

Taxing lump sum payments - employers

Are you paying a lump sum to an employee or ex-employee? Lump sums include back paid holiday pay and redundancy. This factsheet tells you how the lump sum may change their tax obligations or entitlements.

Lump sum payments (“extra pay”) include

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

If you know you are going to make a lump sum or extra payment to an employee or ex-employee, talk to them first. An employee can tell you what tax code and rate to use. They'll usually do this if they have other income.

Otherwise, take their last 4 weeks of income and annualise the amount, adding your lump sum to the total, which will determine the tax to be deducted. You can find the rates at www.ird.govt.nz (search keywords: rates).

All payments will have PAYE deducted from them in the period they were paid. You may have to make other deductions such as student loans, KiwiSaver or child support.

Student loan

If they use a student loan tax code you'll have to deduct student loan repayments. Add any gross salary or wage payments for the same period to the gross lump sum amount and deduct the pay-period threshold. The remaining amount will need student loan deductions made.

KiwiSaver

If they're a KiwiSaver member you'll need to deduct contributions from some lump sum payments. To know how much to deduct go to www.ird.govt.nz (search keywords: making deductions). Where possible tell them you're making these deductions.

Working for Families Tax Credits

A lump sum or extra pay could increase their income in the year they receive it.

If they need to tell us their family income has changed they can do this anytime online through myIR at www.ird.govt.nz Or they can call use on 0800 227 773, Monday to Friday 8am to 8pm, and Saturday 9am to 1pm.

Child support

If they are a parent who pays or receives child support they may need to contact us to re-estimate their income. They can do this anytime online through myIR at www.ird.govt.nz or call us on 0800 227 773, Monday to Friday 8am to 8pm, and Saturday 9am to 1pm.

For more information go to www.ird.govt.nz (search keywords: lump sum, employers).



www.ird.govt.nz

Go to our website for information and to use our services and tools.

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- **Demonstrations** - learn about our services by watching short videos.
- **Get it done online** - complete forms and returns, make payments, give us feedback.
- **Work it out** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
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