

The Accounting Income Method (AIM) is a new option you can use from 1 April 2018 to calculate your provisional tax.

AIM will be provided through approved accounting software. It will calculate your provisional tax payments based on accounting information you enter and tell you how much you need to pay every one or two months, along with your GST.

Tired of worrying about your provisional tax?

With AIM, your software becomes your safety net. As long as you pay what it tells you to on time, you won't have to pay interest or penalties.

The software also does all the hard work of provisional tax calculations for you. All you have to do is enter in your accounting information.

AIM is for businesses with turnover of less than \$5 million a year

You should consider choosing AIM if:

- **you want refunds of overpaid provisional tax throughout the year**
- **you're new to business – you'll only start paying provisional tax when you start making a profit**
- **your business is growing – there'll be less chance of you over or under-estimating the amount of tax you have to pay**
- **your business is really busy at some times of the year and not at others**
- **you already use accounting software or are thinking about moving onto software**
- **it's hard to forecast your income accurately – rely on your software to tell you what to pay**

If your business model isn't right for AIM, you can keep using any of the other provisional tax options. If you change your mind and want to get the benefits of AIM, you can opt into AIM for the next year.

New businesses can start using AIM any time before their first provisional tax payment is due, even if it's partway through the year.

“Pay-as-you-go” - pay smaller amounts of provisional tax more often

Your software will work out how much provisional tax you have to pay every one or two months, so your payments should more closely match your cash flow than they do now. You'll be able to pay your provisional tax when you earn income and if you don't earn any income, you won't pay any provisional tax.

All your provisional tax calculations will be done for you

You'll be able to focus on running your business, rather than having to figure out how much tax you might have to pay.

Your software will use your accounting information to work out how much provisional tax you have to pay.

Your software will make all the adjustments needed for things like:

- Private use expenditure
- Depreciation
- Trading stock
- Prior year losses
- Provisions (including shareholder salaries)
- Debtors and creditors.

Prompts will be built into your software to help you. It may ask you if you're sure about something if it thinks you've got it wrong and may ask you if you want to check some things with your tax advisor if you have one.

If you use a tax agent for your GST returns, it will be easy for your tax agent to check your provisional tax too, as they'll use the same information they use for GST.

If you're using AIM, you won't have to worry about whether you've got your provisional tax right – your software does the hard work of calculations for you.

Get a refund straight away if you've overpaid provisional tax

If your income drops during the year or if you make a loss, you'll be able to ask Inland Revenue to refund any provisional tax you've overpaid. You could transfer the refund to meet another tax obligation, or ask Inland Revenue to hold it for you to offset it against your next payment. You can ask for all of it back or just some of it.

This is different to other provisional tax options where you have to wait until the end of the year for a refund.

If you have losses from the year before you can use these to reduce your current year payments.

If you pay the amount of provisional tax calculated by your software, on time, you won't be charged any interest

You'll only be charged interest if you don't pay the amount calculated by your software, in which case you may also be charged late payment penalties.

You will still need a square up at the end of the year, but there's no interest

You will still need to file a tax return at the end of the tax year, but AIM lessens the chance of any big payments being needed at the end of the year. AIM will get more accurate over time, so eventually the provisional tax you are paying during the year will get very close to your overall end of year tax position.

If you have a top up payment to make at the end of the year, you won't be charged any interest. You'll just pay the extra and carry on running your business.

Keep your business records up to date and your software will do the rest

For AIM to work, you just need to regularly update the financial information in your accounting software, just like you do if you're using software for GST.

Using AIM means you'll have more confidence that you've done the right thing and that you are on track with your taxes.

How often you pay will depend on how often, or whether, you pay GST

If you pay your GST every month, you'll also pay your provisional tax every month. If you pay your GST every two months or every six months, you'll pay your provisional tax every two months.

If you're not registered for GST, you'll pay your provisional tax every two months.

Your software will send information to Inland Revenue for you

If you're using AIM, your software will provide Inland Revenue with information with each payment so they know that your provisional tax payment has been worked out by your software. This is called a Statement of Activity and you can see it before it goes. It's not an income tax return so you don't need to worry if there is a mistake, just fix it next time.

Your software will send the information even if you have nothing to pay, so Inland Revenue knows not to expect a payment.

Inland Revenue can't see any of the information within your software.

If you choose AIM, you'll have to use it for the whole year

If you start using AIM you'll have to keep using it for the year. Switching to another method could expose you to Use of Money Interest (UOMI).

More information

Go to www.ird.govt.nz/news-updates/accounting-income-method-prov-tax.html

If you can't find the information you need, email IRTransformation@ird.govt.nz