

Pay provisional tax when it suits you with tax pooling

Tax pooling is an IRD-approved service that addresses one of the major bugbears of the provisional tax regime – having to pay when the taxman dictates.

This can be problematic because these dates do not always align with when a business earns their income, nor do they recognise any cashflow issues they may be experiencing.

Of course, if someone does not pay on time, IRD will charge interest (currently 8.35 percent) and late payment penalties.

Tax pooling remedies this problem.

It gives taxpayers the flexibility to make their provisional tax payments at a time or manner that suits them, without having to worry about late payment penalties and IRD interest.

How does it work?

A commercial tax pooling provider such as Tax Management NZ makes payments into its account at IRD on every provisional tax date on behalf of taxpayers wanting the option to pay an upcoming payment in instalments or at a time that suits them.

Taxpayers entering an arrangement with a tax pooling provider then make their provisional tax payments at an agreed upon date in the future (or as and when it suits their cashflow if paying in instalments).

When the tax pooling provider receives these payments, it allocates the tax the taxpayers needs to their required provisional tax date(s).

As the tax the tax pooling provider is transferring to a taxpayer's IRD account has been paid and date stamped as at the original due date, IRD treats it as if the taxpayer paid their provisional tax on time when it processes this transfer. This, therefore, eliminates late payment penalties.

The taxpayer has some interest to pay the tax pooling provider, but this is lower than what IRD charges when tax has not been paid.

Who might this suit?

Taxpayers wishing to manage cashflow at certain times of the year or free up working capital to reinvest in their business may find tax pooling useful.

What tax types can tax pooling assist with?

Tax pooling can help with upcoming, missed or underpaid provisional and terminal tax payments for the current tax year or one just completed.

In situations where IRD issues a notice of reassessment, tax pooling can be used to reduce the interest cost and eliminate late payment penalties on historic income tax as well as other tax types such as GST, PAYE, RWT, NRWT and FBT.

Please contact us if you wish to know more information about tax pooling or have any questions.

Phone: 0800 829 888

Email: support@tmnz.co.nz