



## Secondary Tax

### Key features:

- Customers with more than one job still need a specific tax rate for their second income; they can choose between using a secondary tax code or applying for a tailored tax code.
- We will now proactively suggest a tailored tax code to customers we identify might benefit from being on one as we more proactively monitor customers' circumstances during the year.
- It remains a customer's choice to be on a tailored tax code.
- Customers can apply through myIR and we will advise their employer of their tailored tax code on their behalf.
- These changes will particularly benefit those on secondary tax codes whose additional job(s) take them over income tax thresholds.
- Although people have previously been able to apply for a special tax code to help ensure they pay the correct amount of tax during the year, special tax codes have not been easily accessible to everyone.

### Secondary codes

Customers must use a secondary tax code if they have more than one source of income which has PAYE tax automatically deducted from it.

Secondary tax codes work well when no [income tax thresholds](#) have been crossed.

#### The example below shows when secondary codes work well.

George has one job and earns \$53,000. He pays tax of \$8,920 each year:

- \$1,470 on his first \$14,000 of income which is taxed at 10.5%
- \$5,950 on his income from \$14,001 to \$48,000 which is taxed at 17.5% and
- \$1,500 on his income from \$48,001–\$53,000 which is taxed at 30%.

Mary has two jobs and also earns \$53,000. She earns \$48,000 from her main job and \$5,000 from her second job. She also pays tax of \$8,920 a year:

- \$1,470 on her first \$14,000 of income which is taxed at 10.5%
- \$5,950 on her income from \$14,001 to \$48,000 which is taxed at 17.5% and then, because secondary tax is applied at her marginal rate
- \$1,500 on the income of \$5,000 from her second job, which is taxed at 30%.

Despite Mary having two jobs with a secondary tax code on her second job, she pays the right amount of tax overall.

## However, they don't work quite so well when income from a second job takes a person's total income over a tax threshold.

Sophie earns \$35,000 from her main job and \$18,000 from her second job (\$53,000 total). She would pay tax of \$10,545 a year:

- \$1,470 tax paid on the first \$14,000 at 10.5%,
- \$3,675 from \$14,001–\$35,000 taxed at 17.5% and then, because a secondary tax code is applied at her marginal rate,
- \$18,000 from her second job will be taxed at 30%, resulting in \$5,400.

Sophie will be owed a refund on \$1,625 at the end of the tax year.

## Tailored Tax Codes

Progressive tax rates mean secondary tax codes can result in customers paying too little or too much tax. This is most likely to happen where a person has more than one job and as a result crosses into a different income tax threshold, or if they have been using an incorrect secondary tax code.

More frequent reporting of income information (where tax has been deducted at source e.g. salary, wages and interest) will enable us to more proactively monitor a person's circumstances during the year and suggest a tailored tax code to those we identify might benefit from using one.

We will notify customers to suggest a tailored tax code to them if we identify they might benefit from being on one. They can choose to apply for a tailored tax code online in myIR or by using a paper form ([IR23BS Tailored tax code application](#)). We will check the information in the application (in case circumstances have changed in the meantime). Once we have approved the application, we will notify the person's secondary employer with the updated rate to be used.

The suggested rate may be higher or lower than the secondary rate previously used. The date we propose the suggested rate should be used from will ensure that, where possible, there is no refund due or tax to pay at the end of the year. This is because the tailored tax code should take into account any under or over deductions of tax that happen during the year.

There may be some situations where it is not appropriate to use a tailored tax code. For example, if a customer had underpaid their tax and didn't realise until close to year end and imposing an increased rate could result in undue hardship.

## The following example shows how we will assist Sophie to select a tailored tax code.

Sophie earns \$35,000 a year from her main job and \$18,000 a year from her second job. The secondary tax code applied to her second job means that all this income is taxed at her marginal tax rate of 30%.

Inland Revenue receives Sophie's salary and tax information from her employers every pay day and, after a few months into her tax year, notices that Sophie is regularly being overtaxed. If nothing changed, Sophie would be owed a refund of \$1,625 at the end of the tax year. This is money that Sophie could be using during the year.

Inland Revenue notifies Sophie that she may benefit from a tailored tax code and that she can apply for one through her myIR account. Sophie decides she would like to apply for a tailored tax code and she completes the application easily online.

Assuming Sophie is paid weekly, by the time she submits her application she will have received 12 pays from her second job and paid \$375 too much in tax. To ensure that Sophie has no tax to pay or refund due at year-end, the tailored tax code applied to Sophie's second source of income will be approximately 18%. Inland Revenue approves her application and notifies her secondary employer with the tailored tax code to be used.

There may be situations when Sophie is not paying enough tax. In this case we would instruct her secondary employer to use a higher secondary tax code and also advise Sophie that using a tailored tax code may result in tax being deducted more accurately.

## What do customers need to do?

- To be prepared for any changes, customers should check and keep their contact and bank account details up to date.
- This can be done securely through their *myIR online services account* or by contacting us directly.

## Process prior to 1 April 2019

Customers applied to Inland Revenue for a special tax code by filling out an application and posting it. Inland Revenue calculated an appropriate tax rate and issued a special tax code certificate to the individual that would be valid until the end of the tax year. The individual then needed to advise their employer they wanted the special tax code applied to their income.

Everyone who received a special tax code certificate had to complete a personal tax summary (PTS) or file a tax return at the end of the year, and then either pay what they owe or receive their refund.

To get a special tax code, customers needed to:

1. Know they exist
2. Realise that using one would benefit them
3. Estimate their likely annual income.

Approximately 8,000 people used a special tax code for 2016 year. Approximately 570,000 people were using secondary tax codes and many would have benefited from a special tax code.



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- **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 tax codes, find filing and payment dates, calculate student loan repayments.
- **Forms and guides** - download our forms and guides.

#### **Forgotten myIR user ID or password?**

Customers can request a reminder of their user ID or reset their password online. They will need to know their IRD number and have access to the email address we hold for them.

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