

# New Zealand

## (2020-21 Income tax year)

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This chapter includes data on the income taxes paid by workers, their social security contributions, the family benefits they receive in the form of cash transfers as well as the social security contributions and payroll taxes paid by their employers. Results reported include the marginal and average tax burden for eight different family types.

Methodological information is available for personal income tax systems, compulsory social security contributions to schemes operated within the government sector, universal cash transfers as well as recent changes in the tax/benefit system. The methodology also includes the parameter values and tax equations underlying the data.

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## New Zealand 2020

## The tax/benefit position of single persons

	Wage level (per cent of average wage)	67	100	167	67
	Number of children	none	none	none	2
<b>1. Gross wage earnings</b>		42 981	64 150	107 131	42 981
<b>2. Standard tax allowances:</b>					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	0	0	0	0
<b>3. Tax credits or cash transfers included in taxable income</b>		0	0	0	0
<b>4. Central government taxable income (1 - 2 + 3)</b>		42 981	64 150	107 131	42 981
<b>5. Central government income tax liability (exclusive of tax credits)</b>		6 542	12 265	26 273	6 542
<b>6. Tax credits :</b>					
Basic credit		520	0	0	0
Married or head of family					
Children					
Other					
	Total	520	0	0	0
<b>7. Central government income tax finally paid (5-6)</b>		6 022	12 265	26 273	6 542
<b>8. State and local taxes</b>		0	0	0	0
<b>9. Employees' compulsory social security contributions</b>					
Gross earnings		0	0	0	0
Taxable income					
	Total	0	0	0	0
<b>10. Total payments to general government (7 + 8 + 9)</b>		6 022	12 265	26 273	6 542
<b>11. Cash transfers from general government</b>					
For head of family					
For two children		0	0	0	14 323
	Total	0	0	0	14 323
<b>12. Take-home pay (1-10+11)</b>		36 959	51 885	80 857	50 762
<b>13. Employer's compulsory social security contributions</b>		0	0	0	0
<b>14. Average rates</b>					
Income tax		14.0%	19.1%	24.5%	15.2%
Employees' social security contributions		0.0%	0.0%	0.0%	0.0%
Total payments less cash transfers		14.0%	19.1%	24.5%	-18.1%
Total tax wedge including employer's social security contributions		14.0%	19.1%	24.5%	-18.1%
<b>15. Marginal rates</b>					
Total payments less cash transfers: Principal earner		17.5%	30.0%	33.0%	42.5%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		17.5%	30.0%	33.0%	42.5%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

## New Zealand 2020

## The tax/benefit position of married couples

	Wage level (per cent of average wage)	100-0	100-67	100-100	100-67
	Number of children	2	2	2	none
<b>1. Gross wage earnings</b>		64 150	107 131	128 300	107 131
<b>2. Standard tax allowances:</b>					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	0	0	0	0
<b>3. Tax credits or cash transfers included in taxable income</b>		0	0	0	0
<b>4. Central government taxable income (1 - 2 + 3)</b>		64 150	107 131	128 300	107 131
<b>5. Central government income tax liability (exclusive of tax credits)</b>		12 265	18 807	24 530	18 807
<b>6. Tax credits :</b>					
Basic credit		0	0	0	520
Married or head of family					
Children					
Other					
	Total	0	0	0	520
<b>7. Central government income tax finally paid (5-6)</b>		12 265	18 807	24 530	18 287
<b>8. State and local taxes</b>		0	0	0	0
<b>9. Employees' compulsory social security contributions</b>					
Gross earnings					
Taxable income					
	Total	0	0	0	0
<b>10. Total payments to general government (7 + 8 + 9)</b>		12 265	18 807	24 530	18 287
<b>11. Cash transfers from general government</b>					
For head of family					
For two children		9 031	0	0	0
	Total	9 031	0	0	0
<b>12. Take-home pay (1-10+11)</b>		60 916	88 324	103 770	88 844
<b>13. Employer's compulsory social security contributions</b>		0	0	0	0
<b>14. Average rates</b>					
Income tax		19.1%	17.6%	19.1%	17.1%
Employees' social security contributions		0.0%	0.0%	0.0%	0.0%
Total payments less cash transfers		5.0%	17.6%	19.1%	17.1%
Total tax wedge including employer's social security contributions		5.0%	17.6%	19.1%	17.1%
<b>15. Marginal rates</b>					
Total payments less cash transfers: Principal earner		55.0%	30.0%	30.0%	30.0%
Total payments less cash transfers: Spouse		36.2%	17.5%	30.0%	17.5%
Total tax wedge: Principal earner		55.0%	30.0%	30.0%	30.0%
Total tax wedge: Spouse		36.2%	17.5%	30.0%	17.5%

The national currency is the New Zealand dollar (NZD). In 2020, NZD 1.55 was equal to USD 1 on average. The average worker earned NZD 64 150 (Country estimate<sup>1</sup>).

## 1. Personal Income Tax System

### 1.1. Central/federal government income taxes

#### 1.1.1. Tax unit

Members of the family are taxed separately.

#### 1.1.2. Tax allowances and tax credits

##### 1.1.2.1. Standard reliefs

Refer to section 3.

##### 1.1.2.2. Main non-standard tax reliefs applicable to an average wage

Refer to section 3.

#### 1.1.3. Schedule

- Rates of income tax for individuals:
  - On so much of the income as does not exceed NZD 14 000: 10.5%;
  - On so much of the income as exceeds NZD 14 000 but does not exceed NZD 48 000: 17.5%;
  - On so much of the income as exceeds NZD 48 000 but does not exceed NZD 70 000: 30%;
  - On so much of the income as exceeds NZD 70 000: 33%.

### 1.2. State and local income taxes

New Zealand has no state or local income tax.

## 2. Compulsory Social Security Contributions to Schemes Operated Within the Government Sector

New Zealand has no compulsory social security contributions to schemes operated within the Government sector.

It should be noted that there is an accident compensation scheme administered by the Accident Compensation Corporation for residents and temporary visitors to New Zealand. This scheme is funded in part by premiums paid by employees and employers. For employees, the premium represents 1.21% of their gross earnings. For employers and the self-employed, the premiums are based on a percentage of the total payroll and the applicable rate varies depending upon the associated accident risk (the average rate is 0.72%). This scheme is not considered as a compulsory social security contribution for the purposes of the Report.

### 3. Universal Cash Transfers

The main entitlements in New Zealand are targeted at families under the blanket title 'Working for Families' ('WFF'). There are four main payments that constitute WFF, which are described in 3.2 – 3.5 below.

#### **3.1. Amount for marriage**

None.

#### **3.2. Amount for children**

For all families with children born, or due to be born, on or after 1 July 2018, the Best Start payment provides NZD 60 per week (3 120 per year) for the first year of the child's life. The Best Start payment continues to provide NZD 3 120 per year for the second and third year of a child's life, but abates at 21.00 cents in the dollar for every dollar by which a family's income exceeds the abatement threshold of NZD 79 000. For families receiving paid parental leave, the Best Start payment begins after paid parental leave ends.

#### **3.3. Family Tax Credit**

From 1 July 2018, for an eldest child, the rate of the Family Tax Credit is NZD 5 878 per year. For subsequent children the rate is NZD 4 745. The total credit is abated by 25.00 cents on each dollar earned over NZD 42 700. The abatement is based on the combined income of the parents.

#### **3.4. In Work Tax Credit**

The In Work Tax Credit is available to families with dependent children who are in paid employment and not receiving an income-tested benefit or student allowance. The level of assistance it provides is NZD 3 770 per family per year (or NZD 72.50 a week for up to three children), plus an additional NZD 780 per year for fourth and subsequent children. Prior to 1 July 2020, it was only available to couple families working a total of 30 hours or more per week, or to sole parents working 20 hours or more per week. From 1 July 2020 these hours-tests are removed to allow payment to a wider group of people (see further explanation below). It also uses the same abatement regime used with the Family Tax Credit, although it does not begin to abate until the latter has been abated to zero.

#### **3.5. Minimum Family Tax Credit**

The Minimum Family Tax Credit is a scheme that ensures a guaranteed minimum family net income for all full-time earners with dependent children. The MFTC provides a top-up to after-tax income for eligible working families and ensures families do not face a reduction in after-tax income when they move off a benefit and into paid employment.

The household income threshold for the minimum family tax credit ("MFTC"), which guarantees eligible low-income families a minimum level of after-tax income, rose from NZD 26, 572 to NZD 27, 768 per year, on 1 April 2020.

#### **3.6. Independent Earner Tax Credit**

The Independent Earner Tax Credit of NZD 520 is available to individuals with annual net income between NZD 24 000 and NZD 48 000 that do not receive other forms of tax credits or benefits. It is abated by 13 cents on each dollar earned over NZD 44 000.

## 4. Main Changes in Personal Tax/Benefit Systems Since 2019/20

### 4.1. Changes to labour taxation and benefits due to the covid-19 pandemic

The following changes were announced on 17 March 2020 as part of the Government's initial response to the COVID-19 pandemic.

#### 4.1.1. Main benefits increased by \$25 per week

Main benefits increased on 1 April 2020 in line with wage growth (indexation) and then by an additional \$25 per week. This is a permanent increase.

#### 4.1.2. Doubling of Winter Energy Payment

Since 1 July 2018, the Winter Energy Payment (WEP) has been implemented and supports those in receipt of a main benefit, New Zealand Superannuation or a Veteran's Pension to heat their homes in winter by increasing the amount of money available to them over the winter months (1 May to 1 October). The WEP is a payment of NZD 450 a year for single people, and NZD 700 for couples or those with dependent children.

WEP rates have been temporarily doubled in response to the COVID-19 pandemic. The payment is made either weekly or fortnightly between 1 May and 1 October. The new rates are:

- NZD 40.91 per week (NZD 900 for 2020) for single people with no dependent children; and
- NZD 63.64 for couples (NZD 1 400 for 2020), and people with dependent children. Couples are paid NZD 63.64 whether they live together or separately.
- Approximately 1 million people will be eligible for the WEP. Recipients can choose to opt out.

(Main benefits include Jobseeker Support, Supported Living Payment, Sole Parent Support, Youth Payment, and Young Parent Payment).

#### 4.1.3. Removal of hours test from the In-Work Tax Credit

The requirement to work a minimum number of hours in order to receive the In-Work Tax Credit has been removed. This allows families that work variable hours or less than 20 (sole) or 30 (couple) hours per week to receive the In-Work Tax Credit. The remaining eligibility criteria for the In-Work Tax Credit remain unchanged. Therefore, recipient families must still be deriving income from work and cannot be receiving an income-tested benefit or student allowance.

#### 4.1.4. Working for Families (WFF) tax credits for emergency benefit recipients

Previously, emergency benefit recipients with dependent children and who were on a temporary visa, did not qualify for WFF tax credits. This is because they do not meet the residency criteria for WFF. This resulted in a difference in the financial support that these families could access, compared with other main benefit recipients with children.

In general, to receive a main benefit (including an emergency benefit) a person must be a New Zealand citizen or permanent resident and have resided in New Zealand for at least two years since becoming a citizen or resident. However, the Ministry of Social Development has discretion to grant an emergency benefit in other circumstances when those residency criteria are not met. These circumstances can include not being eligible for another benefit, that they are in hardship and unable to earn a sufficient livelihood. The amendment ensures that families on a temporary visa who are granted an emergency benefit are able to access a comparable level of financial support to other recipients of main benefits.

#### 4.1.5. Wage Subsidy and Wage Subsidy Extension

The original wage subsidy was implemented to support firms that might otherwise be unable to keep their workforce employed. The goal was to maintain workforce attachment throughout the COVID-19 pandemic and was paid at a flat rate of:

- NZD 585.80 for people working 20 hours or more per week (full-time rate)
- NZD 350.00 for people working less than 20 hours per week (part-time rate).

The subsidy was paid as a lump sum and covered 12 weeks per employee from the date of application. Businesses were eligible to apply for the Wage Subsidy provided that they:

- experienced a minimum 30% decline in actual or predicted revenue, which was related to COVID-19;
- took active steps to mitigate the effects of COVID-19; and
- retained the employees named in the application for the period of the subsidy. This included a best endeavours clause to continue to pay at least 80% of each employees' usual wage.
- applied between 17 March and 9 June 2020.

The Wage Subsidy was extended for the period 10 June to 1 September 2020. The extension provides an additional 8 weeks subsidy provided that employers:

- experienced a minimum 40% decline in revenue for a continuous 30-day period within the 40 days before the date of application, which was related to COVID-19;
- took active steps to mitigate the effects of COVID-19; and
- retained the employees named in the application for the period of the subsidy. This included a best endeavours clause to continue to pay at least 80% of each employees' usual wage.

#### 4.1.6. Goods and Services Tax (GST) on COVID-19 related social assistance payments

Legislation was passed that ensures that COVID-19 Leave Payments and the COVID-19 Wage Subsidy are not subject to GST. The relevant legislation is the Goods and Services Tax (Grants and Subsidies) Amendment Order 2020 and section 89 of the Goods and Services Tax Act 1985.

#### 4.1.7. The COVID-19 Income Relief Payment

A further announcement of a redundancy benefit on 25 May 2020. The COVID-19 Income Relief Payment (CIRP) is a non-taxable temporary payment made to those who have lost their job between 1 March and 30 October 2020. It is available for 12 weeks and pays NZD 490 per week to those who lost full-time work and NZD 250 per week for those who lost part-time work. First applications opened 8 June. It is available while a person is out of paid work and not receiving a main benefit payment, has not received a redundancy payment of NZD 30 000 or more, and who does not have a partner who earns more than NZD 2 000 a week in wages or salary. People who qualify and who are already receiving a main benefit can transfer to the CIRP.

## 5. Memorandum Items

### 5.1. Method used to identify AW and to calculate the AW's gross earnings

The Annual Earnings figure is derived from the Quarterly Employment Survey for those employees in the B-N industry groups. The annual earnings figure for the average worker is the sum of the four quarterly

earnings figures, with each quarterly figure calculated by taking the average total weekly earnings and multiplying it by 13 weeks per quarter.

### 5.2. Employer's contributions to private pension, health schemes, etc.

No information available.

#### 2020 Parameter values

	Ave_earn	64 150	Country estimate
Income tax schedule	Tax_sch	0.105	14 000
		0.175	48 000
		0.3	70 000
		0.33	
Family tax credit	Fam_sup_eld	5 878	
	Fam_sup_oth	4 745	
	Fam_sup_thrsh	42 700	
	Fam_sup_rate	0.25	
In-work tax credit	In_work_children123	3 770	
	In_work_children4plus	780	
Minimum Family Tax Credit	Min_inc	27 768	
Independent Earner Tax Credit	IETC	520	
	IETC_thrsh1	24 000	
	IETC_thrsh2	44 000	
	IETC_rate	0.13	



## 2020 Tax equations

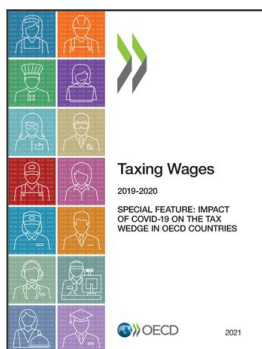
The equations for the New Zealand system in 2020 are mostly repeated for each individual of a married couple. But the cash transfer is calculated only once. This is shown by the Range indicator in the table below. The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “\_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “\_princ” and “\_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “\_spouse” values taken as 0.

	Line in country table and intermediate steps	Variable name	Range	Equation
1.	Earnings	earn		
2.	Allowances	tax_al	B	0
3.	Credits in taxable income	taxbl_cr	B	0
4.	CG taxable income	tax_inc	B	earn
5.	CG tax before credits	CG_tax_excl	B	Tax(tax_inc, Tax_sch)
6.	Tax credits :			
	Guaranteed minimum income	GMI	J	(Children>0)*Min_inc
	Independent Earner Tax Credit	IETC_rebate	B	=AND(Children=0,earn>IETC_thrsh1)*Taper(IETC,earn,IETC_thrsh2,IETC_rate)
6.	Tax credits:	tax_cr	B	IETC_rebate
7.	CG tax	CG_tax	B	CG_tax_excl-tax_cr
8.	Local tax	local_tax	B	0
9.	Employees' soc security	SSC	B	0
11.	Cash transfers:			
	Family tax credit (unabated)	fam_tax_cr	J	Fam_sup_eld*(Children>0)+ Fam_sup_oth*Positive(Children-1)
	In-work tax credit (unabated)	in_work_tax_cr	J	(Children>0)*(In_work_children123+Positive(Children-3)*In_work_children4plus)
	Tax credits abated	tax_cr_ab	J	Taper(fam_tax_cr+in_work_tax_cr, earn_total, Fam_sup_thrsh1, Fam_sup_rate1)
	Minimum Family tax credit	min_fam_tax_cr	J	Positive(GMI-(earn_total-CG_tax_excl_total))
	Cash transfers	cash_trans	J	tax_cr_ab + min_fam_tax_cr
13.	Employer's soc security	SSC_empr	B	0

Key to range of equation B calculated separately for both principal earner and spouse P calculated for principal only (value taken as 0 for spouse calculation) J calculated once only on a joint basis.

### Note

<sup>1</sup> In the year to March 2020.



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