Standard Practice Statement SPS 18/02

Requests to change a balance date

This statement also appears in the *Tax Information Bulletin* Vol 30, No 4 (May 2018).

Introduction

Standard practice statements describe 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 Standard Practice Statement (SPS) sets out Inland Revenue's practice for considering requests for the Commissioner's approval to change a balance date for income tax purposes. The description "non-standard balance date" in this SPS refers to a balance date other than 31 March.

This SPS applies to all requests for a change of balance date. It includes requests from customers who wish to change from a 31 March balance date to a non-standard balance date; requests to change from one non-standard balance date to another non-standard balance date and also requests to change from a non-standard balance date to a 31 March balance date.

Section references are to the Tax Administration Act 1994 unless otherwise stated.

Application

This SPS applies from 1 April 2018. It replaces *SPS 08/04: Elections to change a balance date* which was published in *Tax Information Bulletin* Vol 20, No 11 (February 2009).

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Summary

1. 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 will be considered on its individual merit in line with this SPS.

2. Section 38 allows the Commissioner to agree that customers may be permitted to file an income return for the year ending on the date corresponding with the balance date of their annual accounts, instead of using the standard 31 March balance date provided by the Tax Administration Act 1994.

3. Only customers with an obligation to file returns under s 33 (generally, customers in business or those who receive income not taxed at source) may apply under s 38 to adopt a balance date other than 31 March.

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 [12].

Detailed discussion

Overview of the authority to change a balance date

5. When a customer wishes to adopt a non-standard balance date, or change from a non-standard balance date back to 31 March (or change from one non-standard balance date to another), they are required to obtain the Commissioner’s prior notified approval under s 38 before they can file a return for that new balance date.

6. Section 38 reads as follows:

> **38(1) [Returns to annual balance date]** 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 (other than a person who meets the requirements of section 33A(1), or is issued an income statement or required to request or be issued an income statement,) 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.
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> **38(1B) [When multi-rate PIE must not make election]** 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).
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> ...

38(3) [Prior notified approval required for change of election] 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 ITA 2007 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 a tax year that does not end on 31 March. The legislation provides no further guidance on how to use this discretion.

When will the Commissioner agree to a change in balance date?

8. 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 [12] and that a customer is able to provide a correct return of income for a tax year ending on the balance date.

9. The Commissioner acknowledges there are situations where a balance date of 31 March may be impractical. The situations described below are not intended to be an exhaustive list and there are likely to be other circumstances (not contemplated in the SPS) where it would be appropriate to agree to a change to a balance date. The Commissioner will agree to a change to a balance date for customers to:

   (a) adopt an alternative balance date when they can demonstrate that 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 (this includes elections by new business customers to adopt a non-standard balance date, with application from their first return/tax year);

   (b) adopt an alternative balance date when they can demonstrate that unreasonable or excessive compliance costs will be incurred as a consequence of having to return income to 31 March (this may include the impact of other statutory reporting requirements, see further comment at [15] and [16]);

   (c) align with an agreed industry balance date (see further comment at [23] to [29]);

   (d) allow 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 via an agreement between the Commissioner and the master franchisor;

   (e) allow a shareholder-employee to use the same balance date as the company from which they derive their primary source of income;

   (f) allow a customer who receives passive income, and therefore has an obligation to provide a return of income to 31 March for that passive income as well as any business income that 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 comment at [17] to [20]);

   (g) allow a subsidiary company to use the same balance date as the parent company;

   (h) adopt a common balance date for business entities with a close working relationship, where they share a common business/management accounting system or central administration structure and one of those entities has an approved non-standard balance date. This category includes joint ventures that want to adopt a balance date common with a partner;

(i) allow managed funds to adopt a balance date in common with a fund manager or trustee when it can be demonstrated that a parent–subsidiary-like relationship exists between parties, excluding a multi-rate portfolio investment entity ("multi-rate PIE") that does not make tax payments under s HM 44 of the ITA 2007 (see further comment at [30]);

(j) allow entities deemed to be agents of non-resident insurers to file "as agent" returns in terms of s HD 16 of the ITA 2007, excluding a multi-rate PIE that does not make tax payments under s HM 44 of the ITA 2007;

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

(l) allow 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) allow a previously tax-exempt entity to continue to use a balance date consistent with an existing date for financial reporting purposes (eg, a charity that previously had only exempt income and 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 prior to entering the tax base).

10. When agreeing to a change to a 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. However, there is an exception for a continuing estate that elects to adopt a balance date that coincides with a deceased taxpayer's date of death.

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

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

12. 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 not have been the case had no change of balance date occurred;

(b) the request has been made because of a wish to smooth out administrative workloads within the customer's business (setting aside matters relating to seasonal businesses);

(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, or trustee, or tax agent;

(e) the customer has investment income and no direct involvement in a business activity (see further comment at [17] to [20]);

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

(g) a multi-rate PIE that does not make tax payments under s HM 44 of the Income Tax Act 2007 ("ITA 2007") cannot have a balance date other than 31 March.

Consideration of requests

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

14. The supporting information in a request to change a balance date will be considered. The Commissioner's considerations may extend to other relevant information held for a customer and of wider industry practice, to establish an informed view as to 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 relevant matters that will be considered by the Commissioner.

Compliance costs

15. Business customers may incur compliance costs in a number of ways, including general accounting, financial and reporting requirements. Compliance costs will be considered as a factor when a customer is able to 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 those incurred by choice by customers through self-imposed internal planning or reporting requirements.

16. The Commissioner will also consider the impact of other statutory reporting requirements on customers' annual accounts and their tax obligation to return income.

Passive income

17. Passive income is a term used to describe income derived from investments or property that does not require direct physical exertion or the application of specialist skill by a customer (eg, the receipt of interest or dividends). In contrast, a business activity includes a profession, trade, manufacture, or undertaking carried on for a pecuniary profit.

18. 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.

19. 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 concession 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.

20. The following example shows how the passive income exception may arise.

Example: Passive income from a related entity

A family trust leases a farm to a family trading partnership. The family trust passively derives their primary source of income from lease payments made by the related family partnership, which has a non-standard balance date. In this case, the Commissioner will consent to the family trust adopting the non-standard balance date used by the partnership.

Income from a Foreign Investment Fund

21. A further exception applies to customers with an attributing interest in a Foreign Investment Fund ("FIF") that calculate their FIF income or loss using the attributable FIF income method. Section EX 69 of the ITA 2007 provides specific rules for changing an FIF balance date. The FIF requires the Commissioner's consent before a new balance date can be used.

Customers with wage/salary as well as business income

22. In situations where a customer has income from salary or wages as well as business income, the Commissioner may still consent to a non-standard balance date.

Example: Wage/salary as well as business income

A customer earns a salary as a teacher and also has a small orchard from which she derives business income. The customer wishes to adopt a non-standard balance date of 30 June. The Commissioner would agree to the change of balance date as it is an industry-approved balance date, despite the income from salary/wages. In this situation the customer will return their business income to 30 June, but will continue to return the income from her salary to 31 March.

Industry balance dates

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

24. Examples of businesses which have "natural" income years not ending on 31 March include farmers, or growers or harvesters of primary produce that are subject to seasonal climate conditions or the natural cycle of stock breeding. That may also extend to directly related service industries involved in, for instance, the harvesting, processing, packaging, and exporting of produce.

25. Market demands for manufactured goods, and the seasonal impacts on the growing or harvesting of produce, influence the trading patterns of many businesses. Customers impacted 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 the majority of their income is yet to be derived.

26. 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 majority, 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.

27. The Commissioner recognises a number of industry-specific non-standard balance

dates (refer to Appendix A). These dates have been determined following representations to the Commissioner by the industries concerned. Customers within these industries may apply to the Commissioner for consent to adopt these approved industry balance dates. See further comment at [31] to [34] on how to apply.

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

29. Where taxpayers want to adopt an alternative non-standard balance date, they are required to make a full application that will be decided on the merit of each individual case (see further comment at [35] and [36]).

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

30. Inland Revenue 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 with responsibility for the management of 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. Consent will only be granted to align the fund's balance date with that of the manager.

    As with unit trusts, the concession applies only when the manager has retained the responsibility for day-to-day administration of the trust and for preparing the trust'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. Consent will be given for a fund to align its balance date with that of the trustee, provided that 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 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 unit trusts, group investment funds and superannuation funds) may choose to align its balance date with that for financial reporting purposes if it can be demonstrated that the alignment of balance dates helps reduce the managed fund's tax risks. The purpose of this concession is to promote voluntary compliance and good tax practices. Inland Revenue expects the managed fund to set out the reasons for changing their balance dates. These reasons will be examined on a case-by-case basis.

However, the concession does not apply if:

(i) the reason for changing the balance date is to improve the managed fund's administration of human resources (eg, smoothing the workflows of their managers);

(ii) the managed fund cannot provide evidence of what the tax risks are and how the change of balance date helps to mitigate these risks;

(iii) the managed fund can identify some of its tax risks but the change of balance date is irrelevant to the mitigation of these 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 is required to return part of the premiums paid as income in a return known as an "as agent" return (s HD 16 of the ITA 2007). This income is returned "as agent" for the non-resident insurer.

Customers with an approved non-standard balance date for their own returns will be granted consent to align the balance dates of their "as agent" returns to this date.

How to make a request

31. Requests for the Commissioner's agreement to change a balance date can be made using myIR secure online services, or by telephone (0800 377 774), or by correspondence where:

(a) a customer who operates a business wants to adopt a recognised industry balance date (see further Appendix A); or

(b) a shareholder-employee wants the same non-standard balance date as a company to which their shareholding relates, where earnings from the company is their primary source of income; or

(c) a continuing estate wants to adopt a balance date that coincides with a deceased customer's date of death; or

(d) a subsidiary company wants to align to the balance date used by a parent company; or

(e) a non-resident customer wants to adopt a balance date applicable in their country of residence, when they perform a business activity in New Zealand, but have a centre of management outside New Zealand (this concession does not apply to customers who only earn passive investment income); or

(f) a previously tax-exempt entity wants to continue to use a balance date consistent with that used for financial reporting purposes.

32. These varied methods of election recognise that for these specific scenarios the

criteria for adopting a non-standard balance date may be easily verified at the time of contact.

33. Requests for the Commissioner's agreement for the situations listed under [31] must contain the following details (as relevant):

(a) full name of the customer seeking the non-standard balance date;

(b) Inland Revenue number if already registered;

(c) the balance date sought;

(d) details of reasons for election to change the balance date;

(e) income year their new balance date is to apply from;

(f) name of tax agent.

34. Where a request is made to adopt a balance date in common with a related entity the nature of that relationship should be included as part of the request. Providing such information can help minimise any delay.

35. Other requests for a change to a balance date may be made via myIR secure online services or by correspondence, where:

(a) a customer wishes to adopt an alternative balance date to the 31 March, due to the specific circumstances of their business activity; or

(b) a customer's circumstances have changed significantly and a balance date previously agreed to is no longer appropriate; or

(c) a customer wishes to align balance dates for business entities with a close working relationship, where these entities share a common business/management accounting system or central administration structure; or

(d) a managed fund wishes 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; or

(e) entities deemed to be agents of non-resident insurers file "as agent" returns in terms of s HD 16 of the ITA 2007; or

(f) a franchise owner wants to adopt the balance date used by a master franchisor.

36. As requests for a change of balance date for the situations listed under [35] are potentially more complex requests, they should be made via myIR secure online services or by correspondence. These requests should include the following information (as relevant):

(a) full name of the customer seeking the balance date change;

(b) Inland Revenue number if already registered;

(c) The balance date sought;

(d) details of reasons for election to change the balance date;

(e) income year their new balance date is to apply from;

(f) name of tax agent;

(g) details of cash flows;

(h) details of stock patterns;

(i) details of any significant business transactions that will impact on their tax liability for the current financial year;

(j) other evidence to show that financial information prepared to the proposed balance date will be more appropriate to the entity;

(k) where businesses claim they have a close trading relationship and share a common accounting system or central administration structure, evidence to support this assertion.

Related matters

Retrospective elections

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

38. In the past, the Commissioner's practice had been to defer the effective date for a change of balance date until the following income year. Going forward, the Commissioner, in limited circumstances, may agree to a retrospective change of a balance date change for a current income year where the request is received before the earlier of the return filing date under s 37(1) for the current balance date and that for the proposed balance date (excluding any extension of time arrangements for filing returns).

39. Retrospective agreement will be provided where customers can show that:

(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;

(c) any tax deferral occurring as a consequence of the proposed balance date change is insignificant (when compared to 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 make a full disclosure of the reasons for the change and to provide all relevant information to support their application.

41. However, the Commissioner is not bound by any agreement that was based on misleading or incomplete information.

Income tax transitional period returns

42. When the Commissioner agrees to a change of balance date, the customer will be advised of the effective date of the change and the period for transitional return which will be required (with the exception of new taxpayers who elect to use an alternative

balance date upon registration or for their first return period). Further information on transitional return periods is given in Appendix B.

Provisional tax payments

43. Where a change of balance date is agreed to, until the new balance date is reached, the customer will still need to pay provisional tax on the instalment dates that applied before the change. Once the new balance date is reached the provisional tax instalment dates relating to the new balance date will apply. Further information on transitional return periods is given in Appendix B.

Effect for GST purposes of change of balance date

44. When a customer who is a liable to pay provisional tax and is GST registered (other than a GST ratio-method taxpayer) changes their balance date so that their GST taxable periods no longer align with the new balance date, they must change their GST taxable periods to align with the new balance date. Further information on alignment of GST taxable periods with a new balance date is given in Appendix B.

Notification of the Commissioner's consent

45. The Commissioner will generally respond to a request (by telephone, or myIR secure online services, or correspondence) in the same way in which the customer made their request. For complex situations, the Commissioner is likely to set out the transitional return period and consequential change details for a change of balance date in writing (via myIR secure online services or correspondence).

Reviewing a decision of the Commissioner

46. Section 138E(1)(e)(iv) provides that there is no statutory right of challenge where the Commissioner has made a decision to decline a balance date change request under section 38.

47. However, if a customer is concerned that 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 to reconsidered. If they are still not satisfied with the decision, they may ask to have the decision reviewed by the Office of the Ombudsman or a judicial review. It is strongly recommended that independent legal advice be obtained.

48. If a taxpayer is still not satisfied with the level of service they receive, they can obtain more information about the Inland Revenue's Complaints Management Service at www.ird.govt.nz (search keyword "complaints process") or phone 0800 274 138 (Monday to Friday between 8 am and 5 pm).

This Standard Practice Statement is signed on 11 April 2018

Rob Wells
Manager, Technical Standards, OCTC

Appendix A: Industry-specific non-standard balance dates

The Commissioner recognises a number of industry-specific balance dates. These dates have been determined following representations to the Commissioner by the industries concerned. Taxpayers in these industries, or closely aligned to them, may elect to adopt these approved industry balance dates (see comments at [20] to [26]), subject to the Commissioner's prior notified consent under s 38(3).

Apiarists	30 November or 31 December
Education/childcare related services	31 December
Farmers, cattle	31 May
dairy	31 May, or 30 June, or 31 July*
sheep	30 June
Fishing industries	30 September
Horse breeders	31 July
Meat processing and export	31 August or 30 September
Orchardists, pip fruit	31 March or 30 June or 31 December
Kiwifruit	**31 January, or 28 February, or 31 March
Seed dressers	30 November
Tobacco growers	31 July

* Expanded to 30 June or 31 July to recognise regional variances within the dairy industry.

** Changed Dec 2010 to reflect improved growing techniques and early kiwifruit cultivars producing earlier crops – *Tax Information Bulletin* Vol 23, No1 (issued Feb 2011)

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

Appendix B: Consequential impact of a balance date change

A) Income tax transitional period returns

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

Section 39 sets out the treatment for transitional year returns.

When the new balance date is earlier in the calendar year than the original balance date, the taxpayer's transitional year will run from the original balance date to the new balance date. (This will generally be a period of six months or more.)

When the new balance date is later in the calendar year than the original balance date, the taxpayer's transitional year will run from the original balance date to the new balance date in the succeeding year. (This will generally be a period of more than 12 months.)

Under s 39, when there is a change of balance date the taxpayer must file a transitional tax return. This return is for the income derived during the transitional period which begins on the day after the original balance date and ends on the new balance date.

It is the Commissioner's view that new business taxpayers who may elect to apply a non-standard balance date upon registration or their first return period, are not directly impacted 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).

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

Section 39 reads:

> **39(1)** If the Commissioner approves a change to a new balance date that is earlier in the 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 year.
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> **39(2)** If the Commissioner approves a change to a new balance date that is later in the 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 year.
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> **39(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.
>
> **39(4)** For the purpose of giving effect to this section and section 38, the Commissioner may, for any corresponding income year, make any assessment that the Commissioner considers necessary.
>
> **39(5)** For the tax year corresponding to the income year or income years in which the change of balance date occurs, the basic tax rate for the purposes of the Income Tax Act 2007 and this Act is the rate that would apply if the person's taxable income for the tax year were calculated using a value for the person's net income, or net loss, for the tax year equal to the total of—

(a) the amount that, if the person had no income or expenditure associated with each business activity affected by a change of balance date for the tax year, would be obtained by subtracting the person's annual total deduction for the tax year from the person's annual gross income for the tax year; and

(b) for each business activity affected by a change of balance date for the tax year, the amount given by subsection (6) for the tax year and the business activity.

39(6) The amount given by this subsection, for a tax year and a business activity affected by a change of balance date for the tax year, is calculated using the formula—

unadjusted business net × year days ÷ income year days.

39(7) In the formula,—

(a) **unadjusted business net** is the amount that, if the person had no income or expenditure other than income and expenditure associated with the business activity, would be the difference between the person's annual gross income for the tax year and the person's annual total deduction for the tax year:

(b) **year days** is—

(i) 365, if subparagraph (ii) does not apply:

(ii) 366, if the income year or income years corresponding to the tax year include a 29 February:

(c) **income year days** is the total days in the income year or income years corresponding to the tax year.

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 year than the original balance date" and a new balance date that is "later in the year than the original balance date". The "original balance date" may itself be a non-standard balance date.

Example 1: Early balance date

A 31 March balance date is to change to 31 January. The return for the 2017–18 income year will cover the period from 1 April 2017 to 31 January 2018 (a 10-month transitional year). The return for the 2018–19 income year will be from 1 February 2018 to 31 January 2019.

Example 2: Late balance date

A 31 March balance date is to change to 30 June. The return for the 2017–18 income year will cover the period 1 April 2017 to 30 June 2018 (a 15-month transitional year).

Returns for less than six months or more than 18 months

Changes to balance dates will generally result in a transitional 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 only occur when there is a change from an early balance date to a late balance date. Returns for a period shorter than six months only occur when there is a change from a late balance date to an early balance date.

Example 3: Change from a late balance date to an early balance date

In 2017 a customer changes from a balance date of 30 September to 30 November for the 2018 income year (transitional return year):

1/10/16 – 30/9/17: 2016–17 income year

1/10/17 – 30/11/17: Two-month period within the 2017–18 income year (transitional return year)

1/12/17 – 30/11/18: 2018–19 income year.

In this case it is not possible to include the income derived during the two-month period in the 2017–18 income year with other income derived in the same income year, because there is no other income derived during the 2017–18 income year. The taxpayer must file a two-month transitional return for the 2018 income year.

Example 4

In 2016 a customer changes from a balance date of 30 November to 31 July for the 2017–18 income year (transitional return year):

1/12/15 – 30/11/16: 2016–17 income year

1/12/16 – 31/7/17: Eight-month period within the 2016–17 income year (transitional return year)

1/8/17 – 31/7/18: 2017–18 income year.

The legislation requires the customer to add the income derived during the transitional period to other income derived in the same income year. Therefore, the customer must add the income derived in the eight-month period from 1 December 2016 to 31 July 2017 to the income derived in the period from 1 December 2015 to 30 November 2016 giving a return for a 20-month period for the 2017 income year.

B) GST and provisional tax consequences

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

Tax Information Bulletin Vol 18, No 5 (June 2006) comments on the GST consequences of changing a balance date for income tax purposes at page 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.

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 ensure that their GST return periods are aligned to a changed income tax balance date.

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.

If a change in balance date results in a registered person's taxable periods not being aligned with their new income tax balance date, the Commissioner is required to make an adjustment to truncate the last GST return taxable period before a new income year/balance date is applied.

Similarly, 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 has application to their income tax return filing obligations and the Commissioner has given consent. 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.

When consent to a balance date change occurs, 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).