Inland Revenue
Te Tari Taake

IR 484
2005

IR 8 Māori authorities' provisional tax guide (addendum)

This guide is to help you complete your provisional tax calculations for the 2005 income tax year. Please complete the calculation sheet (overleaf) and include the final figure on your tax return for 2004. Your return should be filed by 7 July 2004 unless you have an extension of time.

The information in this guide is based on current tax laws at the time of printing.

Introduction

Recent law changes to the tax rules for Māori authorities take effect from the 2004 – 05 income year.

Key changes

One of the key changes for Māori authorities is a lower tax rate of 19.5% that will apply to a Māori authority's taxable income—previously the rate was 25%. The differences between the new rules and the previous rules are significant and are likely to have implications for how you calculate provisional tax.

How to work out your provisional tax for 2005

There are two ways of calculating provisional tax.

Standard option

Māori authorities that use the standard option for calculating their provisional tax payments for the 2004 – 05 income year could either substantially overpay or substantially underpay their provisional tax liability for this year.

Estimated option

To minimise the risk of substantial overpayment or underpayment and possible penalties, companies and trusts electing to be, or ceasing to be a Māori authority, may estimate their provisional tax liability for the current year, using a formula incorporating the different tax rates, adjustments to taxable income, and uplift factor (in a similar way to the standard option).

Māori authorities using this formula to calculate their estimates will meet the "fair and reasonable standard" and avoid the lack of reasonable care penalty for estimates of provisional tax.

Paying provisional tax

2005 provisional tax is charged for income the authority will earn in the 2005 income year and is payable in three equal instalments.

The income tax rate for the year ending 31 March 2005 is 19.5% provided that an election to be an authority has been accepted. If it has, Inland Revenue will give the authority a commencement date for the 19.5% rate. Calculate your provisional tax for 2005 using this rate. This low rate may result in previous provisional tax payers not having to pay provisional tax, but they can still make voluntary payments if they want to. Use the following formula to calculate your 2005 provisional tax if you intend to elect to become a Māori authority from the 2004 income year.

2003 – 04 income year	2004 – 05 income year	Modifications to the residual income tax (RIT) calculation	Formula for recalculating residual income tax (RIT)
Large Māori authority	Māori authority	Tax rate changes to 19.5% and no deduction for Māori authority distributions	[(2004 taxable income plus 2004 distributions) multiplied by current Māori authority tax rate] less credits = 2004 RIT If a 2004 tax return has not been filed, use the same formula with 2003 figures to work out 2003 RIT
Small Māori authority	Māori authority	Tax rate changes to 19.5%. The income of a small authority is allocated to each member according to their individual interest and taxed at their marginal tax rates, even though the member may not have actually received any income. This notional split is no longer required.	[2004 taxable income multiplied by current Māori authority tax rate] less credits = 2004 RIT If 2004 tax return has not been filed, use the same formula with 2003 figures to work out 2003 RIT

Calculation sheet

1 Provisional tax calculation for a large Māori authority

Transfer the figures from your completed IR 8 return to this worksheet

Copy the total from Box 9M. This is your taxable income for 2004	1A	$	00
Copy the total from Box 9J distributions	1B	$	
Add 1A and 1B. This is your total taxable income	1C	$	
Total tax payable. Work out the tax on the taxable income at 19.5 cents in the dollar	1D	$	
Overseas tax paid. Copy the amount from Box 10A	1E	$	
Subtract Box 1E from Box 1D. If Box 1E is larger than Box 1D, write nil in Box 1F	1F	$	
Copy dividend imputation tax from Box 10C	1G	$	
Subtract Box 1G from 1F. Print answer in 1H	1H	$	
Copy resident withholding tax from Box 10E	1I	$	
Subtract Box 1I from 1H. If Box 1I is larger than Box 1H, write nil in Box 1J	1J	$	
Copy the total tax credits from Box 10G	1K	$	
Subtract 1K from 1J. If the result is a debit of $2,500 or more, continue to 1M	1L	$	
Plus 5% uplift. This is your provisional tax for 2005	1M	$	

2 Provisional tax calculation for a small Māori authority

Transfer the figures from your completed IR 8 return to this worksheet.

You may need to complete Question 10 on the return to help with this calculation.

Copy the total from Box 9P. This is your taxable income for 2004	1A	$	00
Total tax payable. Work out the tax on the taxable income at 19.5 cents in the dollar	1B	$	
Overseas tax paid. Copy the amount from Box 10A	1C	$	
Subtract Box 1C from Box 1B. If Box 1C is larger than Box 1B, write nil in Box 1D	1D	$	
Copy dividend imputation tax from Box 10C	1E	$	
Subtract Box 1E from 1D. Print answer in 1F	1F	$	
Copy resident withholding tax from Box 10E	1G	$	
Subtract Box 1G from 1F. If Box 1G is larger than Box 1F, write nil in Box 1H	1H	$	
Copy the total tax credits from Box 10G	1I	$	
Subtract 1I from 1H. If the result is a debit of $2,500 or more, continue to 1K	1J	$	
Plus 5% uplift. This is your provisional tax for 2005	1K	$	

Please keep this calculation sheet for your records