpaid or not paid is tax pooling.

Paying through a registered intermediary such as Tax Management NZ as opposed to Inland Revenue (IRD) can reduce a taxpayer’s exposure to interest by up to 30 percent.

The service is [**government-approved**](http://www.ird.govt.nz/taxagents/taxtechnical/pooling/taxpooling-index.html) and operates under legislation set out in the [**Income Tax Act 2007**](http://www.legislation.govt.nz/act/public/2007/0097/latest/DLM1512301.html) and [**Tax Administration Act 1994**](http://www.legislation.govt.nz/act/public/1994/0166/latest/DLM348343.html).

Tax pool accounts are held at IRD and administered by an independent trustee. The independent trustee also oversees the bank accounts in which payments are made. At no stage does an intermediary have access to a taxpayer’s payments.

Tax pooling has been operating in New Zealand since 2003. IRD introduced the system so taxpayers had a way to mitigate the risk of getting provisional tax payments wrong.

**Circumstances tax pooling can help**

If an upcoming provisional tax payment cannot be paid on the date it is due, a taxpayer can put in place an arrangement to defer this payment to a time that better suits, without incurring IRD interest and late payment penalties.

In the event provisional tax has been underpaid or not paid at all for the current tax year or one just completed, paying what is owed through an intermediary can reduce exposure to IRD interest and eliminate any late payment penalties incurred.

The payment you make is effectively a purchase of tax previously paid to IRD on the original date it was due. As this tax is date-stamped, it is therefore treated as paid on time once IRD processes the transfer from a tax pool account to a taxpayer’s own IRD account.

Income tax can be paid in one lump sum or in monthly instalments.

Taxpayers have up to 75 days past their terminal tax date to pay what they owe IRD through a tax pool.

**Who might find tax pooling beneficial**

Taxpayers who experience cashflow constraints, have seasonal income or experience volatility due to fluctuating commodity prices or the exchange rate may find tax pooling a useful tool to manage their provisional tax obligations.

Feel free to contact us if you wish to discuss how tax pooling can help you.