

Income tax rates

Library research brief



PARLIAMENTARY SERVICE

Te Ratonga Whare Pāremata

Published	Updated December 2020
Author	Grant Cleland, Research Services Analyst

Income tax revenue

A major component of Crown revenue comes from income taxes on individuals. In the year ended 30 June 2020, a total of \$40,797 million was received from individual income tax (including fringe benefit tax).¹ This was equivalent to 48 percent of taxation revenue for the year.² According to the Treasury's Half Year Economic and Fiscal Update 2020 (HYEFU), individual tax revenue of \$42,348 million is forecast for the year ended 30 June 2021, rising slightly to \$42,878 million in the following financial year.³

Current income tax rates

New Zealand has a progressive income tax rate regime, where the amount of tax on each additional dollar earned rises as overall annual income rises (e.g. someone earning \$50,000 would pay 10.5 cents in the dollar on their first \$14,000 of income, 17.5 cents in the dollar on the next \$34,000 of income, and 30 cents in the dollar on the last \$2,000). The individual income tax rates and thresholds in force are shown in Table 1, including the new top income tax rate of 39 cents in the dollar for income over \$180,000 from 1 April 2021 (following the enactment of the Taxation (Income Tax Rate and Other Amendments) Act 2020).

Table 1: Individual income tax rates and thresholds from 1 April 2021

Income level	Marginal income tax rate (%)
\$0 to \$14,000	10.5
\$14,000 to \$48,000	17.5
\$48,000 to \$70,000	30
\$70,000 to \$180,000	33
Over \$180,000	39

Note: There is an independent earner tax credit of \$10 per week for those individuals earning between \$24,000 and \$48,000 who do not received a benefit, Working for Families tax credits, or New Zealand Superannuation. This tax credit is abated at 13 cents for every dollar over \$44,000 (and is fully abated at \$48,000). Sources: Inland Revenue and Parliamentary Counsel Office.^{4,5}

Income bracket creep

Income tax bracket creep is where individuals pay a greater proportion of their income in tax, as a result of moving into higher marginal income tax brackets as their income rises (causing the average amount paid in tax to rise over time). This could occur despite the taxpayer remaining in the same job or profession, with their wage or salary rising in line with the cost of living (i.e. inflation). In the first full income year following the last change in the income tax rates and thresholds from 1 October 2010 (i.e. the tax year ended 31 March 2012), approximately 13 percent of income earners were in the top marginal income tax bracket, or 15 percent of wage and salary earners. This has increased to 20 percent of income earners in the year ended 31 March 2019. More recent data, for wage and salary income only, showed that 26 percent of wage and salary earners were in the top marginal tax in the year ended 31 March 2020. These calculations exclude those taxpayers who filed a 'nil' annual return.

Distribution of individual income

Inland Revenue provides the distribution of individual income for the tax year ended 31 March 2019.⁶ This data includes the number of individuals in each income band, the amount of taxable income in that band, and the amount of tax assessed.⁷ The data was derived from IR3 tax returns, personal tax summaries and employer PAYE information.⁸ The data includes people with part-year incomes and can potentially include the incomes of children. People with negative income because of losses are recorded as having nil taxable income by Inland Revenue.⁹ Aggregating individual income into the current income tax rates and thresholds results in the following distribution of individual income for the year ended 31 March 2019.

Table 2: Distribution of individual income for the tax year ended 31 March 2019

Annual taxable income	Number of people	Taxable income (\$m)	Tax assessed (\$m)	% of taxpayers	% of taxable income	% of tax assessed
\$0 to \$14,000 ⁽¹⁾	1,153,870	4,979	523	25.4	2.5	1.3
\$14,000 to \$48,000	1,828,420	51,574	6,984	40.2	25.7	16.9
\$48,000 to \$70,000	703,640	41,040	7,400	15.5	20.4	17.9
\$70,000 to \$180,000	772,530	76,301	18,165	17.0	38.0	44.0
Over \$180,000	86,580	27,162	8,177	1.9	13.5	19.8
Total	4,545,040	201,056	41,249	100	100	100

Note: 1. Includes 214,900 individuals with nil income.

Source: Inland Revenue.¹⁰

Secondary tax

According to Inland Revenue, “secondary tax is the name given to the tax rules which apply when a person has more than one job. A common misconception is that secondary tax is unfair, because tax is deducted from a person’s earnings from a second job at a higher rate than their first job”.¹¹ This is due to the progressivity of the income tax system, with the marginal income tax rate rising as income increases. Secondary income tax codes are included as part of the tax system to ensure that the correct amount of income tax is paid, regardless of whether an individual pays income tax through one job, or multiple jobs.

Following the enactment of the Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Act 2019 in March 2019, Inland Revenue will monitor the tax paid by wage and salary earners through the year. If it appears that an individual is being over (or undertaxed), Inland Revenue will suggest a more suitable PAYE tax code tailored to that person.¹² The March 2019 legislation means that tailored tax codes are easier to access. Key changes included:¹³

- “The process of applying for a tailored tax code has been simplified (including being able to apply online).
- Inland Revenue will monitor changes in a person’s earnings and identify when a person may benefit from using a tailored tax code.
- Inland Revenue will proactively contact individuals who may benefit from using a tailored tax code and recommend that they consider changing their code.
- When an individual has consented to a change to a tailored tax code, Inland Revenue will notify an individual’s employer of their updated tax code”.

Inland Revenue announced on 21 August 2020 that they were sending out letters and emails to those they thought might be on the wrong tax code.¹⁴ “In some cases we recommend tailored tax codes to customers. These letters are recommendations only, so customers will need to apply for a tailored tax code if they want to start using one”.¹⁵

¹ The Treasury, “Financial Statements of the Government of New Zealand for the Year Ended 30 June 2020,” November 24, 2020, p.65.

² The Treasury, “Half Year Economic and Fiscal Update 2020,” December 16, 2020, p.93.

³ The Treasury, p.93.

⁴ Inland Revenue, “Tax Rates for Individuals,” accessed October 15, 2020, <https://cd-ir.local/income-tax/income-tax-for-individuals/tax-codes-and-tax-rates-for-individuals/tax-rates-for-individuals>; Inland Revenue, “Independent Earner Tax Credit IETC,” accessed October 15, 2020, <https://cd-ir.local/income-tax/income-tax-for-individuals/individual-tax-credits/independent-earner-tax-credit-ietc>.

⁵ “Taxation (Income Tax Rate and Other Amendments) Act 2020 No 65, Public Act Contents – New Zealand Legislation,” accessed December 18, 2020, <http://www.legislation.govt.nz/act/public/2020/0065/latest/LMS430743.html>.

⁶ Inland Revenue, "Income Distribution of Individual Customers," November 10, 2020, (Obtained under Official Information Act 1982 Request to Inland Revenue Department).

⁷ Inland Revenue.

⁸ Inland Revenue.

⁹ Inland Revenue.

¹⁰ Inland Revenue.

¹¹ Inland Revenue, "Secondary Tax | Better Administration of PAYE and GST," accessed October 22, 2020, [https://taxpolicy.ird.govt.nz/sites/default/files/website-archives/mts/mts-04-payandgst/payandgst.makingtaxsimpler.ird.govt.nz/learn-more-tell-us/secondary-tax.html](https://taxpolicy.ird.govt.nz/sites/default/files/website-archives/mts/mts-04-payeandgst/payandgst.makingtaxsimpler.ird.govt.nz/learn-more-tell-us/secondary-tax.html).

¹² Hon Stuart Nash, "An End to Unnecessary Secondary Tax," The Beehive, March 13, 2019, <http://www.beehive.govt.nz/release/end-unnecessary-secondary-tax>.

¹³ Inland Revenue, "Simplifying Tax Administration - Individuals' Income Tax" (Inland Revenue, April 2019), <https://taxpolicy.ird.govt.nz/sites/default/files/2019-sr-individuals-v2.pdf>.

¹⁴ Inland Revenue, "Tax Codes," August 21, 2020, <https://www.ird.govt.nz/updates/news-folder/tax-codes>.

¹⁵ Inland Revenue.

ISSN 2253-5624 (Print)

ISSN 2253-5632 (Online)

Disclaimer. Every effort has been made to ensure that the content of this paper is accurate, but no guarantee of accuracy can be given.



This work is licensed under the Creative Commons Attribution 4.0 International licence. In essence, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Parliamentary Service and abide by the other licence terms. To view a copy of this licence, visit: <https://creativecommons.org/licenses/by/4.0/>..