Inland Revenue
Te Tari Taake

Business
Ngā Ūmanga

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Provisional tax

Provisional tax is income tax you pay during the year, helping you "spread the load" and avoid a big end-of-year bill. This factsheet explains your provisional tax options.

How provisional tax works

You must pay provisional tax if, at the end of the previous year, your residual income tax (RIT) is more than $2,500. 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

Untaxed 2014 income	$25,000
Tax on this income is calculated as follows:	
income up to $14,000 @ 10.5%	$1,470
income $14,001–$48,000 @ 17.5%	$1,925
Total 2014 RIT	**$3,395**

Because the RIT of $3,395 is more than $2,500, provisional tax is due in the following income year.

Your first year in business

If you make a net profit in your first year, you'll need to pay tax on this. Making regular voluntary payments or putting money aside during your first year can ease your cash flow for your second year. 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.

Self-employed individuals and partners in a partnership who make voluntary tax payments in their first year may qualify for a discount of 6.7%. See our *Provisional tax (IR 289)* guide, or call us on 0800 377 774 to find out more.

For a guide on how much you should save to cover your tax during your first year, read our *Income tax in your first year of business (IR 325)* factsheet.

New provisional tax payers

If you're a "new provisional tax payer", you won't need to pay any provisional tax in your first year, but you may be charged interest. You can choose to pay provisional tax in your first year to reduce the interest charged.

To find out if you're a new provisional tax payer, please read our *Provisional tax (IR 289)* guide.

Working out your provisional tax

There are three ways to work out your provisional tax—the standard, estimation and ratio options.

The standard option

Your provisional tax will equal your previous year's RIT plus 5%. For example, if your 2014 RIT was $3,900, your 2015 provisional tax will be $4,095.

If you have an extension of time to file your income tax return and haven't filed by your first or second instalment, your provisional tax will be based on your RIT from two years ago. If your RIT was:

- over $2,500, add 10% to the total
- under $2,500, you're not required to pay provisional tax.

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

Instalment 1 (P1)

2014 return filed	P1 due 28 August 2014
Between 28 August 2014 and 15 January 2015	(2013 RIT + 10%) ÷ 3 = amount to pay
After 15 January 2015	(2013 RIT + 10%) ÷ 3 = amount to pay

Instalment 2 (P2)

2014 return filed	P2 due 15 January 2015
Between 28 August 2014 and 15 January 2015	(2014 RIT + 5%) × 2 ÷ 3 - P1 = amount to pay
After 15 January 2015	(2013 RIT + 10%) × 2 ÷ 3 - P1 = amount to pay

Instalment 3 (P3)

2014 return filed	P3 due 7 May 2015
Between 28 August 2014 and 15 January 2015	(2014 RIT + 5%) - P1 - P2 = amount to pay
After 15 January 2015	(2014 RIT + 5%) - P1 - P2 = amount to pay

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

The standard option is the "fall-back" option if you don't choose one.

The estimation option

To estimate your provisional tax, work out the tax on the taxable income you expect to receive in the next tax year and 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 provisional tax for the following year.

Example

Estimated untaxed income for the period 1 April 2014 to 31 March 2015	$70,000
Tax on this income is calculated as follows:	
income up to $14,000 @ 10.5%	$1,470
income $14,001–$48,000 @ 17.5%	$5,950
income $48,001–$70,000 @ 30%	$6,600
Total tax on $70,000	**$14,020**
2015 provisional tax payable	$14,020
Payable in three instalments:	
28 August 2014	$4,673
15 January 2015	$4,673
7 May 2015	$4,674

You can calculate your estimate by completing the worksheet in your tax return guide, or by completing a *Provisional tax estimation (IR 309)* form.

Once you choose the estimation option, you can't change to another option during the same income year. You can re-estimate your provisional tax as often as you like, up to and including your third instalment date. At this date your last estimate becomes final.

Remember, when making an estimate, you're required to take reasonable care. If you're unsure about estimating provisional tax, contact your tax agent or accountant, or call us on 0800 377 774.

The ratio option

Your instalments are worked out by applying your ratio percentage to your GST taxable supplies in each two-month period during the current year. The ratio percentage is calculated by dividing your RIT by your total GST taxable supplies for the previous year.

For more information about the ratio option, see our *GST and provisional tax – quick reference summary sheet (IR 235)*.

Paying your provisional tax

The number of instalments you'll have is based on your GST registration and how often you file GST returns. Divide your provisional tax by your number of instalments to work out how much to pay at each instalment.

GST registration	Number of instalments
Not registered for GST	3
Monthly or two-monthly filing	3
Six-monthly filing	2
Using the ratio option	6

When your provisional tax is due

When your payments are due depends on your balance date—the last day of your tax year. The following table shows when your payments are due based on the standard balance date of 31 March.

Number of instalments	Payments due
2	28 October and 7 May
3	28 August, 15 January and 7 May
6	28 June, 28 August, 28 October, 15 January, 28 February and 7 May

For more information about using a non-standard balance date, please contact your tax agent or accountant, or call us on 0800 377 774.

How to make payments

You can pay electronically through your bank, by credit or debit card online, or by posting a cheque. For more information see our *Making payments to Inland Revenue (IR 584)* factsheet.

More information

For more information please read our guides *Smart business (IR 320)* and *Provisional tax (IR 289)*, or go to www.ird.govt.nz (search keywords: provisional tax options).

You can view copies of all our forms and guides by going to www.ird.govt.nz and selecting "All forms and guides" from the right-hand menu, or by entering the shoulder number in the search box. You can also order copies by calling 0800 257 773.

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