



A Fair Economy.
A Strong Future.

Budget 2008 Personal Tax Package

Factsheet on tax relief – technical information

Personal tax rates are used to calculate a variety of taxes, such as PAYE and tax on interest from investments. It's important that those responsible for calculating and withholding tax understand the new tax rates and what has to be done to ensure the correct amount of tax is deducted. This fact sheet is preliminary information on what has to be done, and further information will be made available by Inland Revenue closer to the implementation of the tax changes of 1 October 2008.

Tax calculated by employers and their agents (e.g. payroll intermediaries)

PAYE

The new tax rates should be used to determine the correct amount of PAYE to be deducted from salary and wages for pay periods ending on or after 1 October 2008. For pay periods that straddle the 1 October date and are a month or shorter, then PAYE should be deducted at the new rates. If the pay period straddling 1 October is longer than a month, then PAYE needs to be deducted at the old rate for the part of the pay period prior to the change, and at the new rate for the part of the pay period after the change. This can be done by using the new tax tables to be provided by Inland Revenue, or using the PAYE calculator on Inland Revenue's website.

Inland Revenue will be issuing new PAYE tables and updating their PAYE online calculator in early September to give employers enough time to recalculate PAYE deductions for the 1 October 2008 implementation date.

Secondary PAYE tax codes

It's important to note that no-one has a higher tax liability due to earning their income from two sources than they would if they earned the same income from a single source. However, taxpayers using a secondary tax code may see deductions from their second income made at a higher rate than from their primary income. In circumstances where this leads to the taxpayer paying more tax in a year than the total amount due, they will be eligible for a refund.

No additional secondary tax code matching the new bottom rate will be introduced this year. This is mainly due to concerns that introducing a new secondary rate immediately would increase complexity for employers. The government is considering the need to introduce a new lower secondary code from 1 April 2009.

Fringe benefit tax

The multi-rate fringe benefit tax rates will change as a result of the adjustment to personal income tax rates and thresholds, requiring a composite rate for the 2008/2009 income year. Employers still have the option of paying fringe benefit tax of 64% on all fringe benefits rather than applying the multi-rates.

Employer Superannuation Contribution Tax (ESCT)

From 1 October 2008, the rates and thresholds for ESCT will change. New rates and thresholds will need to be used to determine how much tax to withhold on employer superannuation contributions.

Inland Revenue will provide more information about the new rates in due course.

Extra pays

Lump sum payments made to employees are known as 'extra pays'. Tax on extra pays is currently withheld at 21%, 33% and 39%. These will not be changing. However, employers and PAYE intermediaries will need to use the new thresholds to calculate the annualised pay of employees who receive extra pays.

Inland Revenue will provide more information about the new rates in due course.

Tax calculated by banks and financial institutions

Resident withholding tax on interest

The current resident withholding tax rates on interest income will continue to apply for the time being while the government discusses the impact of the changes with the banking and financial services sector. The current rates are 19.5%, 33% and 39%.

Tax calculated by managed funds

PIE rates

The PIE tax rates and thresholds will remain the same for the time being while the government discusses the impact of the tax rate changes with the managed funds industry. The current rates are 19.5% and 30%.

Where to get help and more information?

For more information call Inland Revenue on 0800 377 772.