

Terminal Tax And Provisional Tax

Terminal tax is the tax that is determined when your books are done at the end of the financial year. Terminal tax is the difference between what you have paid in provisional tax (if any) over the previous year and what it turns out you actually owe. Of course if you have paid too little provisional tax then you must pay terminal tax and if you have paid too much you get a refund.

Terminal tax is due on either 7th February if you do not have an account or tax agent OR 7th April if you have an accountant or tax agent who has an extension of time on your behalf.

Provisional tax is the self-employed version of P.A.Y.E (ie, a 'pay as you earn' tax).

There is no requirement to start paying provisional tax until the year that your terminal tax (end of year tax) exceeds \$2,500. Prior to this you can make voluntary payments if you wish and in the 2006 year for the first time IRD are offering a discount in tax to people who pay voluntary provisional tax payments.

Provisional tax payments are due in three instalments on 7th July, 7th November and 7th March in every year.

You make provisional payments for the year you are working in (ie.01/04/06 to 31/03/07 in the current case). Your provisional payments are calculated in the following manner - previous year's terminal tax plus 5% but until your previous years tax return is filed it is based on the year before that's payments plus 10%. From this you can see it is good to be an early bird at getting your books done and tax return filed early in the tax year so that your payment situation is based on up to date information.

The hardest year as a tax payers is the first year that you have terminal tax over \$2,500 and now also have to pay provisional tax for the current year as well. Effectively this means that you will be handing over two year's tax in one year. You should always put aside the funds to pay tax as you earn it to avoid this being a major problem. Once you are paying provisional tax it is easier to keep up with payments as when you reach the end of the year your tax is paid already from the three provisional tax payments and there should only be either a small terminal payment or a refund depending on how your year has been.

This information was prepared by Marj Noble, Tax Practitioner.
Marj can be engaged to provide tax and accounting advice and services.
marj.noble@extra.co.nz