

In association with

[\(https://www.ird.govt.nz/\)](https://www.ird.govt.nz/)

Paying lump sum bonuses: How to deduct the right tax

Paying team members a bonus can be a good way to reward outstanding performance and motivate your team. Here's a practical guide to help you get the tax right on any lump sum bonuses you make to staff.

Lump sum bonuses

Lump sum payments include:

- annual or special bonuses
- cashed-in annual leave
- back pay
- retirement or redundancy payments.

Overtime or any regular payments are not considered lump sum payments.

[How to motivate your staff\(/business-performance/management-and-leadership/how-to-motivate-your-staff/\)](/business-performance/management-and-leadership/how-to-motivate-your-staff/)

Calculating PAYE on 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.

[Lump sum payments\(external link\) \(https://www.ird.govt.nz/employing-staff/payday-filing/non-standard-filing-of-employment-information/lump-sum-payments\)](https://www.ird.govt.nz/employing-staff/payday-filing/non-standard-filing-of-employment-information/lump-sum-payments) — Inland Revenue

[Handling bonuses and benefits \(/hiring-and-managing/managing-people-day-to-day/handling-taxes-with-bonuses-and-benefits/\)](/hiring-and-managing/managing-people-day-to-day/handling-taxes-with-bonuses-and-benefits/)

Choose the right PAYE rate

Income bracket	PAYE rate to use (including ACC earners' levy)
\$14,000 or less	11.89%
\$14,001 to \$48,000	18.89%
\$48,001 to \$70,000	31.39%
Greater than \$70,000, but less than the ACC earners' levy maximum threshold of \$128,470 (for the 2020 tax year)	34.39%
Greater than \$128,470	33% (excludes ACC)

You can use the PAYE rate of 34.39 cents in the dollar if the employee asks you to.

Other deductions to make

You also 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 \$128,470.

But you don't deduct the ACC levy from:

- redundancy payments
- retiring allowances
- employee share scheme benefits.

In these cases, you'll need to reduce the above rates by 1.39%. Redundancy payments are also exempt from KiwiSaver employee deductions and employer contributions.

If you regularly give bonuses to an employee, it's a good idea to include details in their employment agreement.

[Bonus\(external link\) \(https://eab.business.govt.nz/employmentagreementbuilder/remunerationandbenefits/bonus\)](https://eab.business.govt.nz/employmentagreementbuilder/remunerationandbenefits/bonus)
— Employment Agreement Builder

Secondary tax and lump sums

Secondary tax codes are used by people with more than one source of income, eg for a second job, or for a part-time job if they also receive an income-tested benefit.

If your employee uses a secondary tax code:

- Follow steps one to three to work out PAYE on lump sum payments.
- Add the low threshold amount based on their secondary tax code — see table below.
- 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

Secondary tax example

Jay has a second job and uses the ST tax code. Her secondary employer wants to pay her a one-off bonus of \$40,000. 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 \$40,000 bonus:

Annualised income ($\$2,695 \times 13$)	\$35,035
Plus low threshold amount (from ST tax code)	\$70,001
Plus bonus	\$40,000

Equals annual income	\$145,036
----------------------	-----------

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

Type of deduction	Calculation	Result
PAYE calculated on bonus	$\$40,000 \times 34.39\%$	\$13,756.00
Extra pay not liable for ACC earners' levy	$\$145,036 - \$128,470$	\$16,566
ACC earners' levy on amount not liable	$\$16,566 \times 1.39\%$	\$230.27
PAYE applied to bonus (full PAYE on bonus minus ACC on amount not liable)	$\$13,756 - \230.27	\$13,525.73

So Jay will receive \$40,000 minus \$13,525.73 — that's \$26,474.27 paid into her bank account.

Rating form

How useful did you find this article?

Rate this

- 1 Star
- 2 Star
- 3 Star
- 4 Star
- 5 Star

"Rate this" is required

Additional comments

You must enable JavaScript to submit this form

Submit

Loading...

Related content

More

More

[Help Kiwi businesses like yours](#)

[\(/join-us/be-part-of-our-customer-group/\)](/join-us/be-part-of-our-customer-group/)

Your thoughts and experiences can help us shape the content and resources on this website.

[\(/join-us/be-part-of-our-customer-group/\)](/join-us/be-part-of-our-customer-group/)

[Join our customer group](#)

[\(/join-us/be-part-of-our-customer-group/\)](/join-us/be-part-of-our-customer-group/)

<https://eab.business.govt.nz>

[Our DIY tool helps you create contracts tailored to your business and to each person you employ.](#)

<https://eab.business.govt.nz>

[Use Employment Agreement Builder](#)

<https://eab.business.govt.nz>

End-of-year bonuses

[\(/news/bonuses-and-tax-how-to-get-it-right/\)](/news/bonuses-and-tax-how-to-get-it-right/)

[Performance bonuses are a great way to reward your employees. Here's how to calculate the right tax.](#)

[\(/news/bonuses-and-tax-how-to-get-it-right/\)](/news/bonuses-and-tax-how-to-get-it-right/)

[Read more](#)

[\(/news/bonuses-and-tax-how-to-get-it-right/\)](/news/bonuses-and-tax-how-to-get-it-right/)

Quiz: Tax 201

[\(/tax-and-accounting/tax-when-you-have-employees/fringe-benefit-tax-fbt/#e4941\)](/tax-and-accounting/tax-when-you-have-employees/fringe-benefit-tax-fbt/#e4941)

[Test yourself on the difference between fringe benefits tax and employee allowances.](#)

[\(/tax-and-accounting/tax-when-you-have-employees/fringe-benefit-tax-fbt/#e4941\)](/tax-and-accounting/tax-when-you-have-employees/fringe-benefit-tax-fbt/#e4941)

[Get started on the quiz](#)

[\(/tax-and-accounting/tax-when-you-have-employees/fringe-benefit-tax-fbt/#e4941\)](/tax-and-accounting/tax-when-you-have-employees/fringe-benefit-tax-fbt/#e4941)