

INTERPRETATION STATEMENT | PUTANGA WHAKAMĀORI

PAYE – How an employer funds the tax cost on an employee share scheme benefit

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IS 25/07

This interpretation statement explains an employer's withholding and reporting obligations related to PAYE, student loans and KiwiSaver if an employer wants to fund the cost of tax (and student loan, if applicable) on an employee share scheme benefit provided in shares.

All legislative references are to the Income Tax Act 2007 unless otherwise stated.

REPLACES | WHAKAKAPIA

- This interpretation statement updates and replaces **IS 24/06: PAYE – How an employer funds the tax cost on an employee share scheme benefit** for the amendments to s 11(1)(cb) of the Accident Compensation Act 2001 by the Taxation (Annual Rates for 2024-25, Emergency Response, and Remedial Measures) Act 2025.

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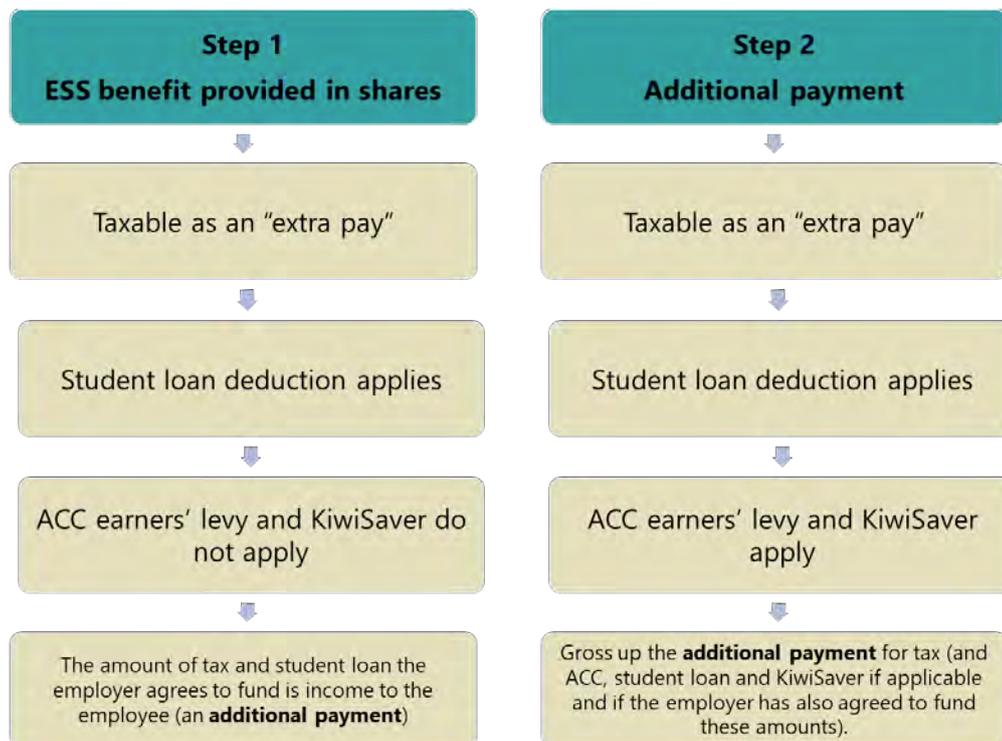
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Summary | Whakarāpopoto

1. This interpretation statement explains an employer's PAYE, student loan and KiwiSaver obligations where an employer wants to fund the cost of tax on an employee share scheme (ESS) benefit provided in **shares**.
2. It is unlikely that an employer would fund the cost of tax on an ESS benefit provided in cash. For this reason, this interpretation statement does not consider that situation.
3. An ESS benefit is income to an employee. Where an employer provides the benefit in shares (ie a non-cash benefit), it is not required to withhold tax from the benefit and in that case the employee pays tax on the benefit through the end-of-year tax return process.
4. To simplify the end-of-year tax return process for the employee, an employer might choose to withhold tax from the ESS benefit under the PAYE rules. When an employer chooses to withhold tax from an ESS benefit that it provides in shares, the benefit in shares is treated as an "extra pay" and a PAYE income payment from which the employer is required to withhold tax at the relevant extra pay tax rate. If the employee has a student loan, the employer may need to make a student loan deduction. Accident Compensation Corporation (ACC) earners' levy and KiwiSaver deductions (and contributions) do not apply to ESS benefits.
5. As the ESS benefit is in shares and a non-cash benefit, the tax withheld will need to be funded in some way. If the employer has not agreed to fund the tax payment, it will need to be funded by the employee. For example, the employer and employee may agree that, to fund the tax the employer will deduct it from the employee's net salary or sell a portion of the shares on behalf of the employee.
6. Alternatively, the employer may agree to fund the tax (and any student loan deduction, if applicable) on the ESS benefit. The additional payment that an employer makes to fund the cost of the tax on an ESS benefit (and a student loan deduction, if applicable) is itself an "extra pay". As an extra pay, it is income to the employee and a PAYE income payment from which the employer is required to withhold tax at the relevant extra pay tax rate.
7. The employer may also be required to withhold ACC earners' levy and make student loan and KiwiSaver deductions (and contributions) in relation to the additional payment. The exclusions from ACC earners' levy and KiwiSaver deductions (and contributions) that apply to the ESS benefit do not apply to the additional payment because the additional payment is not itself an ESS benefit for tax purposes. The employer will need to consider whether it wants to fund the cost of ACC earners' levy and KiwiSaver deductions on the additional payment.

8. If the employer wants to ensure that the employee does not have to fund the cost of the tax (or other deductions) on the ESS benefit and the additional payment, it must gross up any additional payment it makes for any resulting tax, student loan, ACC earners' levy and KiwiSaver. This outcome arises because the employer is providing the employee with a further benefit (the additional payment) that is assessable income to the employee. As a result, further tax (and student loan, if applicable) is payable, and ACC earner's levy and KiwiSaver deductions (and contributions) may also apply to the additional payment.
9. Figure | Hoahoa 1 illustrates these obligations.

Figure | Hoahoa 1: Summary of the tax consequences when an employer elects to withhold tax from an ESS benefit provided in shares and agrees to fund the cost of the tax (and potentially other deductions).



10. If an employer wants to fund only the tax (and ACC earners' levy, if applicable) and not student loan or KiwiSaver deductions (if any), then it should inform the employee that the employer will need to make a deduction from the employee's net salary or wages to cover the student loan and KiwiSaver deductions.
11. To the extent that an employer is required to separately identify the amount of the ESS benefit in its employment income information, this amount should not include an additional payment made to fund tax (and student loan deduction, if applicable) on the ESS benefit. An additional payment of this nature is not part of the ESS benefit for tax purposes.

12. Examples illustrating the points discussed in this interpretation statement follow from [72].

Introduction | Whakataki

Background

13. Generally, where an employee receives a benefit under an employee share scheme (ESS), their employer provides it in **shares** (ie it is a non-cash benefit). The amount of the benefit is income to the employee and the employee pays tax on the benefit through the end-of-year tax return process (and through provisional tax, if applicable).¹ See Example | Taura 1.
14. An employer is not required to withhold tax on an ESS benefit provided in shares. However, an employer can choose to withhold tax under the PAYE rules. Withholding tax simplifies the end-of-year tax process for the employee.
15. If an employer decides to withhold tax, it also needs to think about how that tax will be paid given that shares are a non-cash benefit. Specifically, it needs to consider whether it will be the employee or the employer that funds the payment of the tax.
16. If it is intended that the employee should bear the cost of the withholding, the employer and the employee will need to agree how the tax will be paid. Possible alternatives include the employer deducting the tax from the employee's salary or selling a portion of the shares on behalf of the employee.
17. In some situations, an employer may want to fund the payment of the tax. It might do this so that the employee does not have to sell shares or fund the payment of the tax from their usual net salary. Ultimately whether the employer or the employee funds the tax will depend on what they agree between them.
18. In some circumstances, an employer provides an ESS benefit in cash.² In this situation, the PAYE rules require an employer to withhold tax. As the employer pays the benefit in cash, it would generally deduct tax from the payment under the PAYE rules in the usual way. As it is unlikely an employer would fund the payment of tax where it provides the ESS benefit in cash, this interpretation statement does not consider that situation.

¹ For more information about how receiving an ESS benefit that is not taxed at source affects an employee, see **QB 23/05: Provisional tax – impact on salary or wage earners who receive a one-off amount of income without tax deducted** *Tax Information Bulletin* Vol 35, No 5 (June 2023).

² For more information on ESS benefits provided in cash, see **IS 25/06: Employer obligations for employee share scheme benefits paid in cash**.

19. Where an employer elects to withhold tax from an ESS benefit it provides in shares, it is also required to make a student loan deduction, if applicable. If the employee has a student loan, then the employer will need to consider whether it will fund the cost of the student loan deduction or whether the employee will fund this cost.
20. KiwiSaver and Accident Compensation Corporation (ACC) earners' levy do not apply to ESS benefits. However, where the employer bears the cost of tax (and student loan deduction, if applicable) on an ESS benefit, KiwiSaver and ACC earners' levy may apply to that additional payment.
21. This interpretation statement explains an employer's withholding and reporting obligations related to PAYE, student loans and KiwiSaver where an employer:
 - has elected to withhold tax in relation to an ESS benefit provided in **shares**; and
 - has agreed to fund the cost of the tax (and potentially other obligations).
22. While this statement is focused on the situation where an employer agrees to fund the cost of the tax, an example of the situation where an employer has elected to withhold but has not agreed to fund the cost of the tax can be found at Example | Tauria 3.

What this statement covers

23. For ease of reference, this statement uses **additional payment** to mean the amount of tax (and student loan deduction, if applicable) that the employer funds on an ESS benefit.
24. This statement covers:
 - the nature of the additional payment;
 - an employer's PAYE, student loan and KiwiSaver obligations;
 - when an employer must gross up the additional payment;
 - how an employer calculates a gross up;
 - an employer's obligations in reporting the additional payment; and
 - examples illustrating the points discussed.
25. Generally, a child support deduction notice will not apply to an ESS benefit or an additional payment to fund the tax (and student loan, if any) on the ESS benefit. However, if an employer has any questions about whether to make a child support deduction, they should contact Inland Revenue. This statement does not consider child support deductions any further.

Analysis | Tātari

The nature of the additional payment

26. When considering an employer's PAYE, student loan and KiwiSaver obligations in the situation where an employer is funding the tax (and student loan deduction, if applicable) on an ESS benefit, it is necessary to understand the nature of what the employer is providing to the employee.
27. An ESS benefit is income to an employee under s CE 1(1)(d). Where the benefit is in shares and the employer has elected to withhold tax under s RD 7B, then the benefit is treated as an "extra pay" under s RD 7(1)(bb).
28. An "extra pay" (s RD 7) and "salary or wages" (s RD 5) are payments made to a person in connection with their employment. Salary or wages are generally regular amounts, and an extra pay is generally a one-off amount. They are both "PAYE income payments" from which an employer is required to withhold tax under ss RA 5 and RD 3. They are defined separately because the amount of tax withheld from an extra pay is calculated differently to PAYE on salary or wages.
29. Where an employer is funding the tax payable on an ESS benefit (and student loan deduction, if applicable), then the question is whether this additional payment is also:
 - income to the employee; and
 - a PAYE income payment from which an employer is required to withhold tax.
30. Employment income is defined in s CE 1 and includes an "extra pay" under s CE 1(1)(a) and an employee share scheme benefit under s CE 1(1)(d).

CE 1	Amounts derived in connection with employment
	<i>Income</i>
(1)	The following amounts derived by a person in connection with their employment or service are income of the person:
(a)	salary or wages or an allowance, bonus, extra pay, or gratuity:
	...
(d)	a benefit received under an employee share scheme:
	...

31. Section RD 7(1)(a) contains the general definition of an "extra pay".

RD 7 Extra pay

Meaning

(1) An **extra pay**—

(a) means a payment that—

(i) is made to a person in connection with their employment; and

(ii) is not a payment regularly included in salary or wages payable to the person for a pay period; and

(iii) is not overtime pay; and

(iv) is made in 1 lump sum or in 2 or more instalments; and

...

(d) does not include a payment of exempt income.

...

32. The additional payment the employer makes meets the requirements of s RD 7(1)(a). It is a payment made to a person (which is then applied to their tax and student loan accounts) and it is made in connection with their employment (it relates to an ESS benefit). As a one-off payment, it is not a payment regularly included in the employee’s salary or wages and is generally made in one lump sum. It is not overtime pay. It is unlikely to be a payment of exempt income (see subparts CW and CZ for exempt income provisions).
33. Accordingly, the additional payment is an “extra pay” as defined in s RD 7(1)(a). As an “extra pay”, it is income to the employee under s CE 1(1)(a) and a PAYE income payment from which an employer must withhold tax under ss RA 5 and RD 3.
34. It is important to note that the additional payment is not part of the ESS benefit for tax purposes. For tax purposes, the amount of the ESS benefit is determined under s CE 2(1) and (2).

CE 2 Benefits under employee share schemes

Benefit

(1) A person who is an employee share scheme beneficiary described in section CE 7(a)(i) or (ii) receives a benefit for the purposes of section CE 1(1)(d) in relation to shares or related rights under the employee share scheme equal to the positive amount calculated on the share scheme taxing date using the formula—

share value – consideration paid + consideration received – previous income.

Definition of items in formula

- (2) In the formula in subsection (1),—
- (a) **share value** is the market value of the shares or related rights owned by an employee share scheme beneficiary on the share scheme taxing date, if the share scheme taxing date is not triggered by a transfer or cancellation of the shares or related rights:
 - (b) **consideration paid** is the amount of consideration paid or payable by an employee share scheme beneficiary in relation to the transfer of the shares or related rights under the employee share scheme:
 - (c) **consideration received** is the amount of consideration paid or payable to an employee share scheme beneficiary in relation to a transfer or cancellation of the shares or related rights under the employee share scheme, not including relevant shares or related rights under a replacement employee share scheme:
 - (d) **previous income** is the total amount of income under section CE 1(1)(d) that the employee share scheme beneficiary has in relation to the shares or related rights before the date that is 6 months after the date of Royal assent for the Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Act 2018.
- ...

35. Broadly, when an employee receives an ESS benefit in shares, the amount of the benefit is the market value of the shares on the share scheme taxing date less the amount paid for the shares (if anything).
36. The additional payment to fund the tax on the ESS benefit (and student loan deduction, if applicable) is not part of the “share value” and neither is it “consideration received”. “Consideration received” deals with amounts paid for the transfer or cancellation of shares or related rights held by an employee under an ESS when the share scheme taxing date is triggered by the transfer or cancellation of the shares or related rights (rather than the ownership of shares).
37. The fact that the additional payment is not part of the ESS benefit for tax purposes means that any special rules that apply to an ESS benefit generally do not apply to the additional payment. For further discussion of the impact of this conclusion, see [46] in relation to ACC earners’ levy and [55] on KiwiSaver.

An employer’s PAYE, student loan and KiwiSaver obligations

38. This section considers an employer’s obligations to deduct PAYE (including ACC earners’ levy), student loan repayments and KiwiSaver from:
- an ESS benefit where the employer has elected to withhold tax; and

- an additional payment an employer makes to fund the tax on the ESS benefit.

Income tax

39. As discussed at [27], when an employer elects to withhold tax from an ESS benefit, then the benefit is treated as an “extra pay” and a PAYE income payment from which an employer is required to withhold tax.
40. Likewise, as concluded at [33], an additional payment that an employer makes to fund the tax (and student loan deduction, if applicable) on an ESS benefit is also an “extra pay” and a PAYE income payment from which an employer is required to withhold tax.
41. Tax on the ESS benefit and the additional payment is calculated at the employee’s extra pay tax rate. The extra pay tax rate is generally determined under s RD 17 and sch 2, part B. Broadly, an employee’s extra pay tax rate is the marginal tax rate based on the sum of the employee’s annualised salary and the amount of the extra pay. In some circumstances an employee can choose to have an extra pay taxed at a marginal tax rate higher than the one calculated by their employer under s RD 17 (s RD 10).
42. More information about calculating tax on an extra pay is available in the current Weekly and fortnightly PAYE deduction tables – [IR340](#), Four-weekly and monthly PAYE deduction tables – [IR341](#), the Employer’s Guide – [IR 335](#), in [Tax Information Bulletin Vol 36 No 4 \(May 2024\)](#): 131 and on our website – [Calculate PAYE for a lump sum payment](#).

ACC earners’ levy

43. The Accident Compensation Act 2001 (ACC Act) sets out an employer’s obligations for collecting ACC earners’ levy.
44. An employer collects ACC earners’ levy by making a deduction from an employee’s “earnings” (s 221, ACC Act). “Earnings” include “earnings as an employee”, which means all PAYE income payments (as defined in s RD 3(1)) of the person for the tax year (ss 6 and 9, ACC Act). Section 11 of the ACC Act then excludes from “earnings as an employee” any benefit arising from an ESS under s CE 2 of the Income Tax Act.
45. Accordingly, an employer is not required to deduct ACC earners’ levy from an ESS benefit that it provides in shares because the benefit is excluded from being “earnings” for the purposes of the ACC Act.
46. However, as discussed from [34] to [37], the additional payment made to fund the cost of the tax (and student loan deduction, if applicable) on an ESS benefit is not itself an ESS benefit. Therefore, it will be “earnings” for the purposes of the ACC Act (as it is not otherwise excluded). This means that an employer will be required to deduct ACC earners’ levy from the additional payment (unless, broadly, the sum of the employee’s

annualised salary and the additional payment is higher than the maximum amount of income that ACC earners' levy is charged on). ACC earners' levy rates and maximum earnings thresholds can be found on our website – [ACC earners' levy rates](#).

Student loan

47. The Student Loan Scheme Act 2011 (SLS Act) sets out an employer's obligations for collecting student loan repayments under ss 36 and 37.
48. An employer collects student loan repayments by making a deduction from an employee's "salary or wages", which includes an "extra pay" under the SLS Act.³ The definition of "salary or wages" in the SLS Act does not exclude an ESS benefit.
49. Accordingly, an employer is required to deduct student loan repayments from an ESS benefit and any additional payment.
50. As discussed at [19], where an employer wants to fund the tax on an ESS benefit provided in shares (ie a non-cash benefit) and the employee has a student loan, then the employer needs to consider whether it also wants to fund the cost of the student loan deduction. If the employer does not agree to fund the student loan deduction, the employee must fund it (eg the employee may agree to the employer deducting the amount from their salary, or the employee may pay the student loan amount out of their net salary).

KiwiSaver

51. The KiwiSaver Act 2006 (KiwiSaver Act) sets out an employer's KiwiSaver obligations.
52. Broadly, if an employee is a KiwiSaver member and is not on a savings suspension (ie is not taking a break from making KiwiSaver contributions), then their employer is required to deduct KiwiSaver at the employee's contribution rate from the employee's gross salary or wages. An employer is also generally required to make a compulsory employer contribution based on an employee's gross salary or wages.
53. Section 4 of the KiwiSaver Act defines "salary or wages". It relevantly states:

salary or wages, in relation to any person, means salary or wages as defined in section RD 5(1)(a) to (c) of the Income Tax Act 2007 (whether the salary or wages are primary or secondary employment earnings) except that, in this Act,—

(a) it excludes—

...

³ Section 4 ("salary or wages").

- (vi) the amount of a benefit that an employee receives under section CE 2 of the Income Tax Act 2007 under an employee share scheme when the amount is treated as an amount of extra pay of the employee:
 - (b) it includes extra pay (as defined in section YA 1 of the Income Tax Act 2007), unless—
 - (i) otherwise excluded under paragraph (a) of this definition; or
 - (ii) the amount is a redundancy payment for the purposes of the Income Tax Act 2007.
54. It follows that an employer is not required to make KiwiSaver deductions or employer contributions in relation to an ESS benefit. This is because KiwiSaver deductions and contributions are based on an employee's gross salary or wages and an ESS benefit is expressly excluded from the definition of "salary or wages" in s 4 of the KiwiSaver Act.
55. However, as discussed from [34] to [37], any additional payment made to fund the cost of the tax (and student loan deduction, if applicable) on the ESS benefit is not itself an ESS benefit. Therefore, any additional payment made to fund the cost of tax (and student loan deduction, if applicable) on the ESS benefit will be "salary or wages" for the purposes of the KiwiSaver Act. This means that an employer may be required to make KiwiSaver deductions from or employer contributions on the additional payment.

Summary

56. When an employer elects to withhold tax from an ESS benefit provided in shares, the ESS benefit is treated as an "extra pay" from which the employer is required to withhold tax at the relevant extra pay tax rate. The employer may also be required to make a student loan deduction. ACC earners' levy and KiwiSaver deductions (and contributions) do not apply to the ESS benefit.
57. Any additional payment that the employer makes to fund the tax (and student loan deduction, if applicable) on the ESS benefit is also an "extra pay" from which the employer is required to withhold tax at the relevant extra pay tax rate. The employer may also be required to withhold ACC earners' levy and make student loan and KiwiSaver deductions (and contributions) in relation to the additional payment. The exclusions from ACC earners' levy and KiwiSaver that apply to the ESS benefit do not apply to the additional payment because the additional payment is not itself an ESS benefit for tax purposes.
58. When an employer wants to fund the tax on an ESS benefit, the employer will also need to consider whether it wants to fund the cost of any student loan deduction on the ESS benefit and the cost of ACC earners' levy, student loan and KiwiSaver deductions on the additional payment. If it does not, it will need to seek reimbursement of those amounts from the employee.

When an employer must gross up the additional payment

59. Whether an employer is required to gross up an additional payment depends on what has been agreed between the employer and the employee.
60. Where an **employer** has agreed to make a payment to fund the tax and any other deductions (ie ACC earners' levy, student loan and KiwiSaver) associated with the delivery of an ESS benefit to an employee, then the amount of the tax (and student loan deduction, if any) on the ESS benefit will be an additional payment to the employee. The employer must gross up that additional payment for PAYE (and student loan and KiwiSaver deductions, if any). This outcome arises because the employer is providing the employee with a further benefit (the tax and student loan payments) that is assessable income to the employee. As a result, further tax (and ACC earners' levy, student loan and KiwiSaver, if applicable) is payable. See Example | Taura 2 and Example | Taura 7.
61. Where an employer has agreed to fund only the PAYE on the ESS benefit and the additional payment (not student loan or KiwiSaver) then the amount of the additional payment is the amount of tax on the ESS benefit. The employer must gross up the additional payment for tax (and ACC earners' levy if applicable). Any student loan deduction on the ESS benefit and the additional payment and any KiwiSaver deduction on the additional payment would need to be funded by the employee. See Example | Taura 6 and Example | Taura 8.
62. The employer need not gross up if the **employee** is funding the cost of the tax on the ESS benefit. For example, this applies if the employer deducts the tax from the employee's net salary or sells a portion of the shares on the employee's behalf to fund the tax. In this case, the employee is not receiving any additional benefit from the employer and so no additional tax is payable. See Example | Taura 3.

How an employer calculates a gross-up

63. The first step is for the employer to work out the amount of the additional payment. This amount will generally be the total of:
 - the tax on the ESS benefit at the appropriate extra pay tax rate; and
 - the amount of the student loan deduction on the ESS benefit (if applicable and if the employer has also agreed to fund this amount).
64. The next step is for the employer to "gross up" **the additional payment** for tax (and ACC earners' levy, student loan and KiwiSaver deductions, if applicable and if the employer has also agreed to fund these amounts).

65. Some payroll software allows an employer to gross up the additional payment for the applicable amounts. However, in situations where an employer must calculate the value manually, it may use the following gross-up formula:

$$\text{Gross income} = \text{net income} / (1 - \text{tax rate})$$

66. The “net income” is the amount of the additional payment calculated at step 1 (see [63]). The “tax rate” (where an employer is funding the tax on an ESS benefit) is the appropriate extra pay tax rate for the employee. This is because the tax funded by the employer is a one-off amount and an “extra pay” under s RD 7 (see [29] to [33]). If the employer is funding more than one tax type (or deduction), such as a student loan as well as the tax on an ESS benefit, then it adds the tax rates together. See Example | Taura 4, Example | Taura 5 and Example | Taura 7.
67. If an employer wants to fund only the tax (and ACC earners’ levy, if applicable) and not student loan or KiwiSaver deductions (if any), then it should inform the employee that it will need to make a deduction from the employee’s net salary or wages to cover any student loan and KiwiSaver deductions on the ESS benefit and the additional payment as applicable. See Example | Taura 6 and Example | Taura 8.

An employer’s reporting obligations

68. Section RD 22 requires an employer (or PAYE intermediary) to provide employment income information to the Commissioner.
69. Where an employer is required to separately identify the amount of the ESS benefit, this amount should not include an additional payment made to fund tax (and student loan deduction, if applicable) on the ESS benefit. As discussed from [34] to [36], an additional payment of this nature is not part of the ESS benefit for tax purposes.
70. On the basis that the date the employer makes the additional payment is likely to be the same date the ESS benefit is processed through payroll, then there should be no difference in the reporting date for the ESS benefit and the additional payment.
71. More information about an employer’s reporting obligations for an ESS benefit is on our website - [Filing employment information about ESS benefits](#).

Examples | Taura

72. The following examples illustrate the points discussed in this interpretation statement. All the examples use an extra pay tax rate of 33% and a KiwiSaver employee contribution rate of 6% (for KiwiSaver members) for ease of comparison but different rates may apply for different employees.

Example | Taura 1 – No election to withhold tax

Joe receives some shares under an ESS from his employer, Legacy Ltd. He does not pay anything for the shares. The value of the ESS benefit is \$10,000. The terms of the scheme state that no tax will be withheld from the ESS benefit (unless required by law) and that the payment of tax on the ESS benefit is Joe's responsibility.

Joe has a student loan and is a KiwiSaver member. Joe is not currently a provisional taxpayer.

Legacy Ltd reports the following amounts to Inland Revenue in its employment information (together with Joe's usual salary information, if applicable):

Employee share scheme earnings	\$10,000
Earnings not liable for ACC earners' levy	\$10,000

KiwiSaver does not apply to an ESS benefit.

Joe pays tax on the ESS benefit through the end-of-year tax return process. As Joe's tax to pay is not more than \$5,000 (all his other income is taxed at source) Joe will not be a provisional taxpayer.

The ESS benefit may have implications for Joe's end-of-year student loan repayment obligations and requirements to make interim student loan repayments.

Other scenarios

If the value of the ESS benefit was higher and Joe had more than \$5,000 tax to pay, he would need to consider provisional tax implications for the following year.

If the value of the ESS benefit was higher and Joe had \$60,000 or more of tax to pay in the current year, Joe may be exposed to use-of-money interest.

Example | Taura 2 – Employer funds the tax

Marie receives some shares under an ESS from her employer, Steady Ltd. She does not pay anything for the shares. The value of the ESS benefit is \$10,000. The terms of the scheme state that Steady Ltd will withhold tax from the ESS benefit and fund the payment of the tax.

Marie does not have a student loan and is not a KiwiSaver member. Her annual salary is higher than the maximum liable earnings for ACC earners' levy.

Steady Ltd calculates the tax on the ESS benefit to be \$3,300 using the appropriate extra pay tax rate for Marie of 33% ($\$10,000 \times 33\% = \$3,300$).

Steady Ltd must gross up the amount of \$3,300. This is because Steady Ltd is providing Marie with a further benefit (the tax payment) that is an “extra pay” and assessable income to Marie. As a result, further tax is payable. Steady Ltd calculates the gross-up as follows:

Gross income =	$\$3,300.00 / (1 - 0.33)$
	$\$3,300.00 / 0.67$
	\$4,925.37

Steady Ltd makes a payment of \$4,925.37 to Marie in its payroll system and withholds tax of \$1,625.37 at 33% ($\$4,925.37 \times 33\% = \$1,625.37$). The net amount of \$3,300 is not paid to Marie’s bank account, instead Steady Ltd makes a deduction for that amount and pays it to Inland Revenue as the tax on the ESS benefit.

Steady Ltd reports the following amounts to Inland Revenue in its employment information (together with Marie’s usual salary information, if applicable):

Gross earnings	\$4,925.00
Employee share scheme earnings	\$10,000.00
Earnings not liable for ACC earners’ levy	\$10,000.00
PAYE deductions	\$4,925.37 (\$3,300 + \$1,625.37)

The additional payment of \$4,925.37 that Steady Ltd makes to Marie in its payroll system is not included in the value of the ESS benefit. The value of the ESS benefit is \$10,000 for tax purposes. For reporting purposes, ESS earnings have their own separate field and are not included in the gross earnings field.

Other scenarios

If Steady Ltd had processed the ESS benefit of \$10,000 through its payroll system and paid the tax of \$3,300 for Marie without doing anything further, this would have been incorrect. The payroll system would show income of \$10,000 and tax of \$3,300, leaving a net amount of \$6,700. This outcome is incorrect because Marie actually received a net amount of \$10,000.

If Steady Ltd had limited its additional payment to \$3,300, this amount would still be income to Marie and subject to tax. Steady Ltd must report the \$3,300 as additional income to Marie. As Steady Ltd would only be funding the tax on the ESS benefit and not on the additional payment, Marie would need to fund the tax on the additional payment. For example, that tax could be deducted from her net salary or wages.

Example | Taurira 3 – Employee funds the tax

Nate receives some shares under an ESS from his employer, Rapid Ltd. He does not pay anything for the shares. The value of the ESS benefit is \$10,000. The terms of the scheme state that Rapid Ltd will elect to withhold tax from the benefit and that Nate can choose whether to fund the tax through a deduction from his net salary or the sale of a portion of the shares.

Nate does not have a student loan and is not a KiwiSaver member. His annual salary is \$156,000 which is higher than the maximum liable earnings for ACC earners' levy.

Nate chooses to fund the tax through a deduction from his net salary which he agrees to in writing. Rapid Ltd calculates the tax on the ESS benefit using the appropriate extra pay tax rate for Nate of 33%. The result is as follows:

ESS benefit	\$10,000
Tax at 33%	\$3,300
Net income	\$6,700

Although Nate has received \$10,000 worth of shares, Rapid Ltd has deducted \$3,300 from his usual net salary payment. Therefore, Nate has received a net benefit of \$6,700. Nate's payslip for his next fortnightly salary payment shows:

Payments	
Salary	\$6,000.00
Deductions	
PAYE	\$1,718.32
Tax on ESS benefit	\$3,300.00
Net amount	\$981.68

If Nate had chosen to sell a portion of his shares to fund the tax, Rapid Ltd would have sold \$3,300 worth of shares on Nate's behalf and Nate would have received \$6,700 worth of Rapid Ltd shares. The overall outcome would be the same: that is, the value of the ESS benefit would be \$10,000 and Nate would receive a net benefit of \$6,700.

The employer need not gross up in either of these situations because the employee is funding the cost of the tax.

Rapid Ltd reports the following amounts to Inland Revenue in its employment information (regardless of whether the tax is funded by a deduction from Nate's usual net salary or the sale of shares).

Gross earnings	\$6,000.00
Employee share scheme earnings	\$10,000.00

Earnings not liable for ACC earners' levy	\$10,000.00
PAYE deductions	\$5,018.32 (\$3,300 + \$1,718.32)

For reporting purposes, ESS earnings have their own separate field and are not included in the gross earnings field.

Other scenarios

If Nate had a student loan, the student loan deduction on his ESS benefit would also need to be deducted from his usual net salary payment (or more shares would need to be sold to fund the student loan repayment).

If Nate was a KiwiSaver member there would be no impact on the above calculation as KiwiSaver does not apply to an ESS benefit and Rapid Ltd is not funding the cost of the tax so there is no additional payment made to Nate.

Example | Tauria 4 – Employer funds tax and ACC earners' levy

Olivia receives some shares under an ESS from her employer, Steady Ltd. She does not pay anything for the shares. The value of the ESS benefit is \$10,000. The terms of the scheme state that Steady Ltd will withhold tax from the ESS benefit and fund the payment of the tax.

Olivia's annual salary is below the maximum liable earnings for ACC earners' levy. She does not have a student loan and is not a KiwiSaver member.

Steady Ltd calculates the tax on the ESS benefit to be \$3,300 using the appropriate extra pay tax rate for Olivia of 33% ($\$10,000 \times 33\% = \$3,300$). ACC earners' levy does not apply to an ESS benefit.

Steady Ltd must gross up the amount of \$3,300. This is because Steady Ltd is providing Olivia with a further benefit (the tax payment) that is an "extra pay" and assessable income to Olivia. As a result, further tax is payable. Olivia's annualised income plus the amount of the extra pay is below the maximum liable earnings for ACC earners' levy therefore ACC earners' levy at 1.60% applies to the whole of the additional payment. Steady Ltd calculates the gross-up as follows:

Gross income =	$\$3,300.00 / (1 - (0.33 + 0.016))$
	$\$3,300.00 / (1 - 0.346)$
	$\$3,300.00 / 0.654$
	\$5,045.87

Steady Ltd makes a payment of \$5,045.87 to Olivia in its payroll system and withholds PAYE of \$1,745.87 at 34.6% ($\$5,045.87 \times 34.6\% = \$1,745.87$). The net amount of

\$3,300 is not paid to Olivia’s bank account, instead Steady Ltd makes a deduction for that amount and pays it to Inland Revenue as the tax on the ESS benefit.

Steady Ltd reports the following amounts to Inland Revenue in its employment information (together with Olivia’s usual salary information, if applicable):

Gross earnings	\$5,045.00
Employee share scheme earnings	\$10,000.00
Earnings not liable for ACC earners’ levy	\$10,000.00
PAYE deductions	\$5,045.87 (\$3,300 + \$1,745.87)

The additional payment of \$5,045.87 that Steady Ltd makes to Olivia in its payroll system is not included in the value of the ESS benefit. The value of the ESS benefit is \$10,000 for tax purposes. For reporting purposes, ESS earnings have their own separate field and are not included in the gross earnings field.

Example | Taura 5 – Employer funds tax and student loan deduction

Paora receives some shares under an ESS from his employer, Steady Ltd. He does not pay anything for the shares. The value of the ESS benefit is \$10,000. The terms of the scheme state that Steady Ltd will withhold tax from the ESS benefit and fund the payment of the tax and any standard student loan deduction.

Paora has a student loan and uses an SL tax code. He is not a KiwiSaver member. His annual salary is higher than the maximum liable earnings for ACC earners’ levy.

Steady Ltd calculates the tax on the ESS benefit to be \$3,300 using the appropriate extra pay tax rate for Paora of 33% ($\$10,000 \times 33\% = \$3,300$). It calculates the student loan deduction on the ESS benefit to be \$1,200 using the standard student loan deduction rate of 12%. The total amount funded by Steady Ltd is \$4,500.

Steady Ltd must gross up the amount of \$4,500. This is because Steady Ltd is providing Paora with a further benefit (the tax and student loan payments) that is an “extra pay” and assessable income to Paora. As a result, further tax is payable and further student loan deductions are required. Steady Ltd calculates the gross-up as follows:

Gross income =	$\$4,500.00 / (1 - (0.33 + 0.12))$
	$\$4,500.00 / (1 - 0.45)$
	$\$4,500.00 / 0.55$
	\$8,181.82

Steady Ltd makes a payment of \$8,181.82 to Paora in its payroll system and withholds tax of \$2,700 at 33% and deducts student loan of \$981.82 at 12%. The net amount of \$4,500 is not paid to Paora’s bank account, instead Steady Ltd makes deductions for \$3,300 (tax on the ESS benefit) and \$1,200 (student loan on the ESS benefit) and pays these amounts to Inland Revenue.

Steady Ltd reports the following amounts to Inland Revenue in its employment information (together with Paora’s usual salary information, if applicable):

Gross earnings	\$8,181.00
Employee share scheme earnings	\$10,000.00
Earnings not liable for ACC earners’ levy	\$10,000.00
PAYE deductions	\$6,000.00 (\$3,300 + \$2,700)
Student loan deductions	\$2,181.82 (\$1,200 + \$981.82)

The additional payment of \$8,181.82 that Steady Ltd makes to Paora in its payroll system is not included in the value of the ESS benefit. The value of the ESS benefit is \$10,000 for tax purposes. For reporting purposes, ESS earnings have their own separate field and are not included in the gross earnings field.

Example | Tauria 6 – Employer funds tax but not student loan deduction

Quinn receives some shares under an ESS from her employer, BigCo Ltd. She does not pay anything for the shares. The value of the ESS benefit is \$10,000.

The terms of the scheme state that BigCo Ltd will withhold tax from the ESS benefit and fund the payment of the tax but will not fund the payment of any student loan deduction. The employee must fund the cost of any student loan deduction on the ESS benefit and this amount will be deducted from the employee’s usual net salary.

Quinn has a student loan and uses an SL tax code. She is not a KiwiSaver member. Her annual salary is \$156,000 which is higher than the maximum liable earnings for ACC earners’ levy.

BigCo Ltd calculates the tax on the ESS benefit to be \$3,300 using the appropriate extra pay tax rate for Quinn of 33% ($\$10,000 \times 33\% = \$3,300$). The student loan deduction on the ESS benefit is \$1,200 (12%).

BigCo Ltd must gross up the amount of \$3,300. This is because BigCo Ltd is providing Quinn with a further benefit (the tax payment) that is an “extra pay” and assessable income to Quinn. As a result, further tax is payable. BigCo Ltd calculates the gross-up as follows:

Gross income =	$\$3,300.00 / (1 - 0.33)$
	$\$3,300.00 / 0.67$
	\$4,925.37

BigCo Ltd makes a payment of \$4,925.37 to Quinn in its payroll system and withholds tax of \$1,625.37. The net amount of \$3,300 is not paid to Quinn's bank account, instead Steady Ltd makes a deduction for that amount and pays it to Inland Revenue as the tax on the ESS benefit.

Quinn must fund student loan repayments on the ESS benefit of \$1,200 and on the additional payment of \$591.04 ($\$4,925.37 \times 12\% = \591.04). Quinn agrees in writing that Big Co Ltd should deduct these amounts from her next net salary payment. Quinn's payslip for her next fortnightly salary payment shows:

Payments	
Salary	\$6,000.00
Deductions	
PAYE	\$1,718.32
Student loan	\$608.64
Student loan on ESS benefit and grossed-up additional payment	\$1,791.04
Net amount	\$1,882.00

BigCo Ltd reports the following amounts to Inland Revenue in its employment information:

Gross earnings	\$10,925.00 ($\$4,925.37 + \$6,000$)
Employee share scheme earnings	\$10,000.00
Earnings not liable for ACC earners' levy	\$10,000.00
PAYE deductions	\$6,643.69 ($\$3,300 + \$1,625.37 + \$1,718.32$)
Student loan deductions	\$2,399.68 ($\$1,200 + \$591.04 + \608.64)

The additional payment of \$4,925.37 that BigCo Ltd makes to Quinn in its payroll system is not included in the value of the ESS benefit. The value of the ESS benefit is \$10,000 for tax purposes. For reporting purposes, ESS earnings have their own separate field and are not included in the gross earnings field.

Example | Taura 7 – Employer funds tax, student loan and KiwiSaver

Shoko receives some shares under an ESS from her employer, Steady Ltd. She does not pay anything for the shares. The value of the ESS benefit is \$10,000.

The terms of the scheme state that Steady Ltd will withhold tax from the ESS benefit and fund the payment of the tax and any standard student loan deduction. Steady Ltd has also agreed to fund any KiwiSaver deduction that applies.

Shoko has a student loan and uses an SL tax code. She is also a KiwiSaver member and her contribution rate is 6%. Her employer's contribution rate is 3% and the employer superannuation contribution tax (ESCT) rate is 33%. Shoko's annual salary is higher than the maximum liable earnings for ACC earners' levy.

Steady Ltd calculates the tax on the ESS benefit to be \$3,300 using the appropriate extra pay tax rate for Shoko of 33% ($\$10,000 \times 33\% = \$3,300$). It calculates the student loan deduction on the ESS benefit to be \$1,200 using the standard student loan deduction rate of 12%. The total amount funded by Steady Ltd is \$4,500.

Steady Ltd must gross up the amount of \$4,500. This is because Steady Ltd is providing Shoko with a further benefit (the tax and student loan payments) that is an "extra pay" and assessable income to Shoko. As a result, further tax is payable and further student loan deductions are required. KiwiSaver deductions (and employer contributions) also apply to the additional payment. Steady Ltd calculates the gross-up as follows:

Gross income =	$\$4,500.00 / (1 - (0.33 + 0.12 + 0.06))$
	$\$4,500.00 / (1 - 0.51)$
	$\$4,500.00 / 0.49$
	\$9,183.67

The gross amount is income to Shoko and is applied as follows:

Tax on ESS benefit at 33%	\$3,300.00
Tax on grossed-up additional pay at 33%	\$3,030.61
SL on ESS benefit at 12%	\$1,200.00
SL on additional pay at 12%	1,102.04
KS on additional pay at 6%	551.02
	\$9,183.67

None of the additional payment is paid to Shoko's bank account, instead Steady Ltd makes the deductions described in the table above and pays those amounts to Inland Revenue.

Steady Ltd is also required to make a KiwiSaver employer contribution (and withhold ESCT) on the additional payment of \$9,183.67. The employer contribution is \$275.51 ($\$9,183.67 \times 3\%$). ESCT is \$90.75 ($\$275 \times 33\%$).

Steady Ltd reports the amounts in the table below in its employment information (together with Shoko's usual salary information, if applicable).

Gross earnings	\$9,183.00
Employee share scheme earnings	\$10,000.00
Earnings not liable for ACC earners' levy	\$10,000.00
PAYE deductions	\$6,330.61 (\$3,300 + \$3,030.61)
Student loan deductions	\$2,302.04 (\$1,200 + \$1,102.04)
KiwiSaver employee deductions	\$551.02
Net KiwiSaver employer contribution	\$184.76
Employer superannuation contribution tax	\$90.75

The additional payment of \$9,183.67 that Steady Ltd makes to Shoko in its payroll system is not included in the value of the ESS benefit. The value of the ESS benefit is \$10,000 for tax purposes. For reporting purposes, ESS earnings have their own separate field and are not included in the gross earnings field.

Example | Taura 8 – Employer funds tax but not KiwiSaver

Robert receives some shares under an ESS from his employer, Cars Ltd. He does not pay anything for the shares. The value of the ESS benefit is \$10,000.

The terms of the scheme state that Cars Ltd will withhold tax from the ESS benefit and fund the payment of the tax but will not fund the payment of any KiwiSaver deduction that applies. The employee must fund the cost of any KiwiSaver deduction and this amount will be deducted from the employee's usual net salary.

Robert is a KiwiSaver member and his contribution rate is 6%. His employer's contribution rate is 3% and the ESCT rate is 33%. Robert does not have a student loan. His annual salary is \$156,000 which is higher than the maximum liable earnings for ACC earners' levy.

Cars Ltd calculates the tax on the ESS benefit to be \$3,300 using the appropriate extra pay tax rate for Robert of 33% ($\$10,000 \times 33\% = \$3,300$).

Cars Ltd must gross up the amount of \$3,300. This is because Cars Ltd is providing Robert with a further benefit (the tax payment) that is an "extra pay" and assessable income to Robert. As a result, further tax is payable. KiwiSaver deductions (and employer contributions) also apply to the additional payment. However, the additional payment is not required to be grossed up for KiwiSaver as Robert is funding the KiwiSaver employee deduction. Cars Ltd calculates the gross-up as follows:

Gross income =	$\$3,300.00 / (1 - 0.33)$
	$\$3,300.00 / 0.67$
	\$4,925.37

Cars Ltd makes a payment of \$4,925.37 to Robert in its payroll system and withholds tax of \$1,625.37 at 33% ($\$4,925.37 \times 33\% = \$1,625.37$). The net amount of \$3,300 is not paid to Robert's bank account, instead Steady Ltd makes a deduction for that amount and pays it to Inland Revenue as the tax on the ESS benefit.

Robert must fund the KiwiSaver deduction on the additional payment of \$295.52 ($\$4,925.37 \times 6\% = \295.52). Robert agrees in writing that Cars Ltd should deduct this amount from his next net salary payment. Robert's payslip for his next fortnightly salary payment shows:

Payments	
Salary	\$6,000.00
Deductions	
PAYE	\$1,718.32
KiwiSaver employee contribution	360.00
KiwiSaver employee contribution on grossed-up additional payment	\$295.52
Net amount	\$3,626.16

Cars Ltd is also required to make a KiwiSaver employer contribution (and withhold ESCT) on the additional payment of \$4,925.37. The employer contribution is \$147.76 ($\$4,925.37 \times 3\%$). ESCT is \$48.51 ($\$147 \times 33\%$).

Cars Ltd reports the amounts in the table below in its employment information.

Gross earnings	\$10,925.00 ($\$4,925.37 + \$6,000$)
Employee share scheme earnings	\$10,000.00
Earnings not liable for ACC earners' levy	\$10,000.00
PAYE deductions	\$6,643.69 ($\$3,300 + \$1,625.37 + \$1,718.32$)
KiwiSaver employee deductions	\$655.52 ($\$295.52 + \360)
Net KiwiSaver employer contributions	\$99.25
Employer superannuation contribution tax	\$48.51

The additional payment of \$4,925.37 that Cars Ltd makes to Robert in its payroll system is not included in the value of the ESS benefit. The value of the ESS benefit is \$10,000 for tax purposes. For reporting purposes, ESS earnings have their own separate field and are not included in the gross earnings field.

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KiwiSaver Act 2006, s 4 (“salary or wages”)

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