

Contents

About this guide	3	<hr/> <p>This guide is A5 and can be economically printed two pages per A4 sheet. If you're printing from a downloaded PDF, check the layout settings in your printer options to achieve this.</p> <hr/>
Why paying tax matters	4	
How provisional tax works	5	
Your options for calculating provisional tax	7	
Penalties	20	
Interest on late or unpaid tax	22	
Your first year in business	29	
Budgeting for your provisional tax	32	
Terms we use	33	
How to contact Inland Revenue	35	
Privacy	35	
Inland Revenue's services	36	

The information in this guide is based on current tax laws at the time of printing.

About this guide

Provisional tax is a way of spreading out your tax payments throughout the year. This guide tells you how to manage your provisional tax instalments.

This guide covers:

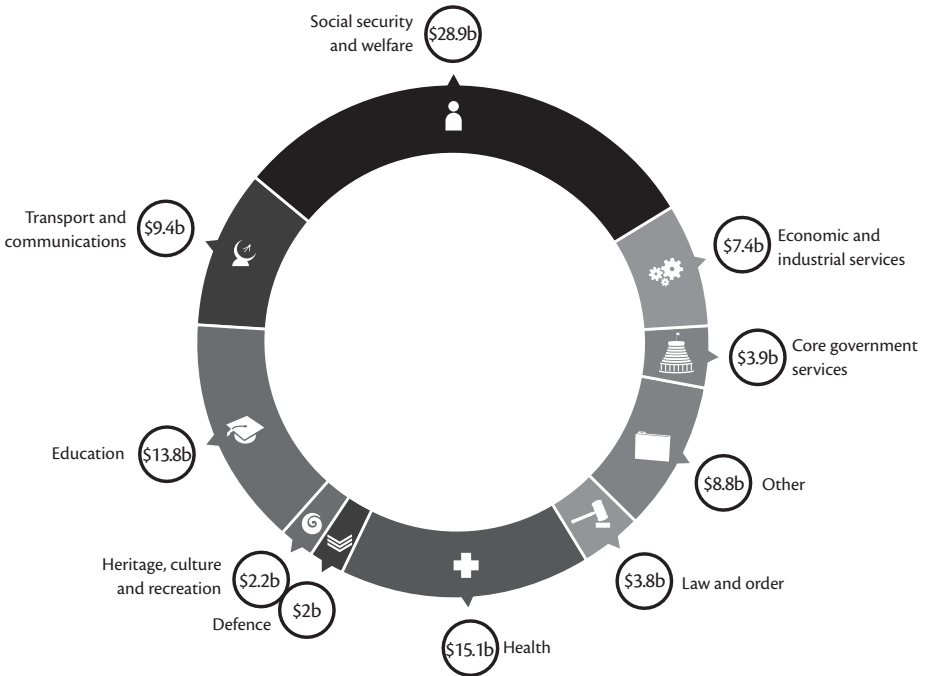
- how provisional tax works
- who has to pay it
- how to calculate it
- when to pay it
- what happens if you don't pay
- budgeting for provisional tax
- a glossary to help you understand the tax terms we use.

We explain all the tax terms we use in this guide on pages 31-32.

Why paying tax matters

Everyone who earns money in New Zealand must pay their share of tax. Here's how the Government spent our taxes in 2015–16.

The government uses taxpayers' money to pay for services we all need



How provisional tax works

Provisional tax isn't a separate tax. It's income tax you pay during the year because of the way you earn your income. Provisional tax helps you "spread the load" and avoid a big end-of-year tax bill.

You must pay provisional tax if, at the end of the previous year, you're left with tax to pay of more than \$2,500. We call this amount your "residual income tax" (RIT). Specifically, RIT is the amount of tax to pay on your taxable income, less any PAYE deducted and any other tax credits you may be entitled to (except Working for Families Tax Credits).

Your RIT may exceed \$2,500 if you earn income without enough tax deducted to cover your income tax for the year. Examples are:

- self-employed or rental income
- schedular payments or salaries and wages with a low PAYE rate
- income from a partnership or look-through company
- income from an estate or trust
- overseas income.

In most cases, you pay provisional tax in three instalments during the year, based on what you expect your tax bill to be.

When you file your income tax return and calculate your tax for the year, you deduct the provisional tax you paid earlier.

Any taxpayer who pays income tax may have to pay provisional tax. This includes individuals, companies and trusts.

Provisional tax is income tax you pay during the year.

Provisional tax helps you spread the load.

RIT is the amount of tax to pay on your taxable income, less any PAYE deducted and any other tax credits you may be entitled to (except Working for Families Tax Credits).

Example

Matt earns a salary and also has self-employed income. Here's his 2014 income tax return:

Salary	\$ 14,800
Plus self-employed income (net profit)	\$ 47,600
Taxable income	\$62,400
Tax on taxable income	\$ 11,740
Less PAYE deducted from the salary (not including ACC earners' levy)	\$ 1,610
Residual income tax (RIT)	\$10,130

Matt's 2014 RIT is more than \$2,500, so he'll have to pay provisional tax for the 2015 tax year. When he files his 2015 return, he'll deduct the provisional tax from his RIT, leaving a refund or "end-of-year tax" to pay.

When to pay your instalments

When you pay your provisional tax instalments depends on your balance date - the last day of your tax year.

This guide assumes you have the standard balance date of 31 March. If you don't, you can use our "Tax due date calculator" to print a calendar of all the due dates that apply to you. Go to www.ird.govt.nz (search keywords: tax due date calculator).

Transitional year

If you change your balance date, you may need to calculate the provisional tax for your "transitional year" a bit differently. That's because your transitional year - the first year with the new balance date - will be for a period of more or less than 12 months.

Anyone wanting to change their balance date must get approval from Inland Revenue first. If we approve your new balance date, we'll tell you when your instalments are due.

Your options for calculating provisional tax

The idea behind provisional tax is simple. You're trying to calculate an amount that will closely match the RIT you expect for the following year. That way, when you complete your tax return and deduct your provisional tax, you should only have a small amount of end-of-year tax left to pay. You may even receive a refund.

There are three ways to calculate provisional tax:

- the standard option
- the estimation option
- the ratio option.

Because most people don't know how much tax they'll need to pay next year, calculating provisional tax usually involves a certain amount of judgement. You'll need to decide which provisional tax option works best for you.

If you don't make a choice, we'll use the standard option.

You can choose any option by filling in a box in your income tax return, sending us a secure email through myIR secure online services, or calling us on 0800 377 774.

Choose the option that works best for you.

The standard option

The standard option assumes your income will increase from year to year. Your provisional tax will equal your previous year's RIT plus 5%. It's also the "fall-back" option if you don't choose one.

The standard option assumes your income will increase from year to year.

When your provisional tax is due

You'll pay three instalments on 28 August, 15 January and 7 May. But if you're registered for GST and you file six-monthly GST returns, you'll only pay two instalments, on 28 October and 7 May.

Example

Nicole earns schedular payments that have tax deducted at a flat rate of 20%. Because 20% is less than her average tax rate, Nicole has end-of-year tax to pay. In May 2014, Nicole completes her 2014 income tax return. These are her provisional tax calculations:

2014 RIT

(over \$2,500, so Nicole must pay provisional tax)

\$ 7,600

Plus 5%

\$ 380

Nicole's 2015 provisional tax

\$7,980

Her due dates are:

28 August 2014

\$ 2,660

15 January 2015

\$ 2,660

7 May 2015

\$ 2,660

\$ 7,980

Nicole will pay the first two instalments of her 2015 provisional tax at the same time as she's earning her 2015 income. She's "spreading the load". The final instalment is due after the end of her 2015 tax year.

Filing your tax returns

When you use the standard option, your provisional tax is calculated from your previous year's RIT.

You need to file your tax return on time, so you'll know your RIT before your instalments are due.

If you don't have an extension of time to file your return, you'll need to file it by 7 July every year. That gives you time to work out how much provisional tax you need to pay, and prepare for your first instalment on 28 August.

If you file your returns late, you still need to pay your provisional tax instalments on time. Complete your return so you can work out how much you need to pay. Penalties and interest could be charged if you pay an instalment after the due date.

Filing your return if you have an extension-of-time arrangement

If you have an extension of time to file your tax return, you could have to pay an instalment of provisional tax before you know what your RIT is.

In this situation, you'll calculate your provisional tax instalments using the RIT from two years ago, plus 10%.

Remember to file your returns on time.

If you're using a tax agent, they'll usually have an extension of time.

When you file your return, you'll do a special "catch-up" calculation to take into account any earlier under or overpayments. The tables show how you'd do the calculation for the 2015 tax year.

Instalment 1 (called "P1" in the other two tables)

2014 return filed	Instalment 1 (P1) due 28 August 2014
Between 28 August 2014 and 15 January 2015	$(2013 \text{ RIT} + 10\%) \div 3 = \text{amount to pay}$
After 15 January 2015	$(2013 \text{ RIT} + 10\%) \div 3 = \text{amount to pay}$

Instalment 2 (called "P2" in the table below)

2014 return filed	Instalment 2 (P2) due 15 January 2015
Between 28 August 2014 and 15 January 2015	$(2014 \text{ RIT} + 5\%) \times 2 \div 3 - (P1) = \text{amount to pay}$
After 15 January 2015	$(2013 \text{ RIT} + 10\%) \times 2 \div 3 - (P1) = \text{amount to pay}$

Instalment 3

2014 return filed	Instalment 3 due 7 May 2015
Between 28 August 2014 and 15 January 2015	$(2014 \text{ RIT} + 5\%) - (P1) - (P2) = \text{amount to pay}$
After 15 January 2015	$(2014 \text{ RIT} + 5\%) - (P1) - (P2) = \text{amount to pay}$

Even if you filed your return after 7 May, your provisional tax will still be based on your 2014 RIT.

Example

Ned's company, EJ Auto Services, has an extension-of-time arrangement. Its 2014 return doesn't have to be filed until 23 January 2015, so Ned will have to pay the company's first two instalments of 2015 provisional tax (due 28 August 2014 and 15 January 2015) before he knows how much the RIT will be. He goes back two years and looks at the company's 2013 RIT:

EJ Auto Services 2013 RIT	\$2,400
Add 10%	<u>\$ 240</u>
	\$2,640

Using the "catch-up" method, Ned pays the following instalments of provisional tax:

28 August 2014 \$880 ($\$2,400 + \$240 \div 3$)

15 January 2015 \$880 ($\$2,400 + \$240 \div 3 \times 2 - \880)

The company files its 2014 return on 23 January 2015, showing an RIT of \$3,740. The final catch-up instalment is:

7 May 2015 \$2,167 ($\$3,740 + 5\% [\$187] - \$880 - \880)

If your return for the previous year is assessed/ amended within 30 days of an instalment date

If the return for the previous year is either assessed or amended within 30 days of a provisional tax instalment date, that provisional instalment will not change.

Example

John has filed his 2015 IR3 return on 7 July 2015. His provisional instalments for 2016 are:

28 August 2015: \$3,000

15 January 2016: \$3,000

7 May 2016: \$4,000

His return is then reassessed on 20 December 2015, creating an increase in his 2015 RIT. As there are less than 30 days between the reassessment and his second provisional tax instalment date, the increase in the amount of provisional tax payable will be included in the third instalment as follows:

28 August 2015: \$3,000

15 January 2016: \$3,000

7 May 2016: \$5,500

If your income changes

You can change from the standard option to the estimation option at any time up until the date your final instalment is due. After you've made the change, you can't then change back to the standard option for the same tax year.

The estimation option

The estimation option could be right for you when your income is dropping. Using the standard option might mean you overpay your provisional tax.

Your provisional tax equals your estimate of next year's RIT. It works like this.

- Add up all the taxable income you expect to receive next year.
- Calculate the tax on this figure.
- Deduct any PAYE and other tax credits (except Working for Families Tax Credits) you'll be entitled to.

The result is your estimated RIT, and this is your provisional tax for the following year.

When your provisional tax is due

You'll pay three instalments, due 28 August, 15 January, and 7 May. But if you're registered for GST and you file six-monthly GST returns, you'll only pay two instalments, due 28 October and 7 May.

The estimation option may be a good choice if your income is dropping.

Example

Hiwi is a property developer and a polytech lecturer. The property market is in a slump and Hiwi expects his net profit to decrease in the coming year. His tax agent advises him to switch to the estimation option to work out his 2015 provisional tax.

Hiwi's calculations:

Net profit from property sales	\$170,600
Plus polytech salary	<u>\$ 78,000</u>
Expected taxable income	\$248,600
Tax on taxable income	\$ 72,958
Less PAYE deducted from the salary (not including ACC earners' levy)	<u>\$ 16,660</u>
Estimated RIT for 2015	\$ 56,298

Hiwi's 2015 provisional tax is \$56,298 to be paid in three instalments on:

28 August 2014	\$ 18,766
15 January 2015	\$ 18,766
7 May 2015	<u>\$ 18,766</u>
	\$ 56,298

Underestimating your provisional tax

It pays to keep a close watch on your income because you could be charged a penalty if your provisional tax estimation is unreasonably low, compared with your RIT when you file your return.

You can re-estimate as often as you like, right up to the date of your final instalment. You can:

- go online at www.ird.govt.nz (search keyword: ir309)
- send us a secure email through myIR
- call us on 0800 377 774.

You may have to pay a penalty if you underestimate your provisional tax.

If you do re-estimate, you'll need to adjust later instalments to take into account any earlier under or overpayments.

Example

In February 2015, Hiwi realises his year is going better than he first thought. He re-estimates his 2015 provisional tax to \$65,000.

So far, he's paid two instalments:

28 August 2014	\$18,766
15 January 2015	\$18,766

His new estimate means these instalments are now too low. Hiwi's final instalment must cover this underpayment. His new calculation is:

Re-estimated provisional tax	\$65,000	
Less instalments already paid	\$18,766	
	<u>\$18,766</u>	
		\$37,532
		<u>\$27,468</u>

Hiwi's final instalment, due 7 May 2015, is \$27,468.

Changing options

Once you've selected the estimation option, you can't change to the standard option during the same tax year.

The ratio option

This option can suit people whose income tends to go up and down during the year. You calculate your provisional tax by applying a ratio percentage to the taxable supplies in your GST returns so your provisional tax instalments align with your business cashflow.

We calculate your ratio percentage by dividing your RIT for the last tax year by your total GST taxable supplies for the same year. If your last year's figures aren't available, we base the ratio on the RIT and total GST taxable figures from the previous year.

When your provisional tax is due

Using the ratio option, you pay six instalments of provisional tax a year. If you have a 31 March balance date, your due dates are 28 June, 28 August, 28 October, 15 January, 28 February, and 7 May.

Qualifying for the ratio option

You can use the ratio option if you meet all these requirements:

- You were registered for GST for all of the previous tax year, and that year was not your first year in business.
- Your RIT for each of the two preceding years is more than \$2,500 but not more than \$150,000.
- You file GST returns monthly or two-monthly.
- You're not filing as a partnership or look-through company.
- Your calculated ratio percentage is between 0% and 100%.

The ratio option may be helpful if you have seasonal income.

Only provisional tax payers registered for GST who file one-monthly or two-monthly returns can use the ratio option.

The ratio percentage

You must let us know before the start of the tax year if you decide to use the ratio option. We'll calculate the ratio percentage for you, using information from your income tax and GST returns.

$$\text{GST ratio percentage} = \frac{\text{RIT from your latest income tax return}}{\text{total GST taxable supplies from the same tax year (less ratio percentage adjustments - see page 18)}} \times \frac{100}{1}$$

The ratio percentage will only work if your returns are up to date. We can't calculate a ratio percentage using returns from a tax year more than two years earlier than the provisional tax year.

Example

Leonie is a kiwifruit grower in Te Puke. She files two-monthly GST returns. On 20 February 2014, she applies to use the ratio option to work out her 2015 provisional tax. We approve this and review her latest returns, which are for the 2013 year. Her 2013 RIT is \$51,000, and her taxable supplies are \$2,114,723, broken down as follows:

GST return period	Taxable supplies (\$)
April-May 2012	690,025
June-July 2012	580,121
August-September 2012	145,859
October-November 2012	90,412
December 2012 - January 2013	152,681
February - March 2013	455,625
Total taxable supplies	\$2,114,723

Leonie's ratio percentage is: $\frac{\$51,000}{\$2,114,723} \times \frac{100}{1} = 2.4\%^*$

*Your ratio percentage is rounded down to one decimal place.

Calculating your provisional tax

We'll send you a letter telling you your ratio percentage. Keep the letter with your tax records. Calculate your provisional tax instalments, following the steps on the back of your GST return.

You work out each instalment by applying the ratio percentage to the taxable supplies in each GST return (two-monthly filers) or every second GST return (one-monthly filers).

Leonie has approval to work out her 2015 provisional tax using a ratio percentage of 2.4%. She can now do the calculations.

GST return period	Taxable supplies (\$)	Ratio percentage	Provisional tax instalment (\$)	Payment and GST return due
April - May 2014	725,111	2.4%	17,402.66	28 June 2014
June - July 2014	625,456	2.4%	15,010.94	28 August 2014
August - September 2014	102,612	2.4%	2,462.68	28 October 2014
October - November 2014	72,558	2.4%	1,741.39	15 January 2015
December 2014 - January 2015	298,386	2.4%	7,161.26	28 February 2015
February - March 2015	422,899	2.4%	10,149.57	7 May 2015

Updating your ratio percentage

After you file an income tax return, we'll update your ratio percentage to match your income and tell you what it is. You can start using your new ratio percentage 30 days from the date of our letter.

Adjusting your ratio percentage

If you sell a fixed asset, you can ask us to adjust your ratio percentage. Enter your details under "Provisional tax" on the back of your GST return.

Because we treat sales of fixed assets differently in income tax and GST returns, you may pay too much provisional tax if your ratio percentage isn't adjusted.

The value of the fixed asset you're selling must be the same or more than:

- \$1,000, or
- 5% of your total taxable supplies for the previous 12 months.

We'll use the larger amount.

If you stop using the ratio option

You don't need to reapply every year if you still meet the requirements. We'll let you know if your ratio percentage changes.

But, you'll have to stop using the ratio option and choose a different one if:

- you cancel your GST registration
- any of your GST returns are overdue by 60 days or more
- your ratio percentage isn't between 0% and 100%
- you start filing six-monthly GST returns
- your RIT drops to \$2,500 or less, or goes over \$150,000.

We'll tell you if you no longer qualify. You can also contact us if you want to stop using the ratio option at any time.

If you stop using the ratio option **before** your first instalment of provisional tax is due, you can start using either the standard or the estimation option. We'll move you onto the standard option unless you tell us otherwise.

If it's **after**, you must use the estimation option.

A fixed asset is an item owned by the business that will generally be used in the business for more than a year, and is not for sale to customers, eg, buildings, vans, equipment.

Penalties

We charge penalties on late or underpaid instalments of provisional tax.

Late payment penalties

We charge late payment penalties (LPPs) on all overdue payments.

We charge the penalties in stages. This means that the longer a payment remains overdue, the more penalties we'll add.

The stages are:

- 1% the day after the due date
- 4% seven days later
- 1% each month the tax and penalties remain overdue.

The 1% monthly penalty is no longer being charged for the 2018 income year onwards. The initial 1% and 4% will still be charged.

We can stop some late payment penalties being added to your account if you set up a plan with us to pay your tax.

We charge penalties on late payments.

Example

Anthony had to pay provisional tax of \$7,600 on 7 May 2015 for the 2015 income year. He paid it on 10 July, over two months late. LPPs were added as follows:

Date	Amount owing (\$)	LPP	LPP added (\$)	New amount owing (\$)
8 May 2015	7,600.00	1%	76.00	7,676.00
14 May 2015	7,676.00	4%	307.04	7,983.04
8 June 2015	7,983.04	1%	79.83	8,062.87
8 July 2015	8,062.87	1%	80.63	8,143.50
Total			543.50	

Shortfall penalties

We may charge a shortfall penalty if you use the estimation option to calculate your provisional tax and your estimate is unreasonably low. We compare the provisional tax you paid to the RIT you calculate when you file your tax return, and apply the penalty to the underpaid amount. The amount of the shortfall penalty depends on the seriousness of the mistake.

Mistake	Shortfall penalty
Not taking reasonable care	20%
Unacceptable tax position	20%
Gross carelessness	40%
Abusive tax position	100%
Evasion	150%

When you need to pay your penalties

You must pay any penalties as soon as you get them. You must also pay any overdue provisional tax at the same time.

You can't claim a deduction in your income tax or GST returns for any penalties you pay Inland Revenue.

Interest on late or unpaid tax

We may charge interest for end-of-year tax paid late or unpaid end-of-year tax and provisional tax (see "Paying and receiving interest" below). Interest is a charge for the use of money. This means we may pay you interest if you overpay your provisional tax.

Interest isn't a penalty - it's a charge for the use of money.

We calculate interest when you file your income tax return. We compare your RIT to the provisional tax you've paid. You may have to pay interest even if you've paid your instalments in full and on time, or if you didn't have to pay provisional tax.

Paying and receiving interest

Not everyone will pay interest on underpaid provisional tax. And not everyone will receive interest if they've overpaid their provisional tax.

We'll calculate interest for:

- individuals who used the standard option, with RIT \$50,000 or more
- individuals who used the estimation option, with RIT over \$2,500
- non-individuals (eg. companies and trusts) with RIT over \$2,500
- anyone whose RIT is \$2,500 or less who chose to be a provisional tax payer (individuals also need to have used the estimation option) - see "Choosing to be a provisional tax payer" on page 27.)
- holders of a certificate of exemption from RWT.

For the 2018 income year and onwards

When determining the interest start date, the \$50,000 RIT threshold for individuals using the standard option has been increased to \$60,000. This threshold will also apply to non-individuals.

Holders of a certificate of exemption from RWT will no longer have interest charged.

Anyone choosing to be a provisional taxpayer has to use the estimation option.

We don't charge interest if the underpaid or overpaid tax is \$100 or less.

There are changes in debit and credit use-of-money interest (UOMI) on provisional tax for the 2018 income year onwards when using the standard option, and when changing from the standard option to the estimation option for the final instalment, provided all required payments are made in full and on time. There is no change to debit or credit use-of-money interest when using the estimation option instalment(s) other than at the final instalment.

When using the standard option the start date of UOMI depends on your RIT (when payments are all made in full and on time).

Provisional tax amount	End of year residual income tax (RIT)	Credit or debit UOMI	Calculated from
More than RIT amount	Less than \$60,000	Credit UOMI calculated on the difference between the provisional tax amount paid and the RIT	Terminal tax due date
More than RIT	\$60,000 or more	Credit UOMI calculated on the difference between the provisional tax amount paid and the RIT	Last instalment date
Less than RIT	\$60,000 or more	Debit UOMI calculated on the difference between the provisional tax amount paid and the RIT	Last instalment date
Less than RIT	Less than \$60,000	Debit UOMI calculated on the difference between the provisional tax amount paid and the RIT	Terminal tax due date

If you've paid all but your final instalment in full and on time using the standard option then UOMI will apply from the last instalment due date. This will also apply if you changed to the estimation option at or before your final instalment due date.

If you pay an instalment late or don't pay it at all, UOMI will be charged from the due date of the instalment on the lesser of:

- the amount of the instalment that was paid less the amount that should have paid, or
- your RIT divided by the number of instalments for the tax year less the amount paid.

The above changes may not apply if:

- you're associated to specific persons or entities with one of you being a company and they aren't covered by the above standard option rules or they don't use the GST ratio option, or
- you've entered an avoidance arrangement.

How we calculate interest

We use this formula to calculate interest on provisional tax:

$$\frac{t \times r}{365} \times d$$

Where:

t = the underpaid or overpaid tax (including LPPs)

r = the current interest rate

d = the number of days where interest applies.

Different rates of interest apply to underpaid and overpaid tax. Interest rates change frequently. You can find the latest rates at www.ird.govt.nz (search keywords: current interest rates).

We count both the first day that interest starts and the last day interest is payable when we calculate the number of days interest applies.

When you need to pay your interest

If we charge interest, you need to pay it by 7 February (or 7 April if you have a tax agent with an extension of time). Because interest is charged daily, you may want to pay before the due date. The longer you leave it, the more you'll pay.

You can claim a deduction in your income tax return for the amount you paid. If we pay you interest, you need to include it as income.

Interest is GST exempt, so you don't include interest (paid or received) in your GST returns.

The longer you leave it,
the more you'll pay.

Example

ABC Ltd is a construction firm. Karen, the finance manager, used the standard option to calculate provisional tax of \$24,000 for the 2016 tax year. Instalments were due on:

28 August 2015	\$ 8,000
15 January 2016	\$ 8,000
7 May 2016	<u>\$ 8,000</u>
	\$24,000

The company paid all instalments on time.

When Karen filed the company's 2016 tax return on 7 July 2016, she calculated RIT of \$38,400. That left end-of-year tax of \$14,400.

Because the RIT was more than \$2,500, the company had to pay interest. We compared the company's provisional tax payments to amounts of \$12,800 (RIT of \$38,400 ÷ 3).

Karen got the balance from her myIR secure online services account on 9 September 2016 and paid the end-of-year tax and interest right away.

We calculated the interest at a rate of 9.21% to 7 May 2016 and then 8.27% after this:

Days interest applied	Amount interest will be calculated on (\$)	Interest calculation	Interest charged (\$)
29 August 2015 - 15 January 2016 (140 days)	4,800 (12,800 - 8,000)	$\frac{\$4,800 \times 0.0921}{365} \times 140$	169.56
16 January 2016 - 7 May 2016 (112 days)	9,600 (25,600 - 16,000)	$\frac{\$9,600 \times 0.0921}{365} \times 112$	271.30
8 May 2016 - 9 September 2016 (125 days)	14,400 (38,400 - 24,000)	$\frac{\$14,400 \times 0.0827}{365} \times 125$	407.83
Total interest payable			851.11

Points to note from the example

- Karen's total payment of \$15251.11 was made up of \$14,400 end-of-year tax and \$851.11 interest.
- The underpaid provisional tax was payable straight away.
- Karen had until 7 February 2017 to pay the end-of-year tax, but she wanted to pay it early to avoid further interest.
- We didn't charge late payment penalties, because Karen paid her provisional tax instalments in full and on time.
- We charged interest because ABC Ltd had the use of the difference between the provisional tax and the RIT over the period 29 August 2015 - 9 September 2016.

Don't ignore your overdue tax

See how quickly penalties and interest can mount up.

Penalties and interest charged on \$8,000 over 12 months (for income years before 2018)

Original amount owing	\$ 8,000.00
1% LPP after 1 day	\$ 80.00
4% LPP after 7 days	\$ 323.20
1% monthly LPPs for 12 months	\$ 1,065.69
Interest at 8.4% for 12 months	\$ 745.30
Total amount payable after 12 months	\$10,214.19

You'll pay an extra \$2,214.19 in penalties and interest on an amount of \$8,000. This means your debt has increased by over 27% after a year.

Interest and the ratio option

You won't pay (or receive) interest on any of your provisional tax instalments if you use the ratio option for the full year.

But, we'll charge interest if you owe more than \$100 after your end-of-year tax due date (7 February, or 7 April if you have a tax agent with an extension of time).

Late payment penalties will apply to instalments paid late or not paid in full.

Paying in full and on time will save you money.

Choosing to be a provisional tax payer

You can choose to be a provisional tax payer if you're in this situation:

- your RIT works out to be \$2,500 or less
- you've made provisional payments of more than \$2,500
- you had a reasonable expectation, on the day you made your first payment, that you would have to pay provisional tax.

Talk to your tax agent first.

Then let us know, in writing, when you file your tax return if you want to be treated as a provisional tax payer for the year.

We'll calculate interest on your voluntary payments. Depending on the timing of your payments, you may end up with interest to pay.

Individuals will need to estimate their provisional tax on or before their third instalment date to have interest calculated.

We can help if you're finding it hard to pay

Penalty and interest charges can increase your provisional tax payments quite quickly, so you'll save money if you pay your instalments in full and on time.

If you can't pay, call us as soon as you can - before the due date, if possible. We'll work with you to develop a solution that takes into account your personal circumstances.

Don't let your debt get out of hand. Talk to us straight away.

You can pay your instalments electronically, by credit or debit card, by cheque, or by using the drop box at an Inland Revenue office.

Get full details of each payment method at www.ird.govt.nz (search keywords: making payments).

Your first year in business

Your first year in business isn't tax-free.

You'll need to file an income tax return at the end of your first year and pay tax on your net profit. You won't have to pay provisional tax during your first year in business unless your previous year's RIT was \$2,500 or more.

But, you can make voluntary payments of provisional tax. In your second year you may have to pay end-of-year tax for your first year, on top of provisional tax instalments for your second year. Your end-of-year tax could be a significant amount if you don't have any voluntary payments to deduct.

Voluntary payments will help if you need to pay interest, and may entitle you to an early payment discount (see page 29).

Voluntary payments can help your cash flow.

Example

Isobel started her own business in October 2014. In June 2015, she sent in her first income tax return, for the year ended 31 March 2015. Her RIT (which is also her end-of-year tax) was \$75,000. Isobel used the standard option to work out her 2016 provisional tax of \$78,750.

RIT	\$75,000
Plus 5%	\$ 3,750
2016 provisional tax	\$78,750

Isobel's due dates and payments are:

Due date	Tax to pay	Amount
28 August 2015	2016 provisional tax	\$26,250
15 January 2016	2016 provisional tax	\$26,250
7 February 2016	2015 end-of-year tax	\$75,000
7 May 2016	2016 provisional tax	\$26,250

Because she made no voluntary payments for 2015 income tax, Isobel must pay her \$75,000 end-of-year tax as well as her \$78,750 2016 provisional tax during her second year in business.

Early payment discount

In your first year in business, you could qualify for a discount of 6.7% if you make voluntary tax payments during the tax year before you need to pay provisional tax.

Individuals and partners in a partnership can claim the discount, but companies, trusts and other forms of business organisations don't qualify.

You can get the discount if you meet these conditions:

- Your income comes mainly from a business (not interest, dividends, royalties, rents or beneficiary income).
- You're not required to pay provisional tax during the year you make the voluntary payments, or for any of the prior four years.
- You make the voluntary payments on or before the end of your tax year.
- You apply for the discount on or before the date your tax return must be filed (tick the box in the return).

The discount is 6.7% of either:

- the total amount of your voluntary payments
- 105% of your RIT for that year.

We'll use the smaller amount.

The early payment discount is treated as a payment towards your RIT.

Further early payment discounts

You can receive another early payment discount in another year if:

- you haven't had to pay provisional tax in any of the previous four tax years, and
- you haven't had any business income in the four-year period since you last paid provisional tax or claimed the discount.

You may get a discount if you make voluntary payments.

New provisional tax payers

The rules may apply differently if you're a "new provisional tax payer". We may charge interest on a reduced number of instalments.

If you're an **individual**, we consider you're a new provisional tax payer if:

- your RIT for the current tax year is \$50,000 or more
- your RIT was \$2,500 or less in each of the four previous years, and
- during the current year, you stopped receiving income from employment and you then started to receive income from a taxable activity.

If you're a **non-individual** (eg, a company or a trust), the conditions are as follows:

- your RIT for the current tax year is over \$2,500
- you didn't receive income from a taxable activity in any of the four previous years, and
- you started receiving income from a taxable activity during the current year.

For the 2018 income year onwards the threshold for the current year RIT for both individuals and non-individuals is \$60,000 or more.

Number of instalments

As a new provisional tax payer, you'll pay or receive interest on one to three provisional tax instalments, based on the date you started your taxable activity.

Taxable activity starts	Number of instalments
Before 29 July	3
On or after 29 July but before 16 December	2
On 16 December, or any time after that	1

You'll have different dates if you have a balance date other than 31 March, or you file six-monthly GST returns. Talk to us or your tax agent if you need more information.

Budgeting for your provisional tax

You need to know how much your provisional tax instalments are, and when you need to pay them.

We'll send you regular statements but you must still pay instalments on time, even if you haven't received our statement. We recommend you keep your own records too.

A basic budgeting principle is to put aside some money each month so you can be ready when the due date rolls around.

It's important to budget for your provisional tax when you first start out in business because you may have to pay your first year's end-of-year tax bill during your second year, when you'll also have provisional instalments to pay. See page 28 for more information.

Budgeting will help you meet your deadlines - especially when you start out in business.

Terms we use

ACC earners' levy	Money paid by employees and self-employed people to ACC, to help cover the costs of non-work personal injuries.
Balance date	The last day of your tax year.
Due date	The last day to file a return or make a payment.
Early payment discount	A reduction in your end-of-year tax when you pay provisional tax early.
End-of-year tax	The difference between the residual income tax and the provisional assessment (if any).
Extension of time	Inland Revenue allows you more time to file your income tax return.
Extension of time arrangement	Approval for a tax agent to file a client's return after the normal due date (7 July if you have a 31 March balance date).
Estimation option	A method of calculating your provisional tax, based on your residual income tax.
Fixed asset	An item owned by the business that will generally be used in the business for more than a year, and is not for sale to customers, eg, buildings, vans, equipment.
GST (goods and services tax)	A tax added to the sale price of most goods and services.
Income tax	A tax on income earned over the tax year.
Instalment plan	An agreement we make with you to pay your tax bill, either at a later date or in regular payments over time.
Interest	Money we charge on late or underpaid tax, or pay you for overpaid tax.
Late payment penalty (LPP)	May be charged on late-paid and underpaid instalments of provisional tax.

New provisional tax payer	Someone who starts earning income from a taxable activity during the year.
PAYE (pay-as-you-earn)	A combination of income tax and ACC earners' levy, deducted from an employee's salary or wages by an employer and paid to Inland Revenue.
Penalty	Money Inland Revenue charges when you don't keep to your tax obligations.
Provisional tax	Income tax paid as instalments during the year.
Ratio option	A method of accounting for provisional tax as you pay your GST.
Residual income tax (RIT)	The tax payable on your taxable income, less PAYE and any other income tax credits you may be entitled to (it does not include any provisional tax payments, voluntary payments, or any Working for Families Tax Credits).
Shortfall penalty	A charge for making an error or an unreasonably low estimation in your tax return.
Standard option	A method of calculating your provisional tax, based on your previous year's RIT plus 5%.
Tax agent	A person who manages your taxes on your behalf.
Tax credit	An entitlement you can deduct from your income tax, eg, the independent earner tax credit.
Tax year	For most people, a 12-month period from 1 April to 31 March.
Taxable income	The income you declare in your income tax return, after all allowable deductions.
Transitional year	The first year you start using a new balance date. You will need to calculate provisional tax differently for your transitional year.

How to contact Inland Revenue

How to get our forms and guides

You can view copies of all our forms and guides by going to www.ird.govt.nz and selecting "Forms and guides". You can also order copies by calling 0800 257 773.

Need to speak with us?

Have your IRD number ready and call us on one of these numbers:

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

Our contact centre hours are 8am to 8pm Monday to Friday, and Saturday between 9am and 1pm. We record all calls. Our self-service lines are open at all times and offer a range of automated options, especially if you're enrolled with voice ID.

For more information go to www.ird.govt.nz/contact-us

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer.

For full details of our privacy policy go to www.ird.govt.nz (search keyword: privacy).

Inland Revenue's services

myIR secure online services

Inland Revenue's online services make it quicker and easier to manage your tax and entitlements. Go to www.ird.govt.nz/myIR to find out more.

www.ird.govt.nz

Go to our website for information, and to use our services and tools.

Follow us on Twitter

Follow [@NZInlandRevenue](https://twitter.com/NZInlandRevenue) for regular tweets on a range of tax and social policy matters, including our most recent media releases, due dates and consultations.

Business Tax Update

Get all your business tax news in one newsletter. Our *Business Tax Update*, available online only, gives you tax updates on payroll, GST, FBT and other relevant tax issues. Subscribe through the newsletter page at www.ird.govt.nz/subscribe and we'll send you an email when each issue is published.

Language Line

Language Line is a phone-based interpreter service for Inland Revenue customers whose first or preferred language is not English. There are 44 languages available - see www.language.govt.nz for the full list. Whenever you need to talk to us you can ask for a Language Line interpreter and choose the language/s you feel most comfortable using. The service is free.

