

New Zealand

(2021-2022 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.

New Zealand 2021

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
1. Gross wage earnings		44 272	66 077	110 349	44 272
2. Standard tax allowances:					
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
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		44 272	66 077	110 349	44 272
5. Central government income tax liability (exclusive of tax credits)		6 768	12 843	27 335	6 768
6. Tax credits :					
Basic credit		485	0	0	0
Married or head of family					
Children					
Other					
	Total	485	0	0	0
7. Central government income tax finally paid (5-6)		6 283	12 843	27 335	6 768
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		0	0	0	0
Taxable income					
	Total	0	0	0	0
10. Total payments to general government (7 + 8 + 9)		6 283	12 843	27 335	6 768
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	14 000
	Total	0	0	0	14 000
12. Take-home pay (1-10+11)		37 989	53 234	83 014	51 504
13. Employer's compulsory social security contributions		0	0	0	0
14. Average rates					
Income tax		14.2%	19.4%	24.8%	15.3%
Employees' social security contributions		0.0%	0.0%	0.0%	0.0%
Total payments less cash transfers		14.2%	19.4%	24.8%	-16.3%
Total tax wedge including employer's social security contributions		14.2%	19.4%	24.8%	-16.3%
15. Marginal rates					
Total payments less cash transfers: Principal earner		30.5%	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		30.5%	30.0%	33.0%	42.5%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

New Zealand 2021

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
1. Gross wage earnings		66 077	110 349	132 155	110 349
2. Standard tax allowances:					
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
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		66 077	110 349	132 155	110 349
5. Central government income tax liability (exclusive of tax credits)		12 843	19 611	25 686	19 611
6. Tax credits :					
Basic credit		0	485	0	485
Married or head of family					
Children					
Other					
	Total	0	485	0	485
7. Central government income tax finally paid (5-6)		12 843	19 126	25 686	19 126
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings					
Taxable income					
	Total	0	0	0	0
10. Total payments to general government (7 + 8 + 9)		12 843	19 126	25 686	19 126
11. Cash transfers from general government					
For head of family					
For two children		8 549	0	0	0
	Total	8 549	0	0	0
12. Take-home pay (1-10+11)		61 783	91 223	106 468	91 223
13. Employer's compulsory social security contributions		0	0	0	0
14. Average rates					
Income tax		19.4%	17.3%	19.4%	17.3%
Employees' social security contributions		0.0%	0.0%	0.0%	0.0%
Total payments less cash transfers		6.5%	17.3%	19.4%	17.3%
Total tax wedge including employer's social security contributions		6.5%	17.3%	19.4%	17.3%
15. Marginal rates					
Total payments less cash transfers: Principal earner		55.0%	30.0%	30.0%	30.0%
Total payments less cash transfers: Spouse		33.5%	30.5%	30.0%	30.5%
Total tax wedge: Principal earner		55.0%	30.0%	30.0%	30.0%
Total tax wedge: Spouse		33.5%	30.5%	30.0%	30.5%

The national currency is the New Zealand dollar (NZD). In the year to March 2021, NZD 1.40 was equal to USD 1 on average. The average worker earned NZD 66 077 (Country estimate).¹

1. Personal Income Tax System

In New Zealand, the tax year starts April 1st and ends March 31st.

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 but does not exceed NZD 180 000: 33%;

On so much of the income as exceeds NZD 180 000:

- 39%.

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. There is no income limit for receiving the Best Start payment in 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. 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.

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 who may have had a reduction in work hours over 2020 and 2021 (see further explanation below). The removal of the hours-tests is permanent.

From 1 April 2021, the in-work tax credit is available for up to two weeks when taking an unpaid break from work. This is intended to provide support for those transitioning between jobs or who are unpaid for a period.

3.5. Minimum Family Tax Credit

The Minimum Family Tax Credit is a scheme that ensures a guaranteed minimum family after-tax income for all full-time earners with dependent children. The minimum family tax credit (“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 welfare benefit and into paid employment.

The household income threshold (the level to which after-tax income is topped up to) for the MFTC rose from NZD 27 768 to NZD 30 576 per year, on 1 April 2021. It was further increased to NZD 31 096, on 1 July 2021.

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 pandemic in 2020 and 2021

The Government's initial response to the COVID-19 pandemic was announced on 17 March 2020. Throughout 2020 some of the policies were adjusted in response to the re-emergence of COVID-19 in Auckland. These adjustments are noted where applicable.

4.1.1. Main benefits increased by NZD 25 per week

Main benefits increased on 1 April 2020 in line with wage growth (indexation) and then by an additional NZD 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) 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). Recipients can choose to opt out. 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 were temporarily doubled for 2020 only in response to the COVID-19 pandemic. The payment is made either weekly or fortnightly between 1 May and 1 October. The 2020 rates were:

- NZD 40.91 per week (NZD 900 for 2020) for single people with no dependent children;
- 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.

(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 permanently removed. This allows families that work variable hours or less than 20 (sole parent) 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 some WFF payments (Family Tax Credit and Best Start Tax Credit) from 1 April 2021.

COVID-19 restrictions has meant some temporary visa holders are unable to work or to return to their home country. A temporary change to Emergency Benefit eligibility was made to also allow Emergency Benefit and WFF payments to migrants on temporary visas who are in financial hardship, while they make arrangements to return to their home country. This change applies from 1 December 2020 until 31 August 2021.

4.1.5. Wage Subsidy, Wage Subsidy Extension, Resurgence Wage Subsidy and Wage Subsidy August 2021

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;
- 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 provided 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;
- 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.

The Resurgence Wage Subsidy opened on 21 August when COVID-19 re-emerged in Auckland and closed on 3 September 2020. The Resurgence Wage Subsidy criteria were:

- experienced or predicted revenue decline of at least 40% for any consecutive period of at least 14 days within 12 August and 10 September 2020 compared to 2019;
- took active steps to mitigate the effects of COVID-19;
- 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. were not receiving the Wage Subsidy Extension for the same employee at the same time.

The Wage Subsidy August 2021 opened on 20 August 2021 when COVID-19 re-emerged in Auckland and New Zealand went into a new nationwide lockdown. At the time of writing there have been three rounds of the Wage Subsidy August 2021. Each round is a two-week lump-sum at the rate of NZD 600 a week for each full-time employee and NZD 359 a week for each part-time employee. Further rounds may be announced if parts of New Zealand remain at Alert Levels 3 or 4. The Wage Subsidy August 2021 criteria were:

- round #1 was open for applications for two weeks from 9am, Friday 20 August until, 11.59pm Thursday 2 September;
- round #2 was open for applications for two weeks from 9am, Friday 3 September until, 11.59pm Thursday 16 September;
- round #3 opened for applications for two weeks from 9am, Friday 17 September until 11:59pm Thursday 30 September;
- applications are accepted only two weeks after a business's previous application. Applications can be made for Round #2 even if they did not make an application for Round #1;
- the revenue test is a decrease of at least 40%. This means businesses need to have had (or predict to have) a minimum 40% decline in revenue in the 14 days:
 - between 17 – 31 August for the initial Wage Subsidy payment.
 - between 31 August – 13 September for Wage Subsidy #2.
 - between 14 – 27 September for Wage Subsidy #3.

when compared with their revenue during a typical 14-day period in the six weeks immediately before the initial Alert Level escalation on 17 August 2021.

 - Businesses with highly seasonal revenue can compare their revenue to the same period in 2020 or 2019, if they can show that the seasonal nature of their business makes it harder for them to meet the revenue test using the default comparison period.
 - The decline in revenue must be caused by the effect the continuation of Alert Levels 3 or 4 from 17 August 2021 has had on their businesses.
 - The criteria changed when all of New Zealand outside of Auckland moved down to Alert Level 2 on 7 September: Businesses that experience the 40% revenue drop due to a combination of Alert Levels 3, 4 and 2 effects (but not the effect of Alert Level 2 alone) were eligible to apply for the second payment. However, for the third round of the wage subsidy, businesses in Alert Level 2 regions will only be eligible if they can attribute their 40% revenue decline solely to the ongoing Alert Level 3 or 4 restrictions elsewhere.
- businesses must have active steps to mitigate the effects of COVID-19;
- 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; and
- at the time of application, businesses must not be receiving a payment under a COVID-19 Wage Subsidy 2021 scheme, the COVID-19 Short-term Absence Payment, COVID-19 Leave Support schemes or COVID-19 Essential Workers Support Scheme in respect of any of the named employees.

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*

The COVID-19 Income Relief Payment (CIRP) was a non-taxable temporary payment made to those who had lost their job between 1 March and 30 October 2020. It was available for 12 weeks and paid 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 was available while a person was out of paid work and not receiving a main benefit payment, had not received a redundancy payment of NZD 30 000 or more, and who did not have a partner who earned more than NZD 2 000 a week in wages or salary. People who qualified and who were already receiving a main benefit could transfer to the CIRP.

4.1.8. *The Leave Support Scheme*

The Leave Support Scheme was originally announced on 17 March 2020. It provided employers NZD 585.80 per week for full time and NZD 350 per week for part time workers, who were unable to work due to self-isolation or COVID-19 infection. Employers are required to pass on the payment to the affected employee(s). This scheme was folded into the Wage Subsidy on 27 March 2020, to prevent double payments, and then alternative leave schemes were created (such as for Essential Workers in businesses that did not qualify for a wage subsidy). Eventually a Leave Support Scheme was created that was available for all employers to pay employees who were required to stay home due to COVID-19 infection or otherwise required to self-isolate, and could not work from home. An employer could not receive a wage subsidy at the same time as a Leave Support payment for the same employee.

On 22 September 2020 the Leave Support Scheme was expanded to cover:

- People who have COVID-19 like symptoms and meet the Ministry of Health's criteria, and need to self-isolate while awaiting the results of a COVID-19 test.
- People who are directed to self-isolate by a Medical Officer of Health or their delegate or on advice of their Health Practitioner, even if they do not have symptoms or have returned a negative test.
- Some healthcare and social workers who work in high-risk areas such as retirement villages while they are at home awaiting the results of a COVID-19 test (subsequently replaced by the STAP payment from 9 February 2021).
- The parent or caregiver of a dependant who is directed to self-isolate and needs support to do so safely.

The period of the Scheme was matched to the two-week self-isolation requirement. Employers are able to apply for a further two week payment if a longer period of self-isolation is required.

4.1.9. *The Short-Term Absence Payment*

The Short-Term Absence Payment (STAP) applied from 9 February 2021. It provides a one-off payment of NZD 350 for employers whose employees cannot work from home while awaiting a COVID-19 test result. It also covers household contacts (or secondary contacts) who are staying at home in line with public health guidance, while waiting for a close contact to get a test result.

4.2. General changes to the tax/benefit system in 2021

4.2.1. A number of changes have been made to the tax and benefit system in 2021 that are unrelated to the COVID-19 pandemic. New top tax rate

A new top tax rate of 39 percent on income earned over NZD 180 000 has applied since 1 April 2021. Prior to this change the top tax rate was 33 percent on income earned over NZD 70 000.

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 (QES) 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. In 2021 the QES has been redesigned, which means that the average wage data for 2021 may not be directly comparable to previous years.²

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

No information available.

2021 Parameter values

	Ave_earn	66 077	Country estimate
Income tax schedule	Tax_sch	0.105	14 000
		0.175	48 000
		0.3	70 000
		0.33	180 000
		0.39	
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	30 966 ¹	
Independent Earner Tax Credit	IETC	520	
	IETC_thrsh1	24 000	
	IETC_thrsh2	44 000	
	IETC_rate	0.13	

1. The Minimum Family tax credit is NZD 30 576 from 1 April 2021 to 30 June 2021, then rate increases to NZD 31 096 from 1 July 2021 to 31 March 2022.

2021 Tax equations

The equations for the New Zealand system in 2021 are mostly repeated for each individual of a 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.

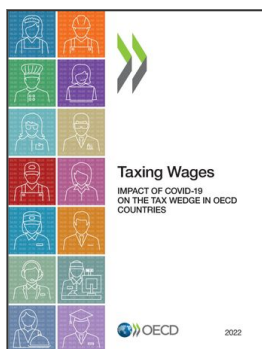
	Line in country table and intermediate steps	Variable name	Range	Equation
1.	Earnings	earn		
2.	Allowances	tax_al	B	0
3.	Credits in taxable income	taxbl_cr	B	0
4.	CG taxable income	tax_inc	B	earn
5.	CG tax before credits	CG_tax_excl	B	Tax(tax_inc, Tax_sch)
6.	Tax credits :			
	Guaranteed minimum income	GMI	J	(Children>0)*Min_inc
	Independent Earner Tax Credit	IETC_rebate	B	=AND(cash_trans=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.

Notes

¹ In the year to March 2021.

² <https://www.stats.govt.nz/methods/effects-of-the-qes-redesign-on-the-march-2021-quarter-statistics>.



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