

Agri Tax Facts

What is provisional tax? Provisional tax is the regime by which tax payments are spread throughout the year instead of a lump sum at the end of the year. It is common for taxpayers to pay provisional tax in three instalments, however this depends on the calculation method you choose.

Who is required to pay?

You will be required to pay provisional tax when your residual income tax for the previous year is greater than $5,000 or you can choose to pay on a voluntary basis.

What is Residual Income Tax (RIT)?

Residual income tax is the total amount of income tax for the year less any tax credits. Examples of credits are PAYE, RWT, foreign tax credits and imputation credits.

When is it due?

Provisional tax is generally due on the 28th of the 5th, 9th and 13th months after balance date. For a June balance date, provisional tax will be paid on 28th November, 28th March and 28th July.

How do you calculate provision tax obligations?

There are four options available for calculating your provisional tax, standard (default), estimation, GST ratio and Accounting Income Method (AIM).

1. Standard (Uplift) Method
Under this method, the provisional tax payable for a tax year is 105% of the previous year's residual income tax, or 110% of the residual income tax of year, two years prior, if the priors year's tax return has not been filed. This is the default option used by most people.

2. Estimation Method
The estimation method is useful if you expect your income to decrease significantly over the next year. Under this method, provisional tax is calculated based on an estimated of residual income tax for the income tax year. It is important that the estimation made is fair and reasonable. Interest and penalties may be charged if you underestimated your provisional tax.

3. GST Ration Method
This method is suitable for taxpayers whose income varies or who have seasonal income. You must be registered for GST and file on a one-monthly or two monthly basis. Under this method, provisional tax is calculated based on your GST return.

4. Accounting income method
This method is available to taxpayers with turnover less than $5 million a year and who use an approved AIM capable system. Provisional tax is calculated based on actual accounting income on a year to date basis. You only have to pay provision tax when your business is operating at a profit, however this method has a higher compliance rate.

Easy Payment Discount
If you use the standard or estimation method, you can choose to make voluntary payments (you have no obligation if your previous year RIT is less than $5,000) in your first year of business and received an early payment discount of 2% or higher than the IRD use of money overpayment rate of 3.53%.

Use of Money Interest

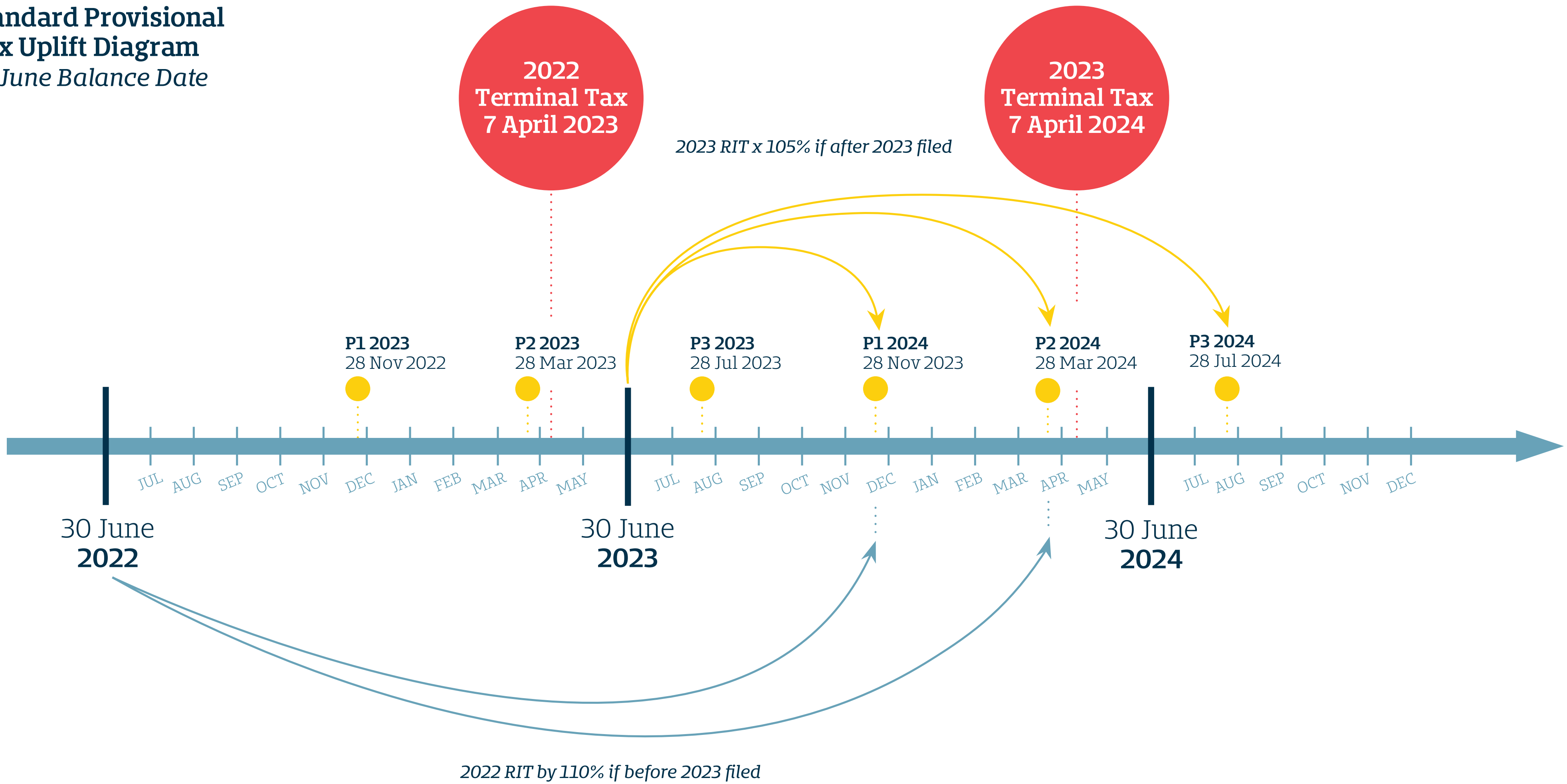
Taxpayers will incur/earn use of money interest on any underpayment or overpayment of provisional tax. These rates are generally higher than loan rates and less than deposit rates.

The current use of money interest rates are 10.39% for underpayments and 3.53% for overpayments (from 9 May 2023).

Safe Harbour Taxpayers
From the beginning of 2017/2018, UOMI will not apply until after their terminal tax date to taxpayers (including individuals, trusts and companies) who are provisional taxpayers if their residual income tax is below $60,000 and they use the standard (uplift) method.

Standard Provisional Tax Uplift Diagram

30 June Balance Date



2022 Tax return filed (2023 not filed):
2024 Provisional Tax

- **P1:** 110%x2022 RITx1/3
- **P2:** 110%x2022 RITx2/3-P1
- **P3:** must be based on 2023 return or 2024 position

2023 Tax return filed:
2024 Provisional Tax

- **P1:** 105%x2023 RITx1/3
- **P2:** 105%x2023 RITx2/3-P1
- **P3:** 105%x2023 RIT-(P1+P2)

No provisional tax is due in the first year of business resulting in terminal tax 13 months after year end. Provisional tax in the 2nd year will depend on when the tax return for the first year is filed. However, if this is after 28/03, both last year's terminal tax and this year's provisional tax will be due within three months i.e. 2 years of tax due in short succession, this often requires careful cash flow management.

PolsonHiggs
Business advisors

139 Moray Place, Dunedin 9016
PO Box 5346, Dunedin 9058
Phone 03 477 9933
ph.co.nz