FACT SHEET

SBA SMALL BUSINESS ACCOUNTING

PROVISIONAL TAX

Individuals

Most tax payers in New Zealand are salary and wage-earners where their income tax is deducted at source in the form of PAYE.

Others who are Self Employed or have Rental, Investment or other forms of income where the tax is not deducted at source have to file an Income Tax Return (IR3).

When the IR3 is prepared all sources of income are added together to determine the Total Taxable Income of the taxpayer. Also shown on the IR3 is the amount of tax payable on that income.
From the total tax payable is deducted any credits such as PAYE and RWT etc that the taxpayer has.
The balance is their Residual Income Tax. This tax is generally payable on the 7th April of the year following the financial year just completed. Taxpayers therefore have one year, one week to pay the balance of their tax at the most. If your accounts are completed in say October they will have five months to pay the balance.

If the Residual Income Tax exceeds $2,500 the IRD is not happy to wait so long in the future to be paid the balance of your tax and you will be required to pay Provisional Tax for the current year. This means that in addition to still owing your last year's tax, you are required to start paying towards your current year's tax, in advance. This is Provisional Tax.

Generally Provisional Tax is payable in three instalments and if they are not paid on time and in full you will be charged penalties and interest on unpaid amounts.

If an individual finds in a particular year that their income increased to the point where they are now liable for Provisional Tax they still have until 7 April to pay their tax with no penalties imposed, but they must start paying Provisional Tax for the current year.

When the year is completed for which provisional tax has been paid, if there is further tax owing it is due on the 7 April next year and providing all provisional tax payments were made on time and in full there is no penalty. If it is found that provisional tax has overpaid the amount calculated for the year, the taxpayer will receive a refund.

Companies
Companies are similar to that written above, but there is one important difference.
They must pay Provisional Tax for any year that their residual tax exceeds $2,500.

This means that if at the end of the financial year the company is liable for income tax above $2,500 they should have been paying provisional tax during that year, furthermore the amount they pay should be very close to what has now been calculated at the year's end. Anyone got a crystal ball?

This is why monitoring of company accounts during the year is so important, yet there are so many factors that can make a large difference such as the level of accounts payable, or receivable at the end of the year and which make it so difficult to estimate, but we can only try.

In the past where at the end of a year we have found that a company should have been paying provisional tax, we have been able to shift profit to a shareholder by means of a Shareholder Salary and put the onus for provisional tax to the individual (not required to pay provisional tax in advance) instead of the company having to pay penalties for not paying in provisional tax in advance for that year.

However, where the company has shareholders receiving PAYE Wages we will not be able to do this in future due to the IRD clamping down of taxpayers receiving both PAYE Wages and Non PAYE Wages from the same company. If you have any concerns relating to this please contact us urgently.

See Fact Sheet on Shareholders Salaries