

A new way to work out your provisional tax

Find out if it's right for you...



Inland Revenue
Te Tari Taake

There's another way to work out your provisional tax instalments. We call it the ratio option.

You can base your provisional tax instalments on a percentage of your GST taxable supplies. This option is designed to reflect your cashflow and benefit small to medium-sized businesses, especially if you have fluctuating income and turnover, by allowing you to pay tax at the same time as you earn your income.

Am I eligible to use the ratio option?

If:

- ▶ you've been in business and GST-registered for all of the previous tax year (this must not have been your first year in business)
- ▶ your residual income tax (RIT) for the previous year is more than \$2,500 and up to \$150,000
- ▶ you file your GST returns every month or every two months
- ▶ the business you're operating is not a partnership
- ▶ the ratio percentage we calculate for you is between 0% and 100% (we'll let you know if it's not)

you'll be able to use the ratio option.

The ratio option won't suit all businesses. We recommend you consider how your business will be affected and satisfy yourself that it suits your specific business needs, or seek professional advice, before electing the ratio option.



We'll apply one of the following rules, depending on the rate you're taxed and the tax year:

If your business's income is taxed at the company tax rate and you're calculating a payment for the 2011–12 income year, we'll calculate your ratio percentage by applying the following rule.

$$\text{Ratio percentage} = \frac{(\text{RIT from previous year less 5\%})}{\text{GST taxable supplies from previous income year}} \times \frac{100}{1}$$

(This special situation is different because the company tax rate has reduced to 28% for the 2011–12 tax year onward. The percentage is lower to ensure you do not overpay.)

Otherwise, we'll apply the following rule:

$$\text{Ratio percentage} = \frac{(\text{RIT from previous year less 10\%, 15\% or 20\%*})}{\text{GST taxable supplies from previous income year}} \times \frac{100}{1}$$

* This special situation is different because the individual tax rates have changed from 1 October 2010 for the 2011 and 2012 income years. If the RIT is from the previous year, use less 10%, if it's from two years prior, use less 15%, and if it's from three years prior use less 20%.

Example (non-company)

RIT from the previous tax year: \$95,000

GST taxable supplies from the previous income year: \$1,600,000

$$\text{Ratio percentage} = \frac{(\$95,000 - 10\%)}{\$1,600,000} \times \frac{100}{1} = 5.3\%$$

We'll preprint your ratio percentage on a *GST and provisional tax return (GST 103)* and send it to you. Your ratio percentage may change during the tax year due to:

- ▶ a new income tax assessment
- ▶ a reassessment of your GST or income tax figures for the previous tax year.

We'll write to you with your new ratio percentage if it changes.

How to calculate your provisional tax instalments

Each time a provisional tax instalment is due, your *GST and provisional tax return (GST 103)* will tell you how to calculate your instalment. You just need to multiply your total GST taxable supplies for your latest two-monthly GST period by the ratio percentage printed on your return.

Example

Your current two-monthly GST taxable supplies are \$22,000. Your ratio percentage is 5.8%.

$$\begin{array}{rcl} \$22,000 & \times & 5.8\% \\ & = & \$1,276 \\ & & \text{this is the provisional tax due} \end{array}$$

How many instalments do I need to make?

If you use the ratio option

You'll make six provisional tax instalments using the **ratio** option. Because you'll be paying your provisional tax and GST on the same return, you'll need to have a monthly or two-monthly GST filing frequency.

If you don't use the ratio option

You'll make three instalments if you use the **standard** or **estimation** options and your GST filing frequency is monthly or two-monthly. If your GST filing frequency is six-monthly you'll only need to make **two** provisional tax instalments.



When do I stop using the ratio option?

You can stop using the ratio option at any time during the year. If the due date for your first instalment has passed you'll only be able to use the estimation option (not the standard option) to calculate your provisional tax instalments for the rest of the year.

You won't be able to continue using the ratio option if:

- ▶ you end your GST registration
- ▶ any of your GST returns are overdue by 60 days
- ▶ your ratio percentage changes and is no longer between 0% and 100% (we'll let you know if it's not)
- ▶ a new income tax assessment results in RIT below \$2,500 or above \$150,000.

Will I be affected by use-of-money interest (UOMI)?

If you make the correct ratio provisional tax instalments by the due date you won't be charged any UOMI if you have a provisional tax shortfall.

If you stop using the ratio option after the due date for your first instalment, you'll need to use the estimation option to calculate your provisional tax instalments for the remainder of the year. The usual UOMI rules will apply from this time.

What's next?

If you want to use the ratio option, please contact us before the start of the tax year in which you want to use it.

Please call us on **0800 377 774** or write to us at one of the following addresses.

If you live in:

Northland or the South Island,

send to:

Inland Revenue

PO Box 3753

Christchurch Mail centre

Christchurch 8140

Auckland

send to:

Inland Revenue

PO Box 761

Waikato Mail centre

Hamilton 3240

other North Island areas

send to:

Inland Revenue

PO Box 39010

Wellington Mail centre

Lower Hutt 5040

For more information, go to www.ird.govt.nz (keywords: provisional tax)

