Inland Revenue
Te Tari Taake

[UNCLASSIFIED]

EXPOSURE DRAFT - FOR COMMENT AND DISCUSSION ONLY | HUKIHUKI HURANGA - MŌ TE TĀKUPU ME TE MATAPAKI ANAKE

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Send feedback to | Tukuna mai ngā whakahokinga kōrero ki Public.Consultation@ird.govt.nz

External-only consultation

QUESTIONS WE'VE BEEN ASKED | PĀTAI KUA UIA MAI

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

Issued | Tukuna: xx Month 2022

QB XX/XX

This question we've been asked (QWBA) considers the impact of the provisional tax rules on salary or wage earners who receive a one-off amount of income not taxed at source. It replaces QWBA 19/03 *Provisional tax-impact on employees who receive one-off amounts of income without tax deducted*.

Key provisions | Whakaratonga tāpua

Income Tax Act 2007 – ss RC 2(2), RC 3, RC 4, RC 5, RC 7, RC 9(9), RC 10, RC 12

Tax Administration Act 1994 – ss 3(1) ("new provisional taxpayer"),120KBB, 120KE

REPLACES | WHAKAKAPIA: QB 19/03

Question | Pātai

What are the provisional tax implications when a person earning salary or wages subject to PAYE receives a one-off amount of income without any tax withheld and their residual income tax (RIT) is over $5,000?

Answer | Whakautu

A salary or wage earner who receives an amount of income without tax withheld and whose RIT is over $5,000 is a provisional taxpayer even if their RIT in the previous year was $5,000 or less.

If the RIT is $60,000 or more, the person will be exposed to use-of-money interest (debit interest) from their third instalment date (P3) on any unpaid RIT.

If their RIT is less than $60,000, the person will not have exposure to debit interest provided they pay the RIT on or before the terminal tax date.

If their tax position is automatically calculated, Inland Revenue will treat them as required to pay provisional tax in the following year under the standard method, unless they elect to use the estimation method. Before each instalment date, Inland Revenue will notify them of the tax they need to pay.

If they self-assess, they will need to indicate in their return of income what provisional tax method they will use for the following year and pay the instalments accordingly.

If their RIT in the following year is $5,000 or less, they will not be a provisional taxpayer unless they elect to use the estimation method, but will still have an obligation to pay instalments under either the standard or estimation method.

Late payment penalties (LPPs) can apply if instalments of provisional tax are under paid or paid late.

Key terms | Kīanga tau tāpua

ACC earner's levy: Money paid by employees and self-employed to ACC towards the costs on non-work personal injury cover.

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 as three instalments (P1-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 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).

Explanation | Whakamāramatanga

1. This QWBA has arisen because salary or wage earners can sometimes receive a significant one-off lump sum amount of income without tax deducted at source, such as:
   - bright-line income (The bright-line property rule (ird.govt.nz)) arising from sale of a property; or
   - an amount of recovered depreciation on the sale of a rental property; or
   - beneficiary income from a trust where s HD 4(b) of the Income Tax Act 2007 (ITA) applies; or
   - shares transferred to an employee under an employee share scheme where the employer has chosen not to deduct PAYE (however, if the employer chooses to deduct PAYE, this QWBA does not apply to this form of income); or
   - gains the person has made on the redemption of a bond that they have acquired at a discount to face value; or
   - investment income, such as Portfolio Investment Entity (PIE) or interest income, taxed at an incorrectly notified rate.
2. Because a person in this situation has PAYE deducted at source on their normal income and do not usually have RIT over $5,000, they may not have previously been a provisional taxpayer.
3. If they continue as a salary or wage earner in the tax year in which they receive the one-off amount of income, they will not be classed as a "new provisional taxpayer" under the Tax Administration Act 1994 (TAA) (identified as a "person who has an initial provisional tax liability" under the ITA). However, if the one-off income amount without tax deducted results

in RIT that is over $5,000, the person will become a provisional taxpayer (as defined in the TAA) because they are a person who is liable to pay provisional tax under s RC 3(1) of the ITA.

4. It is common for people in this situation (who have self-assessed or had their income for the tax year automatically calculated and assessed by 7 July) to have had RIT of $5,000 or less in the year before they receive the one-off amount of income. This means that s RC 3(3) of the ITA applies, so they have "no obligation to pay provisional tax" in the income year in which they derive the one-off amount of income.
5. This QWBA explores what having "no obligation to pay provisional tax" means in a practical sense and what the consequences are in terms of interest and penalty exposure if a person does not pay provisional tax or pays it voluntarily when their RIT is $60,000 or more. It also examines the implications for a person if their RIT is less than $60,000. Finally, it discusses the provisional tax consequences in the following tax year in both these situations and then provides some examples.

How provisional tax rules apply to a one-off amount of income where no tax has been deducted

6. A salary or wage earner with PAYE deducted at source will become subject to the provisional tax rules if they have RIT that is over $5,000 in any tax year. Section RC 3(1) of the ITA makes such a person liable to pay provisional tax for that tax year, so they are a "provisional taxpayer" as defined in s 3(1) of the TAA. A person who is liable to pay provisional tax then has a choice of methods to calculate the tax payable under s RC 5 of the ITA. For a salary or wage earner receiving a one-off income amount, the choice is practically limited to the standard method or the estimation method. If no other method is selected the person defaults to the standard method.

7. If that person has had RIT of $5,000 or less in the previous tax year, s RC 3(3) of the ITA applies, and they will have "no obligation to pay provisional tax" in the relevant tax year. The intention behind this provision is to provide flexibility for taxpayers who will often have difficulty predicting whether they will receive income that has had no or insufficient tax deducted. It does not, however, remove them from the obligation to follow the provisional tax rules as they keep their status as a provisional taxpayer under the TAA by being "liable to pay provisional tax" under s RC 3(1) of the ITA, despite having no obligation to pay provisional tax under s RC 3(3) of the ITA.

8. A person who chooses to pay provisional tax under s RC 4 of the ITA is also treated under s RC 3(1)(b) of the ITA as a person liable to pay provisional tax. Section RC 2(2) of the ITA re-emphasises that "the provisional tax rules apply to a person who is required or who chooses to pay provisional tax". Choosing to pay can help the person to limit their exposure to use-of-money interest (debit interest) when residual income tax is $60,000 or more.

How provisional tax rules apply when residual income tax is $60,000 or more

9. Because RIT was $5,000 or less in the previous year, a salary or wage earner who has RIT of $60,000 or more because they received income without tax deducted at source has no obligation to pay provisional tax on instalment dates. However, they may still be liable for debit interest if they don't make payments. Such a person may choose to make voluntary payments of the expected RIT amount by the last instalment date (P3) under section 120KBB of the TAA. This will limit the person's exposure to debit interest.

10. To be eligible for relief from debit interest, the person must be an "interest concession provisional taxpayer". Section 120KBB(4)(a) of the TAA defines this term:

> **interest concession provisional taxpayer** means a person that is liable to pay provisional tax for an income year if—
>
> (i) the person uses 1 of the standard methods described in section RC 5(2) or (3) of the Income Tax Act 2007 for the tax year:

11. Under s 120KBB of the TAA, a person who uses the standard method and pays their current year RIT by the last instalment payment (P3), will not have any exposure to debit interest. For taxpayers with a standard 31 March balance date, these provisional tax instalments are on 28 August (P1), 15 January (P2) and 7 May (P3).
12. From the 2019/2020 income year, a person who uses the standard method and who expects their RIT to be $60,000 or more may, under s RC 10(5), pay that expected amount (less the amounts they were liable to pay at P1 and P2, if any) on P3 (usually on 7 May) to manage exposure to debit interest.
13. If the person had no RIT assessed in the previous year or their RIT was $5,000 or less in that year, their instalment payments using the standard method at P1–P3 will be zero on each occasion. The standard method is the default option, so there is no need to advise that it has been adopted. The person can then pay the entire RIT for the current year on P3 and not be exposed to any debit interest. If they underpay the RIT they will be exposed to debit interest from P3; if they overpay it, they will be entitled to credit interest (depending on the prevailing rate) from P3.
14. If they did have RIT over $5,000 in the previous year, then they must pay the amounts required on P1 and P2 plus top up to the full RIT amount at P3, so that they are not exposed to debit interest. They will also incur LPPs on any overdue payments. These are 1% the day after the due date and 4% seven days later.

How provisional tax rules apply when residual income tax is under $60,000

15. Where their income without a tax deduction results in RIT of less than $60,000, salary or wage earners may take advantage of the use-of-money interest safe harbour under s 120KE of the TAA by paying all the RIT on or before the terminal tax date. In this context, the use-of-money safe harbour means the person will not have to pay any debit interest where they pay their RIT in full by the terminal date; nor will they be entitled to any credit interest for overpayments. For most taxpayers with a standard 31 March balance date, the terminal date is 7 February in the following year. This date can be extended if their income tax account is linked to a tax agent with an extension of time.
16. From the 2023 tax year and later years a person who uses the standard method and has RIT of less than $60,000 will meet the criteria for this safe harbour even if they miss making a provisional tax payment on time prior to the terminal tax date. Such provisional tax payments would be required if their RIT was over $5,000 in the previous tax year. However, this use-of-money safe harbour does not extend to LPPs which can still be imposed on under payments of provisional tax. Consequently, there remains an incentive to make any required provisional tax payments by their due date when RIT is under $60,000.

Application of provisional tax rules when estimation occurs

17. When a person chooses the estimation method, they are exposed to debit interest on any shortfall at each instalment date if their RIT for that year is over $5,000 and they will receive

credit interest for payments in excess of their RIT. They are also obliged to revise their estimate during the year to ensure it is accurate if their RIT is over $5,000. LPPs apply to overdue payments.

18. Salary or wage earners can change from the standard option to the estimation option at any time up until their final instalment (P3). But once a change is made, they cannot change back for the same tax year. If a change is made to the estimation method part way through a tax year under s RC 7 of the ITA they will be liable to pay their RIT on each of the P1-P3 dates. Debit interest will be payable on any amounts unpaid at these dates.

Provisional tax consequences in the following tax year

19. As a result of having RIT that is over $5,000 in a tax year, a person has an obligation to pay provisional tax in the following year. If their tax position has been automatically calculated, Inland Revenue will advise them in that following tax year to pay provisional tax on instalment dates based on the standard method unless they choose to use the estimation method. A person can inform Inland Revenue of their choice of the estimation method using secure email via myIR or by phone or letter. If they make a return of income in the tax year when they received the one-off income and their RIT was over $5,000, they must in that return indicate which provisional tax method they will adopt for making payments in the following tax year.

20. Often a salary or wage earner who has received a one-off amount of income without tax deducted will not be expecting to get any further income of this nature in the following year. If they use the standard method, they will then be due to make payments in the following year of at least 105% of the previous year's RIT. If they are certain they will not have any RIT in that following year they could use s 120KBB(3) of the TAA and not make any payments of provisional tax. However, this will mean an exposure to debit interest on any short-paid RIT after P3 and the risk of LPPs at P1-P3 where there is in fact RIT and no payments were made.

21. Alternatively, they may choose to adopt the estimation method and estimate their provisional tax at nil and then make no payments at each instalment in that following year. This choice has exposure to debit interest and LPPs at each instalment date if there is in fact any RIT for that following year.

How to include one-off income in a return of income

22. A person who has income from only salary, wages, benefits, taxable pensions, interest or dividends may be automatically assessed. If the information on their income is incomplete, it is that person's responsibility to correct it plus add any other income and make any required disclosure. If a person is registered with myIR, they receive their automatic assessment and all relevant information through myIR. If they are not registered, they receive the automatic assessment by mail. If the person has a tax agent, all communication occurs through that agent who will be directly linked to Inland Revenue.

Bright-line income

23. When an automatically assessed person has made a property sale within a bright-line period, they will usually receive a notification from Inland Revenue (via myIR, their tax agent or mail) that they may have a bright-line tax liability (the property sale within the bright-line period notification process). In response, they will need to review the information and update it if required. They must then include any resulting income in a return of income unless the person has responded to the notification advising that the property is not taxable under the bright-line rules. They can also provide this advice at filing time by removing the pre-populated bright-line indicator and selecting the reason why bright-line does not apply.

24. If the person needs to disclose a property sale, they can – at their own initiative – manually add a property sales information form, *Bright-line property sale information* IR833 (Inland Revenue Department NZ, August 2020), in myIR or via a tax agent's link. The net profit from the property sale is then included in the return of income in the residential income box.

25. For more details, go to: https://www.ird.govt.nz/updates/news-folder/pre-population-in-31-03-2022-income-tax-returns---ir833

Employee share scheme income

26. When a salary or wage earner receives income without a tax deduction from an employee share scheme and their employer advises Inland Revenue, it will show up in their myIR as part of the salary, wages, benefits and taxable pension section in the relevant month. Unlike their regular salary or wage, no PAYE will be deducted in the column alongside it. It will also be included in the column as Earnings not liable for ACC (Accident Compensation Corporation earners' levy).

27. The amount will then be automatically included in the total gross income amount from salary, wages, benefits and taxable pensions. It will therefore be included in the person's taxable income for the relevant tax year unless their employer neglects to advise Inland Revenue.

Sale of a financial arrangement

28. Where a person has sold or disposed of a financial arrangement, they should complete *Sale or disposal of financial arrangements* IR3K (Inland Revenue Department NZ, May 2021) as part of their return of income. This presents as a 'tick the box' option under *select secondary forms you wish to file* when the person is completing a return of income in myIR for the relevant period.

Other income

29. Other one-off income amounts such as a sale of shares acquired with the intention of sale can be included in the box identified as "other income" when completing a return of income. The return of income may already indicate that Inland Revenue holds information suggesting the person has other income for that tax year, but the person remains responsible for entering the relevant detail.

Summary

30. Where a salary or wage earner receives a one-off income amount that is not taxed at its source and their RIT is over $5,000, the impact of the provisional tax rules depends on the amount of that RIT. The first situation applies to a salary or wage earner who receives income without tax deducted at source resulting in RIT of $60,000 or more in a tax year and who did not have RIT over $5,000 in the previous year. In this case, they will have exposure to debit interest if they do not pay all the RIT by P3. P3 is 7 May for taxpayers with a standard 31 March balance date.

31. The second situation applies to a salary or wage earner who receives income without tax deducted resulting in RIT less than $60,000, and who did not have RIT over $5,000 in the previous year. In this case, they will not be exposed to debit interest if they pay the RIT on or before the terminal tax date. The terminal tax date is 7 February the following year for taxpayers with a standard balance date.

32. In both situations LPPs may apply to under payments and the person will be obliged to pay provisional tax in the tax year after receiving the one-off amount if the RIT in the past year was over $5,000. If Inland Revenue automatically calculated their tax position, it will advise them to pay provisional tax on instalment dates based on the standard method, unless they elect to use the estimation method. Alternatively, if the person files a return of income, they pay provisional tax under the standard method unless they opt to use the estimation method.

33. If the person does not expect to derive any further income without tax deducted in the following year, they could not make any provisional tax payments and will only have an exposure to debit interest if there is any RIT, but their debit interest exposure from P3 will be limited to the lesser of the current year RIT where it is over $5,000 or the amount payable under the standard method. Similarly, LPPs may apply to short payments if there is RIT in that following year.

34. They may choose to adopt the estimation method for that following year, but this will expose them to debit interest on any shortfalls at each of P1–P3 if they do in fact have RIT that is over $5,000.

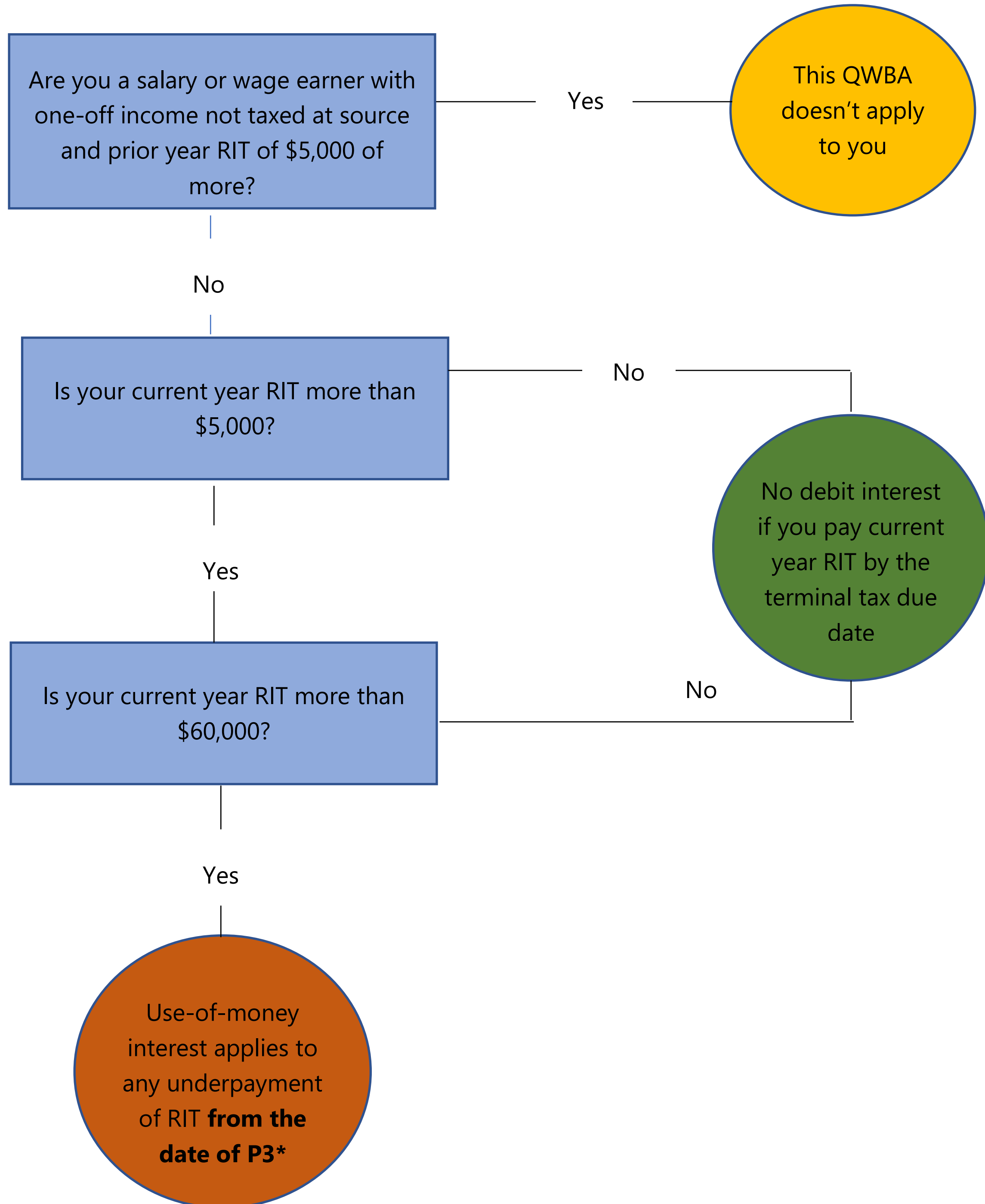
35. When a person who is automatically assessed has made a property sale likely to be subject to the bright-line rule, Inland Revenue will notify them and they must file a return of income. They can also do this manually if they are not notified.

36. If a salary or wage earner has received employee share income without PAYE deducted and the employer has notified Inland Revenue, this will show up in their myIR as gross income from salary, wages, benefits and taxable pensions without PAYE deducted. Inland Revenue will automatically assess them on the untaxed amount if they only have interest or dividend income in addition to their salary.

37. After selling or disposing of a financial arrangement, a person should complete an IR3K as part of their return of income for that tax year.

38. For other untaxed one-off income amounts like share sales, a person may include them in the box marked “other income” in a return of income for the relevant tax year.

39. The following flowchart and examples illustrate these points.



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

Examples | Tauira

Example | Tauira 1 – Bright-line income that a salary or wage earner receives results in residual income tax over $60,000

Facts: Kahu purchases a bach on the Kāpiti Coast for $1 million in January 2020. He sells the property in November 2021 at the market peak for $1.5 million, so makes a total gain on sale of $400,000 after deducting legal and real estate agent fees and other direct costs of $100,000.

The property is subject to the 5-year bright-line period as Kahu disposed of it within 5 years of purchasing it and acquired it before 27 March 2021 when the 5 year bright-line period increased to 10 years.

At his marginal tax rate of 39%, he has tax to pay of $156,000 on his $400,000 taxable gain on sale in the 2022 tax year.

Question: What is Kahu's liability to pay provisional tax in the 2022 and 2023 tax years and his exposure to debit interest as a result of receiving the bright-line income while his only other income is from salary, interest and dividends?

Answer – 2022 tax year: Kahu is registered for myIR and receives a notification from Inland Revenue that he may have bright-line income in the 2022 tax year. As a salary or wage earner, Kahu does not have an "initial provisional tax liability" under s RC 9(9) of the ITA in the 2022 tax year. He has a RIT liability from the bright-line income of $156,000. Since his RIT is more than $5,000, he is "liable to pay provisional tax" under s RC 3(1) of the ITA, so is a "provisional taxpayer" under s 3(1) of the TAA. This applies even though Kahu had no RIT in the 2021 income year, so he has "no obligation to pay provisional tax" for the 2022 tax year under s RC 3(3) of the ITA.

Kahu can qualify as an "interest concession provisional taxpayer" under s 120KBB of the TAA if he uses the standard method. Because his RIT is $60,000 or more, the terminal tax payment concession under s 120KE does not apply.

Kahu is not exposed to debit interest until P3 but can make voluntary payments at any time between P1 and P3. On 7 May 2022 at P3 Kahu pays the $156,000 using the option in s RC 10(5). Provided he makes no other election, Inland Revenue treats Kahu as having adopted the standard method. As a result, Kahu has no exposure to debit interest.

Answer – 2023 tax year: Inland Revenue will automatically calculate Kahu's 2023 provisional tax under the standard method unless he elects to use the estimation method.

He is not expecting any income without tax deducted at source, so is reluctant to adopt the standard method, which would demand three payments of $54,600 ($156,000 x 105%).

Kahu has been advised to consider his options under s 120KE of the TAA which apply from and including the 2023 tax year. It limits exposure to debit interest for those using the standard method who have RIT less than $60,000 to RIT unpaid from the terminal tax date. He will still have exposure to LPPs if his RIT is over $5,000 at each instalment date (P1-P2) but these are based on the lesser of the standard method payment required and one third of the RIT.

Kahu's other option is to adopt the estimation method and then not make any instalments on the assumption he will not have any RIT in the 2023 tax year. If Kahu adopts the estimation method, he must give a fair and reasonable estimate of his RIT and he must inform Inland Revenue of the estimate on or before P1.

Kahu's tax agent advises him that if Kahu does use the estimation method, he needs to consider the risks. If Kahu does have some RIT to pay in the 2023 tax year, including from untaxed income that unexpectedly arises, he has until the date of P3 to re-estimate his 2023 provisional tax when he becomes aware of this income. The revised estimate will apply to the remaining 2023 provisional tax payments. Provisional tax cannot be re-estimated after the due date of P3.

Under the estimation option Kahu will have an exposure to debit interest at each instalment date equal to the current year RIT amount divided by three, less any amounts paid. Kahu can make voluntary payments at the time of revising his estimate to help mitigate any debit interest for instalments already paid or use tax pooling funds at backdated effective dates within the applicable time frames.

Kahu should notify his nil estimate on or before P1. Otherwise, if he does not pay $54,600 by P1, he risks LPPs if his 2023 RIT is more than $5,000. Even if Kahu's 2023 RIT is not more than $5,000, by not paying by P1 Kahu also risks LPPs if his 2023 RIT is later reassessed to be more than $5,000.

Kahu's tax agent suggests Kahu is probably best advised to stay with the standard method and pay any RIT by the terminal tax date because he is not expecting to have any RIT and will not be exposed to debit interest on the instalments (P1-P3) unless his RIT is $60,000 or more. That exposure to debit interest is on the lesser of the payment required under the standard method and one third of the RIT at each instalment.

The tax agent explains that Kahu will face LPP risks if his 2023 RIT turns out to be more than $5,000. LPPs are calculated on the lesser of the payment required under the standard method and one third of the RIT at each instalment date (P1-P3).

Example | Tauira 2 – One-off income amount that a salary or wage earner receives results in residual income tax of $60,000 or more

Facts: Jackie is the chief executive of Goboy Ltd with a salary of $180,000 per year and no RIT in the 2021 tax year. In December 2021 Goboy advises her that she is immediately entitled under the executive share scheme to shares in Goboy with a market value of $200,000. Goboy elects not to treat this benefit as subject to PAYE but still reports it to Inland Revenue as a benefit under the PAYE rules. Jackie receives the benefit as income not taxed at source in the 2022 tax year.

Question: What is Jackie's liability to pay provisional tax in the 2022 and 2023 tax years and her exposure to debit interest as a result of receiving that benefit when she continues throughout this time as a salaried chief executive?

Answer – 2022 tax year: As Jackie never ceases being an employee, she will not have an "initial provisional tax liability" under s RC 9(9) of the ITA in the 2022 tax year. She will have a RIT liability on the share benefit of $78,000. Because her RIT is more than $5,000, she is "liable to pay provisional tax" under s RC 3(1) of the ITA, so is a "provisional taxpayer" under s 3(1) of the TAA. This applies even though Jackie had no RIT in the 2021 tax year, so she has "no obligation to pay provisional tax" for the 2022 tax year under s RC 3(3) of the ITA.

Jackie can qualify as an "interest concession provisional taxpayer" under s 120KBB of the TAA if she uses the standard method. Because her RIT is $60,000 or more, the terminal tax payment concession under s 120KE does not apply.

Jackie is not exposed to debit interest until P3 but can make voluntary payments at any time between P1 and P3. Her best option would be to make a voluntary payment of the amount she expects to be her 2022 RIT on P3 (7 May 2022) as she will have exposure to debit interest from that date on any under payments (and will get credit interest for any overpayment) of her actual 2022 RIT from P3.

Answer – 2023 tax year: Inland Revenue will automatically calculate Jackie's 2023 provisional tax under the standard method unless she elects to use the estimation method. She is not expecting any further benefits under the Goboy executive share scheme, nor any other income without tax deducted at source, so is reluctant to adopt the standard method, which would demand three payments of $27,300 ($200,000 x 39% x 105%).

But Jackie considers her options under s 120KE of the TAA which apply from and including the 2023 tax year. It limits exposure to debit interest for those using the standard method who have RIT less than $60,000 to RIT unpaid from the terminal tax date. She will still have exposure to LPPs if her RIT is over $5,000 at each instalment date (P1-P2) but these are based on the lesser of the standard method payment required and one third of the RIT.

Jackie decides to not make the payments she is advised by Inland Revenue to make under the standard method at P1 and P2 and to assess her RIT for the 2023 tax year before the required payment at P3 on 7 May 2023. She is confident that any RIT is likely to be under $5,000 and that she will not have any exposure to LPPs and should be able to make full payment on the terminal date without an exposure to debit interest.

Example | Tauira 3 – One-off income amount that a salary or wage earner receives results in residual income tax of less than $60,000

Facts: The facts are the same as in Example 2 except Jackie's share entitlement is worth only $100,000 so her RIT in 2022 is $39,000.

Question: What are the provisional tax and debit interest implications for the 2022 and 2023 tax years?

Answer – 2022 tax year: Jackie has RIT of $39,000 so she is a provisional taxpayer under s RC 3(1) of the ITA. This applies even though she has no obligation to pay provisional tax under s RC 3(3) of the ITA on the grounds that she had RIT of $5,000 or less in the 2021 tax year. Jackie qualifies under s 120KE of the TAA for payment of the RIT on the terminal tax date for the 2022 tax year because her RIT in 2022 was under $60,000. Jackie's only exposure to debit interest will occur if she does not pay the RIT amount on the terminal tax date.

Answer – 2023 tax year: Inland Revenue will automatically calculate Jackie's tax position in the 2023 year and will treat her as liable to pay provisional tax based on the standard method unless she elects to use the estimation method. As she is not expecting another share scheme benefit or any other income untaxed at source, Jackie decides not to make the instalments at P1-P3 for the 2023 tax year. Provided her RIT for 2023 is under $60,000 she will qualify for the safe-harbour concession under s 120KE of the TAA that applies from and including the 2023 tax year. This means she will only be exposed to debit interest on any underpayments of RIT on the 2023 terminal tax date despite not making the instalments.

However, if there is any RIT for 2023 that is over $5,000 Jackie will be exposed to LPPs for amounts short paid at each of the P1-P3 instalments.

Draft items produced by the Tax Counsel Office represent the preliminary, though considered, views of the Commissioner of Inland Revenue.

In draft form these items may not be relied on by taxation officers, taxpayers, and practitioners. Only finalised items represent authoritative statements by Inland Revenue of its stance on the particular issues covered.

References | Tohutoro

Legislative references | Tohutoro whakatureture

Income Tax Act 2007, ss s HD 4(b), RC 2(2), RC 3, RC 4, RC 5, RC 7, RC 9(9), RC 10(2), RC 10(5), RC 12

Tax Administration Act 1994, ss 3(1), 120KB, 120KBB, 120KE

Other references | Tohutoro anō

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Questions We've Been Asked (QWBAs) are issued by the Tax Counsel Office. QWBAs answer specific tax questions we have been asked that may be of general interest to taxpayers. While they set out the Commissioner’s considered views, QWBAs are not binding on the Commissioner. However, taxpayers can generally rely on them in determining their tax affairs. See further Status of Commissioner’s advice (*December 2012*). It is important to note that a general similarity between a taxpayer’s circumstances and an example in a QWBA will not necessarily lead to the same tax result. Each case must be considered on its own facts.