

Prepayments: always a good idea?

A company making insufficient prepayments, will be penalized. A tax increase will be imposed. On the other hand a company has a financial advantage when not making too much prepayments. Searching for an optimal amount of prepayments is a difficult exercise. We give you some tips and tricks.

Who should make prepayments?

Each tax payer generating profit should make prepayments, including amongst others liberal professions, entrepreneurs/private individuals. Also companies are subject to this obligation.

When should you make prepayments in 2013?

The prepayments should be made at the latest on four preset dates:

- prepayment 1: 10 April 2013;
- prepayment 2: 10 July 2013;
- prepayment 3: 10 October 2013;
- prepayment 4: 20 December 2013.

No or insufficient prepayments: tax increase

Making prepayments is necessary to avoid a tax increase. The increase is imposed when insufficient prepayments are made, and is calculated as a percentage of the amount of tax due (for tax year 2013 this percentage is 2,25%).

For private individuals the base tax amount is increased with 6% to calculate the final tax increase. The tax payer should at the end pay 90% of this tax increase.

Example

An independent entrepreneur has, after deduction of his professional expenditure, a net taxable income of 80.000€, on which 37.500€ (base) tax is due. He did not make any prepayments, so the tax increase is due. At first, the base tax is increased with 6%: $37.500 \times 1,06 = 39.750$. On the basis of this amount, the tax increase is calculated, amounting to 2,25% of 39.750 = 894,38. The entrepreneur will have to pay in the end 90% of this amount = 804,94€.

For companies it works otherwise: the increase up to 106% and the limitation to 90% are not applicable.

Example

A company which should pay 37.500€ taxes, but did not perform any prepayment, will pay the following tax increase: $37.500 \times 2,25\% = 843,75\text{€}$.

For starters no increase is imposed: a private individual starting an independent activity should not make any prepayments for the first three years and no tax increase will be imposed. Also 'small' starting companies according to article 15 of the Companies' Code can benefit from this measure during the first three years.

Prepayments made: the tax increase is put away

By making prepayments, the hypothetical tax increase is put away. Each prepayment will reduce the tax increase: this is done by multiplying the prepaid amount with a certain percentage. As indicated above, the prepayments should be made on four points of time during the year: for these different points of time different percentages apply: prepayment 1 or PP 1 at 3%, PP 2 at 2,5%, PP 3 at 2% and PP 4 at 1,5%. The average amounts to 2,25% $((3+2,5+2+1,5)/4)$.

Note that a prepayment made in the first quarter (on 10 April) leads to a higher reduction of the hypothetical tax increase than a prepayment in the fourth quarter (on 20 December). A prepayment of 10.000€ on 10 April reduces the possible tax increase with 300€ (3% of 10.000), while a prepayment of 10.000 on 20 December results only in half, namely 150€ or 1,5% of 10.000€.

Example

A company should pay 60.000€ taxes. If the company does not make any prepayments, a tax increase of 1.350€ is due (2,25% of 60.000). The company however made in the course of 2012 the following prepayments: 20.000€ on 10 April, 32.000€ on 10 October and 10.000€ on 20 December, in July no prepayment was made. The prepayments will reduce the possible tax increase as follows:

- PP 1: $20.000 \times 3,0\% = 600\text{€}$
- PP 2: $0 \times 2,5\% = 0\text{€}$
- PP 3: $32.000 \times 2,0\% = 640\text{€}$
- PP 4: $10.000 \times 1,5\% = 150\text{€}$
- Total = 1.390€

The possible tax increase of 1.350€ is consequently put away completely.

Too much prepayments: bonus

Independent entrepreneurs can even earn a bonus by making prepayments. Who pays more than required to put away the tax increase, receives a bonus. Companies cannot obtain this bonus.

The bonus is calculated as half of the percentages applicable for the prepayments, in other words 1,5% (PP 1), 1,25% (PP 2), 1% (PP 3) and 0,75% (PP 4).

Example

Let's use the previous example (and imagine that it concerns an independent entrepreneur instead of a company). We notice that the entrepreneur has paid too much: namely enough to put away 1.390€ instead of 1.350€. The entrepreneur would have had enough to prepay 7.333,33€ for the last quarter instead of 10.000€. He consequently prepaid 2.666,67€ too much.

The bonus amounts to: $2.666,67 \times 0,75\% = 20\text{€}$.

The entrepreneur will have to pay 20€ taxes less.

Optimization

Prepayments are necessary to avoid tax increases and can for independent entrepreneurs lead to bonuses, on the other hand it also requires pre-financing by the tax payer. Too much prepayment does not make sense. Beneficial prepayments require a good estimation of the tax due. By doing so you can put away the tax increase without too much financing.