*This template can be used to advise a client with respect to provisional tax payable for the 1st and 2nd instalments and the 3rd instalment of provisional tax where the previous year’s return has been lodged with Inland Revenue.*

*Please note that the letter has been prepared based on the standard 31 March balance date. For due dates based on other balance dates please refer to* ***Appendix 1****.*

[Insert DD Month YYYY]

|  |
| --- |
|  |

[Insert Client Name]

[Insert Client Position]

[Insert Company Name]

[Insert Client Address]

[Suburb, Post Code]

Dear [Insert Client Name]

**Re:** **Provisional Tax Advice**

This document is a confidential Tax Advice Document that qualifies for partial privilege pursuant to section 20B of the *Tax Administration Act 1994* and need not be disclosed in full to the Commissioner of Inland Revenue. Professional advice should be sought before making any disclosure to the Commissioner or any other third party as such disclosure may cause privilege to be waived.

[Insert entity name]’s [select first / second / third and final] instalment of [2022] provisional tax (for the year ending [31 March 2022]) is due for payment by [insert provisional tax instalment due date].

[Insert entity name] has the following options for calculating the instalment payment:

* the standard uplift method or
* the estimation method or
* the anticipated taxable income method or
* the accounting income method.

**Option 1: Standard Uplift Method**

As [insert entity name]’s residual income tax (**RIT**) for the [2021] income year was [$XXXX], the amount payable by [insert provisional tax instalment due date] using the standard uplift method is [$XXXX], calculated as follows:

[select 1st / 2nd / 3rd] instalment = [105%] x [2021] RIT [x (1/3) or (2/3)] – (Payments made to date)

= [Insert Total Uplift Amount Due] - [Insert Amount Paid to Date]

= [Insert Amount Due]

If [Insert entity name] pays its provisional tax on time using the standard uplift method, late payment penalties will not apply. In addition, use of money interest (**UOMI**) receivable / payable will only be calculated from the due date of the final instalment. [NOTE FOR ADVISOR: Check that any provisional tax associates also use the standard uplift method and there is no provisional tax interest avoidance arrangement].

**Option 2: Estimation Method**

If you consider that [Insert entity name]’s anticipated [2022] RIT will be less than the amount calculated using the uplift method based on the [2021] RIT (i.e. [$XXXX]), you may wish to pay a lesser amount. If you wish to do this, we recommend you file an estimate with Inland Revenue.

To file an estimate, use the online Estimate provisional tax service in myIR, or contact Inland Revenue before the due date of the provisional tax instalment.

The estimate should be based on 28% of the full amount of anticipated [2022] taxable income and the payment amount should be estimated as [2022] RIT [x (1/3) or (2/3)] – payments made to date.

Where an estimate is filed, a shortfall penalty of 20% (or higher) may be imposed if the payment proves to be insufficient. However, Inland Revenue may not impose a penalty if it considers that reasonable care was taken in making the estimate. We recommend that you retain your calculations in support of the estimation.

Late payment penalties will likely apply if an estimate is not filed with Inland Revenue by [Insert provisional tax instalment date] and Inland Revenue does not receive the payment based on the statutory uplift method due by [Insert provisional tax instalment date].

UOMI will also be payable with reference to each instalment date on the difference between the amount of RIT apportioned to the particular instalment date and the amount paid.

**Option 3: Anticipated Taxable Income Method**

If you anticipate that [insert entity name]’s RIT for the year ending [31 March 2022] will be higher than that calculated under the standard uplift method (i.e. [insert amount based on uplift]), you may wish to make a further voluntary payment in addition to the uplift amount.

No forms are required to be filed to Inland Revenue when making a voluntary payment under this method.

The payment should be based on 28% of the forecast [2022] taxable income, and it should be calculated as follows:

[select 1st / 2nd / 3rd] instalment = Anticipated [2021] RIT [x (1/3) or (2/3)] – (Payments made to date)

Where anticipated [2022] RIT is calculated as follows:

[(Anticipated net profit before tax +/- Anticipated Tax Adjustments) x 28%] – [Tax Credits]

We note that UOMI receivable / payable will only be calculated from the due date of the final instalment.

**Option 4: Accounting Income Method**

Effective from 1 April 2018, taxpayers are able to elect to use the Accounting Income Method (AIM) (provided this is done before the first provisional tax date). This provisional tax option is geared towards small businesses with a turnover of less than $5 million and businesses are required to use AIM-capable software (Xero, MYOB and Reckon).

Under this method, most of the calculations are done by the software package although some adjustments may be required. We can assist with this. Late payment penalties and UOMI will apply if payment is not made on time in accordance with the amount calculated by the software. It is also important to note that the filing compliance requirements are increased with this method. Statements of activity are required to be filed six or twelve times per year and if more than two statements are not filed, then the entity will no longer be able to use the AIM method. In this case, the taxpayer will be treated as if they were using the estimation option where there will be exposure to use-of-money interest prior to the third instalment date. It is also important to know that a tax pooling intermediary cannot be used to minimise exposure to penalties and UOMI under the AIM method.

No forms are required to be filed to Inland Revenue when making a voluntary payment under this method.

**Tax Pooling**

If you wish to take advantage of interest being calculated from the first and second instalments on any overpayments of provisional tax, you may wish to consider using a tax pooling intermediary.

Tax pooling can also be particularly helpful where payments have been made on an estimated RIT but the actual RIT (or revised RIT) proves to be significantly higher. In addition, there are also a number of options available in respect of payment deferrals if this would be helpful for your cash flow management.

If you would like any further information on the benefits of using a tax pooling intermediary, please contact us.

**COVID-19**

Inland Revenue have discretion to remit use of money interest and penalties if a business or individual has had their ability to pay tax on time significantly constrained by the COVID-19 outbreak. If you are having difficulties making your tax payments on time, please contact us to discuss options that may be available to assist you during this time.

**Payment** [NOTE TO ADVISOR: REMOVE IF CLIENT USES A TAX POOLING INTERMEDIARY]

If you require assistance in determining the amount to be paid or wish to make an estimate please contact us. Otherwise, please make payment to Inland Revenue using the electronic details below:

Inland Revenue Details (subject to change)

Bank: Westpac

Account Number: 03 0049 0001100 27

Account Name: INLAND REVENUE DEPT

Particulars of Payment: [Insert Entity’s IRD number]

Payee Code: INC [31032022]

The payee code references the standard income year end [31 March 2022]. Please note that this code applies regardless of [Insert entity name]’s balance date.

If you have any queries on any details contained in this letter or on any other matter, please feel free to contact us on [insert telephone number].

Yours sincerely

[Insert Name and Title]

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| --- |
| Encl. |

**Appendix 1**

Depending on a client’s balance date, the respective provisional tax due dates are contained in Schedule 3 Part A of the *Income Tax Act 2007*. A summary extract of the standard provisional tax due dates is reproduced below (please refer to the legislation for further detail):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Balance Date | 1st Instalment Due | 2nd Instalment | 3rd Instalment | Terminal Tax Due (with agent) |
| October | 28 March | 28 July | 28 November | 7 November |
| November | 7 May | 28 August | 15 January | 7 December |
| December | 28 May | 28 September | 28 January | 15 January |
| January | 28 June | 28 October | 28 February | 7 February |
| February | 28 July | 28 November | 28 March | 7 March |
| March | 28 August | 15 January | 7 May | 7 April |
| April | 28 September | 28 January | 28 May | 7 April |
| May | 28 October | 28 February | 28 June | 7 April |
| June | 28 November | 28 March | 28 July | 7 April |
| July | 15 January | 7 May | 28 August | 7 April |
| August | 28 January | 28 May | 28 September | 7 April |
| September | 28 February | 28 June | 28 October | 7 April |