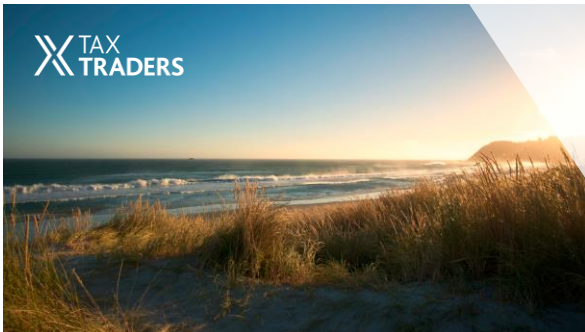
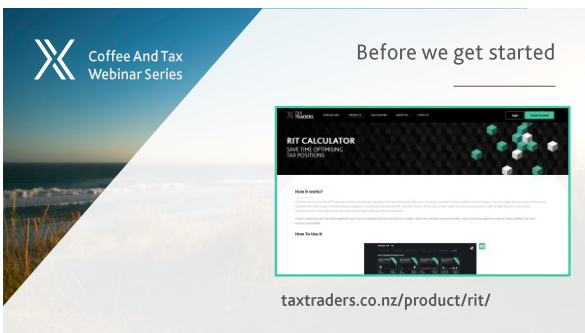




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What we'll cover today

- >What is provisional tax?
- >Four provisional tax methods
- >The standard method
- >Safe harbour taxpayers
- >Various examples
- >Interest and penalties
- >Tax pooling overview


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What is provisional tax?

- >Spread of income tax throughout year
- >Provisional tax, terminal tax and Residual Income Tax (RIT)
- >Provisional taxpayer: RIT > \$5k from prior year
- >How much and when?
- >Different rules for 'new provisional taxpayers'


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Four provisional tax methods

- >Standard (uplift) method
- >Estimation method
- >GST ratio method
- >Accounting income method


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Standard (uplift) method

- >Default calculation method
- >Calculated on basis of 'uplift' of either:
105% of year -1
110% of year -2
- >Assumes income will increase year to year
- >Favourable to taxpayer following interest concession rule introduction


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Estimation method

- >Requires filing of an estimate (IR309)
- >Payments always split evenly across provisional dates
- >Can result in tax being due earlier than under 'standard' method.

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GST ratio method

- >Tax payments calculated as % of GST taxable supplies
- >Available for taxpayers with RIT less than \$150,000
- >Six provisional tax payments per year
- >RIT Prior Year / GST Supplies Prior Year = Ratio for Current Year

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Accounting Income Method (AIM)

- >Available from 2018 income year
- >Calculated on current year accounting results
- >Required to use AIM-capable software
- >Unable to use tax pooling for missed payments (available for terminal payment only)

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Timing of Payments

P1	P2	P3	TTD
28 Aug	15 Jan	07 May	07 Apr
		Y/e	Return
		31 Mar	31 Mar
			Cut-off
			21 Jun

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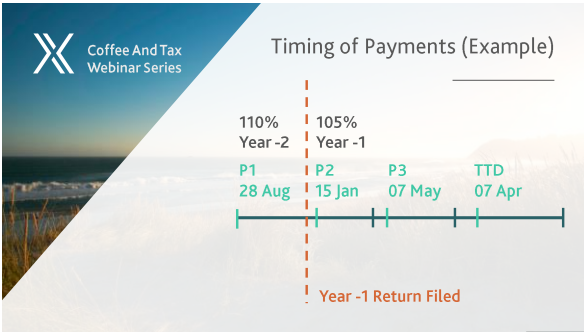
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Timing of Payments (Example)

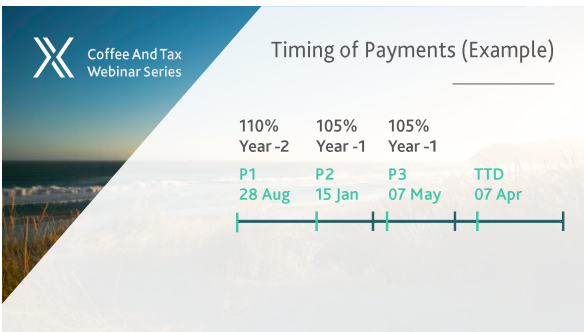
110%
Year -2

P1	P2	P3	TTD
28 Aug	15 Jan	07 May	07 Apr
		Y/e	Return
		31 Mar	31 Mar
			Cut-off
			21 Jun

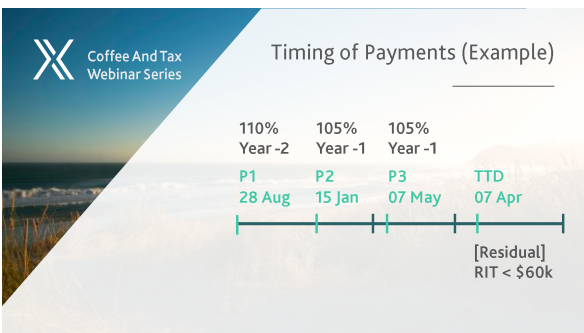
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Timing of Payments (Example)

110%	105%	105%	
Year -2	Year -1	Year -1	
P1	P2	P3	TTD
28 Aug	15 Jan	07 May	07 Apr

[Residual]
RIT > \$60k

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Current RIT v Uplift

>2020 RIT of \$100,000
>2020 return filed before 2021 P1

Instal	Uplift (105%)	\$200k RIT	\$72k RIT
P1			
P2			
P3			

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Current RIT v Uplift

>2020 RIT of \$100,000
>2020 return filed before 2021 P1

Instal	Uplift (105%)	\$200k RIT	\$72k RIT
P1	\$35k		
P2	\$35k		
P3	\$35k		

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Current RIT v Uplift

- >2020 RIT of \$100,000
- >2020 return filed before 2021 P1

Instal	Uplift (105%)	\$200k RIT	\$72k RIT
P1	\$35k	\$35k	
P2	\$35k	\$35k	
P3	\$35k	\$130k	

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Current RIT v Uplift

- >2020 RIT of \$100,000
- >2020 return filed before 2021 P1

Instal	Uplift (105%)	\$200k RIT	\$72k RIT
P1	\$35k	\$35k	\$24k
P2	\$35k	\$35k	\$24k
P3	\$35k	\$130k	\$24k

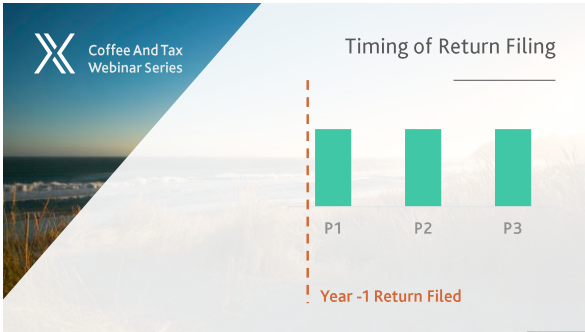
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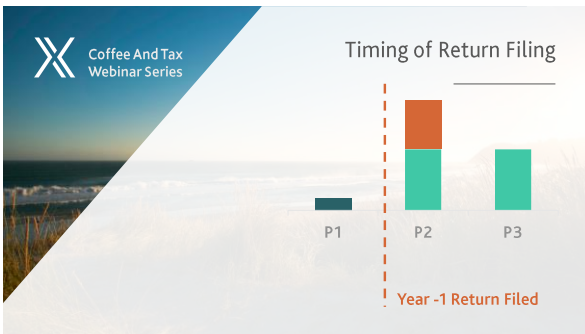
Timing of Return Filing

Year	RIT	Uplift	Per Inst
2020	\$100k	\$105k	\$35k
2019	\$19k	\$21k	\$7k

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Safe Harbour Taxpayers

- >More tax to pay than uplift?
- >Safe Harbour Taxpayers:
Due at Terminal Date
- >Paid instalments on time / in full under standard method
- >Overall Current Year RIT < \$60k
- >Not estimated / used GST ratio method

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Safe Harbour Taxpayers

- >More tax to pay than uplift?
- >Non-Safe Harbour Taxpayers:
Due at Third Provisional Date

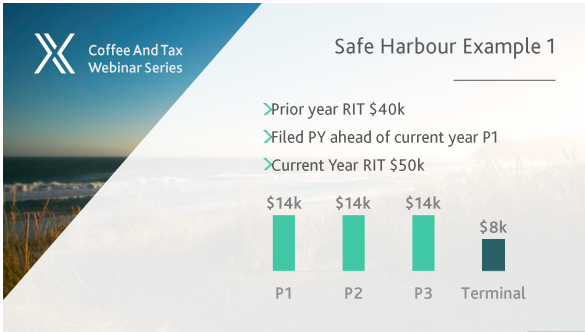
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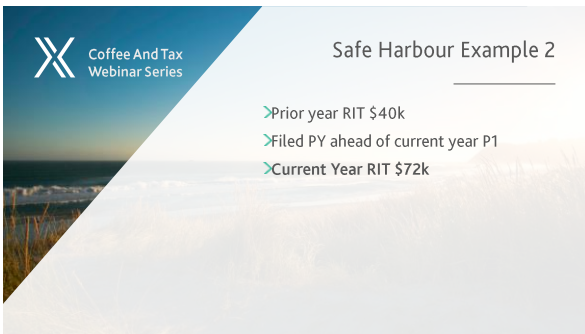
Safe Harbour Example 1

- >Prior year RIT \$40k
- >Filed PY ahead of current year P1
- >Current Year RIT \$50k

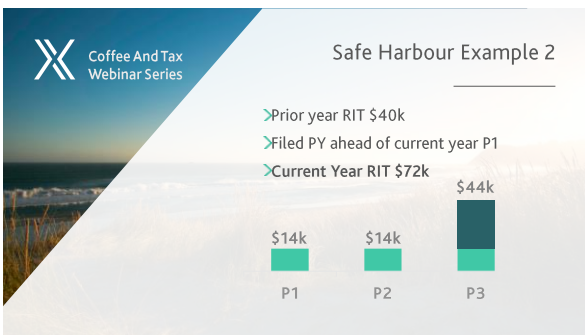
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Safe Harbour Example 3

- >Prior year RIT \$40k
- >Filed PY ahead of current year P1
- >Current Year RIT \$50k
- >P2 Paid Late

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Safe Harbour Example 3

- >Current Year RIT \$50k
- >P2 Paid Late

[Prior Example]

\$14k	\$14k	\$14k	\$8k
P1	P2	P3	Terminal

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Safe Harbour Example 3

- >Current Year RIT \$50k
- >P2 Paid Late

\$14k	\$14k	\$22k	
P1	P2	P3	Terminal

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Safe Harbour

- >Must pay in full and on time to remain in safe harbour
- >Tax pooling can restore safe harbour status if payments are missed

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Interest & Penalties

- >Inland Revenue late payment penalties (LPP's) apply to underpaid provisional tax:
- >Initial Penalty: 1% (1 day late)
- >Additional Penalty: 4% (7 days late)

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Interest & Penalties

- >Use of Money Interest (UOMI) payable on lesser of:
- >standard uplift amount less amount actually paid
- >one third of taxpayer's RIT less amount actually paid

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Interest & Penalties

>Use of Money Interest (UOMI) rates:

Effective From	Debit rate	Credit rate
8 May 2020	7.00%	0.00%
29 August 2019	8.35%	0.81%
8 May 2017	8.22%	1.02%
8 May 2016	8.27%	1.62%
8 May 2015	9.21%	2.63%

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Tax Pooling

- >More flexible way of managing provisional tax obligations
- >Taxpayers pay when it suits cashflow, not when provisional rules demand
- >Available up to 75 days after terminal tax date

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Tax Pooling Example

- >Taxpayer Ltd missed P2 (15 Jan 2020) Payment of \$100k
- >Able to pay on 1 Dec 2020

	Tax Pooling	IRD
Core tax	\$100K	\$100K
Interest	\$3.8K	\$6.5K
LPP's	nil	\$5K
Total	\$103.8K	\$111.5K

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Recap

- >If Prior Year RIT > \$5k, must pay provisional tax
- >Four payment methods, standard uplift is most common
- >Tax pooling can greatly assist taxpayers with the timing of their provisional tax payments

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Thank you

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