

# 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 choose to deduct tax.

If you know you are going to make a lump sum or extra payment to an employee or ex-employee, talk to them first. Your employee can tell you to deduct more tax. They'll usually do this if they think they might end up with a debt at the end of the year.

Otherwise you will need to review the employee's recent income and annualise the amount, adding your lump sum to the total, which will determine the tax to be deducted. You can find how to do this at [ird.govt.nz/calculate-lump-sum-payee-and-employment](http://ird.govt.nz/calculate-lump-sum-payee-and-employment) depending on the situation.

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 certain lump sum payments. However, redundancy payments are not subject to KiwiSaver deductions. To know how much to deduct, go to [ird.govt.nz/esct](http://ird.govt.nz/esct). Whenever possible, let the employee know that these deductions are being made.

## Working for Families

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 [ird.govt.nz](http://ird.govt.nz) or they can call us on 0800 227 773.

## 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 [ird.govt.nz](http://ird.govt.nz) or call us on 0800 227 773, Monday to Friday 8am to 5pm.

For more information go to [ird.govt.nz/employers](http://ird.govt.nz/employers).



## ird.govt.nz

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

- **Log in or register for myIR** to manage your tax and entitlements online.
- **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.
- **Forms and guides** - download our guides and forms.

You can also subscribe to our newsletters at [ird.govt.nz/subscribe](http://ird.govt.nz/subscribe) and follow us on Twitter @NZInlandRevenue.



**Te Kawanatanga o Aotearoa**  
New Zealand Government