



Personal Income Tax

Additional Information For the July 2024 changes

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1 Overview

1.1 Personal income tax change overview

As part of the Government's "*Back Pocket Boost*", changes will be made to personal income tax thresholds and tax credits. The main drivers for these changes are to increase after-tax incomes, particularly for middle-income New Zealanders, and to ensure there is a greater financial return for those working.

- Thresholds for personal income tax and the independent earner tax credit (IETC) change on 31 July 2024. The in-work tax credit (IWTC) and minimum family tax credit (MFTC) rates and thresholds also change.
- There will be flow on effects for FBT's full alternate rate calculation, RWT, and unincorporated bodies who file IR9's due to the change in personal income tax thresholds.
- There are consequential changes that will apply to ESCT, RSCT, FBT and PIR from 1 April 2025 resulting from the increase to the thresholds. These changes will be included in the GWS Build pack: Return Service-Income Tax Additional Information 2025.

2 Caveat

The following changes described in this document relate to proposed legislative changes, meaning the changes may or may not be enacted on a date yet to be confirmed in 2024:

- Personal Income tax threshold changes
- Working for Families threshold changes

As a result, Inland Revenue reserves the right to make any additional amendments, including adding and/or removing any of the proposed design changes contained in this document.

Disclaimer: This document is an overview of the personal income tax threshold changes and their flow on effects. It includes some elements (such as the IETC) that will impact specific 2025 returns and is intended for informational use only. These changes and any other changes will be reflected in the GWS Build pack: Return Service-Income Tax Additional Information 2025.

3 Personal Income Tax – Additional Information

3.1 Personal income tax thresholds

Personal income tax thresholds change from 31 July 2024.

Income thresholds

Up to 30 July 2024	From 31 July 2024	Tax rate
\$0 - \$14,000	\$0 - \$15,600	10.5%
\$14,001 - \$48,000	\$15,601 - \$53,500	17.5%
\$48,001 - \$70,000	\$53,501 - \$78,100	30%
\$70,001 - \$180,000	\$78,101 - \$180,000	33%
\$180,001 upwards	\$180,001 upwards	39%

The above table will be the full year thresholds and rates for the 2025-26 tax year, and transitional rates will need to be used for the end of the 2024-25 tax year.

Note:

1. Payday filling will use the new thresholds on and from 31 July 2024 - refer to the Payroll Calculations and Business Rules specification and the PAYE casebook.
2. Unincorporated bodies who file IR9's will be affected due to the change in personal income tax thresholds.

3.2 2025 Individual income tax rates

Transitional rates

Because this change is to be implemented mid-year, a transitional rate will be used in the 2025 tax year for end of year income tax assessments.

The transitional rate applies to the income that falls between the old and new tax range and has been calculated based on the number of days the old and new rates apply to that income.

For the **2024-25** tax year the tax thresholds and rates will be as follows:

Taxable income	Income tax per range	Tax rate
\$0 - \$14,000	\$1,470.00	10.5%
\$14,001 - \$15,600	\$205.12	12.82%
\$15,601 - \$48,000	\$5,670.00	17.5%
\$48,001 - \$53,500	\$1,190.20	21.64%
\$53,501 - \$70,000	\$4,950.00	30%
\$70,001 - \$78,100	\$2,510.19	30.99%
\$78,101 - \$180,000	\$33,627.00	33%
\$180,001 upwards		39%

As an example of how the transitional tax rate was derived.

$$(\text{Old rate} \times D/365) + (\text{new rate} \times D/365) = \text{transitional tax rate}$$

Where:

- D = number of days the old/new rate applies

Example: $(17.5\% \times 121/365) + (10.5\% \times 244/365) = 12.82\%$

Balance dates

Regardless of an individual's balance date, the transitional rates will apply to any return filed for the March 2025 period. This removes the need to apply different transitional rates for each balance date and means no changes to other return years are required.

3.3 Provisional tax

Options	
Standard	No change. This is based on the prior year's residual income tax.
Estimation	Customers can re-estimate if they wish to take advantage of the change in thresholds.
Ratio method	No change. The ratio is based on the prior year's residual income tax.
AIM	Software providers that provide AIM capable software may need to account for payments after the 31 July on the transitional income tax thresholds.

3.4 Independent earner tax credit

The independent earner tax credit (IETC) is a tax credit available to those New Zealand tax residents earning income (after expenses and before losses) between \$24,000 and \$48,000 and who are not in receipt of Working for Families Tax Credits, NZ Superannuation, a veteran's pension, a main benefit, or an overseas equivalent of any of these.

The credit is based on whole months of eligibility. If any part of the month a customer received one of the exclusion types of income, they are not entitled to any IETC for that month.

The credit is \$10 per week, which abates at 13 cents for every dollar earned over \$44,000. It can be received throughout the tax year using the ME tax code, or at the end of the tax year in their income tax assessment.

While the lower threshold of \$24,000 remains the same, the upper threshold increases to \$70,000, with abatement taking effect from income earned over \$66,000. The maximum annual entitlement remains at \$520, and the abatement rate continues to be 13 cents in every dollar.

Transitional rates

As with the personal income tax threshold changes, with IETC changes taking effect 'mid-year', Transitional calculation will need to be used for the 24-25 end of year income tax assessments.

The current calculation for a full year is:

$$(\$520 - \text{abatement}) \times \text{EM}/12$$

Where:

EM = eligible months

To keep the calculation as simple as possible, determining eligible months on an annual basis will continue rather than work out how many months the customer is eligible in each threshold period.

For example:

- If a customer was eligible for April, May, and December, instead of working out 2 months eligibility at the old threshold and 1 month eligibility at the new threshold, the calculation would take the 3 months eligibility off an annual transitional figure.

To calculate the IETC entitlement, work out a customer's full year entitlement based on each of the thresholds and apportion these amounts to the period the threshold applies for:

Period 1

Period 2

$$(((\$520 - X) \times D/365) + ((\$520 - Y) \times D/365)) \times \text{EM}/12$$

Where:

- X = Amount of abatement under the old threshold
- Y = Amount of abatement under the new threshold
- D = Number of days the threshold applies to (based on implementation date)
- EM = Entitlement months across the year

Field	Description
amountOfIETCClaimed	<p>"Annual net income"</p> <p>= Period 1 (totalTaxableIncome + lossesClaimedThisYear) + Period 2 (totalTaxableIncome + lossesClaimedThisYear)) * Entitlement months/12</p> <p>Period 1 – from 1st April 2024 to 30 July 2024 (=121 Days)</p> <p>If "Annual net income" >= \$24,000 and <= \$44,000</p> <p>Then amountOfIETCClaimed = \$520 X numberOfQualifyingDays / 365</p> <p>Else</p> <p>If "Annual net income" > \$44,000 and <= \$48,000</p>

Full year Abatement = (Annual net income - \$44,000) * 0.13

Then amountOfIETCClaimed = (\$520 - Full year Abatement) X
numberOfQualifyingDays / 365

Otherwise, zero

Period 2 – from 31 July 2024 to 31 March 2025 (=244 Days)

If "Annual net income" >= \$24,000 and <= \$66,000

Then amountOfIETCClaimed = \$520 X numberOfQualifyingDays
/ 365

Else

If "Annual net income" > \$66,000 and <= \$70,000

Full year Abatement = (Annual net income - \$66,000) * 0.13

Then amountOfIETCClaimed = (\$520 - Full year Abatement) X
numberOfQualifyingDays / 365

Otherwise, zero.

The following are examples for the 31 July change (note these examples have the result truncated): –:

Example 1 – Annual net income is \$40,000

a. *Entitled for 12 months:*

$$(((\$520 - 0) \times 121/365) + ((\$520 - 0) \times 244/365)) \times 12/12 = \$520$$

b. *Entitled for 6 months:*

$$(((\$520 - 0) \times 121/365) + ((\$520 - 0) \times 244/365)) \times 6/12 = \$260$$

Example 2 – Annual net income is \$46,000

a. *Entitled for 12 months:*

$$(((\$520 - \$260) \times 121/365) + ((\$520 - 0) \times 244/365)) \times 12/12 = \$433.80$$

b. *Entitled for 6 months:*

$$(((\$520 - \$260) \times 121/365) + ((\$520 - 0) \times 244/365)) \times 6/12 = \$216.90$$

Example 3 – Annual net income is \$54,000

a. *Entitled for 12 months:*

$$(\$0 + ((\$520 - 0) \times 244/365)) \times 12/12 = \$347.61$$

b. *Entitled for 6 months:*

$$(\$0 + ((\$520 - 0) \times 244/365)) \times 6/12 = \$173.80$$

Example 4 – Annual net income is \$68,000

a. *Entitled for 12 months:*

$$(\$0 + ((\$520 - \$260) \times 244/365)) \times 12/12 = \$173.80$$

b. *Entitled for 6 months:*

$$(\$0 + ((\$520 - \$260) \times 244/365)) \times 6/12 = \$86.90$$

3.5 Fringe benefit tax (FBT)

The Full alternate rate calculation method matches each employee's FBT rate on attributed fringe benefits individually to their marginal tax rate on their salary. This requires a separate calculation for each employee but is certain to reduce the FBT payable to the lowest possible amount.

The calculation of the all-inclusive pay remains the same:

$$(\text{Cash remuneration} - \text{tax on cash remuneration}) + \text{taxable value of all fringe benefits} = \text{all-inclusive pay}$$

However, the FBT payable calculation will change and apply from 31 July 2024.

Current calculation	Future calculation
Tax on all-inclusive pay – Tax on cash remuneration	Tax on all-inclusive pay – FBT tax on net cash remuneration

Example: Full alternate rate calculation for Employee A

Employee A's cash remuneration is \$78,333 and they receive a total taxable value of benefit for all quarters valued at \$4,993.60.

1. Calculate net cash remuneration:

Gross cash remuneration	\$78,333.00
Less Tax	\$16,072.40
<i>Net cash remuneration</i>	<i>\$62,260.60</i>

2. Calculate FBT all-inclusive cash remuneration

Net cash remuneration (whole dollars)	\$62,260.00
Add taxable value on benefit (whole dollars)	\$ 4,993.00
<i>Total FBT inclusive cash remuneration</i>	<i>\$67,253.00</i>

3. Calculate tax payable on FBT in step 2.

\$19,571.55

Where FBT on first \$55,980 = \$14,019.60 plus FBT on remaining income of \$11,273.00 x 49.25% = \$5,551.95.

4. Calculate the FBT tax on net cash remuneration in step 1.

FBT on \$62,260.00 is \$17,112.50

Where FBT on first \$55,980 = \$14,019.620 plus FBT on remaining income of \$6,280 x 49.25% = \$3,092.90

5. FBT payable

FBT on all-inclusive cash remuneration - FBT tax on net cash remuneration = FBT payable
\$19,571.55 - \$17,112.50 = **\$2,459.05**

Fringe benefit tax rates:

Fringe benefit-inclusive cash remuneration	Accumulative FBT per bracket	FBT tax rate
From \$1 to \$12,530	\$1,469.76	11.73%
\$12,531 to \$40,580	\$7,419.16	21.21%
\$40,581 to \$55,980	\$14,019.60	42.86%
\$55,981 to \$129,680	\$50,316.85	49.25%
\$129,681 upwards		63.93%

3.6 In-work tax credit and minimum family tax credit changes

From 31 July 2024 (inclusive), the In-work tax credit (IWTC) and Minimum family tax credit (MFTC) thresholds will change.

In work tax credit (IWTC)

Currently the IWTC base rate is \$3,770 per annum (\$72.50 per week) if the family has up to three children. An additional \$780 (\$15 per week) is paid for each additional child.

From 31 July 2024 (inclusive), the base rate for IWTC will increase to \$5,070 per annum (\$97.50 per week) if the family has up to three children.

Minimum family tax credit (MFTC)

The after-tax threshold for MFTC is currently set at \$35,204 and will change to \$35,316 from 31 July 2024.

The MFTC calculation also uses the personal income tax rates in the net family income calculation.

Other considerations

The updates to the IWTC and MFTC rates will create a new entitlement period for the 2025 year which means that the new thresholds including those for the personal income tax will apply.

3.7 Consequential changes for 1 April 2025

As there are other products that use the personal income tax thresholds, some changes will need to be made to these as well.

The following changes will apply from 1 April 2025.

Employer savings contribution tax (ESCT) and Retirement savings contribution tax (RSCT)

The rate of ESCT/RSCT applied over a given year is calculated by an employer or payer based on the employee's earnings over the previous year, or the employee's projected earnings over the coming year. Both ESCT and RSCT is a final tax, so any under or over payments are not squared-up at the end of the year.

Employers usually will only update their employees' rates at the beginning of the tax year, or when a new employee starts. For RSCT the contributor will advise their retirement savings scheme their rate.

The new ESCT rates from 1 April 2025 will be:

ESCT rate threshold amount	Tax rate
\$0 - \$18,720	10.5%
\$18,721 - \$64,200	17.5%
\$64,201 - \$93,720	30%
\$93,721 - \$216,000	33%
\$216,001 upwards	39%

Portfolio investment rates (PIR)

Portfolio investment rates are based on the individuals prior two years of income. Generally, an investor will select their rate at the beginning of the tax year, and this tax is squared-up in the individual income tax return. If the rate was changed during the year, this can impact on whether a person has tax to pay or not (depending on their square-up outcome).

Due to the complexities around the end of year square up, and potentially needing to use composite rates, the PIR thresholds will change from 1 April 2025.

This would mean an individual selecting their rate for the 2026 tax year would use the new thresholds when determining which bracket their income falls into for the prior two years.

The current PIR thresholds are:

Taxable income	Taxable income + PIE income	PIR
\$14,000 or less	\$48,000 or less	10.5%
\$48,000 or less	\$70,000 or less	17.5%
\$48,001 +		28%

The new PIR thresholds are:

Taxable income	Taxable income + PIE income	PIR
\$15,600 or less	\$53,500 or less	10.5%
\$53,500 or less	\$78,100 or less	17.5%
\$53,501 +		28%

Example:

A person who has consistent income of \$50,000 taxable and \$65,000 when PIE income included each year (2023, 2024 and 2025)

- *At 1 April 2024 they would select a PIR of 28% for the 2025 tax year*
- *At 1 April 2025 they would select a PIR of 17.5% for the 2026 tax year*

Change to the FBT rates

There are no changes to the existing basic flat rates for FBT, but the alternate rate calculations need to change from 1 April 2025 to take into account the new all-inclusive pay thresholds, along with the personal income tax threshold changes.

The range of dollar in all-inclusive pay from 1 April 2025 is:

Range of dollar in all-inclusive cash remuneration	Tax rate
\$0 - \$13,962	11.73%
\$13,963 - \$45,230	21.21%
\$45,231 - \$62,450	42.86%
\$62,451 - \$130,723	49.25%
\$130,724 upwards	63.93%