Inland Revenue
Te Tari Taake

Taxation (Budget Measures) Act 2024

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This special report provides early information on changes to personal income tax thresholds and the independent earner credit, increases to the Working for Families tax credits, and a remedial amendment to the Research and Development Tax Incentive rules ahead of an upcoming edition of the *Tax Information Bulletin*.

Table of Contents

In-work tax credit

Sections MD 10, MF 4J and MF 4K of the Income Tax Act 2007

The amendment increases the in-work tax credit (IWTC) base rate by $25 per week.

Background

The IWTC is the key instrument to "make work pay" within the wider context of the Working for Families package. It supports low- to middle-income working families whose members take up and stay in employment, rather than remaining on a benefit. It achieves this by providing a boost to the family's income once members begin working.

Key features

- The IWTC base rate has been increased from $3,770 per year to $5,070 per year. This represents a $25 increase in weekly income.
- The maximum weekly entitlement for a family of up to three children has increased from $72.50 to $97.50.
- The additional child rate remains at $15 more per week.
- Working for Families is an annual entitlement that is paid on a tax year basis. Sections MF 4J and MF 4K introduce a method to allow the old rate and new rate to be used for different periods in the 2024–25 tax year. The previous IWTC amount of $3,770 will be used to calculate IWTC entitlements until 30 July 2024.

Effective date

The amendment applies from 31 July 2024.

However, part-year amendments apply from 1 April 2024. These allow the old rate and new rate to be used for different periods in the 2024–25 tax year.

Minimum family tax credit

Sections ME 1, MF 4J and MF 4K of the Income Tax Act 2007

The amendment adjusts the minimum family tax credit (MFTC) threshold to $35,316 after tax. This will ensure that MFTC recipients benefit from the personal income tax changes and the increase to the IWTC.

Background

The MFTC is one of the Working for Families tax credits. Its purpose is to incentivise people at the margin with dependent children to move off the benefit and into full-time work. The MFTC achieves this by "topping up" the incomes of working families to an amount that is more than what they could potentially receive on a benefit.

The IWTC and the MFTC work together to top up a person's income to ensure that they are financially better off in work without a main benefit. The change made to the IWTC will automatically flow through to MFTC recipients by keeping the MFTC threshold at its current level.

However, for every dollar a family earns over the MFTC threshold, their MFTC entitlement reduces by a dollar. As such, the MFTC threshold has been increased to ensure that a family's entitlement is not reduced by reason of them gaining tax relief from the personal income tax rate changes.

Key features

- The MFTC threshold has been increased from $35,204 per year (after tax) to $35,316 per year (after tax). This represents a $2.15 increase in weekly income.
- This change, in conjunction with the increase to the IWTC, will increase recipients' income by approximately $27.15 per week.
- Working for Families is an annual entitlement that is paid on a tax year basis. Sections MF 4J and MF 4K introduce a method to allow the old threshold and new threshold to be applied for the payment of instalments for different periods in the 2024–25 tax year. The previous MFTC amount of $35,204 will be used to calculate MFTC entitlements until 30 July 2024.

Effective date

The amendment applies from 31 July 2024.

However, part-year amendments apply from 1 April 2024. These allow the old threshold and new threshold to be applied for the payment of instalments for different periods in the 2024–25 tax year.

Personal income tax

Section RD 50(2) and (3), and schedule 1 of the Income Tax Act 2007; schedules 5 and 8 of the Tax Administration Act 1994

Amendments enacted in the Taxation (Budget Measures) Act 2024 increase three of the personal income tax thresholds with effect from 31 July 2024. These changes reduce the amount of tax a person is required to pay on their personal income.

The Act also contains consequential changes to other tax types that are based on personal tax rates and thresholds These take effect from 31 July 2024 and 1 April 2025.

Key features

The Taxation (Budget Measures) Act 2024 enacts changes to the personal income tax thresholds. The previous and new thresholds are set out below:

Previous threshold	New threshold	Threshold rate
$0 – $14,000	$0 – $15,600	10.5%
$14,001 – $48,000	$15,601 – $53,500	17.5%
$48,001 – $70,000	$53,501 – $78,100	30%
$70,001 – $180,000	$78,101 – $180,000	33%
$180,001+	$180,001+ (No change)	39%

The key features of the changes are:

- Composite personal income tax rates and thresholds that will take effect from 1 April 2024 to be applicable only for the 2024–25 tax year to give effect to the mid-year threshold changes.
- References to previous personal income tax thresholds replaced with the new thresholds to determine certain tax codes and rates, and the correct rate for the purposes of reportable income.
- A change to resident withholding tax (RWT), which is dependent on the personal income tax rates and thresholds.
- A change to the formula to calculate fringe benefit tax (FBT) payable.

Effective date

The changes have two effective dates:

- 1 April 2024 for:
  - composite personal income tax rates and thresholds, and
  - the formula to calculate FBT
- 31 July 2024 for:
  - RWT
  - certain tax codes and rates
  - reporting of income information by individuals and treatment of certain amounts.

Detailed analysis

Changes effective from 1 April 2024

Composite rates

The new tax thresholds take effect from 31 July 2024. To accommodate this mid-year change, composite tax rates will apply for tax calculations for the full year. For PAYE, the previous tax thresholds apply for the first three months and 30 days of the 2024–25 tax year, and the new thresholds apply for the remaining eight months and one day of the tax year.

New Zealand's PAYE system is very accurate at withholding the correct amount of tax through the year. However, because the thresholds have changed part-way through the year, two sets of thresholds will be applicable in a single tax year and there is a risk that people will pay too much or too little tax. To try to mitigate this, an average of the new and old rates will be applied across the entire year to determine a person's annual tax liability. This is a composite rate.

These composite rates and thresholds are used for Inland Revenue's end-of-year "square-up" calculations, which assess a taxpayer's income against the amount of tax paid over that income year (and may still result in a tax refund or liability).

The composite rates and thresholds applicable from 1 April 2024 that will be applied for the 2024–25 tax year are:

Composite tax thresholds	Composite tax rates
0 – $14,000	10.5%
$14,001 – $15,600	12.82%
$15,601 – $48,000	17.5%
$48,001 – $53,500	21.64%
$53,501 – $70,000	30%
$70,001 – $78,100	30.99%
$78,101 – $180,000	33%
$180,001+	39%

Example 1: Tax liability for the 2024–25 tax year using composite rates and thresholds

Manraj earns $75,000 in the 2024–25 tax year.

Manraj's tax liability for the tax year will be calculated using the composite rates and thresholds, which would mean:

- the first $14,000 will be taxed at 10.5%
- every dollar earned between $14,001 and $15,600 will be taxed at 12.82%
- every dollar earned between $15,601 and $48,000 will be taxed at 17.5%,
- every dollar earned between $48,001 and $53,500 will be taxed at 21.64%,
- every dollar earned between $53,501 and $70,000 will be taxed at 30%, and
- every dollar earned after $70,001 until $75,000 will be taxed at 30.99%.

Changes to FBT calculation for the attribution method

The previous formula is designed to calculate the FBT payable assuming personal income tax and FBT rates are essentially the same. However, because the changes to the personal income tax and FBT thresholds become effective at different dates, the previous formula would have resulted in an amount of FBT payable that effectively claws back the tax relief the new personal income tax thresholds provide for the 2024–25 tax year.

The new formula prevents this. The formula is:

Tax on all-inclusive pay − FBT on net cash pay.

Where:

- **all-inclusive pay** is the sum of net cash pay and the value of taxable fringe benefits received by the employee
- **net cash pay** is the cash left in hand of the employee after tax, ie:

  cash pay − tax on cash pay.

Example 2: FBT liability for the 2024–25 tax year using the new formula

Abby earns a salary of $14,000 and receives a fringe benefit that has a taxable value of $10,000 in the 2024–25 tax year.

Abby's employer's FBT liability for the tax year using the new formula will be:

$3,590.77 − $1,469.77 = $2,121.00

Where:

- $12,530 is the net cash pay, ie, salary less the personal income tax payable on the salary $14,000 – ($14,000 x 10.5%) = $12,530
- $3,590.77 is the tax on all-inclusive pay, ie, amount of FBT payable on the sum of the net cash pay ($12,530) and value of the fringe benefit ($10,000), and
- $1,469.77 is the FBT payable on net cash pay ($12,530).

Consequential changes effective from 31 July 2024

The rates and thresholds for consequential tax types are based on personal income tax rates and thresholds. Examples of consequential tax types include RWT, FBT, employer superannuation contribution tax, retirement scheme contribution tax and the prescribed investor rates.

Rates and thresholds for consequential tax types are calculated using the personal income tax settings, which means calculating and implementing a mid-year change could create compliance challenges for employers and payroll service providers who are likely to need more time to adjust their systems.

The Government has therefore decided that most changes to consequential tax types will be deferred to take effect from 1 April 2025, except for changes to RWT. The 1 April 2025 changes will be discussed in the August *Tax Information Bulletin*.

Changes to RWT

The changes to RWT apply with effect from 31 July 2024 alongside the personal income tax threshold changes. Because interest and dividends are included in a taxpayer's personal income tax calculation at the end of the year, RWT rates will not change. However, people will be able to elect the 10.5% rate if they expect their total income to be less than the lowest personal income tax threshold of $15,600.

Some customers who have elected higher RWT rates are likely to advise payers of resident withholding income that they wish to change their elected tax rates following the increases to the personal income tax thresholds. The limited changes to RWT are not expected to require payers of resident withholding income to make major changes.

Independent earner tax credit

Sections LC 13, LC 14 and LC 15 of the Income Tax Act 2007

All legislative references are to the Income Tax Act 2007 unless otherwise stated.

Amendments enacted in the Taxation (Budget Measures) Act 2024 change the independent earner tax credit (IETC) settings so that the credit begins abating at $66,000 and fully abates at $70,000. The amendment thus ensures that people can continue to receive IETC at higher income levels.

Background

Under existing rules, a taxpayer is entitled to the IETC if they earn between $24,000 and $48,000 per year, at a maximum amount of $520 per year ($10 per week). They receive the maximum IETC available when they earn between $24,000 and $44,000 per tax year, receive reduced IETC if they earn more than $44,000 per tax year, and become ineligible once they earn more than $48,000. The maximum amount receivable is $520 per year ($10 per week).

The changes will increase the threshold where abatement begins and the threshold where taxpayers are no longer eligible to receive the IETC. The existing and new settings are set out below.

	Eligibility starts	Abatement starts	No longer eligible
Current	$24,000	13 cents per dollar earned over $44,000	$48,000
New	$24,000 (no change)	13 cents per dollar earned over $66,000	$70,000

However, even if a taxpayer earns within the income thresholds, they become ineligible for any months in which they receive a main benefit, student allowance, New Zealand superannuation or veteran’s pension or are eligible to receive Working for Families tax credits.

Key features

The key features of the amendments are:

- The personal income threshold at which the abatement begins changes from $44,000 to $66,000.

- The personal income threshold at which taxpayers will no longer be eligible to receive any amount of IETC increases from $48,000 to $70,000.
- The method to calculate a taxpayer's IETC entitlement for the tax year ending 31 March 2025 uses separate calculations for the period from 1 April 2024 to 30 July 2024 and for the period from 31 July 2024 to 31 March 2025. This is only applicable for the 2024–25 tax year to give effect to the mid-year setting changes.

Example 1: Annual IETC entitlement with ineligible months under the new settings

Alvien earns $66,000 in the 2025–26 tax year. He becomes eligible for and receives Working for Families from March 2026.

He is entitled to receive IETC from April 2025 to February 2026 because he receives no main benefit or government support and earns more than $24,000 but less than the new maximum threshold of $66,000.

However, he is no longer entitled to receive IETC from March 2026 even though he earns less than the new maximum threshold because he receives Working for Families.

Alvien's IETC entitlement for the tax year will therefore be:

($520 – 0) x (11/12) = $477.66.

Where:

- **$0** is the amount of abatement under the new settings (13 cents x $0)
- **11** is the number of credit period months, ie, the months Alvien is eligible to receive IETC in the 2025–26 tax year.

Effective date

The amendments would take effect from 31 July 2024.

Detailed analysis

Composite calculation for the 2024–25 tax year

The current IETC settings will apply for the first three months and 30 days of the 2024–25 tax year, and the new settings will apply for the remaining eight months and a day of the tax year.

A composite calculation is provided to calculate a taxpayer's full year entitlement to account for two sets of IETC settings being applicable in one year.

For 1 April 2024 to 30 July 2024, the IETC entitlement is calculated using the formula:

(person's credit – full year abatement) x credit period days ÷ 365.

Where:

- **a person's credit** is either $520 if the taxpayer's net income for the tax year is equal to or more than $24,000, but $0 if the net income is less than $24,000 or more than $48,000
- **full year abatement** is the total of 13 cents per dollar earned over $44,000 for the tax year
- **credit period days** is the number of whole days in the period 1 April 2024 to 30 July 2024.

For 31 July 2024 to 31 March 2025, the IETC entitlement is calculated using the formula:

(person's credit − full year abatement) x credit period days ÷ 365.

Where:

- **a person's credit** is either $520 if the taxpayer's net income for the tax year is equal to or more than $24,000, but $0 if the net income is less than $24,000 or more than $70,000
- **full year abatement** is the total of 13 cents per dollar earned over $66,000 for the tax year
- **credit period days is the number of whole** days the taxpayer in the period 31 July 2024 to 31 March 2025.

Therefore, the calculation for the 2024–25 tax year is:

Period 1 Period 2

((($P – X) x 121/365) + (($P – Y) x244/365)) x EM/12.

Where:

- **Period 1** refers to when the current settings apply (1 April 2024 to 30 July 2024), and **Period 2** refers to when the proposed new settings apply (31 July 2024 to 31 March 2025)
- **$P** = either $520 if the taxpayer earns more than $24,000 but less than the maximum threshold of the applicable setting, or $0 if the taxpayer earns less than $24,000 or more than the maximum threshold of the applicable setting
- **X** = amount of abatement under the old settings

- **Y** = amount of abatement under the new settings
- **EM** = number of full months the taxpayer was not ineligible for the IETC due to receiving a main benefit, student allowance, New Zealand superannuation or veteran's pension or being eligible to receive Working for Families.

Eligible months will continue to be determined on an annual basis. This means that the total combined IETC amount from periods 1 and 2 will then be multiplied by the number of eligible months divided by 12.

Example 2: Annual IETC entitlement using composite calculation

Elizabeth earns $45,000 in the 2024–25 tax year.

Elizabeth is entitled to IETC because she receives no main benefit or government support and earns more than $24,000 but less than the maximum thresholds of both the current and new settings – $48,000 and $70,000. Elizabeth's $45,000 annual income is $1,000 above the beginning of the abatement zone for the period up to 30 July 2024.

Elizabeth's IETC entitlement for the tax year will be calculated using the composite calculation, which would mean:

((($520 - $130) x 121/365) + (($520 – 0) x 244/365)) x 12/12 = $476.90.

Where:

- **$130** is the amount of the abatement under the settings applicable for 1 April 2024 to 30 July 2024 (13 cents x $1,000)
- **121** is the number of days the settings applicable for 1 April 2024 to 30 July 2024 apply
- **$0** is the amount of the abatement under the settings applicable for 31 July 2024 to 31 March 2025 (13 cents x $0)
- **244** is the number of days the settings applicable for 31 July 2024 to 31 March 2025 apply
- **12** is the number of whole months Elizabeth was eligible for IETC.

R&D Tax Incentive: Filing under incorrect entity name

Sections 33G, 68CB, and 68CC of the Tax Administration Act 1994

The amendments enable the Commissioner of Inland Revenue to amend an approval of a person enrolled in the Research and Development Tax Incentive (RDTI) in instances where the person has applied for approval using an incorrect entity name.

Background

For a person to be able to claim a tax credit through the RDTI regime, they must apply for approval (either a general approval of their activities or a criteria and methodologies approval) and then submit a supplementary return containing their research and development (R&D) expenditure for the year.

In a wholly-owned group situation, approval must be sought in the name of the entity undertaking the R&D. If, for example, approval was applied for and given to a parent company when its wholly-owned subsidiary company was the entity undertaking the R&D, then RDTI tax credits would not be processed for either entity if the time to vary that approval had elapsed.

Key features

- A person can apply to the Commissioner to amend the name of an entity in an RDTI approval if they have incorrectly named another entity within the same wholly-owned group in the approval.
- If a person has an application to amend a name in an RDTI approval accepted, they have 30 days to subsequently file a supplementary return in the correct entity's name.

Effective date

The amendments apply for the 2021–22 and later income years.

Further information

The new regulations can be found at:

https://www.legislation.govt.nz/act/public/2024/0019/latest/LMS964702.html

About this document

Special reports are published shortly after new legislation is enacted or Orders in Council are made to help affected taxpayers and their advisors understand the consequences of the changes. These are published in advance of an article in the *Tax Information Bulletin*.