

NEWS & SNIPPETS

MINIMUM WAGE – Don't forget this has increased to \$12.75 per hour from 1st April 2010.

PAYROLL PROGRAMMES – Have you upgraded your payroll system with the new tax tables yet?

Income tax rates for individuals

Taxable income	PAYE rate for every \$1 of taxable income (excluding ACC earners' levy)	PAYE rate for every \$1 of taxable income (including ACC earners' levy*)
up to \$14,000	12.5 cents	14.5 cents
from \$14,001 to \$48,000	21 cents	23 cents
from \$48,001 to \$70,000	33 cents	35 cents
\$70,001 and over	38 cents	40 cents
No notification**	45 cents	47 cents

Use the [Tax on annual income calculator](#) if you want to know the tax rates for previous years.

* The earners' levy rate for the tax year 1 April 2010 to 31 March 2011 is **2.0%** (\$2.00 per \$100)

** Employers are legally required to use the no notification rate when an employee does not fully complete the *Tax code declaration (IR330)*. A completed form must include name, IRD number and tax code. The form must also be signed.

[IRD] LUMP SUM TAX RATES HAVE CHANGED FROM 1 APRIL 2010 (ACC EARNER LEVY INCREASE)

Lump sum payments include annual or special bonuses, retiring or redundancy payments, payments for accepting restrictive covenants, exit inducement payments, gratuities, or back pay. These are also called "extra pays". Overtime or any regular payments are not lump sum payments.

A new PAYE rate of 14.5% applies from 1 April 2010 for those who have total taxable income of \$14,000 or less.

LUMP SUM PAYMENTS FROM PRIMARY EMPLOYMENT

Redundancy payments and retiring allowances are not subject to earners' levy.

How PAYE (tax plus ACC earners' levy) applies to lump sum payments

When the combined total of the lump sum payment and the grossed-up annual value of the employee's income for the previous four weeks* is ...	then PAYE applies to the whole lump sum at a flat rate of ...
\$14,000 or less	14.5 cents in the dollar.
from \$14,001 to \$48,000	23 cents in the dollar.
from \$48,001 to \$70,000	35 cents in the dollar.
greater than \$70,000, but less than the ACC earners' levy maximum threshold of \$110,018 (for the 2011 tax year)	40 cents in the dollar.

You can also apply PAYE at 40 cents in the dollar when the employee asks you to use this rate.

* To calculate the grossed-up annual value of the employee's income:

- add up the PAYE income payments for the four weeks ending on the date of the extra payment, whether this is the normal pay cycle or not, and
- multiply by 13.

The amount of the extra pay is not included in this total.

HOW TAX (NO ACC EARNERS' LEVY) APPLIES TO LUMP SUM PAYMENTS

When the combined total of the lump sum payment and the grossed-up annual value of the employee's income for the previous four weeks is greater than the ACC earners' levy maximum threshold of \$110,018 (for the 2011 tax year) then PAYE applies to the whole lump sum at a flat rate of 38 cents in the dollar.

For an example use the following link to the IRD website and select “**Lump sum payments from primary employment**”

: <http://www.ird.govt.nz/payroll-employers/make-deductions/staff-benefits/bonuses/emp-ded-bonus-lump-sum.html#02>

NEW CALCULATION: LUMP SUM PAYMENTS FROM SECONDARY EMPLOYMENT

A new calculation for calculating the amount of PAYE to apply to lump sum payments has been introduced. The new calculation takes into account the minimum level of income the employee expects to receive from their primary employment, based on the secondary tax code they have selected.

The new calculation

The calculation for the amount of PAYE on an extra pay for employees using a secondary tax code is:

Amount of the extra pay
plus annualised income*
plus the low threshold amount
equals the annual income estimate.

*Annualised income is calculated by adding up the PAYE income payments for the four weeks ending on the date of the extra payment, whether this is the normal pay cycle or not, and multiplying by 13. The amount of the extra pay is not included in this total.

To see an example go to the following IRD page and then select "Lump sum payments from secondary employment": <http://www.ird.govt.nz/payroll-employers/make-deductions/staff-benefits/bonuses/emp-ded-bonus-lump-sum.html#02>

All information in this newsletter is to the best of the authors' knowledge true and accurate. No liability is assumed by the authors, or publishers, for any losses suffered by any person relying directly or indirectly upon this newsletter. It is recommended that clients should consult a senior representative of the firm before acting upon this information.