

Paying bonuses and deducting the right tax

Thinking of rewarding a star player on your team with a bonus? Working out how much PAYE to deduct from bonuses or lump sums can be tricky but it's all about choosing the right PAYE rate.

Bonus and lump sum payments can be things like annual or special bonuses, cashed-in annual leave, back-pay and retirement or redundancy payments. Overtime or any regular payments aren't considered lump sum payments.

How to work out the PAYE for lump sums

Follow these steps to work out the PAYE rate to use for a lump sum payment:

1. Work out what your employee has earned (before PAYE) over the past four weeks.
2. Multiply this figure by 13.
3. Add the lump sum payment to the figure in step two.
4. Use the table below to work out what income bracket your employee is in.
5. Deduct PAYE from the lump sum payment at the rate shown in the right-hand column for that income bracket.

Choose the right PAYE rate

Income Bracket	PAYE rate to use (including ACC Earners' levy)
\$14,000 or less	11.95%
\$14,001 to \$48,000	18.95%
\$48,001 to \$70,000	31.45%
Greater than \$70,000, but less than the ACC earners' levy maximum threshold of \$118,191 (for the 2015 tax year)	34.45%
Greater than \$118,191	33% (excludes ACC)

You can use the PAYE rate of 34.45 cents in the dollar if the employee asks you to.

Student loan, KiwiSaver and ACC deductions

You need to calculate student loan repayments, KiwiSaver deductions and employer contributions on lump sum payments, if applicable.

ACC earners' levy should only be applied to earnings below the threshold of \$118,191, and you don't deduct the ACC levy from redundancy payments and retiring allowances. In these cases, you'll need to reduce the above rates by 1.45%. Redundancy payments and retiring allowances are exempt from KiwiSaver employee deductions and employer contributions.

Secondary tax codes

If your employee uses a secondary tax code, follow steps one to three above, add the low threshold amount based on the secondary tax code they're using, as listed below, and deduct PAYE at the rate for this annual income estimate.

Tax code	Low threshold amount
SB	\$0
S or S SL	\$14,001
SH or SH SL	\$48,001
ST or ST SL	\$70,001

Example

Jay has a second job and uses the ST tax code. Her secondary employer wants to pay her a one-off bonus of \$20,000. In the last four weeks Jay has earned \$2,695 from her second job.

Following steps one to five, Jay's employer can work out the amount of PAYE on her bonus:

Annualised income ($\$2,695 \times 13$)	\$35,035
Plus low threshold amount (based on ST tax code)	\$70,001
Plus the bonus	\$20,000
Annual income	\$125,036

Jay's employer continues working out the PAYE like this:

PAYE on bonus	$\$20,000 \times 34.45\%$	\$6,890.00
Extra pay not liable for the earners' levy	$\$125,036 - \$118,191$	\$6,845.00
ACC on amount not liable	$\$6,845 \times 1.45\%$	\$99.25
PAYE applied to bonus (full PAYE on bonus minus ACC on amount not liable)	$\$6,890 - \99.25	\$6,790.75

More information

Find out more about taxing lump sum payments on the [Inland Revenue website](#).