



1 September 2025

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 4 August 2025. You requested the following:

- 1. A copy of all documents and instructions held by the Inland Revenue Department relating to the application of the alternative tax rate for multi-year accident compensation payments. This is in reference to the amendment passed in the Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Bill, which inserted new sections RD 20B and RD 20C into the Income Tax Act 2007.*
- 2. Any information, including internal guidance or correspondence with ACC, that clarifies the definition and application of a "period of more than 1 income year" as it applies to backdated lump sum payments under the legislation referenced above.*

#### **Item 1**

When ACC requests information from Inland Revenue regarding an individual's tax rate, the rate provided is derived from a formula built into Inland Revenue's systems. As such, there are no instructions for staff regarding the application of alternative tax rates for multi-year accident compensation payments.

While Inland Revenue staff do not manually apply this tax rate themselves, Inland Revenue provides guidance to its staff on how the rate is calculated and communicated to ACC. This information is available on the Inland Revenue intranet page titled 'Backdated compensation and personal service rehabilitation payments from ACC'. Please find attached the relevant sections of that page.

#### **Item 2**

I am refusing this part of your request under section 18(c)(i) of the OIA, as the release of this information would be contrary to section 18(3) of the Tax Administration Act 1994. The Commissioner of Inland Revenue is not required to disclose any item of revenue information if the release of the information would adversely affect the integrity of the tax system or would prejudice the maintenance of the law.

#### **Right of review**

If you disagree with my decision on your OIA request, you have the right to ask the Ombudsman to investigate and review my decision under section 28(3) of the OIA. You can contact the office of the Ombudsman by email at: [info@ombudsman.parliament.nz](mailto:info@ombudsman.parliament.nz).

**Publishing of OIA response**

We intend to publish our response to your request on Inland Revenue's website ([ird.govt.nz](http://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



Michale Waller

**Segment Management Lead**

Customer & Compliance Services - Individuals



# Backdated compensation and personal service rehabilitation payments from ACC

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Not in scope

or student loan repayments. This is with the exception of a lump sum compensation paid under the Accident Compensation Act 2001. Refer to [Family Scheme Income](#) - 'Excluded Income' section.

Not in scope


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Not in scope


Not in scope




Not in scope



Not in scope



Not in scope



Prior to 1 April 2024 the payment was taxed at applicable tax rates once included with all the other income of the customer. This may have pushed the customer into a higher bracket than what they would have had to be taxed at if they were paid the amount each year.

From 1 April 2024, an alternate method is used to calculate the tax for lump sum payments that relate to more than one income year. This change applies to both compensation and personal service rehabilitation payments made as a multi-year lump sum.

ACC will request an average tax rate for a client from IR. 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 in the 4 year period for which the rates are known, divided by the number of years the rate is known for.


If there was no return for any of the 4 earlier years the formula will self-adjust to account for this.

The lowest possible rate will be 10.5%.

ACC will request confirmation of the recipient's average tax rate before the payment is made.

ACC is required to apply the average tax rate to a compensation backdated lump sum payment, however for the personal service rehabilitation payments it is optional. The personal service rehabilitation payment client will need to choose if they wish to use the average rate or not.

Not in scope



As part of the end of year assessment, a square up will occur in the lump sum payment/s based on the alternate tax rate calculation. The square up is 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.

Not in scope

## Example

In 2019 Scotty was involved in a workplace accident that saw him suffer a long-term injury.

For a time, Scotty receive weekly compensation from ACC for loss of earnings. However, ACC stopped paying him weekly compensation in 2019 when it was considered he was able to return to work. Scotty disputed this decision, but it took some years to resolve this dispute as several investigations needed to be completed.

In 2023 Scotty was awarded a payment of \$50,000 per year. This was paid in a lump sum of \$200,000 in March 2023.

Before ACC pays his BLSP, ACC contacts Inland revenue for Scotty's average basic tax rate over the previous four years. His income and average basic tax rate, excluding the BLSP, for each year is as follows:

	2020	2021	2022	2023
Income	\$18,000	\$21,000	\$26,000	\$30,000
Basic tax rate	12%	12.8%	13.7%	14.2%

Using the formula, Scotty's average basic tax rate for the previous four years would be:

- $12\% + 12.8\% + 13.7\% + 14.2\% / 4 = 13.175\%$

Therefore, instead of Scotty's BLSP being included in his annual tax return for 2024, it would be taxed separately at his average basic tax rate.


ACC can apply the average tax rate to the BLSP ( $\$200,000 \times 13.175\%$ ) and withhold the tax before making the payment to Scotty. Scotty's tax liability on the BLSP would be \$26,350.

Assuming Scotty has \$30,000 income from his part-time office job in 2024, he will continue to pay tax at the applicable rate on that income. However, no additional tax will be owed for the BLSP.

Without the alternative tax treatment, Scotty's BLSP would have been included in his taxable income for 2024 ( $\$30,000 + \$200,000$ ). Under ordinary treatment, his tax liability would have been \$69,820.

Not in scope

Not in scope



## Income Tax Act 2007

- [Section RD 20B](#) Payments of accident compensation for period of more than 1 year
- [Schedule 1 - Part A](#) Basic income tax rates

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