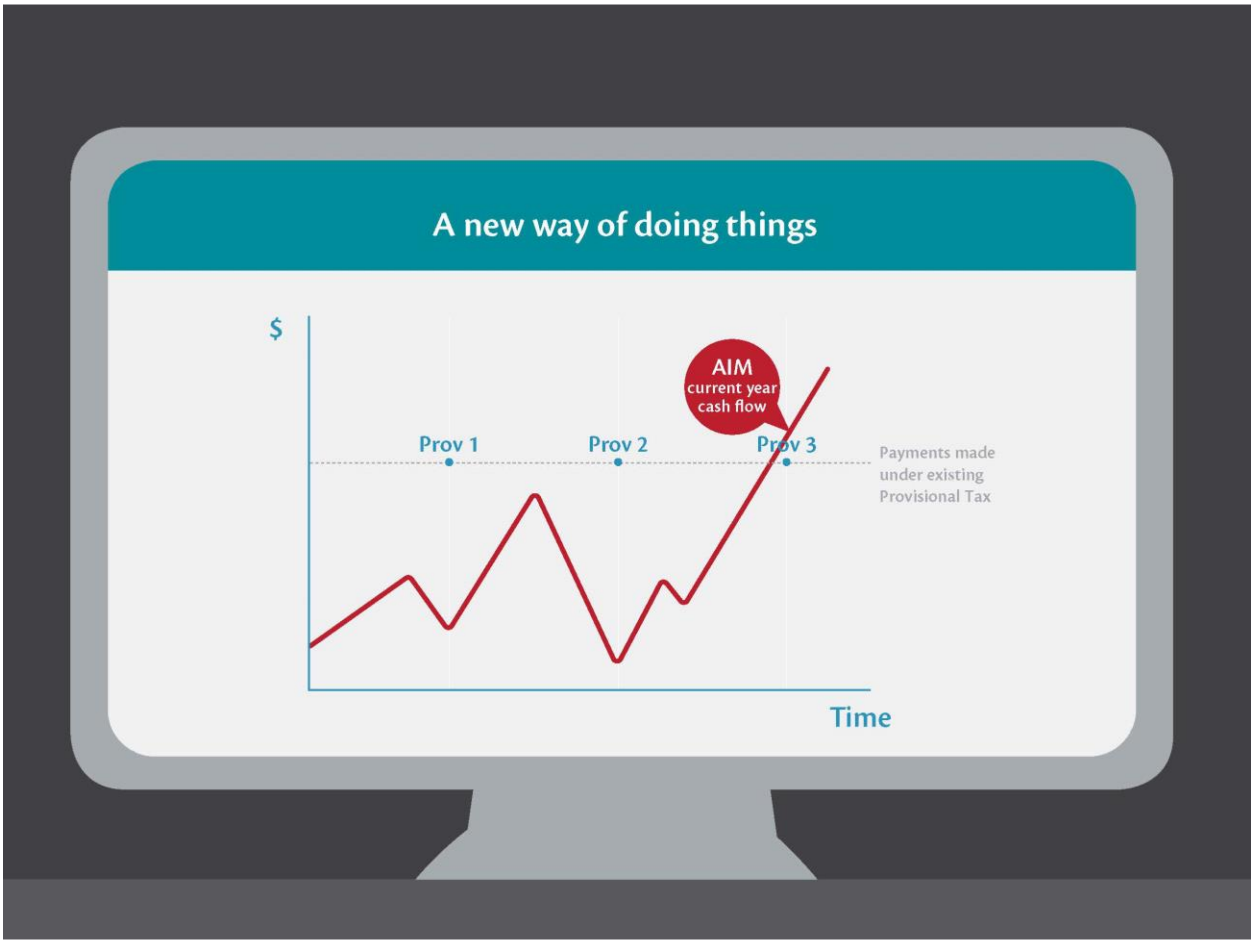
Inland Revenue
Te Tari Taake

Inland Revenue

An overview of AIM



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Contents

1 Overview

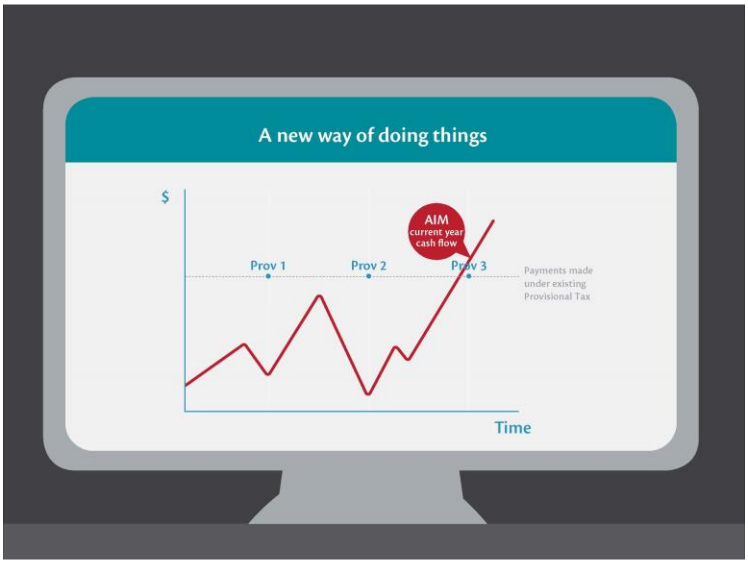
1.1 This solution

Inland Revenue has a range of digital services that support efficient, electronic business interactions.

This document provides an overview of the Accounting Income Method ("AIM") provisional tax option - its goals, the opportunities it presents, the legislation around it, and associated processes.

AIM is a way for small businesses to manage provisional tax using accounting software. It was developed in response to small businesses' feedback that they wanted a way to manage provisional tax in line with how their business operates. With AIM, the calculation of provisional tax is part of the accounting work that a business already does to keep on top of its finances, rather than a separate step.

AIM uses improvements in technology and software to reduce compliance costs for smaller businesses.



1.2 Intended audience

This document provides a high-level overview of AIM and how it might be used by customers. It describes the problems faced by small businesses relating to provisional tax and the opportunities AIM offers.

It details the legislative requirements for AIM, both for customers and those intending to build AIM-capable software.

1.3 Supporting information

More detailed information is available for those wanting a better understanding of AIM and/or of becoming a provider of AIM-capable software.

The AIM Onboarding document supports your management and business experts in understanding what is expected of AIM-capable software, data processing and data exchange, and the pre-requisites required to access Inland Revenue production systems.

A range of build packs provide technical staff with details on connectivity, authentication methods, and how to integrate with Inland Revenue's digital services.

Documentation is available on the Inland Revenue GitHub page. Details are available from your Inland Revenue Account Manager.

1.4 Next Steps

If after reading this document you are interested in learning more about AIM and how you might work with Inland Revenue, please contact us to discuss your next steps.

Before contacting your Inland Revenue Account Manager, you may like to consider:

- Identifying the client base/subset of your clients that will benefit from AIM
- Being ready to confirm your intention to either retrieve data related to AIM or pursue full "AIM-capable" status
- Confirming the software 'stack' you will use for AIM (your own software only or linked software packages from multiple providers)
- Completing an initial technology check (your ability to use TLS and OAuth2 for authentication, and SOAP based webservices for data exchange)
- Considering your level of development capability (in house or outsourced)
- Recognising the on-going commitment to support integration with Inland Revenue (e.g. major releases of software will need retesting)

2 Inland Revenue digital strategy

Transformation will re-shape how Inland Revenue interacts with customers in an increasingly digital environment. Paying tax is becoming simpler and more certain, and the revenue system is putting customers at the centre.

AIM, introduced in April 2018, is one of the first products to illustrate this approach. It represents a significant opportunity for those who choose to deliver it and for the small businesses that use it.

2.1 A digital product, in line with what businesses want

AIM uses technology to simplify tax. The increasing use of technology means the time was right for a product like AIM, which works off accounting software. It responds to the desire of businesses to benefit from technology advances and provides an opportunity to encourage small businesses to start using accounting software.

2.2 First step to extend the "pay as you earn" concept

Small businesses that choose AIM pay their provisional tax as the business earns profit. Until the introduction of AIM in April 2018, only salary and wage earners paid tax as they earned income. In the past many small businesses over-paid provisional tax to lessen the risk of being charged interest for under-payment. AIM's pay-as-you-go approach allows small businesses, through their accounting software, to pay tax during the year, reducing under and over-payments. The money that may have been overpaid is available for small business owners to use or invest in the business during the year.

2.3 A sign of the tax system to come – based on "real time" information

As well as allowing small businesses to pay provisional tax as they earn income, AIM also enables overpaid provisional tax to be refunded during the year. As a result of transformation, customers will have a "real-time" view of their tax and payments, with easy, digital ways to access their information and manage their tax.

AIM represents the future of business tax payments. It moves away from year-end returns and "square-ups" to increasingly accurate tax payments during the year. As AIM becomes more accurate, there should be very little, if any, provisional tax to pay at the end of the year.

Throughout transformation, increasingly accurate payments during the year will be expanded to other tax types and payments.

3 Benefits of digital integration with IR

3.1 Extending the digital border

Digital integration with Inland Revenue allows real-time data exchange. Customers can drive direct interaction between their chosen software package and Inland Revenue. Accessing information at Inland Revenue no longer requires a separate email or call; it is in software.

3.2 Data quality

Digital exchange of data will reduce manual work and errors. As data quality improves, so too will the accuracy and speed of data processing.

3.3 Innovation

Digital integration provides a platform for Inland Revenue and software providers to innovate and collaborate, and design solutions to further benefit our joint customers.

3.4 Tailoring

Easier integration, on-demand data exchange, improved data quality, and innovative designs allow software solutions to be tailored around the customer.

4 The background to the introduction of AIM

4.1 Inland Revenue listened to small businesses

The difficulty of calculating provisional tax and the fear of being charged interest for getting it wrong has been a major bugbear for businesses for some time. Inland Revenue listened to these concerns and developed AIM in response. Feedback from small businesses has been positive and there is a huge amount of interest in being able to use AIM through their preferred software provider.

4.2 Partnership with Inland Revenue

Inland Revenue worked collaboratively with key stakeholders to design and implement AIM. Our partners provided feedback through a working group that met regularly, and a stakeholder group representing the tax industry and small business also provided input. The development of AIM is a tangible example of effective engagement with stakeholders to design a product that fits customers' needs. This collaboration is on-going to continue to improve AIM.

4.3 Tax becomes a by-product of business activity

AIM is an early example of businesses being able to comply with their tax obligations as they manage their overall business, rather than a separate activity.

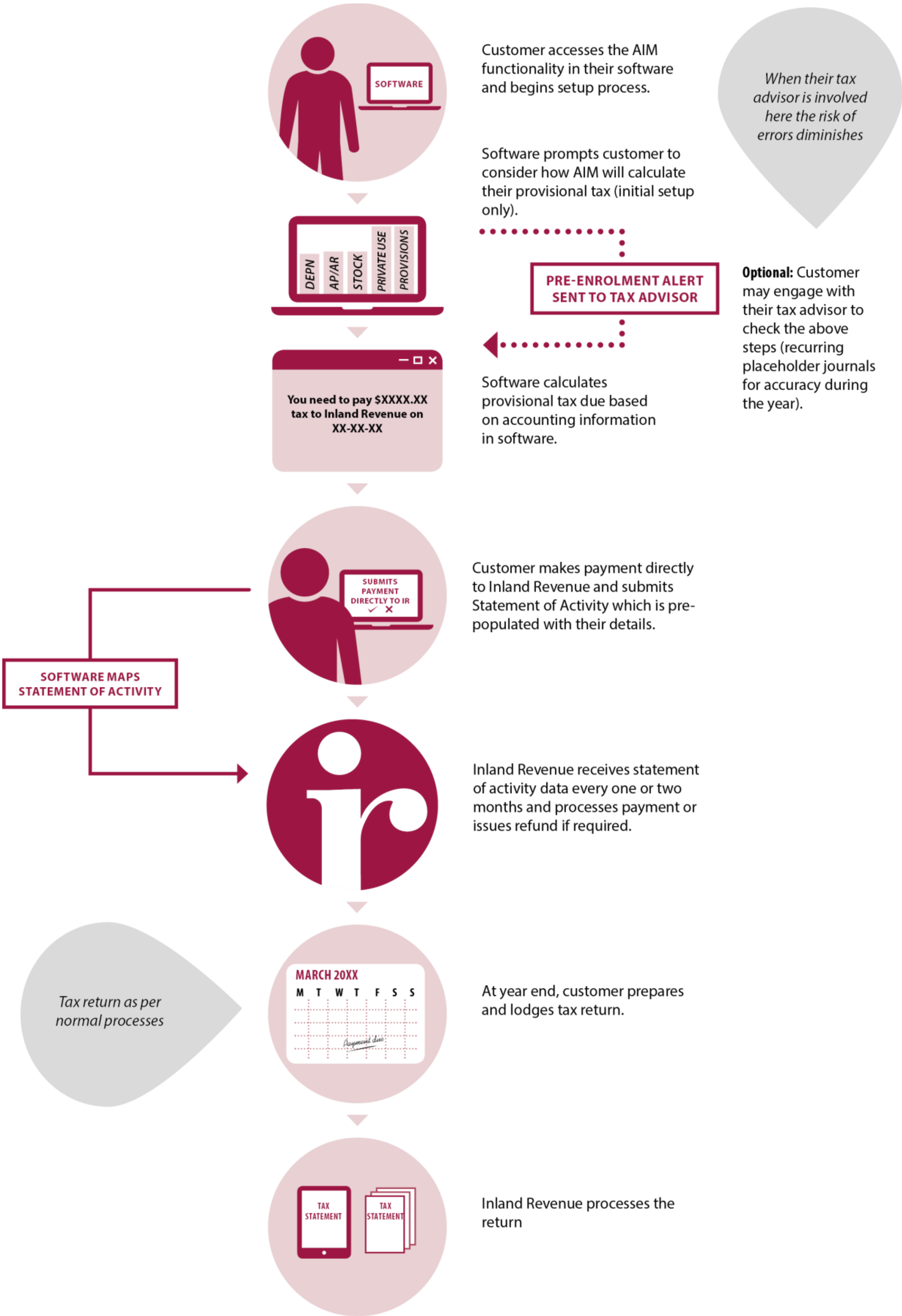
4.4 "Close enough is good enough" – balancing simplicity and accuracy

With AIM, "close enough is good enough". This is a trade-off between a solution that is simple, easy to use, and promotes compliance, against one that gives absolute accuracy.

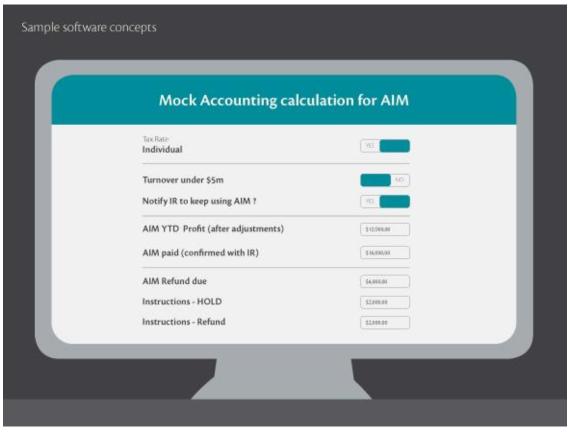
Before AIM, a customer could be charged interest if they didn't pay enough provisional tax. This is one of the factors that made provisional tax a major stress for small businesses. Businesses that choose AIM will generally tend to be those who want their tax to be up-to-date and well-organised, or those that want less risk and less stress. Business using AIM will be a low-risk group for Inland Revenue, meaning less time will be spent checking their compliance.

5 How AIM would work in practice

5.1 Graphical illustration of AIM.



6 Investment Required



6.1 Self Certification

AIM works on a self certification model. "AIM Capable Software" is defined in legislation. Once a provider is confident they have met the full definition of AIM Capable software they can apply to Inland Revenue for approval from the Commissioner to deliver AIM.

6.2 AIM-capable software

A software system must meet the proposed definition of an AIM-capable accounting system contained in section RC 7B of the Income Tax Act 2007 in order to gain approval from the Commissioner. Access to the legislation pertaining to the AIM method can be found here.

6.3 Definition in legislation

To meet the definition and be approved as an AIM-capable accounting system, the core software accounting package must have the ability to:

a. generate and keep comprehensive financial accounts, including accounting income and expenditure, ledger accounts, trial balances, bank account reconciliations, and journals, on an on-demand basis, in accordance with good accounting and tax practices;
b. calculate tax liabilities using tax adjustments in accordance with the technical determination;
c. for tax adjustments not included in the determinations, ensure they reasonably accurately assess tax liabilities;
d. recalculate all financial accounts and liabilities retrospectively and produce reports as required by the Commissioner; and
e. communicate electronically with Inland Revenue and provide the right level of help and assistance to its users.

The amount calculated by the AIM-capable accounting system is the amount due to Inland Revenue on each instalment date.

6.4 What is a "package"?

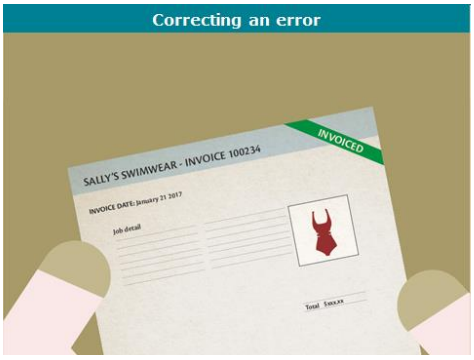
The term "package" includes two software systems linking together to provide a fully integrated AIM package. Therefore, comprehensive software accounting packages would be able to offer AIM.

Packages must work in accordance with good accounting and tax practice to ensure that reliable financial statements are produced. This implies routine examination of processes and calculations to ensure practices are improved over time.

This definition is not limited to cloud software and includes desktop-based software packages that can access the internet or prepare reports that can be sent to a third party for review (hybrid products). A desktop package must also be kept up to date and the software version provided to Inland Revenue at the time of payment to ensure this is the case.

The only software excluded is a home-prepared Excel spread sheet. This is because there are no controls over the preparation and treatment of tax adjustments.

6.5 Year to date calculations

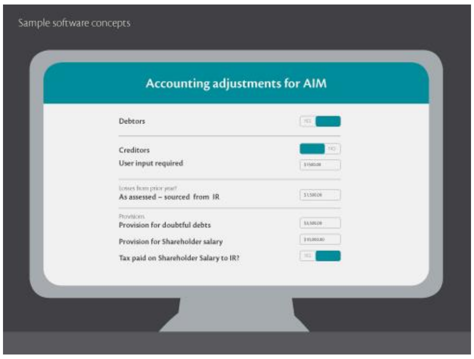


AIM payments are based on a year-to-date calculation, therefore the software must be able to recalculate all financial accounts and liabilities retrospectively and produce reports. This is to ensure that when an error is discovered it can be easily corrected. For example when a late invoice is entered into the system, the cumulative impact of the correction will flow through. Past periods will not need to be re-filed following the discovery of an error.

6.6 Integration with Inland Revenue

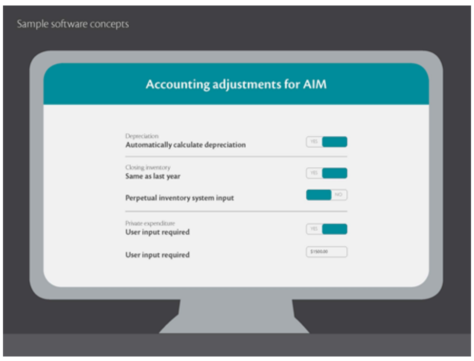
The software must be able to communicate electronically with Inland Revenue and provide the right level of assistance to its users. It is expected that businesses will elect to use AIM through the software itself and that information will be provided to Inland Revenue electronically.

6.7 Calculate AIM adjustments



Accounting income and expenditure does not necessarily equate to net income for tax purposes. A series of tax adjustments are required to accurately calculate the provisional tax liability.

Software providers delivering AIM must build these tax adjustments into their software systems. The minimum adjustments that may be required are outlined in the technical determinations section of Tax Information Bulletin. ([here](#)) They have been summarised in Appendix A



Additional adjustments not defined in the technical determinations can be designed by software providers, provided they result in accurate assessments of tax liabilities. These may include accruals or estimates that would typically be adjusted for at the end of the year.

For example, entertainment expenditure is not required to be adjusted for but developers may want to include it to calculate provisional tax more accurately for their customers.

Here is a summary of the technical determinations issued by the Commissioner;

Depreciation	Do it properly or don't do it at all.
Trading Stock	If you have a perpetual inventory system in your software, it will self populate with that figure, if you don't it will use a closing figure as a proxy. A manual figure can be entered to cover the situation where a stock record is held in another place.
Private expenditure	If it's in there, take it out.
Losses	Current year losses are automatically applied and prior year losses can be carried forward once they are assessed by Inland Revenue.
Debtors/Creditors	If you do it for GST, do it for AIM. If not, you can choose whether you do, and your choice stands for the whole year.
Provision	Provisions must be added back, unless it relates to a shareholder salary. You can deduct that if you paid the tax on that salary (either in AIM company or shareholder).
Any other adjustments	You can choose to adjust for anything else, as long as you take reasonable care i.e, entertainment, home office etc.

From a business point of view consideration of the above will directly impact how accurate AIM is for them. The more consideration given to the accurateness of the numbers above, the more likely their AIM payments will closely match their residual income tax reducing any year end surprise.

6.8 Produce and send information to Inland Revenue

Businesses using AIM are required to provide the Commissioner with a Statement of Activity on or before each AIM instalment date.

An AIM-capable accounting system will map ledger accounts into a Statement of Activity which is provided to the Commissioner through the software itself.

The Statement of Activity is not a tax return. It is a summary of what is in the accounting software at the date the Statement of Activity is provided to the Commissioner.

It is essentially the current Statement of Financial position (IR10) with the amounts of any tax adjustments and refund/payment instructions included. Indicative, technical schemata are available on the IR GitHub site (refer to section 1.3).

6.9 Time and effort required to use AIM

There is some set up required to use AIM. The AIM capable software will need to step the customer through this. However this set up should be a one off only and thereafter the time and effort required is minimal.

7 Approval and revocation of AIM providers

7.1 Approval of software providers

Software providers are required to apply to the Commissioner for approval for their AIM-capable accounting systems.

An AIM provider may be approved if there is no negative affect on the integrity of the tax system. As part of the application process, AIM providers are required to complete a statutory declaration, specifying the name of the products, declaring that the products will be regularly updated and providing any other information required by the Commissioner. (Sample Attached in Appendix B)

Providers may apply for approval for an AIM-capable product for use by businesses with gross income under $5 million a year, or for use by a class of businesses with gross income over $5 million a year. The Commissioner will approve the latter application if there is minimal risk that the approval will result in less net revenue collectable over time.

7.2 Revocation of a software provider

The Commissioner may revoke approval for an AIM provider in certain circumstances:

- if anything in the statutory declaration is not true or does not continue to be true after it is made;
- if revoking the approval protects the integrity of the tax system.

Where approval is revoked, it will not take effect until the next tax year to allow businesses using the software to complete the tax year so they are not disadvantaged.

The Commissioner must consult with the provider before revoking their approval so both parties can discuss any concerns and have the opportunity to resolve them.

7.3 Software provider decision to cease being approved

Software providers may also voluntarily revoke the Commissioner's approval.The provider must notify all end-users of their products and the revocation will take effect in the following tax year.

The Commissioner may publish a notice regarding approvals or revocations.

8 AIM provisional tax method detail

8.1 Who can use AIM

To be eligible to use AIM a business must:

- elect to use it before their first payment date;
- use an AIM-capable accounting package that is up to date;
- have gross income below $5 million or have approval from the Commissioner as a previous user of AIM if their income is over $5 million; or
- be a member of the class of businesses with income over $5 million using a software package the Commissioner has approved for AIM.

A business does not need to be GST-registered to use AIM. Where a business chooses to use AIM and is not GST registered, they must pay provisional tax on a two-monthly basis.

If a payment is missed, the existing interest and penalties rules apply to the underpaid amount.

8.2 Who can't use AIM

In certain circumstances a business may be excluded from using AIM

- has been liable in 1 of the last 4 years before the current year for a shortfall penalty relating to their use of AIM;
- has consistently and systematically used AIM to inaccurately assess its tax liabilities;
- is a member of a class of businesses which is excluded from using AIM in a determination issued by the Commissioner;
- has failed more than twice in the current tax year to give the Commissioner information in the prescribed form (Statement of Activity).

The Statement of Activity is important because it demonstrates the robustness of the accounting system behind the amount paid as provisional tax. If this information is not provided to Inland Revenue, there is no evidence that a comprehensive accounting system is being used by the business to calculate its accounting income results. As the Statement of Activity reports are cumulative, if one is missed it could be supplied in the following period.

Where a business is removed from AIM, they are treated as if they used the estimation method for the whole of the current income year and may have to pay interest.

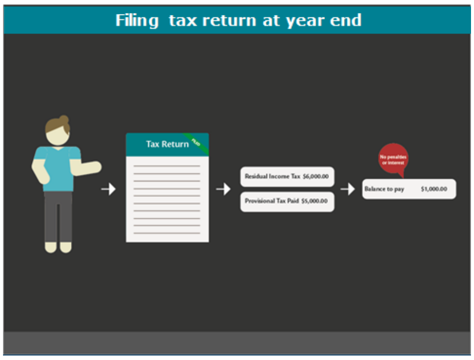
8.3 Payment dates

Businesses that use AIM are required to make provisional tax payments more often – in line with their GST filing dates.

Businesses registered for monthly GST will make payments twelve times a year and those not registered, or registered for two or six-monthly GST will make payments six times a year.

The payment dates for each AIM instalment are the same as the payment dates for GST.

8.4 Refunds



The Commissioner must refund overpaid provisional tax throughout the year if the AIM payments made to date are greater than the AIM calculation of the tax liability to date and the customer requests the refund.

Businesses don't need to file an imputation credit account return mid-year to get a refund and Inland Revenue will not check tax in arrears. Refund information is included in the Statement of Activity and refunds are automatically and quickly paid directly into the bank account of the customer as directed.

8.5 Interest and penalties

Where a business using AIM pays what their software tells them to pay, on time and in full, they will not be charged penalties and interest.

If a business using AIM pays less than what their software calculates, they will pay interest on the shortfall from the date of the underpayment. If they pay late, late payment penalties may also apply.

The more specific anti avoidance provisions do not apply for AIM taxpayers. This further reduces their exposure to penalties, strengthening the concept that the use of AIM Capable Software is a safety net for the taxpayer.

8.6 Tax pooling

Tax pooling cannot be used for the AIM option for provisional tax. However, tax pooling can continue to be used for terminal tax and reassessments. This is because tax pooling can only be used where there is uncertainty about the amount of tax to be paid and AIM payments are certain amounts. AIM payments are more closely aligned to cash flow which should also reduce the impact of payments and the need to use tax pooling for cash flow assistance.

8.7 Exclusions

The following are excluded from using AIM:

- trustees;
- partnerships;
- taxpayers who have investments in foreign investment funds or controlled foreign companies for the income year;
- Māori authorities;
- portfolio investment entities; and
- superannuation funds.

9 Further resources available

9.1 Inland Revenue Website

Information on AIM can be found on the Inland Revenue website at www.ird.govt.nz\AIM

This includes:

- links to simple explanations of how AIM will work in practice. (sample in Appendix C)
- Factsheets outlining the benefits of AIM.
- Animated videos for sharing and social media posts which cover;
    - the benefits of AIM,
    - working out whether AIM is right for your business, and
    - how AIM will work in practice.
- Links to the GitHub site for technical documentation

9.2 CCH webinars

Inland Revenue has recorded a series of AIM webinars which can be accessed free on demand here and cover the following topics;

a. AIM: the introduction
b. AIM: an overview for small business owners
c. AIM: how the tax adjustments will work
d. AIM: getting your clients set up to use AIM.

These include a presentation by Inland Revenue followed by a question and answer session.

10 Appendix A: Technical determinations

Examples of how the determinations will apply are included in the technical determinations. Full versions of these determinations can be found on our website.

In summary the determinations state that AIM capable software must prompt a taxpayer to consider:

Depreciation	Do it properly or don't do it at all.
Trading Stock	If you have a perpetual inventory system in your software, it will self populate with that figure, if you don't it will use a closing figure as a proxy. A manual figure can be entered to cover the situation where a stock record is held in another place.
Private expenditure	If it's in there, take it out.
Losses	Current year losses are automatically applied and prior year losses can be carried forward once they are assessed by Inland Revenue.
Debtors/Creditors	If you do it for GST, do it for AIM. If not, you can choose whether you do, and your choice stands for the whole year.
Provision	Provisions must be added back, unless it relates to a shareholder salary. You can deduct that if you paid the tax on that salary (either in AIM company or shareholder).
Any other adjustments	You can choose to adjust for anything else, as long as you take reasonable care i.e, entertainment, home office etc.

1. Depreciation – Determination A8

Subpart EE of the Income Tax Act 2007 quantifies the amount of depreciation recovery income that is income under Part C and quantifies the amount of depreciation loss allowed as a deduction where the provisions of Part D are satisfied.

The Commissioner's depreciation determination requires a person to choose for an income year to either calculate depreciation and/or amortisation related amounts using the relevant provisions in the Income Tax Act 2007 or to exclude such amounts from accounting income and expenditure.

An AIM-capable accounting system will allow taxpayers to calculate depreciation and/or amortisation related amounts within their accounting software or to calculate these amounts outside their accounting software and then include them as a user defined adjustment.

2. Trading stock – Determination A5

The Commissioner's trading stock determination details the tax adjustment required for trading stock as defined in section EB 2 of the Income Tax Act 2007.

The determination applies to taxpayers who operate a periodic inventory system where their stock-take periods do not align with their AIM instalment periods. It does not apply where a taxpayer has a perpetual inventory system that adjusts accounting income and expenditure to record movements in trading stock for the AIM instalment period, as stock movements using that system should be incorporated into accounting income and expenditure.

Where a person operating a periodic inventory system does not complete a physical stock-take to determine closing stock for the AIM-instalment period, the closing value of the trading stock for the period must equal the closing value of the trading stock for the previous income year under section CH 1 of the Income Tax Act 2007. The opening value of the trading stock for the next AIM instalment period is equal to the closing stock value.

The tax adjustment in the determination is intended to achieve the same outcome for an AIM instalment period as section EB 23 of the Income Tax Act 2007 achieves for an income year.

The effect of the tax adjustment is to allow a deduction to accounting expenditure for the purchases made during the AIM instalment period.

Where the closing value of trading stock for the income year before the current income year is materially different from the closing value of trading stock for the AIM instalment period, a physical stock-take should be undertaken to ensure a reasonably accurate calculation of the provisional tax liability for the income year.

An AIM-capable accounting system will allow a user defined adjustment to manually enter a value for the closing stock.

3. Livestock – Determination A10

The Commissioner has issued a livestock determination which applies to livestock which is excluded from being trading stock due to the application of section EB 2(3) (f) of the Income Tax Act 2007.

Changes in numbers and values of livestock on hand from one year to the next can have a significant impact on a farmer's gross income.

To ensure the provisional tax liability under AIM is calculated with sufficient accuracy where a farmer does not have a perpetual inventory system to determine the closing value of livestock for an AIM instalment period, they must complete a physical stock-take.

A tax adjustment must be made to record the closing stock value which has been determined by the physical stock-take.

4. Private expenditure – Determination A4

Deductions are denied for expenditure or loss to the extent to which it is of a private or domestic nature. This is set out in section DA 2(2) of the Income Tax Act 2007.

The Commissioner has issued a private expenditure determination which requires a tax adjustment to accounting expenditure to the extent to which that expenditure includes expenditure which is of a private or domestic nature.

5. Losses – Determination A7

The AIM provisional tax method calculates the provisional tax liability based on year-to-date accounting income and expenditure for the current income year.

Where a loss arises in an earlier AIM instalment period that loss may be carried forward and offset against accounting income and expenditure for the next AIM instalment period until the loss is fully used. This should automatically occur within the AIM-capable software as it will calculate year-to-date income and expenditure.

In the event that a taxpayer has a loss balance under section IA 3(4) of the Income Tax Act 2007 from a prior income year, that loss becomes available to the taxpayer using AIM on the date the income tax return for the prior income year is assessed. The loss balance carried forward is allowed as a tax adjustment to increase accounting expenditure in the instalment period the assessment takes place.

The use of losses that arose in a prior AIM instalment or prior income year is still subject to the commonality and continuity rules in the Income Tax Act 2007. Where these rules mean that a loss is not available in an AIM instalment period, a system or user defined adjustment will be required to ensure the software system calculates the provisional tax liability for the income year correctly.

Businesses are not permitted to use loss offsets or subvention payments in AIM.

6. Accounts receivable and accounts payable – Determination A6

The Commissioner has issued a determination detailing a tax adjustment for accounts receivable and accounts payable.

The determination provides that where a taxpayer is not registered for GST or is registered for GST on the payments basis, they are not required to accrue accounts receivable and accounts payable in calculating accounting income and expenditure.

Where a taxpayer is registered for GST on the hybrid basis, they are required to accrue receivables when calculating accounting income and are required to calculate accounting expenditure on a cash basis.

For taxpayers not registered or registered on the payments or hybrid basis, an election may be made to accrue accounts receivable and accounts payable in calculating accounting income and expenditure. If an election is made it cannot be revoked.

Taxpayers registered for GST on an invoice basis must accrue accounts receivable and accounts payable when calculating accounting income and expenditure under AIM.

7. Provisions – Determination A9

As a general principle, a provision will not meet the test of being incurred and therefore will not be deductible for tax purposes due to the application of section DA 1 of the Income Tax Act 2007.

The Commissioner has issued a determination which requires that where accounting expenditure includes a provision, a tax adjustment is made to exclude that expenditure.

However, the determination permits a provision to be included in accounting expenditure where the provision relates to expenditure on employment income for a shareholder of a company.

A deduction for such expenditure is limited to the extent to which the company pays tax as an agent of the shareholder in relation to the provision for shareholder remuneration income.

8. Tax rates – Determination A3

The Commissioner's tax rates determination prescribes the tax rates which an AIM-capable accounting system must apply to a taxpayer's net positive accounting income and expenditure (after tax adjustments) for an AIM instalment period.

An AIM-capable accounting system calculates the provisional tax liability on a year to date basis using the tax rates set out in Schedule 1, Part A, of the Income Tax Act 2007.

9. Information and form – Determination A2

The Commissioner’s information and form determination sets out the information required and prescribed for the purposes of sections 45 and 45B of the Tax Administration Act 1994 by AIM customers and providers.

Information will be provided to Inland Revenue by both the AIM customer and the AIM provider.

Under section 45 of the Tax Administration Act 1994, customers using the AIM method are required to provide the Commissioner with a Statement of Activity on or before each AIM instalment date.

An AIM-capable accounting system will map ledger accounts into a Statement of Activity form which is provided to the Commissioner through the software itself.

The Statement of Activity form is not a tax return. It is a summary of what is in the accounting software at the date the Statement of Activity is provided to the Commissioner.

Under section 45B of the Tax Administration Act 1994 AIM providers must provide information to the Commissioner when and if requested in relation to their AIM-capable software products. The Commissioner cannot require taxpayer-specific information to be provided under this section. Information required by the Commissioner under section 45B must be provided within six months of the end of the tax year. Collection of this information will assist the Commissioner with further policy development and improvements to AIM.

11 Appendix B: Declaration of AIM Capable System

(Sample only)

"I" solemnly and sincerely declare that:

- **The following product(s) are *AIM-capable accounting systems*, as that term is defined in section RC 7B of the Income Tax Act 2007, as inserted by section 36 of the Taxation (Business Tax, Exchange of Information, and Remedial Matters) Act 2017:**

  Xyz: Abc.

- **It is "my" policy to update the product(s) regularly, to reflect changes in tax law and the Commissioner of Inland Revenue's requirements:**

- **The product(s) implement, and will be updated regularly to implement, all determinations made under section 91AAX, 91AAY, and 91AAZ of the Tax Administration Act 1994, as inserted by section 52 of the Taxation (Business Tax, Exchange of Information, and Remedial Matters) Act 2017.**

Where "I" and "my" refer to the provider and product rather than an individual person.

12 Appendix C: AIM Factsheet

IR has a large amount of AIM collateral that is available for use to assist with education about AIM.

Accounting Income Method

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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.

September 2017

Accounting Income Method

Inland Revenue
Te Tari Taake

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

13 Appendix D : Worked examples

Example 1

Murphy has recently finished a painting apprenticeship and intends to set up his own house painting business. He has no previous business knowledge and his parents suggest he meet with their accountant to get some advice. The accountant suggests Murphy sets up a company, start using a basic accounting software package and elect into paying provisional tax using the AIM approach to help him budget in his first year of business. Murphy's company has a March balance date and will pay GST and provisional tax using the AIM approach on a two-monthly basis. Murphy does not make any profit in the first few months but starts to make a profit towards the end of the year. He will pay provisional tax under AIM as follows:

GST and provisional tax payment dates	28-Jun 2018	28-Aug 2018	28-Oct 2018	15-Jan 2019	28-Feb 2019	7-May 2019	Total prov tax	Terminal tax due
Income earned during current year	Nil	Nil	Nil	20,000	30,000	50,000		28,000
AIM payment amount	Nil	Nil	Nil	5,600	8,400	14,000	28,000	Nil

AIM will help Murphy budget for tax correctly in his first year of operation as he pays tax as he earns income.

Example 2

Sandy has just completed a qualification in graphic design and has decided to set up a business designing websites for customers. Being new to business Sandy approaches an accountant to understand what her tax obligations are and what dates tax payments need to be made.

Her accountant recommends that Sandy use an accounting software package and suggests some options.

Given Sandy is going to use accounting software to keep track of how her business is doing she thinks it makes sense to use an AIM-capable accounting system which also calculates her provisional tax liability.

Sandy's business has a March balance date and will pay GST and provisional tax using AIM on a two-monthly basis. For the first part of the year Sandy makes no profit but as the year progresses Sandy's business starts making a profit. Under AIM Sandy will pay provisional tax as follows:

GST and provisional tax payment dates	28-Jun 2018	28-Aug 2018	28-Oct 2018	15-Jan 2019	28-Feb 2019	7-May 2019	Total prov tax	Terminal tax due
Income earned during current year	Nil	Nil	3,000	7,500	12,000	18,000		6,108
AIM payment amount			315	788	1,855	3,150	6,108	0

Example 3

Benson Electrical Ltd is considering using AIM. They currently use accounting software, pay GST every two months, and have a March balance date. Their accountant talks to them about using AIM due to the unpredictable nature of the contracts they are being awarded. The inability to plan in the past has resulted in exposure to use-of-money interest. They generally have a slow start to the financial year but business picks up in the latter half. Their business is steadily growing and their residual income tax is $180,000 in 2017 and $220,000 in 2018.

They ask their accountant to show them what their provisional tax liability would look like under different methods for the 2019 year and how exposure to use-of-money interest would differ.

In this scenario, their possible use-of-money interest[1] costs range between nil and $6,880.

GST and provisional tax payment dates	**28-Jun**	**28-Aug**	**28-Oct**	**15-Jan**	**28-Feb**	**7-May**	**Total prov tax**		
Income earned during current year	108,000	Nil	178,000	250,000	178,000	143,000			
Implied tax on taxable income	30,240	Nil	49,840	70,000	49,840	40,040	239,960		
Provisional tax methods and due dates for payment	**28-Jun**	**28-Aug**	**28-Oct**	**15-Jan**	**28-Feb**	**7-May**	**Total prov tax**	**Terminal tax due**	**UOMI incurred**
AIM	**30,240**	**0**	**49,840**	**70,000**	**49,840**	**40,040**	**239,960**	**0**	**0**
Uplift 105%		77,000		77,000		77,000	231,000	8,960	737
Uplift 110%		66,000		66,000		66,000	198,000	41,960	3,449
Estimate		40,000		60,000		90,000	190,000	49,960	6,880

[1] Calculation is based on UOMI rates of 8.22% and 1.02%. It also takes into account the new provisional tax rules of no use-of-money interest for residual income tax less than $60,000 (extension of safe harbour rules) and no use of money interest on the first two provisional tax instalments if using uplift.

Example 4

Tussock Socks Ltd has been paying its provisional tax using AIM. On its third AIM provisional tax payment date, the software calculated that Tussock Socks Ltd owed $500 in provisional tax to Inland Revenue and submitted the Statement of Activity showing this amount to be due. Instead of paying $500 to Inland Revenue, Tussock Socks Ltd only paid $100.

Tussock Socks Ltd will be liable for UOMI and late payment penalty on the $400 underpayment until it is paid (or the liability is extinguished by a future instalment period).

Example 5

Cameo Jewels Ltd is a small jewellery company using AIM to pay its provisional tax. It calculates its provisional tax payments using software, and makes the payments accordingly. At year-end the company meets with its accountant who discovers their depreciation was calculated incorrectly and a bad debt had not been written off, resulting in additional income tax due of $300. Cameo Jewels Ltd pays this amount of terminal tax and has no UOMI or shortfall penalty applied. As these errors are simple oversights it is likely Cameo Jewels Ltd has taken reasonable care in the calculation of its tax liability.