Inland Revenue
Te Tari Taake

STANDARD PRACTICE STATEMENT > GENERAL

Requests to change a balance date

Issued: 30 July 2024

SPS 24/01

A standard practice statement (SPS) describes how the Commissioner of Inland Revenue will exercise a statutory discretion or deal with practical issues arising out of the administration of the Inland Revenue Acts.

This SPS explains how to apply for a change of balance date and how the Commissioner will use their discretion under s 38 of the Tax Administration Act 1994 to approve a change of balance date.

START DATE 30 July 2024

REPLACES

- SPS 18/02: Requests to change a balance date

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Introduction

This standard practice statement (SPS) sets out the Commissioner's practice for considering and approving requests to change a balance date for income tax purposes. The expression "non-standard balance date" in this SPS refers to a balance date other than 31 March.

All legislative references are to the Tax Administration Act 1994, unless otherwise stated.

Application

This SPS applies from 30 July 2024. It replaces **SPS 18/02: Requests to change a balance date**.

Standard practice

Summary

1. Section 38 allows the Commissioner to agree to a customer filing an income tax return for the year ending on the balance date of the customer's annual accounts when it is not a standard 31 March balance date.

2. Only customers with an obligation to file returns under s 33 may apply under s 38 to adopt a balance date other than 31 March. Individuals only earning "reportable income" and certain multi-rate portfolio investment entities (multi-rate PIEs) cannot request a change of balance date (see further at [8]).

3. The Commissioner has an obligation to protect the integrity of the tax system, including applying the tax laws fairly, impartially and according to the law. Every request to change a balance date will be considered on its individual merit in line with this SPS.

4. Subject to the detailed discussion in this SPS, approval will be provided where the Commissioner is satisfied the change is not for reasons as outlined at [16].

Detailed discussion

Overview of the authority to change a balance date

5. Customers wishing to change their balance date must obtain the Commissioner's agreement, under s 38, before they can file a return for that new balance date (this includes elections by new business customers to adopt a non-standard balance date, with application from their first return/tax year). This applies to customers wishing to:

   a) adopt a non-standard balance date;

   b) change from a non-standard balance date back to 31 March; or

   c) change from one non-standard balance date to another non-standard balance date.

6. Section 38 states the following:

> **38 Returns to annual balance date**
>
> (1) Instead of furnishing a tax year return under section 33 on the basis of a corresponding income year that ends on 31 March, a taxpayer may, with the consent of the Commissioner, elect to furnish a return based on a corresponding income year that ends with the date of the annual balance of the taxpayer's accounts.
>
> (1B) A multi-rate PIE that does not calculate and pay tax using the provisional tax calculation option under section HM 44 of the Income Tax Act 2007 must not make an election under subsection (1).
>
> (1C) Subsection (1) does not apply to a qualifying individual whose final account for the tax year is treated under section 22I(1)(b) as an assessment.

> (2) *[Repealed]*
>
> (3) Any election made by a taxpayer for the purposes of this section shall continue in force unless and until it is altered by the taxpayer with the prior notified approval of the Commissioner.

7. A 31 March balance date is the default for a "tax year" in s 33, and s YA 1 of the Income Tax Act 2007 (ITA) defines "tax year" as a period starting 1 April and ending 31 March. However, s 38(1) lets the Commissioner approve the filing of tax returns for an income year that does not end on 31 March.

8. Individuals only earning "reportable income" (types of income where tax has been withheld at source by the payer, such as a salary or wages) cannot request a change of balance date (see s 38(1C)). Multi-rate PIEs also cannot request a change of balance date unless they calculate and pay tax using the provisional tax calculation option in s HM 44 of the ITA (see s 38(1B)). The legislation provides no further guidance on how the Commissioner is to apply the discretion in s 38.

9. Non-standard balance dates between 1 October and the following 30 March (inclusive) are "early balance dates" (see s YE 1(6) of the ITA). Non-standard balance dates between 1 April and 30 September (inclusive) are "late balance dates" (see s YE 1(7) of the ITA). The income year of a non-standard balance date customer will correspond to the nearest tax year (see s YA 1 of the ITA, "corresponding income year"). For early balance date customers, an income year will correspond to the tax year ending on the following 31 March. For late balance date customers, an income year will correspond to the tax year ending on the preceding 31 March.

When the Commissioner will agree to a change in balance date

10. Subject to the detailed discussion in this SPS, the Commissioner will approve a change in balance date when satisfied the change is not for reasons outlined at [16] and that a customer can provide a correct return of income for a tax year ending on the balance date.

11. The Commissioner acknowledges there are situations where a balance date of 31 March may be impractical. The list of situations below is not exhaustive and there may be other circumstances (not contemplated in this SPS) where it would be appropriate to agree to a change to a balance date.

12. The Commissioner will agree to a change to a balance date in the following thirteen situations:

a) The Commissioner will allow a customer to adopt an alternative balance date when the customer can demonstrate the nature of their business makes a 31 March balance date impractical or their circumstances have changed significantly and they should be permitted to change a non-standard balance date previously agreed to. For example, a 31 March balance date may be impractical for a business servicing an industry with an agreed industry balance date (see further at [28] to [33]).

b) The Commissioner will allow a customer to adopt a non-standard balance date when they can demonstrate unreasonable or excessive compliance costs will be incurred as a consequence of having to return income to 31 March (see further at [19] and [20]). This may include the impact of other statutory reporting requirements, such as where a customer is subject to a financial year other than 31 March due to another enactment. In addition, see [21] for discussion on Māori customers and businesses adopting a 30 June balance date to align with Maramataka Māori.

c) The Commissioner will allow a customer to adopt an agreed industry balance date (see further at [28] to [33]).

d) The Commissioner will agree to a change in balance date for a franchisee who is required as a condition of a franchise agreement to use a non-standard balance date for financial reporting purposes, where the applicable balance date has been recognised in an agreement between the Commissioner and the master franchisor.

e) The Commissioner will allow a shareholder–employee to use the same balance date as the company from which they derive their primary source of income.

f) The Commissioner will allow a customer who receives passive income, so has an obligation to provide a return of income to 31 March for that passive income as well as any business income they earn, to adopt a non-standard balance date for returning their business income. If the business income has a source in a related business entity, a customer may elect to return income to the balance date of that related entity (see further at [22] to [25]).

g) The Commissioner will allow a subsidiary company to use the same balance date as the parent company.

h) The Commissioner will allow a common balance date for business entities with a close working relationship. This is where they share a common business or management accounting system or central administration structure and one entity has an approved non-standard balance date. This category includes a joint venture that has chosen to be treated as a partnership for income tax purposes (so will file partnership income tax returns) wanting to adopt a balance date in common with a joint venturer.

i) The Commissioner will allow a managed fund to adopt a balance date in common with a fund manager or trustee when it can be demonstrated that the parties have a parent–subsidiary-like relationship (see further at [34]).

j) The Commissioner will agree to a change in balance date for entities deemed to be agents of non-resident insurers that are required to file as-agent returns in terms of s HD 16 of the ITA (see further at [34]).

k) The Commissioner will allow a non-resident to adopt a balance date applicable to the customer's tax jurisdiction, when they perform business activities in New Zealand but have a centre of management outside New Zealand (this does not apply to non-residents that merely earn passive investment income in New Zealand).

l) The Commissioner will allow an executor or administrator of an estate to adopt the date that coincides with the date of death of the deceased customer as the balance date for the continuing estate.

m) The Commissioner will allow a previously tax-exempt entity to continue to use a balance date consistent with an existing date for financial reporting purposes. For example, a charity that previously had only exempt income, so was not required to file tax returns, but is now required to file returns, may continue to use the non-standard balance date they had used before entering the tax base.

13. When agreeing to a change in balance date, the Commissioner will only agree to an annual balance date that is the last calendar day of a month rather than part-way through a month.

14. An exception to the end of the month rule exists for an executor or administrator of a continuing estate that elects to adopt a balance date that coincides with a deceased customer's date of death.

15. Where the Commissioner has already agreed to a balance date other than the last calendar day of a month, these agreements will not be revisited unless a further request to change a balance date is received. Similarly, in these situations, subsidiary entities are permitted to adopt the non-standard balance date of a parent entity.

When the Commissioner will not agree to a change in balance date

16. The Commissioner will not agree to a change in balance date when:

    a) a reason for the change is to defer the payment of tax or to take earlier advantage of a tax incentive or concession than would otherwise have been the case had no change of balance date occurred;

    b) the request has been made because the customer wants to smooth out administrative workloads in its business (this does not include seasonal businesses wanting to adopt a balance date that is consistent with the natural end of their income year);

    c) the non-standard balance date is the anniversary date of the commencement of the business unless that date coincides with an agreed industry balance date;

    d) the request is made to smooth the workflow of a manager, trustee or tax agent;

    e) the customer has investment income and no direct involvement in a business activity (see further at [22] to [25]); and

    f) functions have been contracted out to a third party, such as a specialist administration manager, and the customer wishes to adopt the manager's balance date.

Consideration of requests

17. In considering a request to change a balance date, the Commissioner will look at relevant matters, consistent with their statutory responsibilities under s 6 to maintain the integrity of the tax system.

18. The Commissioner will consider supporting information in a request to change a balance date. The Commissioner may also consider other relevant information held for a customer and wider industry practice when establishing their view about whether the circumstances of a particular case provide sufficient cause for the customer not to return income to their current balance date. The following paragraphs explain the matters the Commissioner will consider.

Compliance costs

19. Business customers may incur compliance costs in several ways, including to meet general accounting, financial and reporting requirements. Compliance costs will be considered when a customer can show they will incur unreasonable or excessive costs

as a consequence of having to return income to 31 March (or their current balance date). The Commissioner will consider normal compliance costs, excluding, for instance, costs customers incur by choice through self-imposed internal planning or reporting requirements.

20. The Commissioner will also consider the impact of other statutory reporting requirements on customers' annual accounts (such as where a customer is subject to a financial year other than 31 March due to another enactment) and their tax obligation to return income.

21. In addition, Example 1 below illustrates a situation where the Commissioner agrees to Māori businesses changing their balance date to 30 June to align with Maramataka Māori (the Māori lunar calendar). 30 June is the balance date closest to the start of Maramataka Māori. Allowing Māori customers and businesses to adopt a 30 June balance date to align with Maramataka Māori recognises that some Māori customers and businesses have financial planning, cashflow, and accounts aligned with Maramataka Māori.

Example 1: 30 June balance date to align with Maramataka Māori

Six related Māori businesses (a company established as a result of a Tiriti o Waitangi | Treaty of Waitangi settlement, a charity, three Māori authorities and an associated company) request a change of balance date to 30 June to align with Maramataka Māori.

Aligning with Maramataka Māori, the businesses use a 30 June date for financial reporting purposes and their cashflow and funding arrangements are also based around a 30 June cycle. The businesses also work closely with other businesses that have a 30 June balance date.

The Commissioner agrees to each of the six businesses adopting a 30 June balance date.

Passive income

22. Passive income is income derived from investments or property that does not require direct physical exertion or the application of specialist skill by a customer (for example, the receipt of interest or dividends). This can be contrasted with income derived from a business activity. A business includes a profession, trade or undertaking carried on for profit.

23. Customers whose primary source of income is from passive investments will generally be required to return income to 31 March. Much of the information on earnings required to file a return is available from financial institutions on a periodic basis.

24. An exception to this general rule is when entities related to a customer are engaged in a business activity that has a non-standard balance date. This exception is to avoid

additional compliance costs and disruption with preparing annual accounts when a customer derives passive income through the business activity of a related entity.

25. Example 2 illustrates how the passive income exception may arise.

Example 2: Passive income from a related entity

Trust and partnership

The trustees of a family trust (the family trust) lease a farm to a family trading partnership. The family trust passively derives its primary source of income from lease payments made by the related family partnership, which has a non-standard balance date.

The Commissioner agrees to the family trust adopting the non-standard balance date the partnership uses.

Variation: trust and company

Instead of a partnership, the family trust leases the farm to a farming company in which it is the majority shareholder. In addition to income from lease payments, the family trust also derives dividend and interest income from the farming company, which has a non-standard balance date.

The Commissioner agrees to the family trust adopting the non-standard balance date the farming company uses. The family trust returns income from the lease, the dividend income and the interest income to this non-standard balance date.

Income from a foreign investment fund

26. Customers with an attributing interest in a foreign investment fund (FIF) that calculate their FIF income or loss using the attributable FIF income method may change the accounting year used to calculate this income or loss in accordance with specific rules in s EX 69 of the ITA. The Commissioner's agreement is required before the customer can use a new balance date.

Customers with salary or wages as well as business income

27. Where a customer has income from salary or wages as well as business income, the Commissioner may still agree to a non-standard balance date for the business income. The customer's salary or wage income would continue to be returned to 31 March.[1] This is illustrated in Example 3.

[1] See *Case K41* (1988) 10 NZTC 348 (TRA).

Example 3: Salary or wages as well as business income

A customer earns a salary as a teacher and derives business income from a small orchard. The customer wishes to adopt a non-standard balance date of 30 June.

The Commissioner agrees to the change of balance date as it is an industry-approved balance date, despite the income from the customer's salary. In her income tax return, the customer will include income from her business calculated to 30 June and income from her salary calculated to 31 March.

Industry balance dates

28. Some businesses have a natural end to their income year (for example, the end of a growing season, end of a traditionally busy trading period, or time in the annual business cycle in which most income and relevant costs can be brought to account).

29. Examples of businesses that have "natural" income years not ending on 31 March include farming and the growing or harvesting of primary produce that is subject to seasonal climate conditions or the natural cycle of stock breeding. Other businesses that may be included are directly related service industries involved in, for instance, the harvesting, processing, packaging and exporting of produce.

30. Market demands for manufactured goods and the seasonal impacts on the growing or harvesting of produce influence the trading patterns of many businesses. Customers affected by seasonal constraints or demands on their businesses may find a 31 March balance date impractical when their attention is on those seasonal activities and most of their income is yet to be derived.

31. The natural end to a season for growers or retail manufacturers can be identified with the end of their production cycle when the last or most of their produce is delivered to a processor or retail outlet. Once the harvest or peak business period is completed, a grower or manufacturer then prepares for the next annual busy season.

32. The Commissioner recognises several industry-specific non-standard balance dates (see the Appendix). These dates were determined following industry representations to the Commissioner. Customers in these industries may apply to the Commissioner for agreement to adopt these approved industry balance dates.

33. Customers aligned to an industry with a recognised non-standard balance date may still seek an alternative non-standard balance date (or remain with 31 March) if the industry balance date does not suit their circumstances.

Unit trusts, managed funds and as-agent returns for non-resident insurers

34. The Commissioner will consider requests for a non-standard balance date from the following entities:

a) **The trustee of a unit trust that wishes to align its balance date with that of its manager.**

A unit trust may choose to align its balance date with that of its manager. The manager is the entity responsible for managing the unit trust and is appointed under the trust deed. Adoption of the manager's balance date is appropriate only if the manager has retained the responsibility for day-to-day administration of the unit trust.

b) **The trustee of a group investment fund that wishes to align its balance date with that of its manager.**

A group investment fund is administered and overseen by a manager. The fund may have a separate trustee, although there is no requirement that the trustee and manager be separate entities. Agreement will be granted only to align the fund's balance date with that of the manager.

As with unit trusts, adoption of the manager's balance date is only appropriate when the manager has retained the responsibility for day-to-day administration of the fund and preparing the fund's accounts. When these functions have been contracted out to a third party, it is not appropriate to adopt the manager's balance date.

c) **A superannuation fund that wishes to align its balance date with that of its trustee.**

The trust deed under which a superannuation fund is established will appoint a trustee to supervise the fund. Agreement will be given for a fund to align its balance date with that of the trustee, provided the trustee's role has not been contracted out to a third party.

d) **A superannuation fund administered by an employer for the benefit of its employees that wishes to align its balance date with the balance date of the employer.**

e) **A managed fund that wants to align its tax balance date for financial reporting purposes.**

A managed fund (including a unit trust, group investment fund or superannuation fund) may choose to align its balance date with that used for financial reporting purposes if it can demonstrate the alignment of balance dates helps reduce the managed fund's tax risks. The purpose of this is to promote voluntary compliance and good tax practices. The Commissioner expects the managed fund to set out the reasons for changing its balance date and will examine these reasons on a case-by-case basis.

A change of balance date will not be approved if the:

- reason for changing the balance date is to improve the managed fund's administration of human resources (for example, smoothing the workflows of their managers);
- managed fund cannot provide evidence of the tax risks and how the change of balance date mitigates those risks; or
- managed fund can identify some of its tax risks but the change of balance date is irrelevant to mitigating those risks.

f) **A customer (who is a resident for taxation purposes) required to file an as-agent return and wishes to align the balance date of that return with their own non-standard balance date.**

A customer who insures with a non-resident insurer must return part of the premiums paid as income in a return known as an as-agent return (s HD 16 of the ITA). This income is returned by the customer as-agent for the non-resident insurer.

Customers with an approved non-standard balance date for their own returns can align the balance dates of their as-agent returns to this date.

How to make a request

35. Tables 1 and 2 below set out how different types of requests for the Commissioner's agreement to change a balance date can be made and information the request should include.

36. Where a request is made for one of the reasons included in Table 1, it can be made using myIR secure online services, by telephone (0800 377 774), or by correspondence. This is because the criteria for adopting a non-standard balance date may be easily verified at the time of contact with an Inland Revenue officer. The request reasons included in Table 2 are potentially more complex so should be made using myIR secure online services or by correspondence.

Table 1: Requests that can be made using myIR or by telephone or correspondence

Request reason	Information required (as relevant)
Business wanting a recognised industry balance date (see the Appendix)	▪ Full name of customer seeking the change of balance date ▪ Customer's IRD number (if already registered) ▪ Balance date sought ▪ Reasons for election to change balance date ▪ Income year the new balance date is to apply from ▪ Name of customer's tax agent ▪ Related entity's name, IRD number and nature of relationship with the customer (where customer wants to adopt a balance date in common with a related entity) ▪ Details of financial reporting obligations and balance date used for these obligations (where customer has financial reporting obligations to a balance date set by the Financial Reporting Act 2013 (FRA), see [67] to [76] for further information)
Shareholder–employee wanting the same non-standard balance date as a company to which their shareholding relates, where earnings from the company are their primary source of income	
Continuing estate wanting a balance date coinciding with deceased customer's date of death	
Subsidiary company wanting to align balance date with a parent company	
Non-resident wanting a balance date applicable in their country of residence, where they perform business activity in New Zealand but have a centre of management outside New Zealand (this does not apply to customers only earning passive investment income)	
Previously tax-exempt entity wanting to continue to use a balance date consistent with that used for financial reporting purposes	
Māori customer or business wanting a 30 June balance date to align with Maramataka Māori, where financial planning, cashflow, and accounts are aligned with this date	

Table 2: Requests that must be made using myIR or by correspondence

<table>
<tr><th>Request reason</th><th>Information required (as relevant)</th></tr>
<tr><td>Customer wanting a non-standard balance date due to the specific circumstances of their business activity</td><td rowspan="6">
Full name of customer seeking the change of balance date
Customer’s IRD number (if already registered)
Balance date sought
Reasons for election to change balance date
Income year the new balance date is to apply from
Name of customer’s tax agent
Details of cash flows
Details of stock patterns
Details of any significant business transactions that will affect the customer’s tax liability for the current financial year
Other evidence to show financial information prepared to requested balance date will be more appropriate for the customer
Where businesses claim they have a close working relationship and share a common accounting system or central administration structure, evidence to support this assertion
Related entity’s name, IRD number and nature of relationship with the customer (where customer wants to adopt a balance date in common with a related entity)
Details of financial reporting obligations and balance date used for these obligations (where customer has financial reporting obligations to a balance date set by the FRA, see [67] to [76] for further information)
</td></tr>
<tr><td>Customer wanting to change balance date as their circumstances have changed significantly and a balance date previously agreed to is no longer appropriate</td></tr>
<tr><td>Customer wanting to align balance dates for business entities with a close working relationship, where entities share a common business or management accounting system or central administration structure</td></tr>
<tr><td>Managed fund wanting to adopt the non-standard balance date of the fund manager or trustee and it can be demonstrated a parent–subsidiary-like relationship exists between parties</td></tr>
<tr><td>Entity deemed to be agent of non-resident insurer filing as-agent returns in terms of s HD 16 of the ITA</td></tr>
<tr><td>Franchise owner wanting to adopt the balance date used by a master franchisor</td></tr>
</table>

Related matters

Retrospective elections

37. Requests to change a balance date should be made before the start of a new income year, so customers can avoid additional compliance costs if the Commissioner does not approve the change of balance date.

38. The Commissioner, in limited circumstances, may agree to a retrospective change in balance date for a current income year where the request is received before the earlier of the return filing date under s 37 for the current balance date and that for the proposed balance date.

39. The Commissioner will provide retrospective agreement where customers can show:

    a) it is possible to file returns for all the income years;

    b) the late election was not made for reasons of tax deferral or tax avoidance or to take undue advantage of any tax incentive or concession; and

    c) any tax deferral occurring as a consequence of the proposed balance date change is insignificant (when compared with the customer's total tax liability).

Misleading information

40. When a request for a change of balance date is received, the Commissioner will consider the reasons and information provided in support of the request. The onus is on customers to fully disclose the reasons for the change and provide all relevant information to support their application.

41. The Commissioner is not bound by any agreement based on misleading or incomplete information.

Notification of the Commissioner's agreement

42. The Commissioner will generally respond to a request (by telephone, myIR secure online services or correspondence) in the same way in which the customer made their request. Where a request is approved the Commissioner will also provide written confirmation of this approval and the income tax transitional return period via myIR secure online services.

Reviewing a decision of the Commissioner

43. Section 138E(1)(e)(iv) provides there is no statutory right of challenge where the Commissioner has decided to decline a balance date change request under s 38.

44. However, if a customer is concerned their circumstances have not been given proper consideration, they should raise their concern with the officer they have been dealing with and ask that the decision be reconsidered. Customers who do this and are still not satisfied with the level of service they receive can contact Inland Revenue's Complaints Management Service. For information about how to make a complaint, see **Complaints guide – IR 1169**.

45. Following this, if a customer is still not satisfied with the decision, they may ask to have the decision reviewed by the Office of the Ombudsman or judicially reviewed. A customer wishing to apply for judicial review is strongly recommended to obtain independent legal advice.

Consequential impact of a balance date change

Income tax transitional period returns

46. This section of the SPS explains how the Commissioner applies the legislation concerning the transitional income tax returns required following the Commissioner's agreement to use an alternative balance date. It also states the Commissioner's practice on the effective date for a change of balance date.

47. Section 39 sets out the treatment for transitional year returns:

> **39 Consequential adjustments on change in balance date**
>
> (1) If the Commissioner approves a change to a new balance date that is earlier in the calendar year than the original balance date, the change is effected by the taxpayer having a transitional year of the period from the original balance date up to and including the new balance date in the next succeeding calendar year.
>
> (2) If the Commissioner approves a change to a new balance date that is later in the calendar year than the original balance date, the change is effected by the taxpayer having a transitional year of the period from the original balance date up to and including the new balance date in the same calendar year.
>
> (3) If the change in balance date means that a taxpayer has 2 corresponding income years for the same tax year, the figures for both corresponding income years are aggregated when the taxpayer's net income or net loss is determined.
>
> …

48. **Note:** Section 39 uses the terms "earlier" and "later". These should not be confused with the terms "early balance date" and "late balance date". Section 39 refers to a balance date that is "earlier in the calendar year than the original balance date" and a new balance date that is "later in the calendar year than the original balance date". The "original balance date" may itself be a non-standard balance date.

49. When the new balance date is earlier in the calendar year than the original balance date, the customer's transitional year runs from the original balance date to the new balance date in the following year.

50. When the new balance date is later in the calendar year than the original balance date, the customer's transitional year runs from the original balance date to the new balance date in the same year.

51. Under s 39, when a balance date changes, the customer must file a transitional tax return for the income derived during the transitional return period. The transitional return period will generally be between six months and 18 months long (see [54] for discussion of exceptions to this). Transitional return periods of more than a year occur where a change in balance date results in two income years that correspond to the same tax year and the customer is required to file a single return including income for both income years (see s 39(3)). Application of the transitional return rules are illustrated in Examples 4 and 5 below.

52. It is the Commissioner's view that new business customers, who may elect to apply a non-standard balance date on registration or their first return period, are not directly affected by the transitional return provisions. Their first return will cover the period from commencement of business to their elected balance date (instead of to 31 March).

53. Although the transitional year provisions are not applied directly to new customer situations, there may be occasions when a balance date election spans more than one return period by days or weeks due to the timing of a request and the Commissioner agreeing to the change. When these situations occur, favourable consideration will be given to customer requests to include the start-up income details for the initial start-up in the substantive return that follows.

Example 4: Early balance date

A customer changes from a 31 March balance date to a 31 January balance date.

The return for the 2023/24 tax year will cover the period from 1 April 2023 to 31 January 2024 (a 10-month transitional return period). The return for the 2024/25 tax year will be from 1 February 2024 to 31 January 2025.

Example 5: Late balance date

A customer changes from a 31 March balance date to a 30 June balance date.

The return for the 2023/24 tax year will cover the period from 1 April 2023 to 30 June 2024 (a 15-month transitional return period). A 15-month transitional return period occurs because 1 April 2023 to 31 March 2024 and 1 April 2024 to 30 June 2024 both correspond to the 2023/24 tax year, so the periods must be combined.

The return for the 2024/25 tax year will be from 1 July 2024 to 30 June 2025.

Returns for less than six months or more than 18 months

54. Changes to balance dates will generally result in a transitional return period of more than six months, but no longer than 18 months. However, in some circumstances, returns are required for a period of less than six months or more than 18 months. Returns for a period longer than 18 months occur only when an early balance date changes to a late balance date. Returns for a period shorter than six months occur only when a late balance date changes to an early balance date. This is illustrated in Examples 6 and 7.

Example 6: Change from a late balance date to an early balance date

In 2023, a customer changes from a balance date of 30 September to 30 November for the 2023/24 tax year. This means:

- 1 October 2022 to 30 September 2023 corresponds to the 2022/23 tax year;
- 1 October 2023 to 30 November 2023 is a two-month period in the 2023/24 tax year; and
- 1 December 2023 to 30 November 2024 corresponds to the 2024/25 tax year.

It is not possible to include the income derived during the two-month period in the 2023/24 tax year with other income derived in the same tax year, because no other income is derived during the 2023/24 tax year. The customer must file a two-month transitional return for the 2023/24 tax year.

Example 7: Change from an early balance date to a late balance date

In 2022, a customer changes from a balance date of 30 November to 31 July for the 2023/24 tax year. This means:

- 1 December 2021 to 30 November 2022 corresponds to the 2022/23 tax year;
- 1 December 2022 to 31 July 2023 is an eight-month period in the 2022/23 tax year; and
- 1 August 2023 to 31 July 2024 corresponds to the 2023/24 tax year.

> The legislation requires the customer to add the income derived during the transitional period to other income derived in the same tax year. Therefore, the customer must add the income derived in the eight-month period from 1 December 2022 to 31 July 2023 to the income derived in the period from 1 December 2021 to 30 November 2022, giving a return for a 20-month period for the 2022/23 tax year.

Basic tax rate when changing balance dates

55. When a change of balance date occurs, a customer's basic tax rate is calculated in accordance with ss 39(5) to (7). For more information about basic tax rates when a change of balance date occurs see New legislation: Taxation (Annual Rates for 2016-17, Closely Held Companies, and Remedial Matters) Act 2017 Tax Information Bulletin, Vol 29, No 5 (June 2017): **156-158**.

GST and provisional tax consequences

56. Section 39B sets out the treatment for customers with provisional tax and GST liabilities, which may also need to be considered when a customer elects to change a balance date.

57. Provisional tax and GST consequences of changing a balance date for income tax purposes are discussed in New legislation: Taxation (Depreciation, Payment Dates Alignment, FBT, and Miscellaneous Provisions) Act 2006 Tax Information Bulletin, Vol 18, No 5 (June 2006): **73**:

> When a taxpayer changes their balance date, until the new balance date is reached the taxpayer must continue to pay provisional tax on the instalment dates that applied before the change of balance date. Once the new balance date is reached the taxpayer pays provisional tax on the instalment dates relating to the new balance date.
>
> Instalments of provisional tax in this transitional year are due on the 28th of the months specified in Schedule [3], Part B and the final instalment is due on the 28th of the month following the final month in the transitional year or 15 January where November is the final month.
>
> The provisions relating to the calculation of provisional tax liability using the standard and estimation options are similar. However, the legislation introduces rules for the calculation of provisional tax in the transitional year for those taxpayers who use the GST ratio method. When a taxpayer changes their balance date and moves from a set of instalment dates in even-numbered months to a set of instalments in odd-numbered months or vice versa, there will be a one-month period when GST and provisional tax are due before they change to their new balance date. The taxpayer will determine the amount of provisional tax due for this period by applying the ratio to the one-month's GST taxable supplies.

> When a taxpayer (other than a GST ratio method taxpayer) changes their balance date and their GST taxable periods do not align with their new balance date, the taxpayer must change their GST taxable periods to align with the new balance date. This is achieved by truncating the last taxable period before the new balance date so that the taxable periods and income year end on the same date.

58. Sections 15B and 15D of the Goods and Services Tax Act 1985 refer to the alignment of GST return taxable periods with income tax balance dates and refer to a GST-registered person's obligation to align their GST return periods to a changed income tax balance date.

59. When a customer who is liable to pay provisional tax and is GST registered (other than a GST ratio-method taxpayer) changes their balance date so their GST taxable periods no longer align with the new balance date, their GST taxable periods need to be changed to align with the new balance date.

60. Should a realignment of GST return taxable periods be required, realignment is to take effect in the income year when a new balance date is applied.

61. Where realignment is required, the Commissioner must make an adjustment to truncate the last GST return taxable period before a new income year and balance date is applied. The customer does not need to separately apply to the Commissioner for a change to their GST taxable periods.

62. A customer who is liable to make provisional tax payments must continue to pay provisional tax on the instalment dates that apply before the change of balance date is applicable to their income tax return filing obligations. The provisional tax instalment dates change in the income year that a new balance date takes effect, which is either the transitional return period or a new business customer's first return period.

63. On agreement to change a balance date, Inland Revenue staff handling balance date change requests will alert customers to the impact of transitional return periods, GST return taxable period realignment and provisional tax payment instalment dates and related timing of these change impacts (if applicable).

Provisional tax and consolidated groups

64. Where a company changes balance dates before joining a consolidated group, there may be provisional tax consequences to consider.

65. As outlined above, a change of balance date gives a company a transitional tax return period with consequent provisional tax instalment dates. In contrast, the group will not have a transitional return period and the group will be responsible for provisional tax,

not the companies in the group. The provisional tax instalment dates will therefore depend on the group's balance date.

66. This could result in instalments being due earlier in the income year than they would be for the company. Some groups will have due dates before the election to form or join a consolidated group because elections can be accepted up to 63 working days after companies first become entitled to elect (see s FM 38 of the ITA).

Consequences for financial reporting obligations

67. Section 43(1) of the FRA allows the Commissioner to approve a change of balance date for "specified entities" that have financial reporting obligations under certain other enactments.

When an entity's balance date is set by the Financial Reporting Act 2013

68. A "specified entity" is an entity where an enactment defines its balance date by reference to s 41 of the FRA (s 40(2) of the FRA). Specified entities include (this is not an exhaustive list):

a) companies required to prepare financial statements and/or annual reports under the Companies Act 1993;

b) partners of a partnership required to prepare financial statements under the Partnership Law Act 2019;

c) general partners of limited partnerships required to prepare financial statements under the Limited Partnerships Act 2008; and

d) entities required to prepare financial statements and/or climate statements under the Financial Markets Conduct Act 2013.

69. A specified entity's balance date will be the close of 31 March or any other date adopted with the Commissioner's approval (s 41(1) of the FRA). However, there are two exceptions to this general rule:

a) If a specified entity had a balance date other than 31 March immediately before 1 April 2014, this continues to be the entity's balance date under the FRA (s 41(2) of the FRA).

b) If a specified entity is affected by an Act that defines the balance date or the financial year of the entity, that is the entity's balance date under the FRA (s 41(3) of the FRA). For example, under the definition of financial year in s 136(1) of the Crown Entities Act 2004, the balance date of a Crown entity is 30 June or any other date determined for that entity by the Minister of Finance.

70. In both of the above circumstances, a specified entity may have a balance date for financial reporting obligations other than 31 March without the Commissioner's approval.

71. In addition, the FRA does not determine the balance date for all entities with financial reporting obligations. There will be entities with financial reporting obligations that will not be specified entities, because the reporting obligations they are subject to are set out in enactments that do not define their balance date by reference to s 41 of the FRA. For example, a charitable entity's balance date in relation to its obligation to prepare an annual return is determined in accordance with s 41(3) to (7) of the Charities Act 2005 not the FRA.

When the Commissioner will approve a change to a financial reporting balance date

72. When a customer has financial reporting obligations to a balance date set by the FRA and the Commissioner approves a change to the customer's balance date for income tax purposes, the Commissioner will generally align the customer's balance date for these obligations with the new income tax balance date, relying on s 43(1) of the FRA.

73. However, if a change to a customer's balance date has been approved for income tax purposes to align with a date that is already used for financial reporting, it is not necessary for the Commissioner to approve a change to the balance date the customer is using for financial reporting purposes.

74. The Commissioner may also approve a change of balance date, under s 43(1) of the FRA, for a customer that has financial reporting obligations who is not required to file an income tax return.

Transitional year for financial reporting obligations

75. If an entity is changing balance dates, the FRA specifies that the period between any two balance dates must not be more than 15 months (s 43(2) of the FRA). However, as illustrated in Example 7 above, a customer may be required to file a transitional income tax return for a period of more than 15 months.

76. Where a customer's balance date has been changed for financial reporting purposes under s 43 of the FRA and income tax purposes under s 38, the customer may need to prepare two sets of financial statements (or two of any other document prepared to a balance date defined by reference to the FRA) for the period covered by the transitional income tax return to ensure the 15-month limitation in the FRA is not breached. This is illustrated in Example 8.

Example 8: Transitional income tax return covering a period of more than 15 months

A customer is a partnership that changes from a balance date of 31 March to 30 September. The customer must prepare financial statements under s 60 of the Partnership Law Act 2019, so is a specified entity for the purpose of the FRA.

The customer's income tax return for the 2023/24 tax year will cover the period from 1 April 2023 to 30 September 2024 (an 18-month transitional income tax return period).

To ensure the 15-month restriction in the FRA is not breached, for the period from 1 April 2023 to 30 September 2024, the customer must prepare two sets of financial statements:

- statements covering the period from 1 April 2023 to 31 March 2024 (a 12-month period); and
- statements covering the period from 1 April 2024 to 30 September 2024 (a six-month period).

For subsequent years, the customer's income tax returns and financial statements will be prepared for the year from 1 October to 30 September.

This Standard Practice Statement is signed on 30 July 2024.

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Inland Revenue

References

Legislative references

Charities Act 2005, s 41(3) to (7)

Crown Entities Act 2004, s 136(1)

Companies Act 1993

Financial Markets Conduct Act 2013

Financial Reporting Act 2013, s 40(2), 41, 43

Goods and Services Tax Act 1985, ss 15B, 15D

Income Tax Act 2007, ss EX 69, HD 16, HM 44, YA 1 ("tax year" and "corresponding income year"), YE 1(6) and (7)

Limited Partnerships Act 2008

Partnership Law Act 2019, s 60

Tax Administration Act 1994, ss 6, 33, 37, 38, 39, 39B, 138E(1)(e)(iv)

Case references

Case K41 (1988) 10 NZTC 348 (TRA)

Other references

Complaints guide – IR 1169 (guide, Inland Revenue, November 2023)
www.ird.govt.nz/-/media/project/ir/home/documents/forms-and-guides/ir1100---ir1199/ir1169/ir1169-nov-23.pdf?modified=20240115014636&modified=20240115014636

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SPS 18/02: Requests to change a balance date (standard practice statement, Inland Revenue, April 2018)
taxtechnical.ird.govt.nz/standard-practice-statements/general/sps-1802-requests-to-change-a-balance-date

Appendix: Industry-specific non-standard balance dates

The Commissioner recognises several industry-specific balance dates. These dates were determined following industry representations to the Commissioner. Customers in these industries, or closely aligned to them, may choose to adopt these approved industry balance dates (see [28] to [33]), subject to the Commissioner's agreement.

Industry	Recognised balance date
Beekeeping	30 November or 31 December
Services related to childcare or education	31 December
Cattle farming	31 May
Dairy farming	31 May, 30 June or 31 July
Sheep farming	30 June
Fishing	30 September
Horse breeding	31 July
Kiwifruit growing	31 January, 28 February or 31 March
Meat processing or exporting	31 August or 30 September
Orchardists, pip fruit growing	31 March, 30 June or 31 December
Seed dressing	30 November
Tobacco growing	31 July

Note: When more than one recognised industry balance date for an activity exists, the Commissioner's agreement is required for any subsequent election to adopt an alternative industry balance date.