

GMS Flash Alert

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New Zealand – Budget Contains New Personal Tax Thresholds, Implications for FBT, ESCT

In the recent New Zealand budget,¹ the government proposed changes to personal tax thresholds and other tax relief measures (such as an increase in the abatement threshold for the independent earner tax credit and changes to the ‘Working for Families’ tax credit). The new tax thresholds will take effect from 31 July 2024.

For employers (and payroll and HR teams), there will be a number of practical issues to be aware of, including the impact of composite tax thresholds and tax rates for the 2024/25 tax year and consequential effects for FBT calculations and tax on KiwiSaver contributions.

For the complete report, read the recent [taxmail](#) (6 June 2024), published by the KPMG International member firm in New Zealand.

For coverage of last year’s budget, see [GMS Flash Alert 2023-123](#), 15 June 2023.

WHY THIS MATTERS

The higher tax thresholds will mean a potential decrease in taxpayers’ liability.

However, there will likely be an increase in compliance costs and administration to implement this, and the changes may give rise to other unintended consequences. Companies with international assignees may therefore see a change in their assignment-related costs.

For assignees who are on assignment (or soon will be) to New Zealand and assignees working outside New Zealand (or who soon will be) but who are still subject to New Zealand tax, international assignment cost projections and budgeting should reflect these changes once they come into effect. Where appropriate, adjustments to tax equalisation packages and withholdings may need to be considered.

Tax Brackets/Thresholds

The new tax thresholds will be \$15,600 (up from \$14,000 for the 10.5-percent rate), \$53,500 (up from \$48,000 for 17.5 percent) and \$78,100 (up from \$70,000 for 30 percent). (All dollar figures are New Zealand dollars.)

However, because the changes will take effect from 31 July 2024, there will be both composite tax rates and composite tax thresholds for the 2024/25 tax year.

Composite tax threshold	Composite tax rate
\$0 to \$14,000	10.5%
<i>\$14,001 to \$15,600</i>	<i>12.82%</i>
\$15,601 to \$48,000	17.5%
<i>\$48,001 to \$53,500</i>	<i>21.64%</i>
\$53,501 to \$70,000	30%
<i>\$70,001 to \$78,100</i>	<i>30.99%</i>
\$78,101 to \$180,000	33%
\$180,001 +	39%

Source: KPMG in New Zealand

Implications for FBT, ESCT

- Fringe Benefit tax (FBT) rates and thresholds – which will change from 1 April 2025, except where an employer chooses to calculate FBT using the attribution method for the 2024/25 year (for which the composite rates and thresholds can be used).
- Employer Superannuation Contribution tax (“ESCT”) rates and thresholds – these will also only change from 1 April 2025, meaning employer KiwiSaver contributions will not benefit from these changes until the 2025/26 year.

KPMG INSIGHTS

Businesses should not assume that their payroll software or payroll provider will have these changes under control. There are a number of practical issues to consider, including:

- Making sure that payroll / HR teams are aware of the composite tax rates and thresholds, as well as the consequential FBT / ESCT impacts, as there may well be questions from employees around how different remuneration components are taxed and the impact on their net pay (particularly if lump-sum payments, such as bonuses, are expected towards the end of the tax year). The composite rates and thresholds could result in overpayments and underpayments of PAYE for the year, not anticipated by employees, which will need to be squared up through a tax return or as part of Inland Revenue's auto-calculation.
- Whether FBT should be calculated using the attribution option, rather than the standard rate, in the 2024/25 year to reduce the FBT costs. This is likely to depend on the types of benefits provided, the effective marginal rates of affected employees, and the compliance costs of the different FBT methods.
- There is the ability for employers to deduct PAYE rather than ESCT on KiwiSaver contributions. However, as the ESCT thresholds are 20 percent greater than the PAYE thresholds, changing methods may not yield a better tax outcome for employees.

Employers with questions about the tax measures in the Budget and their impact on the organisation's payroll function may wish to consult with their usual tax professional or a member of the tax team with KPMG in New Zealand (see the Contacts section).

FOOTNOTE:

1 For the Budget speech and related documents, see: <https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2024>.

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RELATED RESOURCE

This article is excerpted, with permission, from "[Budget 2024 - tax thresholds changes and impacts for employers](#)" in *taxmail* (6 June 2024), a publication of the KPMG International member firm in New Zealand.

NZD 1 = EUR 0.572
NZD 1 = USD 0.61
NZD 1 = GBP 0.48
NZD 1 = AUD 0.919
NZD 1 = CAD 0.838

Source: www.xe.com

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