



New Zealand
Payroll Practitioners
Association

Developing and Supporting
Payroll Professionals

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Income Tax Act 2007

Extra Pay Section RD7



Extra Pays

Extra Pays (formally known as: lump sum payments or extra emoluments) are payments made to an employee, such as annual bonuses, redundancy or back pay. Overtime or any regular payments are not lump sum payments.

Income Tax Act 2007 Section RD7 Extra pay *Meaning* An extra pay—

(a) means a payment that—

- (i) is made to a person in connection with their employment; and
- (ii) is not a payment regularly included in salary or wages payable to the person for a pay period; and
- (iii) is not overtime pay; and
- (iv) is made in 1 lump sum or in 2 or more instalments; and

(b) includes a payment of the kind described in paragraph (a) made—

- (i) as a bonus, gratuity, or share of profits; or
- (ii) as a redundancy payment; or
- (iii) when the person retires from employment; or
- (iv) as a result of a retrospective increase in salary or wages, but only to the extent to which it accrues from the start of the increase until the start of the first pay period in which the increase is included in salary or wages; and

(c) includes an amount of income that a person derives under section CE 9 (Restrictive covenants) or CE 10 (Exit inducements) if the income is derived in connection with an employment relationship between the person and the person who paid the amount; and

(d) does not include a payment of exempt income.



Extra pay – special types of bonuses

As well as the standard annual bonuses that a lot of employers choose to pay their employees, there is also a range of other special extra pays that can be made for specific reasons.

Extra pays for specific reasons are:

- annual or special bonuses
- cashed-in annual leave
- retiring or redundancy payments
- payments for accepting restrictive covenants
- exit inducement payments
- gratuities
- back pay
- Back paid holiday pay
- lump sum holiday pay
- employee share scheme benefits.



Extra Pay Calculation

To calculate the grossed-up annual value of the employee's income:

Add up the PAYE income payments for the four weeks ending on the date of the extra payment, whether this is the normal pay cycle or not, and multiply by 13 (if the employee gets paid monthly multiply by 12).

The amount of the extra pay is not included in this total.

Example:

You're going to pay a bonus payment of \$400 to one of your employees. The employee's gross earnings for the last four weeks were \$2,500. The calculation will look like this:

| | |
|----------------------------------|-----------|
| Annualised income (13 × \$2,500) | \$ 32,500 |
| Add the bonus payment | \$ 400 |
| Total | \$ 32,900 |

In this example, the income level is less than \$48,000, so the PAYE rate (tax rate plus earners' levy) applied to the bonus payment is 18.89% (18.89 cents in the dollar).

$\$400 \text{ (bonus)} \times 18.89\% \text{ (tax incl earners' levy)} = \75.56 (PAYE) .



Restrictive covenant payments

This is a payment made to the employee who has agreed to restrict their ability to perform services.

Section CE 9 Restrictive covenants

When this section applies

This section applies when—

(a) a person (person A) gives an undertaking that restricts, or is intended to restrict, their ability to perform services as an employee, office holder, or independent contractor, whether or not the undertaking is legally enforceable; and

(b) a person, whether or not person A, derives an amount for the undertaking.



Exit inducement payments

An exit inducement payment is not standard practice in New Zealand, but it is a payment made by an employer to an employee when the employee's job has been changed in some way, including the termination of the employee's employment.

Section CE 10 Exit inducements

An amount is income of a person if they derive it for—

- (a) the loss of a vocation; or**
- (b) the loss of a position; or**
- (c) leaving a position; or**
- (d) loss of status.**



Redundancy Payments

Redundancy are not liable for ACC levies and are taxed at the flat tax rate.

What to include and exclude from redundancy payments

Student loan repayments are deducted

- If you have an employee with a student loan, then a repayment of 12% should be made from any redundancy payment they receive, unless the employee has a special tax code showing a different deduction rate.

KiwiSaver contributions aren't deducted

- KiwiSaver contributions aren't deducted from an employee's redundancy payment. Also an employer doesn't have to make KiwiSaver employer contributions from any redundancy payments they pay the employee.