

Business Matters - from Business Advice

New Tax Changes Effective 1 October 2008

How do these affect you?

You will need to make sure that your tax deductions are correct for yourself and your employees.

The tax cut package will be rolled out progressively in three stages, phased over the next three and a half years.

The following table shows the thresholds and tax rates over the 3 stages.

Stage	1	2	3
From	1st October 2008	1st April 2010	1st April 2011
Rate	Income Threshold	Income Threshold	Income Threshold
12.5%	0-14,000	0 - 17,500	0 - 20,000
21%	14,000 - 40,000	17,501 - 40,000	20,001- 42,500
33%	40,001 - 70,000	40,001 - 75,000	42,501-80,000
39%	70,001- & above	75,001 & above	80,000-& above

Note - because the tax rates have been changed mid year, a composite tax rate is applied for the whole of the 2008-2009 year.

This composite rate reflects an average of the two income tax rates that are used during the year, ie the tax rate April 2008 to October 2008 and the tax rate October 2008 to March 2009

What are the composite rates?

The following table depicts the composite rates that will be applied for the 2008-09 income year for individuals.

Taxable Income \$	Old Tax rates for PAYE period 1/4/08-30/09/08	New Tax Rates For PAYE period 1/10/08 to 31/03/09	Composite Tax Rates for 2008-09 income year
0 - 9,500	15%	12.5%	13.75%
9,501 - 14,000	21%	12.5%	16.75%
14,001 - 38,000	21%	21%	21.0%
38,001 - 40,000	33%	21%	27%
40,001 - 60,000	33%	33%	33%
60,001- 70,000	39%	33%	36%
70,001& higher	39%	39%	

In relation to the above composite rates note

1. The low income rebate has been removed from the 2008-2009 income year to be replaced by the new 12.5% tax rate.
2. They exclude the ACC Earners levy

PAYE Schedules and programs?

You should have by now received the new PAYE Deduction tables from the IRD to start using from the 1st October 2008.

If you use a payroll program you also should have received an upgrade for your system to comply with the new tax rates effective from the 1st October 2008.

If you are using a Payroll program there should be instructions on when to install and start using this program. If you have not received an upgrade yet, contact your supplier urgently.

Remember to take a back up before installing your new upgrade.

Which rates do I use and when?

You need to take particular care when you implement your new rates, based upon the pay period, not necessarily the payment date (although this maybe one in the same) i.e. the period that the payment relates to – not the actual day the employee is physically paid.

The new rates apply for the first pay period that ends on or after the 1st October 2008.

Example 1.

John is physically paid on 1st October, for the week from 22nd September to the 26th September. As the pay period ended prior to the 1st October the old 2008 tax rates would be used to calculate the PAYE – even though he was physically paid on the 1st October.

Example 2.

John is physically paid on the 8th October, for the week from the 29th September to the 3rd October. As the pay period ended after the 1st October, the new 2009 tax rates would be used to calculate the PAYE.

The pay doesn't have to be split between old and new rates unless the pay period exceeds one month.

Business Advice Limited
15 Norfolk Street, P O Box 915, WHANGAREI
Phone: (09) 430 2301, Fax: (09) 430 2303, Email: david@bizvice.co.nz
Website: www.bizvice.co.nz

Disclaimer: These notes are intended to be a guide only. Business Advice Ltd, its directors, employees and consultants expressly disclaim any and all liability to any person, whether a purchaser or not, for the consequences of anything done or omitted to be done by any such person relying on a part or the whole of the contents. Do not act on the information without first obtaining specific advice regarding your particular circumstances from a suitably qualified advisor.
© 2007 Business Advice Ltd. It is for your internal use only. Unauthorised distribution, use or reproduction of this information, or any part of it, without our express written permission is prohibited.