Fact Sheet 2 – Changes to Tax Thresholds and the Independent Earner Tax Credit

Summary

From 1 April 2018:

- Working families with incomes above $14,000 will gain from increases to the two bottom thresholds. The $14,000 income tax threshold will increase to $22,000, and the $48,000 threshold will increase to $52,000.
- The change above means anyone earning more than $22,000 annually will receive a tax reduction of $10.77 a week, and anyone earning more than $52,000 will receive a tax reduction of $20.38 per week.
- The Independent Earner Tax Credit of up to $10 per week will be discontinued. Individuals who currently receive the tax credit will be fully compensated by the increase in the $14,000 tax threshold to $22,000.

What is changing?

From 1 April 2018, the $14,000 income tax threshold will increase to $22,000, and the $48,000 threshold to $52,000.

Table 1: Current and new personal income tax thresholds

Current Bracket ($)	New Bracket ($)	Rate
1 – 14,000	1 – 22,000	10.5%
14,001 – 48,000	22,001 – 52,000	17.5%
48,001 – 70,000	52,001 – 70,000	30%
70,001+	70,001+	33%

The Independent Earner Tax Credit, which is a maximum of $520 a year ($10 per week), will be discontinued. It is currently available to individuals with taxable income between $24,000 and $48,000 who are not eligible to receive benefits, New Zealand Superannuation or Working for Families tax credits.

Why are the changes being made?

The average wage has risen from $49,500 to $58,900 over the last seven years. As incomes rise, the marginal tax rates that individuals face also increase. This weakens work incentives by reducing the rewards of extra work. Increasing tax thresholds provides greater rewards for low and middle income earners, and is expected to support long-run economic performance.

The increase of the $14,000 tax threshold will provide greater incentives for people to enter work; in particular, for those receiving a benefit. The increase of the $48,000 tax threshold will provide greater incentives for people already in work to increase work hours and earn more income.

Table 2: Examples of families without entitlement to Working for Families

Primary income (annual)	Secondary income (annual)	Weekly tax reduction	Weekly IETC change	Weekly income change
$33,000	$33,000	$21.54	-$20.00	$1.54 increase
$60,000	$60,000	$40.77	n/a	$40.77 increase
$60,000	-	$20.38	n/a	$20.38 increase

The Independent Earner Tax Credit has had less uptake than expected. Of those individuals who are eligible to receive it, only 32 per cent claim it during the year.

Individuals who currently receive the tax credit will be fully compensated by the increase in the $14,000 tax threshold to $22,000. Discontinuing the tax credit will help to simplify the system, as individuals will not have to file a tax return at year-end or use a different tax code to claim it.

For example, a person on an annual income of $33,000 who currently qualifies for the Independent Earner Tax Credit will no longer receive the $10 per week tax credit from 1 April 2018, and will pay $10.77 less per week in income tax in the year, resulting in an increase in after-tax income of $0.77 per week. This example does not include other elements of the Family Incomes Package, such as changes to the Accommodation Supplement rates.

More information

The changes to the tax thresholds will have impacts on how provisional tax payments are calculated for the 2018-19 tax year and other taxes that are linked to the personal income tax thresholds.

- The uplift factor for provisional taxpayers using the uplift method will temporarily be reduced from 105 per cent to 100 per cent (zero uplift) to ensure those taxpayers benefit from the tax changes during the year.
- Extra pay thresholds will adjust to reflect the change in income tax thresholds.
- Fringe benefit tax thresholds will adjust to reflect the change in income tax thresholds.
- Individuals may need to update their prescribed investor rate (PIR) with their bank or financial institution if the change in thresholds means that they face a lower marginal tax rate.
- The tax changes will not affect the Student Allowance payment rate or the main benefit rates.