PROVISIONAL TAX

Provisional tax is an interim tax payment made during the financial year towards your income tax, as opposed to paying one lump sum at the end of the year. The principle underlying interim tax payments is that tax should be paid as income is earned.

Threshold for Provisional Tax

The threshold for becoming a provisional tax payer is $2,500 of income tax at the end of the year from your last income tax return. Therefore if you have less than $2,500 of income tax to pay you will make this as one payment at the end of the tax year and provisional tax will not apply to you.

However, if you have more than $2,500 of residual income tax you will need to pay provisional tax in instalments throughout the next tax year. Residual income tax (RIT) is the tax to pay at the end of the year, which is your income tax less PAYE and other tax credits. Provisional tax applies to anyone who pays income tax, including individuals, companies and trusts.

Provisional Tax Due Dates

Payment dates for provisional tax are fixed dates during the year. Your payment dates will depend on your balance date and the calculation method you use.

Late payment penalties and interest will apply if you miss your due dates, so make sure you always pay on time. Use of money interest (UOMI) is charged by IRD on underpayments and paid out on overpayments made during the year. Payments can be made online via internet banking, online via a credit card or by sending IRD a cheque.

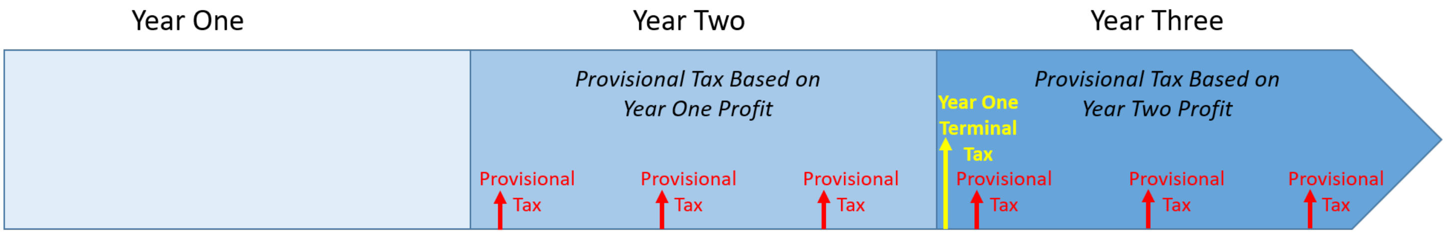
Methods for Calculating Provisional Tax

There are four different ways of calculating provisional tax. It is important to seek our advice on which option would suit your business best.

1. **AIM:** the accounting income method. Your accounting software calculates your provisional tax and allows you to pay smaller amounts more often based on your current year's cashflow. Your provisional tax due dates will be monthly or two-monthly in line with your GST due dates.
2. **Standard/Uplift** (default method): last year's residual tax plus 5%. Your provisional tax due dates will usually be in three instalments in August, January and May, or in two instalments in October and May if you file GST six-monthly. The 'safe harbour' provision is where you may not be charged IRD interest on underpayments of provisional tax if you meet certain criteria.
3. **Estimation**: based on the estimated profit for the year. Your provisional tax due dates will usually be in three instalments in August, January and May, or in two instalments in October and May if you file GST six-monthly.
4. **GST Ratio**: paid with each GST return and based on a percentage of sales for that period. Your provisional tax due dates will be in six two-monthly instalments.

Why Are Tax Payments So High in the Third Year of Business?

Where provisional tax has not been paid during the first year of business, a business can be hit with two years' of tax payments at once. In the second year, the provisional tax payments are paid during that year based on the first year's profit. However, in the third year provisional tax payments are paid based on the second year's profit, and in addition the first year's terminal tax is due at the start of the third year. Therefore it is important to put aside income in the first year of business to cover the tax that will be due on the first year's profit. In saying that, knowing what your tax liability is likely to be can be difficult.



Please contact us if you are unsure of your provisional tax liability, or think that you may be required to make provisional tax payments based on your current year's income.

If at any stage you are unable to meet tax payments as they become due to the IRD, please contact us prior to the payment date. We can work with the IRD to make arrangements that may help to reduce the costs of late payments, or help you to enlist the services of a tax intermediary who can help fund your tax at a lower interest rate than the IRD charges.