PROVISIONAL TAX CHEAT SHEET

Provisional tax is income tax paid in advance, in two or three instalments, instead of a lump sum at year end.

You pay provisional tax if your residual income tax (RIT) is $5,000 or more in the previous year.

Key provisional tax payment dates

For those registered for GST on a 2-monthly basis (or not GST registered)

28 August – 1st instalment

15 January – 2nd instalment

7 May – 3rd and final instalment

For those registered for GST on a 6-monthly basis

28 October – 1st instalment

7 May – 2nd and final instalment

Example of instalment due dates for a 31 March balance date and 2-monthly GST

How much do you pay?

Inland Revenue's Standard Calculation

The IRD will automatically calculate your provisional tax based on your previous year's residual income tax (RIT), which is your final tax calculation.

The standard method applies a 5% uplift to your previous year's RIT, and applies it across the 2 or 3 instalments. However, if a provisional tax instalment is coming up and your previous year's tax return isn't filed yet, IR will use your RIT from the year before that, and apply a 10% uplift instead.

You can also make voluntary payments at any time to reduce your exposure to use-of-money interest.

Estimation

We recommend calculating what your tax obligations might look like, rather than defaulting to IRD's standard calculation. This is because IRD's standard calculation is always based on prior years - not the current year you're paying tax on!

This is done as a standard practice for all clients of Resonate Advisory - before each provisional tax due date we check in to see how your business is actually performing so your tax aligns with that.

If your income is looking like it will be significantly more or less than IRD's standard calculation, there are ways to pay the estimated amount rather than being 'trapped' with a payment based on the previous years.

Managing your cash flow

Provisional tax can put pressure on cash flow, especially if your income fluctuates. Tax pooling is an option that allows you to manage payments more flexibly – you can buy or sell tax from a pool to cover shortfalls or earn a return on overpayments.

Otherwise it's recommended to have a separate Tax Bank Account to keep your tax savings in - put a percentage of your sales into this each week or month.

OK, so what is Terminal Tax then?

Terminal tax is the final tax calculation for the tax year, less any tax paid provisionally already. It's due ~12 months after the EOFY it relates to (usually 7 April, for the previous 31 March year). If you paid the right amount of provisonal tax during the year, then you won't have any terminal tax to pay.

Resonate Advisory