



Guide to how the offset of business license fees paid to Councils applies

Introduction

This Guide explains the offset of business license fees paid to Councils against income tax charged.

See PR 2024/6 previously *IT PR – 2022/1 – Income Tax: Offset of Business License Fee Paid to Councils*, available on the IRD website, for more details on this topic.

This Guide explains the order in which business license fees are offset against tax charged compared with other types of tax credits, such as provisional tax and withholding tax.

Credit for business license fee

When a person in business pays a license fee to a provincial council, they are considered to have paid tax to that council, and so get a credit in their income tax assessment.

The person can deduct the fee paid against the tax payable in their income tax return, if the person has a record that they paid the fee and file their return by the due date (or the extended due date if IRD has allowed the person an extension of time to file).

A credit is allowed up to the amount of the tax payable but cannot result in a refund to the person.

Where a person is entitled to a credit for the license fee paid, as well as other credits, this Guide provides the rules on

the order in which credits are to be allowed against income tax payable.

As some credits can result in a refund, unlike the business license fee credit, this order may affect whether a taxpayer will receive a refund or not.

Tax deductibility

A taxpayer is not allowed a deduction for business license fees which have been allowed as a tax credit.

If all or part of the business license fee is not allowed as a tax credit, that amount may be claimed as a tax deduction.

Order in which tax credits are to be applied

The IRD is of the view that credits should be applied against income tax payable in an assessment in the following order:

1. provisional tax, withholding tax and other taxes that can be credited; then
2. business licence fees.

This order is due to provisional tax being an estimate of actual future tax payable, withholding tax being required to be deducted by a payer at a fixed percentage, and the business license fee being a deemed pre-payment of income tax.

Examples of how to apply the order of tax credits appears on the next page.

Example 1

Taxpayer A earns income not subject to provisional tax (such as investment income and salary and wages income).

Taxpayer A has paid a business license fee of \$2,500.

Taxpayer A files his income tax return on time and attaches a copy of the receipt for the business license fee payment.

Taxpayer A is assessed on an amount of \$1,000 on the income returned.

After deducting a \$1,000 credit from the business license fee amount (Taxpayer A had up to \$2,500 credit available for this), no tax is payable.

Taxpayer A is not required to pay tax in this assessment and will not receive a refund of the unused \$1,500 credit from the payment of the business license fee.

Example 2

Taxpayer B earns business income subject to provisional tax. She pays \$800 in provisional tax during the year.

Taxpayer B has paid a business license fee of \$2,500.

Taxpayer B files her income tax return on time and attaches a copy of the receipt for the business license fee payment.

Taxpayer B is assessed on an amount of \$1,000 on the income returned. After the \$800 in provisional tax is credited to her, Taxpayer B has a balance owing of \$200.

After deducting a \$200 credit from the business license fee amount (Taxpayer B had up to \$2,500 credit available for this), no tax is payable.

Taxpayer B is not required to pay tax in this assessment and will not receive a refund of the unused \$2,300 credit from the payment of the business license fee.