Taxation (Tax Rate Increase) Bill – Information Sheet

Increase in the top personal tax rate

The proposed statutory income tax rates for individuals (including unincorporated bodies) will be:

Income not exceeding $38,000	19.5 cents
Income exceeding $38,000 but not exceeding $60,000	33 cents
Income exceeding $60,000	39 cents

The effective marginal tax rates (taking into account the Low Income Rebate) will be:

Income not exceeding $9,500	15 cents
Income exceeding $9,500 but not exceeding $38,000	21 cents
Income exceeding $38,000 but not exceeding $60,000	33 cents
Income exceeding $60,000	39 cents

The new tax rates will apply for the 2000-01 and subsequent income years.

Extra emolument rate

The extra emolument rate for lump sum payments such as bonuses, back pay, redundancy and retirement payments will be increased to 39%. This higher rate will apply if the sum of the extra emolument and the annualised value of salary or wages paid to the employee by that employer in the previous four weeks is more than $60,000.

Employees may elect to have this higher rate of 39% apply to extra emolument payments. This higher rate will ensure that taxpayers do not have an end-of-year tax liability because their extra emolument was under-deducted at source. This under-deduction could arise if a taxpayer’s annual income is over $60,000 and he or she receives an extra emolument and has other income not taxed at source.

EXTRA EMOLUMENT RATES

Income does not exceed $38,000	21 cents
Income exceeds $38,000 but does exceed $60,000	33 cents (mandatory and elective)
Income exceeds $60,000	39 cents (mandatory and elective)

The increased extra emolument rate will apply to extra emolument payments on or after 1 April 2000.

Secondary employment earnings

Employees who earn secondary employment income will be able to elect a 39% PAYE withholding rate. This rate should be used by taxpayers whose annual income is more than $60,000 and who also earn secondary employment income. This will ensure that these taxpayers do not have an end-of-year tax liability because their secondary employment earnings were under-deducted at source.

The secondary employment earnings tax deduction codes will be as follows:

Tax deduction code	*Withholding tax rate*	*Who should use this code*
"S"	21 cents	Taxpayers with secondary employment earnings whose annual income does not exceed $38,000
"SH"	33 cents	Taxpayers with secondary employment earnings whose annual income exceeds $38,000 but does not exceed $60,000
"ST"	39 cents	Taxpayers with secondary employment earnings whose annual income exceeds $60,000

The increased rate and the new tax deduction codes will apply to tax deducted from secondary employment earnings for pay periods beginning on or after 1 April 2000.

Resident withholding tax on interest

Taxpayers who earn interest will be able to elect a 39% resident withholding rate. It is expected that this rate will be used by taxpayers with income over $60,000 so they can have the correct tax deducted at source to prevent end-of-year tax liabilities.

The non-declaration rate will reduce from 45% to 39% from 1 April 2000. The non-declaration rate applies to those who do not give the interest payer (such as a bank) their IRD number.

The rate will be 19.5% for taxpayers who provide the interest payer their IRD number but do not elect a resident withholding tax rate.

Resident withholding tax rate on interest	*Who should elect to use this rate*
19.5%	Taxpayers whose annual income does not exceed $38,000
33%	Taxpayers whose annual income exceeds $38,000 but does not exceed $60,000
39%	Taxpayers whose annual income exceeds $60,000
39%	Taxpayers who do not provide their IRD number

The higher resident withholding tax rate and reduced non-declaration rate apply to interest paid on or after 1 April 2000.

The rules allowing taxpayers to elect a higher resident withholding rate will be amended to cater for the election of the 39% rate. This change will apply from date of enactment so that interest payers (such as banks) can put in place systems allowing taxpayers to make elections before 1 April 2000.

The rules setting out the information to be shown on resident withholding tax deduction certificates will be amended to reflect the introduction of the elective 39% resident withholding tax rate.

Provisional tax

Rules for calculating provisional tax during the 2000-01 and 2001-02 income years are being introduced to ensure that provisional tax payments for these years reflect the increased tax rate. These rules will apply to individuals and other persons to whom the individual tax rates apply, such as unincorporated bodies, who use the “uplift factor” to calculate their provisional tax for the 2000-01 and 2001-02 income years. These new rules will apply to such taxpayers whose annual income for 1999-2000 (or 1998-99 if a 1999-2000 tax return was not filed) is over $60,000.

These rules will require taxpayers to calculate their residual income tax for the their 1999-2000 tax return (or if their 1999-2000 tax return has not been filed, their 1998-99 tax return) as if the new tax rates applied in calculating their residual income tax. In calculating residual income tax, a credit is allowed for the tax withheld at source or paid on that income. These tax credits should be adjusted to take into account the higher tax rate if the income for which the credit is allowed would have been subject to the higher tax rate. The “uplift factor” is then applied to the residual income tax calculated taking into account the new tax rates.

The following example shows the calculation that will be required to calculate the 2000-01 provisional tax using the “uplift factor”. A taxpayer has filed her 1999-00 tax return, which shows an annual salary of $80,000 (PAYE $21,270) plus business profits of $20,000.

Taxable income	$100,000
Income tax liability using 2000-01 tax rates ($27,870 as per tax return plus $2,400 ($40,000 * 0.06)	$30,270
Less tax credits for PAYE ($21,270 as per tax deduction certificate plus $1,200 ($20,000 * 0.06)	$22,470
Residual income tax based on 2000/01 tax rates	$7,800
2000/01 provisional tax is 105% of $7,800	$8,190

These rules will apply for the 2001-02 income year for taxpayers who have calculated their provisional tax on the basis of their 1999-00 residual income tax because they have not filed their 2000-01 tax return.

For those taxpayers that use the estimation option to calculate their 2000-01 provisional tax, it is recommended that they use the new rates in calculating their provisional tax, to minimise their exposure to use of money interest that may be payable on any under-payment of provisional tax.

These provisional tax changes may have implications for trustees of trusts in respect of the calculation of 2000-01 and 2001-02 provisional tax for beneficiaries whose income from the trust is more than $60,000 and Maori authorities with less than 20 beneficiaries.

These changes apply to the payment of provisional tax for the 2000-01 and 2001-02 income years.

Fringe benefit tax

Fringe benefit tax rate will increase from 49% to 64% for fringe benefits provided or granted on or after 1 April 2000. Because fringe benefit tax is calculated on the after-tax value of the benefit, it is grossed up to give a rate of 64% (64% = [0.39/[1 – 0.39]]).

For those employers who provide fringe benefits to shareholder-employees on an income year basis, the increased rate will apply from 1 April 2000 on the annual value of the fringe benefits provided or granted in the 1999-00 or 2000-01 income year, prorated for the period after 1 April 2000. For example, a company has elected to pay fringe benefits provided to its shareholder-employees on an income year basis (1 July 1999 to 30 June 2000). The annual value of fringe benefits provided is $10,000. The value of the benefits prorated on a daily basis is as follows:

- Value of benefits provided or granted to 31 March 2000 (subject to tax at 49%) is $7513.66.
- Value of benefits provided or granted on or after 1 April 2000 (subject to tax at 64%) is $2486.34.

Tax return filing

The rules setting out which individuals have to file tax returns or receive income statements will be amended to reflect the increase in the threshold at which the top personal tax rate applies (from $38,000 to $60,000). New provisions will require taxpayers to file a tax return or receive an income statement if their total annual income is more than $60,000 and they received interest, dividends, extra emoluments and/or secondary employment income of more than $200 that was taxed at a withholding rate of less than 39%.