tandem group

Chartered Accountants

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Provisional Tax Changes

With the 28th August Provisional Tax payment coming it's a good time to look at the provisional tax changes that have happened in recent times. These apply from the 31st March 2018 tax year.

Smaller taxpayers

The safe harbour amount for Residual Income Tax (RIT) used to be $50,000 for individuals and $2,500 for trusts and companies. No IRD interest would be charged if there were no tax estimates filed and the RIT was under those amounts.
The safe harbour amount for Residual Income Tax has increased to $60,000 for individuals, trusts and companies. There will be no Use of Money Interest charge if the taxpayer has paid on time the standard amounts that were due on their provisional tax dates and the RIT is less than $60,000 . If the taxpayer has estimated their provisional tax, then the safe harbour amount goes back to down to $2,500.

If your taxable income is well up, your RIT will be less than $60,000, and you have paid your standard amounts of provisional tax on time there will be no interest charge by IRD.

Larger taxpayers

If:

- The RIT is $60,000 or more; and
- The taxpayer paid provisional tax for that year based on the standard method

Then:

- The taxpayer won't be charged IRD interest until 7 May (3rd provisional tax instalment date) if they paid the amounts of tax due as per the standard method at their first and second instalment dates
- The final balance will be due at the third provisional tax date. IRD interest applies on any underpayment or overpayment of tax from the third provisional tax date

Having the final balance due at the third provisional tax instalment is fairer, because we should have a good idea of the actual profit for the year by then.

Provisional Tax Associates

To reduce the chance of people shuffling income from year to year between entities and individuals to defer the payment of tax and use the new higher safe harbour from IRD interest, the IRD has introduced Provisional Tax Associates:

- A company is associated with any other company in a group that is owned by the same shareholders
- A shareholder with a 50% or more shareholding will be associated with the company
- A beneficiary will be associated with a Trust

If a provisional taxpayer estimates their provisional tax, then any Provisional Tax Associate of that taxpayer is deemed to also be estimated (even if they haven't), which removes them from the new higher safe harbour amounts for IRD Use of Money Interest charges. They will be subject to Use of Money interest if their RIT is over $2,500.

Takeaways

- Don't estimate at Provisional Tax 1 payment time unless you are 100% sure income is going to be well down
- If income is down a small to medium amount - pay Provisional Tax 1 and 2 as per standard method and then estimate lower at Provisional Tax 3 once the actual profit is known
- Before making a provisional tax estimate – make a list of who any provisional tax associates are and how they may be affected
- If your income is increasing and your RIT will be under $60,000, you can decide whether you would prefer to pay provisional tax based on your standard instalments and set aside the larger amount due at Terminal tax time, or whether you would rather make voluntary provisional tax payments to avoid the larger lump sum payment. Either way there will be no interest charge by IRD

Do you have any questions about these changes?

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