Inland Revenue
Te Tari Taake

FACT SHEET | PUKA MEKA

Provisional tax – impact on salary or wage earners who receive a one-off amount of income without tax deducted

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QB 23/05 FS 1

This fact sheet accompanies QB 23/05 Provisional Tax-impact on salary or wage earners who receive a one-off amount of income without tax deducted which considers the impact of the provisional tax rules on salary or wage earners who receive one-off amounts of income that has not had tax deducted at source. It replaces QWBA 19/03 *Provisional tax-impact on employees who receive one-off amounts of income without tax deducted*.

All legislative references are to the Income Tax Act 2007, unless otherwise stated.

RELATED DOCUMENTS | TUHINGA WHAI PĀNGA

QB 23/05: Provisional tax – impact on salary or wage earners who receive a one-off amount of income without tax deducted

Key terms | Kīanga tau tāpua

Estimation option: A method of calculating provisional tax based on your estimate of what the current year's RIT might be.

Late Payment Penalty (LPP): May be charged on late paid and underpaid instalments of provisional tax.

Provisional tax: Income tax usually paid in three instalments (P1, P2 and P3) for a tax year.

Residual income tax (RIT): Income tax liability minus PAYE and other tax credits other than Working for Families Tax Credits.

Standard Option: The default method of calculating your provisional tax, based on your previous year's RIT plus an uplift of 5% or 10%.

Tax Year: 1 April to 31 March.

Terminal tax date: Generally, 7 February of the following tax year.

Use-of-money interest: Money charged on late or underpaid tax (**debit interest**), or money paid on overpaid tax (**credit interest**).

Introduction

If you are a salary or wage earner and you earn any other income, like interest and dividends, that has had tax deducted from it before you receive it then your income tax liability is automatically calculated by Inland Revenue.

But if you receive a one-off payment of taxable income that has had no tax deducted from it (like bright-line income from the sale of a property or from receiving shares under an employee share scheme where your employer has chosen not to deduct PAYE), this may trigger provisional tax obligations if it results in you having tax to pay of over $5,000.

Having to pay provisional tax can expose you to debit interest and LPPs if payments are missed or underpaid. And having one-off income may mean you have to file an IR3 tax return. This fact sheet summarises the position.

Salary or wage earner with current year RIT of more than $5,000

If you are a salary or wage earner with PAYE deducted at source (ie, that is your employer deducts the tax for you) you will become subject to the provisional tax rules if you have one-off income resulting in RIT that is more than $5,000, in any tax year where your RIT was $5,000 or less in the previous year.

You have the choice of the standard or estimation methods to calculate the provisional tax payable.

Under the standard method (which is the default position) if your current year RIT is $60,000 or more, you will have exposure to debit interest if that RIT is not paid by P3 (usually 7 May) after the end of the relevant tax year.

From the 2023 tax year and later tax years where the current year RIT is under $60,000, and if you are using the standard method, no debit interest will be payable, provided the RIT is paid in full by the terminal tax date (usually 7 February the following year).

If you elect to use the estimation method, you are required to pay one third of your current year RIT at each provisional tax instalment date (P1, P2 and P3). Debit interest is charged on underpayments and credit interest is paid on overpayments at each instalment date. LPPs may also apply to underpayments at P1, P2 and/or P3. These are 1% the day after the due date and a further 4% seven days later.

Provisional tax implications for the following year

As a result of having RIT of $5,000 or more you will be treated as a provisional taxpayer in the following year. If your tax position is automatically calculated, you will be advised to pay provisional tax instalments at each of P1, P2 and P3 under the standard method unless you have elected to use the estimation method.

Frequently you may not be expecting to have RIT of more than $5,000 in that following year but the advised payments under the standard method are based on an uplift of either 105% or 110% of your previous year's RIT.

From the 2023 tax year no debit interest is charged on underpayments of instalments if your RIT is less than $60,000 and the full amount of RIT is paid by the terminal tax date. However, if RIT is more than $5,000, LPPs are payable on any underpayments at each of P1 to P3 on the lesser of one third of current year RIT and the payments advised to be made under the standard method in the following year.

Consequently, if you are a salary or wage earner who is not expecting to have any RIT in that following year or RIT that is $5,000 or less, you might choose not to pay the instalments advised to you under the standard method at P1 to P3 but must make sure you pay your current year RIT on or before the terminal tax date.

How to include one-off income in a tax return

As a salary or wage earner you may be automatically assessed when you have only had income with tax deducted at source. If your return is altered to include additional or one-off income without tax deducted at source, it will become an IR3. Once you no longer have income without tax deducted at source you will revert to being automatically assessed in the following year.

If you have bright-line income from a property sale within the bright-line period, you will usually receive a notification from Inland Revenue indicating you may have this income and must include it in your return.

If you have employee share scheme income that has not had PAYE deducted from it this will be already included in your automatic assessment if your employer has disclosed it to Inland Revenue as they are required to do.

If income has been derived from the sale of a financial arrangement you should complete an IR3K and attach it to your IR3 return.

Other one-off income such as a sale of shares can be included in the "other income" box in a return.

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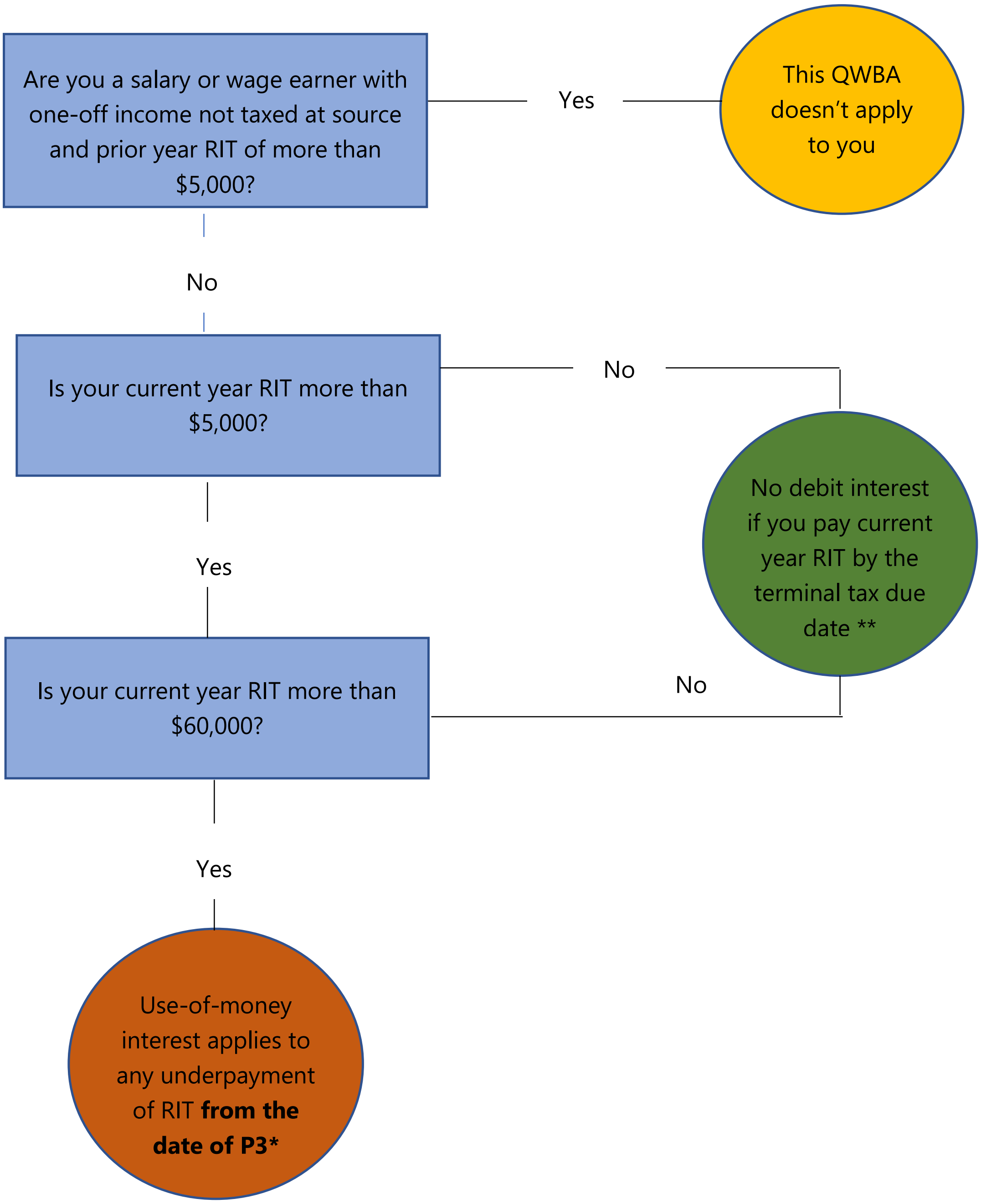
Provisional Tax / Use of Money Interest Exposure



* If you have used the estimation method debit or credit interest and LPPs may apply from P1.

** If RIT is less than $60,000 LPPs may still apply to provisional tax payments not made.

About this document | Mō tēnei tuhinga

Some of the Tax Counsel Office's longer or more complex items are accompanied by a fact sheet that summarises and explains an item's main points. While it summarises the Commissioner's considered views a fact sheet should be read alongside the full item to completely understand the guidance. Fact sheets are not binding on the Commissioner. See further *Status of Commissioner's advice* (December 2012).