Inland Revenue
Te Tari Taake

IR289
April 2025

Provisional tax

Paying your income tax in instalments

Contents

About this guide

Provisional tax helps you manage your income tax. You pay it in instalments during the year instead of a lump sum at the end of the year.

You'll have to pay provisional tax if you had to pay more than $5,000 tax at the end of the year from your last return.

This guide tells you how to manage your provisional tax instalments.

This guide covers:

- how provisional tax works
- who has to pay it
- how to calculate it
- when to pay it
- what happens if you do not pay
- budgeting for provisional tax
- a glossary to help you understand the tax terms we use.

We explain all the tax terms we use in this guide on pages 33-35.

How provisional tax works

Provisional tax is not a separate tax. It's income tax you pay during the year and helps you 'spread the load' and avoid a big end-of-year tax bill.

You must pay provisional tax if, at the end of the previous year, you're left with tax to pay of more than $5,000. We call this amount your 'residual income tax' (RIT). Specifically, 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).

Your RIT may exceed $5,000 if you earn untaxed income, or not enough tax has been deducted to cover your income tax for the year. Examples are:

- self-employed or rental income
- schedular payments or salaries and wages with a low PAYE rate
- income from a partnership or look-through company
- income from an estate or trust
- overseas income.

In most cases, you pay provisional tax in three instalments during the year, based on what provisional tax option you choose.

When you complete your income tax return and calculate your tax for the year, you deduct the provisional tax you paid earlier.

Any taxpayer who pays income tax may have to pay provisional tax. This includes individuals, companies and trusts.

Provisional tax is income tax you pay during the year.

Provisional tax helps you spread the load.

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).

Example

In the 2025 year Matt earned a salary and had self-employed income.

Salary	$ 14,800.00
Plus self-employed income (net profit)	$ 47,600.00
Taxable income	**$62,400.00**
Tax on taxable income	$ 11,205.32
Less tax deducted from the salary	$ 1,610.00
Residual income tax (RIT)	**$ 9,595.32**

Matt's RIT is more than $5,000 so they will have to pay provisional tax for the following income year.

When to pay your instalments

When you pay your provisional tax instalments depends on your balance date - the last day of your tax year.

This guide assumes you have the standard balance date of 31 March. For further information go to **ird.govt.nz/provpaymentdates**

Note – Where the instalment date is a weekend or public holiday, payments made on the next working day will be treated as being paid on the instalment day.

Transitional year

If you change your balance date, you may need to calculate the provisional tax for your 'transitional year' a bit differently. That's because your transitional year - the first year with the new balance date - will be for a period of more or less than 12 months.

You must get approval from us to change your balance date. If we approve your new balance date, we'll tell you when your instalments are due.

Your options for calculating provisional tax

The idea behind provisional tax is simple. You're trying to calculate an amount that will closely match the RIT you expect for the year. That way, when you complete your tax return and deduct your provisional tax, you should only have a small amount of end-of-year tax left to pay. You may even receive a refund.

There are 4 ways to calculate provisional tax:

- the Accounting Income Method (AIM)
- the standard option
- the estimation option
- the ratio option.

Choose the option that works best for you.

Because most people do not know how much tax they'll need to pay next year, calculating provisional tax usually involves a certain amount of judgement. You'll need to decide which provisional tax option works best for you.

If you do not make a choice, the standard option will apply.

You can choose any option for the year ahead (except the Accounting Income Method) by completing a box in your current income tax return, sending us a message in myIR, or calling us on 0800 377 774

If you want to use AIM to calculate your provisional tax for the year, you need to send us a statement of activity using your AIM-capable software.

The Accounting Income Method (AIM) option

The Accounting Income Method (AIM) aligns your provisional tax payments with the periods in which you have income to work out your instalments. You will pay provisional tax under the AIM option while you're making a profit. If you're not making a profit, payments will not be required.

Your provisional tax payments are based on your profits for the period.

If you're currently using the estimation option, you must submit your first statement of activity by your first provisional tax instalment date for the year.

If you're using the standard or ratio option, you can choose to use the AIM option at any time, provided that:

- you submit your first statement of activity before your final provisional tax instalment date for the year, and
- you have made all payments due under your current option up to the date you switch.

Once you choose to use AIM for the year you cannot choose another option until next year.

When your provisional tax is due

Your due dates for AIM are generally the same as your GST due dates:

- monthly (if you're registered for monthly GST filing) or
- 2-monthly (if you're registered for 2 or 6-monthly GST filing)

Payments align with your GST due dates.

If you're not registered for GST, your dates would be the 2-monthly GST due dates that align to your balance date.

Qualifying for the AIM option

Aim is available to individuals and companies with a turnover under $5m. If your turnover goes over $5m during the year you can request to continue to use AIM.

You cannot use AIM in a year that you change your balance date.

AIM-capable accounting software

To use the AIM option, you must have AIM-capable accounting software provided by an approved AIM provider.

You'll need AIM-capable accounting software

Calculating your provisional tax

At each due date your AIM-capable accounting software will work out your provisional tax payments and let you know how much to pay (if any).

Statement of activity

As well as working out your provisional tax, your software will also collate your income and expense information and send it to us in a Statement of Activity.

Overpayments

If you have a drop in profit that means you may have overpaid your provisional tax during the year. Under the AIM option you can get a refund straight away. You can include instructions on what you would like done with the overpayment on your statement of activity. If you do not provide any instructions we will refund the overpaid amount.

You can get overpaid provisional tax refunded straight away.

A Statement of Activity is not an income tax return.

The standard option

The standard option assumes your income will increase from year to year.

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When your provisional tax is due

Generally, you'll pay 3 instalments on:

- 28 August
- 15 January
- 7 May

If you're registered for GST and you file 6-monthly GST returns, you'll only pay 2 instalments on:

- 28 October
- 7 May

Filing your tax returns

When you use the standard option, your provisional tax is calculated from your previous year's RIT.

You need to file your tax return on time, so you'll know your RIT before your instalments are due.

If you do not have an extension of time to file your return, you'll need to file it by 7 July every year. That gives you time to work out how much provisional tax you need to pay, and prepare for your first instalment on 28 August.

If you file your returns late, you still need to pay your provisional tax instalments on time. Complete your return so you can work out how much you need to pay. Penalties and charges can apply if you pay an instalment after the due date.

Remember to file your returns on time.

Filing your return if you have an extension-of-time arrangement

If you have an extension of time to file your tax return, you could have to pay an instalment of provisional tax before you know what your RIT is.

In this situation, you'll calculate your provisional tax instalments using the RIT from 2 years ago, plus 10%.

When you file your return, you'll do a special 'catch-up' calculation to take into account any earlier under or overpayments.

If you're using a tax agent, they'll usually have an extension of time.

The standard option

Your provisional tax equals your previous year's RIT plus 5%. For example, if your RIT was $10,130, your next year's provisional tax will be $10,636.

If you have an extension of time to file your income tax return and have not filed on or before your first or second instalment date, your provisional tax will be based on your RIT from 2 years ago. If your RIT from 2 years ago was:

- over $5,000, add 10% to the total
- under $5,000, you do not have to pay provisional tax.

Once you file your tax return for the previous year, your provisional tax will be recalculated based on that year's RIT plus 5% less provisional payments made.

The following table shows how you would do the calculation for provisional tax instalments.

if return filed	Instalment 1 (P1)	Instalment 2 (P2)	Instalment 3 (P3)
	Due date 28 August	Due Date 15 January	Due Date 7 May
On or before 28 August	Previous year's RIT plus 5% ÷ by 3 = amount to pay for each instalment.		
After 28 August and on or before 15 January the next year	(RIT 2 years ago + 10%) ÷ 3 = amount to pay	(Previous year's RIT + 5%) × 2 ÷ 3 less P1 = amount to pay	(Previous year's RIT + 5%) less (P1 + P2) = amount to pay
After 15 January the next year but on or before 7 May	(RIT 2 years ago + 10%) ÷ 3 = amount to pay	(RIT 2 years ago + 10%) × 2 ÷ 3 less P1 = amount to pay	(Previous year's RIT + 5%) less (P1 + P2) = amount to pay
Next year after 7 May	(RIT 2 years ago + 10%) ÷ 3 = amount to pay	(RIT 2 years ago + 10%) × 2 ÷ 3 less P1 = amount to pay	Expected RIT from previous year + 5% less P1 + P2

Even if you filed your return after 7 May, your provisional tax will still be based on your previous year's RIT.

Example

Ned's company, EJ Auto Services, has an extension-of time arrangement. Its 2023 return does not have to be filed until 23 January 2024, so Ned will have to pay the company's first 2 instalments of 2024 provisional tax (due 28 August 2023 and 15 January 2024) before he knows how much the RIT will be. He goes back 2 years and looks at the company's 2021 RIT:

EJ Auto Services 2021 RIT	$ 24,000
Add 10%	$ 2,400
	$ 26,400

Using the 'catch-up' method, Ned pays the following instalments of provisional tax:

28 August 2023 $8,800 ($24,000 + $2,400) ÷ 3

15 January 2024 $8,800 (($24,000 + $2,400) ÷ 3 × 2) – $8,800

The company files its 2023 return on 23 January 2024 showing an RIT of $23,740. The final catch-up instalment is:
7 May 2024 $7,327 ($23,740 + 5% [$1,187] – $8,800 – $8,800)

Note – Where the instalment date is a weekend or public holiday, payments or returns filed on the next working day will be treated as being filed on the instalment day. This will have implications for the uplift that should be used.

If your return for the previous year is assessed/ amended within 30 days of an instalment date

If the return for the previous year is either assessed (Inland Revenue changes the assessment amount) or amended within 30 days of a provisional tax instalment date, that provisional instalment will not change.

But if you file your return within 30 days before an instalment date then that instalment amount will be as calculated in the return you filed.

Example

John has filed his 2023 IR3 return on 7 July 2023. His provisional instalments for 2024 are:

28 August:	$3,000
15 January:	$3,000
7 May:	$3,000

His return is then reassessed on 20 December 2023, creating an increase in his 2023 RIT. As there are less than 30 days between the reassessment his second provisional tax instalment date, the increase in the amount of provisional tax payable will be included in the third instalment as follows:

28 August:	$3,000
15 January:	$3,000
7 May:	$5,500

If the RIT from 2 years prior was $5,000 or under, provisional tax will only need to be paid in 1 or 2 instalments, depending on when the tax return is filed. In this case, the provisional tax will be evenly split between the required number of instalments.

If your income changes

When you are on the standard option, expect your RIT to be $60,000 or more and have paid all but your final instalment in full and on time you can make a payment for your final instalment that better reflects your income situation and remain on the standard option.

You can change from the standard option to the estimation option at any time up until the date your final instalment is due. After you've made the change, you cannot then change back to the standard option for the same tax year.

The estimation option

The estimation option could be right for you when your income is dropping. Using the standard option might mean you overpay your provisional tax.

Your provisional tax equals your estimated RIT for the year. It works like this.

- Add up all the taxable income you expect to receive next year.
- Calculate the tax on this figure.
- Deduct any PAYE and other tax credits (except Working for Families) you'll be entitled to.

The result is your estimated RIT, and this is your provisional tax for the year.

The estimation option may be a good choice if your income is dropping.

When your provisional tax is due

Generally, you'll pay 3 instalments, due 28 August, 15 January, and 7 May. But if you're registered for GST and you file 6-monthly GST returns, you'll only pay 2 instalments, due 28 October and 7 May.

Example

Hiwi is a property developer and a polytech lecturer. The property market is in a slump and Hiwi expects his net profit to decrease in the 2026 year. His tax agent advises him to switch to the estimation option to work out his provisional tax.

Hiwi's calculations:

Net profit from property sales	$ 170,600.00
Plus polytech salary	$ 78,000.00
Expected taxable income	$ 248,600.00
Tax on taxable income	$ 76,031.50
Less PAYE deducted from the salary (not including ACC earners' levy)	$ 16,660.00
Estimated RIT	$ 59.371.50

Hiwi's provisional tax is $59,371.50 to be paid in 3 instalments on:

28 August	$ 19,790.50
15 January	$ 19,790.50
7 May	$ 19,790.50
	$ 59,371.50

Underestimating your provisional tax

It pays to keep a close watch on your profits because you could be charged a penalty if your provisional tax estimation is unreasonably low, compared with your actual RIT once you file your return.

You'll need to tell us how much residual income tax you expect to pay. You can estimate:

- using the Estimate provisional tax service in myIR
- sending us a message in myIR
- by calling us
- by writing to us.

You may have to pay a penalty if you underestimate your provisional tax.

You can estimate your residual income tax as many times as you like up until your final instalment due date.

If you do re-estimate, you'll need to adjust later instalments to take into account any earlier under or overpayments.

Changing options

Once you've selected the estimation option, you cannot change to the standard option during the same year.

Example

In February, Hiwi realises his year is going better than he first thought. He re-estimates his provisional tax to $65,000.

So far, he's paid 2 instalments:

28 August	$19,790.50
15 January	$19,790.50

His new estimate means these instalments are now too low. Hiwi's final instalment must cover this underpayment. His new calculation is:

Re-estimated provisional tax		$65,000
Less instalments already paid	$19,790.50	
	$19,790.50	
		$39,581.00
		$25,419.00

Hiwi's final instalment, due 7 May, is $25,419.00

The ratio option

This option can suit people whose income tends to go up and down during the year. You calculate your provisional tax by applying a ratio percentage to the taxable supplies in your GST returns so your provisional tax instalments align with your business cashflow.

The ratio option may be helpful if you have seasonal income.

We calculate your ratio percentage by dividing your RIT for the last tax year by your total GST taxable supplies for the same year. If your last year's figures are not available, we base the ratio on the RIT and total GST taxable figures from the previous year.

When your provisional tax is due

Using the ratio option, you pay 6 instalments of provisional tax a year. If you have a 31 March balance date, your due dates are 28 June, 28 August, 28 October, 15 January, 28 February, and 7 May.

Qualifying for the ratio option

The ratio option is useful if your income varies or you have seasonal income. You must meet all these criteria to use it:

- You've been in business and registered for GST, for the whole of the previous tax year, and part of the tax year before that.
- Your residual income tax (RIT) for the previous year is greater than $5,000
- You file your GST returns monthly or 2-monthly.
- You're not a partnership.
- Your ratio percentage that we calculate for you is between 0 and 100% (we'll let you know if it's not).

Only provisional tax payers registered for GST who file one-monthly or 2-monthly returns can use the ratio option.

The ratio percentage

You must let us know before the start of the tax year if you decide to use the ratio option. We'll calculate the ratio percentage for you, using information from your income tax and GST returns.

$$\text{GST ratio percentage} = \frac{\text{RIT from your latest income tax return}}{\text{total GST taxable supplies from the same tax year (less ratio percentage adjustments - see page 18)}} \times \frac{100}{1}$$

The ratio percentage will only work if your returns are up to date. We cannot calculate a ratio percentage using returns from a tax year more than 2 years earlier than the provisional tax year.

Example

Leonie is a kiwifruit grower in Te Puke. She files 2 monthly GST returns. On 20 February, she applies to use the ratio option to work out her provisional tax. We approve this and review her latest returns. Her RIT is $51,000, and her taxable supplies are $2,114,723, broken down as follows:

GST return period	Taxable supplies ($)
April - May	690,025
June - July	580,121
August - September	145,859
October - November	90,412
December - January	152,681
February - March	455,625
Total taxable supplies	**$2,114,723**

Leonie's ratio percentage is: $\frac{\$51,000}{\$2,114,723} \times \frac{100}{1} = 2.4\%^*$

*Your ratio percentage is rounded down to 1 decimal place.

Calculating your provisional tax

We'll tell you your ratio percentage. Calculate your provisional tax instalments, following the steps on the back of your GST return.

You work out each instalment by applying the ratio percentage to the taxable supplies in each GST return (2-monthly filers) or every second GST return (one-monthly filers).

Leonie has approval to work out her 2019 provisional tax using a ratio percentage of 2.4%. She can now do the calculations.

GST return period	Taxable supplies ($)	Ratio percentage	Provisional tax instalment ($)	Payment and GST return due
April - May 2019	725,111	2.4%	17,402.66	28 June 2019
June - July 2019	625,456	2.4%	15,010.94	28 August 2019
Aug - Sept 2019	102,612	2.4%	2,462.68	28 October 2019
Oct - Nov 2019	72,558	2.4%	1,741.39	15 January 2020
Dec 2019 - Jan 2020	298,386	2.4%	7,161.26	28 Feb 2020
Feb - Mar 2020	422,899	2.4%	10,149.57	7 May 2020

Updating your ratio percentage

After you file an income tax return, we'll update your ratio percentage to match your income and tell you what it is. You can start using your new ratio percentage 30 days from the date of our letter.

Adjusting your ratio percentage

If you sell a fixed asset, you can ask us to adjust your ratio percentage. Enter your details under 'Provisional tax' on the back of your GST return.

Because we treat sales of fixed assets differently in income tax and GST returns, you may pay too much provisional tax if your ratio percentage is not adjusted.

The value of the fixed asset you're selling must be the same or more than:

- $1,000, or
- 5% of your total taxable supplies for the previous 12 months.

We'll use the larger amount.

A fixed asset is an item owned by the business that will generally be used in the business for more than a year, and is not for sale to customers, eg, buildings, vans, equipment.

Ceasing the ratio option

You can stop using the ratio option at any time. You just need to let us know by phone or email.

If you stop using it before the first payment due date, you can choose to use the standard or estimation option to calculate. The usual use of money interest rules will apply from this time.

If you stop using it after the first payment date, you must use the estimation option to calculate for the rest of the year.

You must stop using the ratio option if:

- you cease your GST registration
- any of your GST returns are overdue by 60 days or more
- your ratio percentage change is no longer between 0% and 100% (we'll let you know if it's not)
- you change your GST filing frequency to 6-monthly
- a return of income is filed or amended where the residual income tax is calculated at below $5,000 or above $150,000.

Penalties

We charge penalties on late or underpaid instalments of provisional tax.

When you make a payment, it will be applied to the earliest unpaid provisional tax instalments. Provisional tax amounts include any late payment penalties charged.

Late payment penalties

We charge late payment penalties (LPPs) on all overdue payments.

We charge the penalties in 2 stages. This means that the longer a payment remains overdue, the more penalties we'll add.

The stages are:

- 1% the day after the due date, and
- 4% 7 days later.

We can stop some late payment penalties being added to your account if you set up a plan with us to pay your tax.

We charge penalties on late payments.

Example

Anthony had to pay provisional tax of $7,600 on 7 May for the 2022 income year. He paid it on 10 July, over 2 months late. LPPs were added as follows:

Date	Amount owing ($)	LPP	LPP added ($)	New amount owing ($)
8 May 2022	7,600.00	1%	76.00	7,676.00
14 May 2022	7,676.00	4%	307.04	7,983.04
Total			**383.04**	

Shortfall penalties

We may charge a shortfall penalty if you use the AIM or estimation options to calculate your provisional tax and your provisional tax is unreasonably low. We compare the provisional tax you paid to the RIT you calculate when you file your tax return, and apply the penalty to the underpaid amount. The amount of the shortfall penalty depends on the seriousness of the mistake.

Mistake	Shortfall penalty
Not taking reasonable care	20%
Unacceptable tax position	20%
Gross carelessness	40%
Abusive tax position	100%
Evasion	150%

When you need to pay your penalties

You must pay any penalties as soon as you get them. You must also pay any overdue provisional tax at the same time.

You cannot claim a deduction in your income tax or GST returns for any penalties you pay Inland Revenue.

Interest on provisional tax

We may charge interest for end-of-year tax paid late or unpaid end-of-year tax and provisional tax (see 'Paying and receiving interest' below). Interest is a charge for the use of money and is sometimes referred to as UOMI. This means we may pay you interest if you overpay your provisional tax.

We calculate interest when you file your income tax return. We compare your RIT to the provisional tax you've paid. You may have to pay interest even if you've paid your instalments in full and on time, or if you did not have to pay provisional tax.

Interest is not a penalty - it's a charge for the use of money.

Paying and receiving interest

Not everyone will pay interest on underpaid provisional tax. And not everyone will receive interest if they've overpaid their provisional tax.

We'll calculate interest for:

- individuals and non-individuals who used the standard option, with RIT:
  - $60,000 or more (see explanation below).
  - less than $60,000, if payment not made by the terminal tax due date for the 2022-23 year or later. Prior to 2023 UOMI was charged if provisional tax payments were paid late/not paid in full.
- anyone who used the estimation option, with RIT over $5,000
- anyone who chooses to use the AIM option but does not pay the provisional tax instalments their AIM-capable accounting software tells them to pay by the instalment date
- anyone whose RIT is $5,000 or less who chose to be a provisional taxpayer (individuals also need to have used the estimation option) - see 'Choosing to be a provisional taxpayer' on page 28.
- IRD number on the online RWT exemption register.

Anyone choosing to be a provisional taxpayer has to use the estimation option.

We will not charge interest if the underpaid or overpaid tax is $100 or less.

When using the standard option the start date of UOMI depends on your RIT (when all required payments are made in full and on time).

Provisional tax amount	End of year residual income tax (RIT)	Credit or debit UOMI	Calculated from
More/less than RIT amount	Less than $60,000	Debit/Credit UOMI calculated on the difference between the provisional tax amount paid and the RIT	Terminal tax due date
More than RIT	$60,000 or more	Credit UOMI calculated on the difference between the provisional tax amount paid and the RIT	Last instalment date
Less than RIT	$60,000 or more	Debit UOMI calculated on the difference between the provisional tax amount paid and the RIT	Last instalment date, or earlier if underpaid/paid late

RIT under $60,000 (standard option) from the 2022-23 year

You will have UOMI applied from the Terminal tax due date even if the provisional tax payments are not made in full and/or on time. Late payment penalties will still be charged on late payments.

RIT $60,000 or more (standard option)

If you've paid all but your final instalment in full and on time then UOMI will apply from the last instalment due date.

Note: Even if your final instalment is paid in full and on time, we will calculate UOMI from the final instalment date based on the difference between your RIT and the total provisional tax paid.

If you pay an instalment (other than the last 1) late or do not pay in full, UOMI will be charged from the due date of that and subsequent instalments (other than the last 1) on the lesser of:

- the amount of the instalment that you should have paid less the amount that was paid, or
- your RIT divided by the number of instalments for the tax year less the amount paid.

If the previous year's return was not filed on or before a provisional tax due date, and you have an extension of time, the amount that should have been paid for that instalment will be the lesser of the 10% uplift amount (based on 2 years prior) or the 5% uplift amount (based on the previous year). This does not apply to the final instalment.

The above changes may not apply if:

- you're associated to specific persons or entities with 1 of you being a company and they are not covered by the above standard option rules or they do not use the GST ratio option, or
- you've entered an avoidance arrangement.

For interest under the AIM option refer to page 27.

How we calculate interest

We use this formula to calculate interest on provisional tax:

$$\frac{t \times r}{365} \times d$$

Where:

t = the underpaid or overpaid tax (including LPPs)

r = the current interest rate

d = the number of days where interest applies.

Different rates of interest apply to underpaid and overpaid tax. Interest rates change frequently. See our website for the current and previous interest rates **ird.govt.nz/penalties**

We count both the first day that interest starts and the last day interest is payable when we calculate the number of days interest applies.

When you need to pay your interest

If we charge interest, you need to pay it by 7 February (or 7 April if you have a tax agent with an extension of time). Because interest is charged daily, you may want to pay it before the due date. The longer you leave it, the more you'll pay.

You can claim a deduction in your income tax return for the interest you paid. If we pay you interest, you need to include it as income.

Interest is GST exempt, so you do not include interest (paid or received) in your GST returns.

The longer you leave it, the more you'll pay.

Example

ABC Ltd is a construction firm. Karen, the finance manager, used the standard option to calculate provisional tax of $24,000.

Instalments were due on:

28 August	$8,000
15 January	$8,000
7 May	$8,000
	$24,000

The company only paid the first instalment on time. When Karen filed the company's tax return on 7 July, she calculated RIT of $66,000.
The company had a total of $58,000 still to pay.

Because the RIT was more than $60,000 and the company did not pay all the provisional tax instalments in full and on time, the company had to pay interest.

To find the amount that we charge interest on for all instalments except the final 1, we firstly identify the shortfall, which is the lesser of:

- the amount of the instalment that was payable ($8,000) less the amount that was paid, or
- your RIT divided by the number of instalments for the tax year ($66,000 ÷3 = $22,000) less the amount paid.

The longer you leave it, the more you'll pay.

Instalment No.	Prov tax payable	RIT instalment	Lesser of Prov tax payable or RIT instalment	Amount paid	Shortfall
1st	$8,000	$22,000	$8,000	$8,000	$0
2nd	$8,000	$22,000	$8,000	$0	$8,000

For the final instalment we calculate UOMI on the difference between the RIT and total provisional tax paid up until the final provisional due date.

Instalment No.	Total RIT	Total prov paid	Shortfall
3rd	$66,000	$8,000	$58,000

Karen got the balance from her myIR secure online services account on 9 September and paid the end-of-year tax and interest right away.

Interest would be calculated in the following way, using the current interest rates. For more information go to **ird.govt.nz/uomi**

Days interest applied*	Amount interest calculated on ($)	Interest calculation
16 Jan - 7 May (112 days)	$8,000	$8,000 × current interest rate × 112 ÷ 365
8 May - 9 Sept (125 days)	$58,000	$58,000 × current interest rate × 125 ÷ 365

*Example assumes this is not a leap year.

Late payment penalty

2nd instalment

Initial penalty	16 January	$8,000 × 1%	=	$ 80	
Further penalty	22 January	$8,000 × 4%	=	$320	$400.00

3rd instalment

Initial penalty	8 May	$8,000 × 1%	=	$ 80	
Further penalty	14 May	$8,000 × 4%	=	$320	$400.00

Total late payment penalties **$800.00**

Points to note from the example

- Karen's total payment on 9 September was for the unpaid provisional tax, the balance of the residual income tax, the interest and late payment penalties.
- The underpaid provisional tax was payable straight away.
- Karen had until 7 February the next year to pay the end-of-year tax, but she wanted to pay it early to avoid further interest.
- We charged late payment penalties, because Karen did not pay the second and third provisional tax instalments in full and on time.
- We charged interest because ABC Ltd had the use of the difference between the provisional and residual income tax due and the amount paid over the period 16 January - 9 September.

Interest and the AIM option

You will not pay (or receive) interest on any of your provisional tax instalments if you use the AIM option as long as your make your payments in full and on time.

If the amount of a provisional tax instalment calculated by your AIM-capable accounting software is not paid on time, penalties and interest will apply to the underpayment. These will continue to apply until you make a payment.

Interest and the ratio option

You will not pay (or receive) interest on any of your provisional tax instalments if you use the ratio option for the full year.

But, we'll charge interest if you owe more than $100 after your end-of-year tax due date (7 February, or 7 April if you have a tax agent with an extension of time).

Late payment penalties will apply to instalments paid late or not paid in full.

Choosing to be a provisional taxpayer

You can choose to be a provisional taxpayer if you're in this situation:

- your RIT works out to be $5,000 or less
- you've made provisional payments of more than $5,000
- you had a reasonable expectation, on the day you made your first payment, that you would have to pay provisional tax.

Talk to your tax agent first.

Then let us know when you file your tax return if you want to be treated as a provisional taxpayer for the year.

We may calculate interest on your voluntary payments.

Individuals will need to estimate their provisional tax on or before their third instalment date to have interest calculated.

We can help if you're finding it hard to pay

Penalty and interest charges can increase your provisional tax payments quite quickly, so you'll save money if you pay your instalments in full and on time.

If you cannot pay, call us as soon as you can - before the due date, if possible. We'll work with you to develop a solution that takes into account your personal circumstances.

Do not let your debt get out of hand. Talk to us straight away.

You can pay your instalments electronically, by credit or debit card.

Find all the details of our payment options at **ird.govt.nz/pay**

Your first year in business

Your first year in business is not tax-free.

You'll need to file an income tax return at the end of your first year and pay tax on your net profit. You will not have to pay provisional tax during your first year in business unless your previous year's RIT was $5,000.

But, you can make voluntary payments of provisional tax. 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. Your end-of-year tax could be a significant amount if you do not have any voluntary payments to deduct.

Voluntary payments will help if you need to pay interest, and may entitle you to an early payment discount.
ird.govt.nz/early-payment-discount

Example

Isobel started her own business in October 2018. In June 2019, she sent in her first income tax return, for the year ended 31 March 2019. Her RIT (which is also her end-of-year tax) was $75,000. Isobel used the standard option to work out her 2020 provisional tax of $78,750.

RIT	$75,000
Plus 5%	$ 3,750
2020 provisional tax	$78,750

Isobel's due dates and payments are:

Due date	Tax to pay	Amount
28 August 2019	2020 provisional tax	$26,250
15 January 2020	2020 provisional tax	$26,250
7 February 2020	2019 end-of-year tax	$75,000
7 May 2020	2020 provisional tax	$26,250

Because she made no voluntary payments for 2019 income tax, Isobel must pay her $75,000 end-of-year tax as well as her $78,750 2020 provisional tax during her second year in business.

Voluntary payments can help your cash flow.

You can opt into the Accounting Income Method (AIM) in your first year of business by sending us your first Statement of activity with your AIM capable software. By using AIM, you'll only pay provisional tax when you make a profit and your end-of year-tax will be closer aligned. Find out more about AIM on page 6.

Early payment discount

You may get a discount if you make voluntary payments.

In your first year in business you can qualify for the early payment discount, if you make voluntary tax payments during the tax year before you need to pay provisional tax.

Individuals, partners in a partnership or owners of a look-through company can claim the early payment discount, but companies, trusts and other forms of business organisations do not qualify.

You can get the early payment discount if you meet the following criteria:

- Your income comes mainly from a business (not interest, dividends, royalties, rents or beneficiary income).
- You're not required to pay provisional tax during the year you make the voluntary payments, or for any of the prior 4 years.
- You make the voluntary payments on or before the end of your tax year.
- You apply for the discount on or before the date your tax return must be filed (tick the box in the return).

The discount is a percentage of either:

- the total amount of your voluntary payments
- 105% of your RIT for that year.

We'll use the lesser amount.

The early payment discount is treated as a payment towards your RIT.

Further early payment discounts

You can receive another early payment discount in another year if:

- you have not had to pay provisional tax in any of the previous 4 tax years, and
- you have not had any business income in the 4-year period since you last paid provisional tax or claimed the discount.

For more information on the early payment discount, please refer to **ird.govt.nz/first-year-tax**

New provisional taxpayers

The rules may apply differently if you're a 'new provisional taxpayer'. We may charge interest on a reduced number of instalments.

If you're an **individual**, we consider you're a new provisional taxpayer if:

- your RIT for the current tax year is $60,000 or more
- your RIT was $5,000 or less in each of the 4 previous years, and
- during the current year, you stopped receiving income from employment and you then started to receive income from a taxable activity.

If you're a **non-individual** (eg, a company or a trust), the conditions are as follows:

- your RIT for the current tax year is $60,000 or more
- you did not receive income from a taxable activity in any of the 4 previous years, and
- you started receiving income from a taxable activity during the current year.

Number of instalments

As a new provisional taxpayer, you'll pay or receive interest on 1 to 3 provisional tax instalments, based on the date you started your taxable activity.

Taxable activity starts	Number of instalments
Before 29 July	3
On or after 29 July but before 16 December	2
On 16 December, or any time after that	1

You'll have different dates if you have a balance date other than 31 March, or you file six-monthly GST returns. Talk to us or your tax agent if you need more information.

Budgeting for your provisional tax

You need to know how much your provisional tax instalments are, and when you need to pay them.

A basic budgeting principle is to put aside some money each month so you can be ready when the due date rolls around.

It's important to budget for your provisional tax when you first start out in business because you may have to pay your first year's end-of-year tax bill during your second year, when you'll also have provisional instalments to pay. See page 29 for more information.

Budgeting will help you meet your deadlines - especially when you start out in business.

Terms we use

AIM capable accounting tax software.	Software provided by an approved AIM provider which calculates your provisional tax payments based on your accounting income for the period and year to date.
AIM option	A method of calculating your provisional tax based on your accounting income so you can make payments of provisional tax for the periods in which you have the cash to pay. You use approved AIM-capable software.
Approved AIM provider software	Software provider approved by Inland Revenue to provide AIM - provider.
Statement of activity	Set of information collated by AIM-capable accounting software and electronically submitted to Inland Revenue for each provisional tax instalment date when the AIM option is being used.
ACC earners' levy	Money paid by employees and self-employed people to ACC, to help cover the costs of non-work personal injuries.
Balance date	The last day of your income year.
Due date	The last day to file a return or make a payment.
Early payment discount	A reduction in your end-of-year tax when you pay provisional tax early.
End-of-year tax	The difference between the residual income tax and the provisional tax paid.
Extension of time	Inland Revenue allows you more time to file your income tax return.
Extension of time arrangement	Approval for a tax agent to file a client's return after the normal due date (7 July if you have a 31 March balance date).

Estimation option	A method of calculating your provisional tax, based on your estimation of what the current years residual income tax might be.
Fixed asset	An item owned by the business that will generally be used in the business for more than a year, and is not for sale to customers, eg, buildings, vans, equipment.
GST (goods and services tax)	A tax added to the sale price of most goods and services.
Income tax	A tax on income earned over the tax year.
Instalment plan	An agreement we make with you to pay your tax bill, either at a later date or in regular payments over time.
Interest	Money we charge on late or underpaid tax, or pay you for overpaid tax.
Late payment penalty (LPP)	May be charged on late-paid and underpaid instalments of provisional tax.
New provisional tax payer	Someone who starts earning income from a taxable activity during the year.
PAYE (pay-as-you-earn)	A combination of income tax and ACC earners' levy, deducted from an employee's salary or wages by an employer and paid to Inland Revenue.
Penalty	Money Inland Revenue charges when you do not keep to your tax obligations.
Provisional tax	Income tax paid as instalments during the year.
Ratio option	A method of accounting for provisional tax as you pay your GST.
Residual income tax (RIT)	The tax payable on your taxable income, less PAYE and any other income tax credits you may be entitled to (it does not include any provisional tax payments, voluntary payments, or any Working for Families).

Shortfall penalty	A charge for making an unreasonably low estimation.
Standard option	A method of calculating your provisional tax, based on your previous year's RIT plus 5% or 10%.
Tax agent	A person who manages your taxes on your behalf.
Tax credit	Covers tax that has been deducted or paid at source such as RWT deducted from interest or an entitlement you can deduct from your income tax, eg. the independent earner tax credit.
Tax year	1 April to 31 March.
Taxable income	The income you declare in your income tax return, after all allowable deductionsand any losses brought forward.
Transitional year	The first year you start using a new balance date. You will need to calculate provisional tax differently for your transitional year.

How to contact Inland Revenue

How to get our forms and guides

You can get copies of our forms and guides at **ird.govt.nz/forms-guides**

Need to speak with us?

Have your IRD number ready and call us on one of these numbers.

General tax, tax credits and refunds	0800 775 247
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 227 771

Find out more at **ird.govt.nz/contact-us**

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your tax and entitlements under the Acts we administer. We may also exchange information about you with some government agencies and another country.

Find our full privacy policy at **ird.govt.nz/privacy**

Inland Revenue's services

myIR

You can manage your tax and entitlements online with a myIR account.

In myIR you can:

- check if you're due a refund
- keep up-to-date with your student loan
- check and update your Working for Families
- review your KiwiSaver contributions
- manage your child support payments
- file returns
- update your contact and bank account details.

myIR is available 24 hours a day,7 days a week. Find out more, and register, at **ird.govt.nz/myIR**

ird.govt.nz

Go to our website for information and to use our services and tools.

Follow us on social media

Follow our social media channels for important updates, information and reminders to help you get your taxes and entitlements right.

- Facebook - @IRDNZ
- LinkedIn - Inland Revenue NZ
- Twitter - @NZInlandRevenue

Call us and request an interpreter

If you want to speak in your own language, you can ask for an interpreter when you call us.

When calling, answer any of the phone questions or prompts you're able to complete. When a customer service officer answers your call, ask for the language you want to use and we'll set this up for the rest of your call.

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.

Go to a seminar or workshop, or request a visit from us to find out more about:

- records you need to keep
- taxes you need to know about
- using our online services
- completing your tax returns (for example GST, employer returns)
- filing returns and making payments
- your KiwiSaver obligations.

Go to **ird.govt.nz/contact-us** and select **Request a business advisory** visit to find out about requesting a visit.

Find a seminar or workshop near you at **ird.govt.nz/seminars**

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. Subscribe at **taxtechnical.ird.govt.nz/subscribe** and we'll send you an email when we publish each issue.