



18 February 2026

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 22 January 2026. You requested the following:

Please outline the process that applies when a client receives a backdated Loss of Potential Earnings payment from the Accident Compensation Corporation and that payment is subsequently subject to tax by Inland Revenue Department.

Please specify the method or formula used by Inland Revenue Department to assess and calculate any tax liability arising from a backdated Loss of Potential Earnings payment.

Please identify and explain any entitlements, adjustments, or relief available to a client through Inland Revenue Department they receive a backdated Loss of Potential Earnings payment.

Explanation

Below I have referenced documents that are available publicly. However, in response to your request I briefly outline the process.

From 1 April 2024 backdated earnings-related payments from the Accident Compensation Corporation (ACC) made as a multi-year lump sum also referred to as a backdated lump sum payment (BLSP) are taxed using an alternative method.

Before the BLSP is made, ACC will request an average tax rate for a client from Inland Revenue. This is calculated using the person's basic tax rates for each of the four previous income years using the following formula: **Total basic rates / number of income years.**

The total basic rates figure is the sum of the person's basic tax rate each year which is determined by taking the tax payable on the income they earned and dividing by the total taxable income for that year for each of the past four tax years for which the rates are known, divided by the number of years there has been an assessment.

The lowest possible rate will be 10.5%, for example, if no assessments have been made over the past four years.

The rate determined will apply separately from the rate applied to the person's other income in the tax year they receive the payment in their assessment.

The income (excluding any required reimbursement to Work and Income for previously paid benefit) and tax deducted by ACC will show separately to any other ACC income in their income profile.

As part of the end of year assessment, a square up will occur to ensure:

- the withholding rate used was correct;
- any change in income in prior years since the withholding rate was provided to ACC is considered; and
- the tax on the lump sum was not at a rate higher than the current year basic tax rate.

If a customer has any questions about how the ACC Alternate Rate is applied to their entitlement, they can contact Inland Revenue preferably through their myIR account. If they have any questions about how the entitlement is calculated, including any necessary reimbursement to the Ministry of Social Development (MSD), these should be addressed to ACC.

Child Support

Prior to July 2023, receiving carers on a sole parent rate of benefit from MSD were required to have child support through Inland Revenue. Their child support entitlement was also retained by the Crown to cover the cost of their benefit, any entitlements over and above their benefit were passed on directly to the receiving carer.

As benefit income is treated as ACC income, once a claim is approved, this means a receiving carer who was in receipt of a sole parent rate of benefit and had their entitlement retained by the Crown is now entitled to receive those payments directly. Inland Revenue, if asked will confirm, any entitlement to a child support refund.

The BLSP will be included for subsequent child support formula assessment(s). However as with any formula assessment if the expected income for the child support year is likely to have dropped by 15% or more an estimate of income can be applied for. Alternatively, if the child support assessment does not include all of the relevant circumstances an application for an administrative review can be made. More details information on how child support works is available on our website: ird.govt.nz

Working for Families

For Working for Families (WfF) tax credit purposes, a BLSP from ACC is included as part of the family scheme income in the year it is paid. That is, the BLSP income will only impact the current year entitlements and will not be apportioned to past year WfF tax credit assessments.

The BLSP payments will show as a separate category in the family scheme income profile. The treatment of this income for WfF is similar to salary and wages. As the income is treated as ACC income, entitlement to the in-work tax credit component can be checked.

Further information

There is more information including an example of the calculation of the alternative rate on our website. The table on the following page provides links to some publicly available information.

Item	Date	Document	Website address
1.	July 2023	Information Release Taxation (Annual Rates for 2023-24, Multinational Tax, and Remedial Matters) Bill (pages 30 to 39 refer)	https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2023/2023-ir-cab-multinational-tax-bill/2023-ir-cab-multinational-tax-bill.pdf?modified=20230810030944
2.	May 2023	Commentary on the Bill (pages 93 to 102 refer)	https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2023/2023-revised-commentary-multinational-tax-bill/2023-revised-commentary-multinational-tax-bill-pdf.pdf?modified=20230531042748
3.	May 2024	Tax Information Bulletin Vol 36 No 4 May 2024 (pages 64 to 67 refer)	https://www.taxtechnical.ird.govt.nz/-/media/project/ir/tt/pdfs/tib/volume-36---2024/tib-vol36-no4.pdf?modified=20251127202522
4.		Website information Backdated ACC lump sum payments	https://www.ird.govt.nz/income-tax/income-tax-for-individuals/types-of-individual-income/backdated-lump-sum-payments-from-acc-msd-va/backdated-acc-lump-sum-payments

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, may be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely



Sue Gillies

Customer Segment Leader - Families