

# 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 pay provisional tax if your residual income tax (RIT) for the last tax year is more than \$5,000 (\$2,500 in 2019/20 and earlier years). RIT is the tax to pay on your income, less PAYE you've paid and other tax credits you're entitled to (except Working for Families Tax Credits).

### Example

Untaxed 2020 income	\$35,000
Tax on this income is calculated as follows:	
income up to \$14,000 @ 10.5%	\$1,470
income \$14,001 - \$48,000 @ 17.5%	\$3,675
<b>Total 2020 RIT</b>	<b>\$5,145</b>

Because the RIT of \$5,145 is more than \$5,000, provisional tax is due in the following income year (\$2,500 in 2019/20 and earlier years).

### 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%.

For a guide on how much you should save to cover your tax during your first year, refer to our **Income tax in your first year of business - IR325** 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, refer to our **Provisional tax guide - IR289** guide.

## Working out your provisional tax

There are four ways to work out your provisional tax - the accounting income method (AIM), standard, estimation and ratio options.

### The AIM option

To use AIM you need to have an AIM-capable accounting package that will calculate your provisional tax payments (if any) for you using your accounting records.

Your provisional tax payments are based on your taxable profits for the period. This should better align your payments with your cash flow.

### The standard option

Your provisional tax equals your last year's RIT plus 5%. For example, If your 2020 RIT was \$5,145, your 2021 provisional tax will be \$5,402.

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 \$5,000, add 10% to the total
- under \$5,000, you don't have 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 would do the calculation for the 2021 tax year.

### Instalment 1 (P1)

2020 return filed	P1 due 28 August 2020
Between 28 August 2020 and 15 January 2021	$(2019 \text{ RIT} + 10\%) \div 3 =$ amount to pay
After 15 January 2021	$(2019 \text{ RIT} + 10\%) \div 3 =$ amount to pay

### Instalment 2 (P2)

2020 return filed	P2 due 15 January 2021
Between 28 August 2020 and 15 January 2021	$(2020 \text{ RIT} + 5\%) \times 2 \div 3$ - P1 = amount to pay
After 15 January 2021	$(2019 \text{ RIT} + 10\%) \times 2 \div 3$ - P1 = amount to pay

### Instalment 3 (P3)

2020 return filed	P3 due 7 May 2021
Between 28 August 2020 and 15 January 2021	$(2020 \text{ RIT} + 5\%) - P1 - P2$ = amount to pay
After 15 January 2021	$(2020 \text{ RIT} + 5\%) - P1 - P2$ = amount to pay

**Note:** Even if you filed your tax return after 7 May, your provisional tax will be based on your 2020 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 income you expect to earn 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.

### Example

Estimated untaxed income for 2021	\$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
2021 provisional tax payable	\$14,020
Payable in three instalments:	
28 August 2020	\$4,673
15 January 2021	\$4,673
7 May 2021	\$4,674

You can tell us your estimate:

- in your income tax account in myIR,
- when you complete your Income tax return.

Once you choose the estimation option, you can't change to another option during the same tax year. You can re-estimate your provisional tax as often as you like, up to and including your final 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.

## 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 - unless you use AIM, as your software will work out your instalments for you.

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 income 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
12	15 January, 28 January, 28 February, 28 March, 7 May, 28 May, 28 June, 30 July, 28 August, 28 September, 28 October, 28 November

For more information about using a non-standard balance date, contact your tax agent or accountant, or go to [ird.govt.nz/balancedates](http://ird.govt.nz/balancedates)

## How to make payments

You can make payments by:

- direct debit in myIR
- credit or debit card at [ird.govt.nz/pay](http://ird.govt.nz/pay)
- internet banking - most New Zealand banks have a pay tax option.

When making a payment, include:

- your IRD number
- the account type you are paying
- the period the payment relates to.

Find all the details of our payment options at [ird.govt.nz/pay](http://ird.govt.nz/pay)

## More information

For more information about:

- Paying tax in your first year in business
- Provisional tax options
- Paying your provisional tax
- Interest on provisional tax

go to [ird.govt.nz/provisional-tax](http://ird.govt.nz/provisional-tax)



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- Log in or register for myIR - manage your tax and entitlements online.
- **Calculators and tools** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
- **Forms and guides** - download our forms and guides.

### Forgotten your user ID or password?

Request these online from the myIR login screen and we'll send them to the email address we hold for you.

### Supporting businesses in our community

Our Community Compliance officers offer free tax education and advice to businesses and small organisations, as well as seminars for personal tax and entitlements.

Our Kaitakawaenga Māori offer a free advisory service to help meet the needs of Māori individuals, organisations and businesses. To attend a seminar or workshop, or request a visit from us.

Find a seminar or workshop near you at

[ird.govt.nz/contact-us/seminars](http://ird.govt.nz/contact-us/seminars)

Go to [ird.govt.nz/contact-us](http://ird.govt.nz/contact-us) and select the In person option to find out about requesting a visit.

[New Zealand Government](http://www.newzealand.govt.nz)