



Taxation Module

Topic 2 How does our tax system work?

THEME Managing my money

Name:



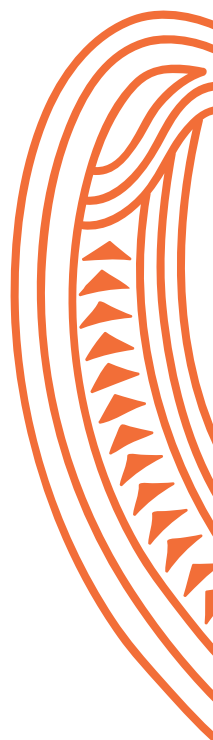
Inland Revenue
Te Tari Taake

Te whai hua - kia ora!

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in Schools

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Nau mai haere mai!

Welcome to how our tax system works

Everyone in Aotearoa New Zealand needs to pay tax on the money they earn (income), whether they're an individual, business, or an organisation. Most taxes are paid to Inland Revenue | Te Tari Taake (IR) which is the Government's tax collection agency. The focus of this topic is on how individuals (i.e. employees) are taxed.

Make sure you update your information so that you are taxed at the correct rate.



In this topic you will explore:

- **Section One:** How is my tax collected?
- **Section Two:** Ways of getting paid
- **Section Three:** How much tax do I pay?



The topic will support you with:



TAX Facts

The key ideas you need to know about the tax system in Aotearoa New Zealand.



TAX Chats

Ideas or questions that you can discuss with other students. These will challenge you to think about different ideas and perspectives about the tax system.



TAX Tasks

Tasks that will help you learn about the tax system and how decisions are made about the spending of taxes.



TAX Checkpoints

Questions to check that you are on track with your learning.



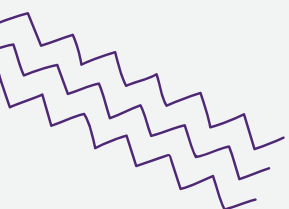
TAX Assessment Task

You will select one task to demonstrate your understanding of the topic.



TAX Smart

An assessment rubric for you to assess your own outcomes.





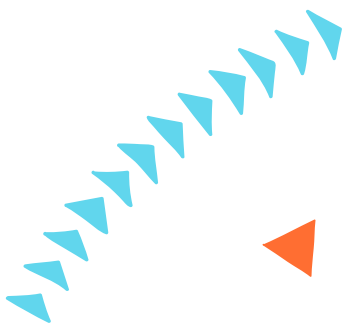
Introduction

This topic develops your understanding of how you are taxed as an individual and how taxes are collected on your behalf. Even if you start part-time work as a student, you need to be able to understand your payslip to know if you are being taxed at the correct rate.

Learning Outcomes

After completing this topic you will be able to:

- ✓ Explain how income tax is collected
- ✓ Describe Pay as You Earn (PAYE) and goods and services tax (GST)
- ✓ Describe how PAYE is applied in a payslip
- ✓ Explain different types of expenses that individuals can claim against their income
- ✓ Investigate some ways individuals get paid including wage and salary payments.



Success criteria

At the end of this topic you will select a task to complete for your assessment, so it is important to complete all sections. To support your learning outcomes it is important to complete the TAX Facts, TAX Chats, TAX Checkpoints and TAX Tasks so you can demonstrate your understanding of how individual tax works and how it is collected.

To be successful you will need to:

- ✓ Identify and discuss the key ideas around the tax system
- ✓ Identify and appropriately use the key vocabulary
- ✓ Show evidence that you have accessed the Inland Revenue website for information
- ✓ Read a payslip to check the tax amount being deducted
- ✓ Know where to find and download an IR330 tax code declaration form
- ✓ Know the importance of providing the relevant information required for a tax assessment.



Section One: How is my tax collected?

Learning Outcomes for Section One

- ✓ Describe Pay as You Earn (PAYE) and goods and services tax (GST).

Success criteria

- ✓ I can explain how as a consumer I pay my GST
- ✓ I can explain why it is important that I look at the PAYE deductions on my payslip.





TAX Facts

In Aotearoa New Zealand there are two main taxes to pay. One is income tax which is when you pay a percentage of what you earn to the government. It is collected as Pay-As-You-Earn or PAYE. The second main tax is the goods and services tax (GST) which is a tax you pay when you buy things.

What is PAYE?

For every dollar you earn, you have to pay some of that money to the government. This is called income tax. Each pay period your employer will calculate and deduct (take away) the income tax from your pay. Your employer sends your income tax to the Inland Revenue on your behalf.

This tax collection system is called Pay-As-You-Earn (PAYE). PAYE makes it easy to keep on top of your tax payments – without it, people would need to set aside money throughout the year. PAYE is a much easier way to pay income tax. Your payslip shows how much tax has been deducted from your pay.



[View this video to learn about how your PAYE deductions will look on your payslip](#)





TAX Facts

What is is GST?

The other main tax is the goods and services tax (GST) which is paid on all goods and services that we purchase at the time. You will learn more about GST in Topic 4.

How do consumers pay GST?

There are many ways people can spend money! The price of nearly every transaction you make to purchase either goods or services includes GST that you pay immediately. Currently, the GST rate is 15% which means for every dollar you spend, fifteen cents is collected by the Inland Revenue as GST. This payment is made to the Inland Revenue by the retailer or service provider. Consumers pay their GST as part of the following types of payments.

EFTPOS	EFTPOS stands for “electronic funds transfer at point of sale”. It’s much easier to just say EFTPOS. An EFTPOS card is a card linked to your nominated bank account that lets you pay for things in person without using cash. EFTPOS cards are sometimes called cashflow cards.
Cash	You can use New Zealand notes or coins (tender) to pay for most things when you are paying in person.
Layby	With Layby, you pay a starting amount that is part of the total cost. The shop keeps the item for you until you have paid for it in full and in a given time. Once you have paid full price, you get to take it home.
PayPal	Paypal is a system that lets you make payments online. You can pay from your bank account, or with a credit or debit card. Some people set up a PayPal balance that they can spend. You can take your item on the first payment.
Credit Card	Credit cards can be used in shops or for online purchases and payments. This money doesn’t come out of your bank account but you have to pay the debt back by a certain date. If you don’t pay off the debt by that date, you will be charged interest, usually at a high rate.
Debit Card	A debit card is linked to one of your bank accounts and you can use it to spend money in shops or online purchases and payments.

Paying for goods and services



Listen to this audio on the many ways you can pay your GST. You can find it from 'Spending your money' topic.

Paying for goods and services

When it comes to spending your money, you have a lot of options

Eftpos

Cash

Layby

PayPal

Credit

Debit

Click on the photos to learn about the different payment methods.

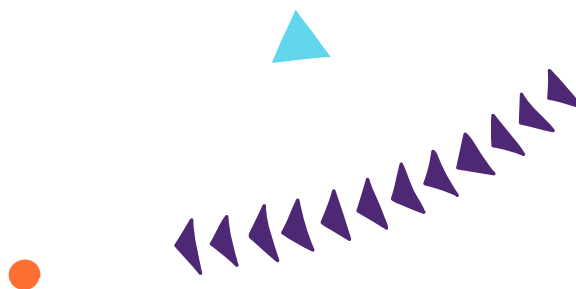
Purchases from Overseas

If you purchase goods online and it is from an overseas source you sometimes pay the GST directly to the seller. The seller is registered with the New Zealand government and they pay the GST component to them. You might also have to pay duty to customs at the point of entry into the country.



TAX Chats

- Do you think that GST is a fair tax for consumers in Aotearoa New Zealand? Explain why you agree or disagree
- Do you think GST should be charged on essential items such as food?
- Do you think that PAYE deductions should be optional? For example, should those people who believe they could put the money aside to pay their income tax have the choice to do that so that they can earn interest on it until it is ready to be paid?





TAX Checkpoint

Let's see what you have learned so far.

1) Define the two main types of tax in Aotearoa New Zealand.

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2) How is each tax collected?

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3) Describe ways that GST can be paid for by the consumer.

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4) Explain the importance of PAYE on your payslip.

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Before moving on to Section Two, check that you can:

- ☐ Explain how as a consumer I pay my GST
- ☐ Explain why it is important that I look at the PAYE deductions on my payslip.

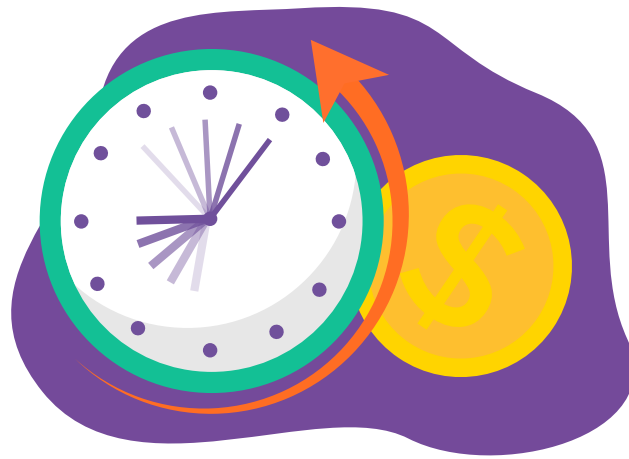
Section Two: Ways of getting paid

Learning Outcomes for Section Two

- ✓ Explain how income tax is collected
- ✓ Investigate some ways people get paid including wage and salary payments.

Success criteria

- ✓ I can explain why there are different types of pay
- ✓ I can explain examples of salary deductions.



Different Types of Pay

When you work you sign an employment contract which includes agreeing on the way that you will be paid. Employees work in exchange for some form of payment.

This can include wages, penal rates, salary, commission, piece rates, working for accommodation, and payment for training and clothing.

Investigate the different types of pay.



When you're working

Complete the module in the Starter Pack: [When you're working.](#)

This module outlines the components that you will find on your payslip including your PAYE deductions.

Pay deductions

Your gross pay or gross earnings (the amount of money you earn each pay) is never the same as your net pay (the amount of money that gets paid into your bank account). One reason for this is that tax is deducted (taken away) directly from your pay as PAYE.

Other deductions include:

- KiwiSaver
- Student loans
- Apprenticeship costs such as tools and training.

Pay and pay deductions



A payslip is a statement from your employer that tells you what your gross pay is, what money has been taken out or added to this pay, and what your net pay will be.

There is almost always a difference between what you have earned and what you get paid. Money taken out of your gross pay is called a deduction. Examples of deductions include the following items (click on the numbers).





TAX Task 1a: KiwiSaver deductions

KiwiSaver is not a tax but it is deducted from pay and collected by the Inland Revenue.

Check out these resources to find out how KiwiSaver can benefit you later in life:



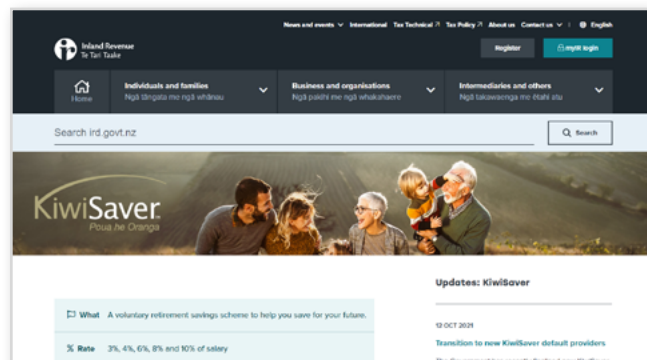
KiwiSaver Booklet



KiwiSaver Infographic

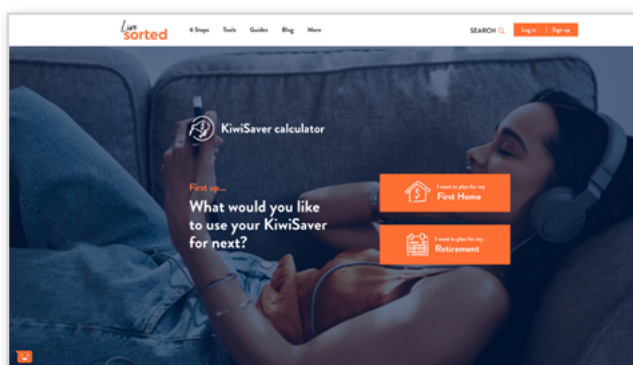


KiwiSaver Powerpoint



The role of Inland Revenue in KiwiSaver

See how your KiwiSaver fund can build over time to help you pay for part of your first home, and help build a retirement fund for your future. You will see how quickly it can grow with regular contributions.



KiwiSaver Calculator



TAX Task 1b: To belong or not to belong?

Not everyone has a KiwiSaver account. KiwiSaver is a voluntary scheme and you choose if you want to contribute to it. When you have completed part A, fill out the following table to justify whether or not to join KiwiSaver.

Yes	No
Reason 1	Reason 1
Explain why?	Explain why?
Reason 2	Reason 2
Explain why?	Explain why?
Reason 3	Reason 3
Explain why?	Explain why?



TAX Checkpoint

Let's see what you have learned so far.

1) What pay deductions can be taken out of your pay?

2) Do you think that it is a good idea to pay tax as you go?

3) What are the benefits of joining KiwiSaver?

4) If you didn't pay tax every pay period do you think that you would be disciplined enough to put it aside and pay once a year? Give reasons.

Before moving on to Section Three, check that you can:

- ☐ Explain why there are different types of pay
- ☐ Explain examples of salary deductions.

Section Three:

How much tax do I pay?

Learning Outcomes for Section Three

- ✓ Describe how PAYE is applied in a payslip
- ✓ Explain different types of expenses that individuals can claim against their income

Success criteria

- ✓ I can state the difference between tax rates and tax codes and I can explain how they impact income
- ✓ I can explain a tax year compared to a normal year and explain why tax assessments are issued at the end of the tax year.



TAX Facts

Income tax rates

Tax rates are the percentage of tax that you pay per dollar that you earn. Aotearoa New Zealand has a progressive tax rate which means that the more you earn the higher your tax rate will be. The less you earn, the lower your tax rate will be.

New Zealand income tax rates (based on April 2021 rates)

For each dollar of income	Income tax rate
Up to \$14,000	10.5%
Over \$14,000 and up to \$48,000	17.5%
Over \$48,000 and up to \$70,000	30%
Over \$70,000 and up to \$180,000	33%
Over \$180,000	39%

Source: Inland Revenue - Te Tari Taaki

How do the rates work?

A progressive system means that:

- Everyone pays the lowest rate of tax on the first \$14,000 they earn regardless of their total income
- If you earn between \$14,000 and \$48,000 you pay 17.5% on this amount but if you earn over \$48,000.00 you will then pay 30% tax on that amount up until \$70,000 and so on.

Further information about calculating individual income tax:

[Working out my tax for a yearly income](#)

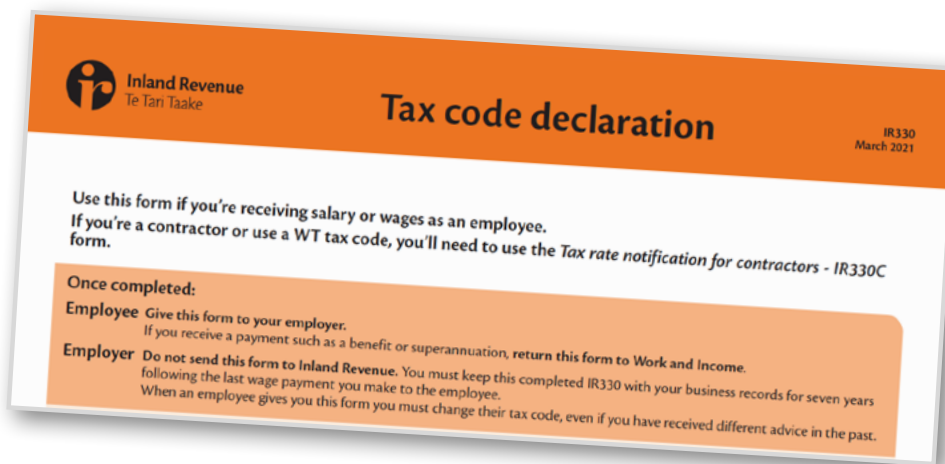
[How income is taxed](#)

[Tax calculator](#)

Tax codes

Everyone falls into a category that determines how their income tax is calculated. These categories are called tax codes. Tax codes help an employer work out how much tax to deduct from your pay.

When you start work you will fill out a Tax Code Declaration form (IR 330). It is important that if you earn any extra money, you check your tax code and notify your employer. Underpaying tax may result in further tax needing to be paid after the end of the financial year once your income tax assessment has been completed.



Your tax code may change for many reasons:

- Your salary or wages change
- You begin to get a Work and Income benefit
- Scheduling payments
- You earn interest from a bank account or investment
- You earn money from self-employment
- You earn money from renting out property
- You gain overseas income.



TAX Task 2a: What tax code do I choose?

Download the Tax Declaration Code







(IR 330) form and read through it.

Check with your teacher about whether to do this individually, in pairs, or as a group.



TAX Task 2b: Working out the tax codes

Use the **TAX Code finder** to work out the tax code for the workers shown in the table below.

	Income tested benefit	Student loan	Expected total income from salary and wages	Tax code
 Tau	No	No	\$82,000.00	
 Shamila	No	Yes	\$31,000.00	
 Teuila	No	Yes	\$62,000.00	
 James	No	No	\$275,000.00	
 Maddison	No	Yes	\$55,000.00	
 Han	No	No	\$58,000.00	

People can have more than two tax codes, one for their main source of income and one for a secondary source of income. **Find out more about tax rates and tax codes.**

What are expenses?

When you have to fill out a Tax Code Declaration Form you may be able to claim expenses. Expenses are costs you make when you are using your own money to pay for things related to how you earn your income. They can be claimed by self-employed people and salary and wage earners. Expenses allow you to reduce the amount of taxes you pay. The expenses you can claim, depend on the income you earn. These could be:

- Expenses if you are self-employed **and** work from home
- Expenses if you own a rental property
- The cost for someone to prepare and filling your tax return.

It is important to check before you file your income return what expenses you can claim.

The link below gives you a great overview of the types of expenses you can claim.

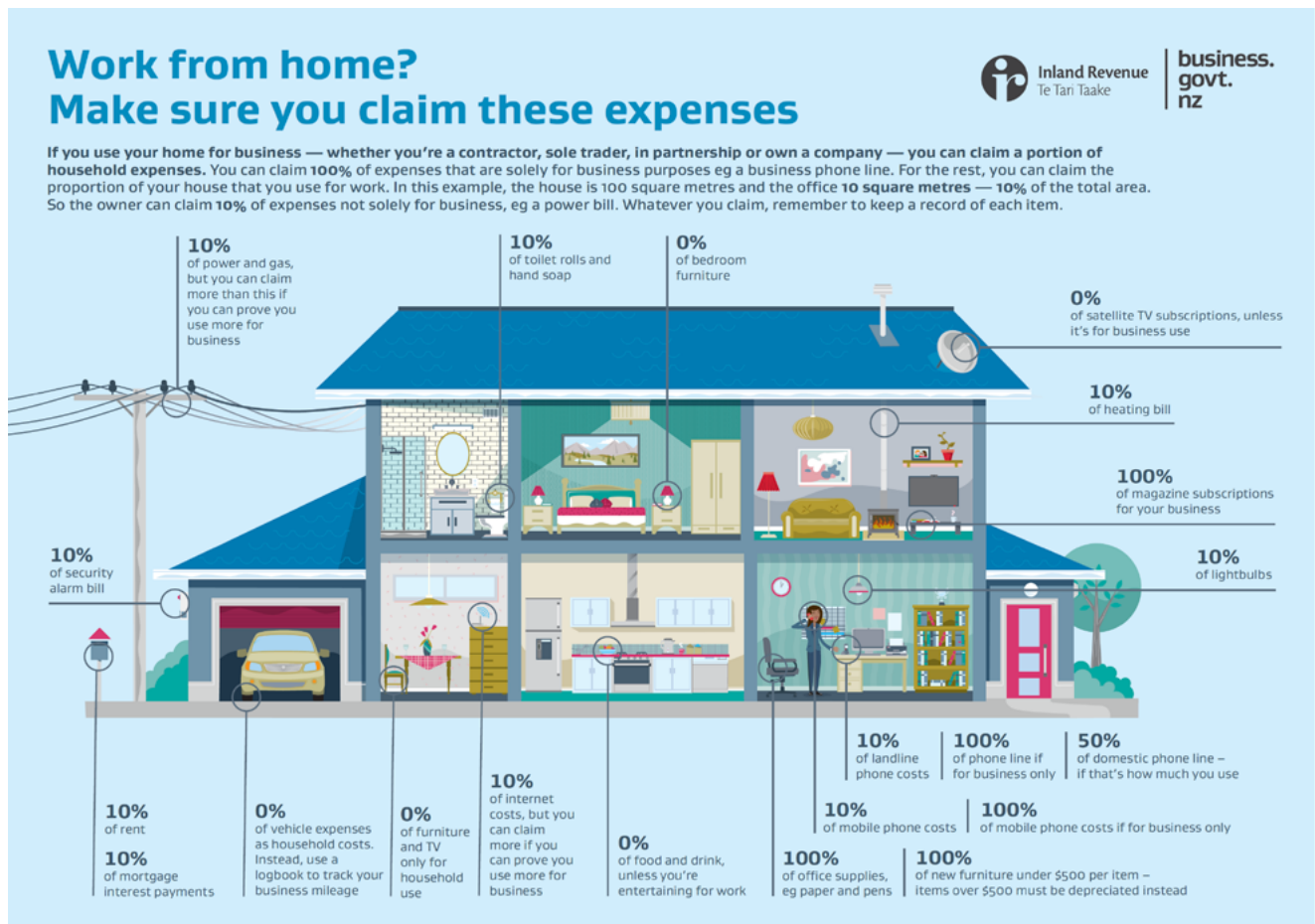


Source: business.govt.nz/tax-and-accounting/reducing-your-tax/claiming-expenses

Running your business from home?

If you use your home for your business you can claim back a percentage of your expenses.

View the infographic below and see what expenses you are entitled to claim back.



Source: business.govt.nz/assets/Uploads/Visualisations/Claiming-Expenses.pdf

Rental property expenses

If you have a property that you rent to other people, there are some expenses that you can claim against your next income tax return.

Check out what you can claim if you rent out a property.



TAX Facts: Making tax time easier

Making tax time easier


It's common for small businesses to put off filing tax returns to Inland Revenue (IR), resulting in a last-minute scramble. Avoid stress by following these simple tips on how to prepare for tax time. Keeping good records — either digital, on paper or in the cloud — is key.

Inland Revenue
Te Tari Taake

business.govt.nz

Starting out


- Attend a free IR seminar.
- Register for **myIR**.
- Understand business tax basics with IR's **Smart business guide (BR320)**.
- Keep good records — it's a legal duty and helps you see the financial health of your business.
- Consider using expert advice to get set up correctly.
- Tell IR if another person looks after your tax tasks, eg a tax agent. They'll need access to your **myIR** for filing.



TIP: DO NOT think your first year in business is tax-free — you'll pay it in a lump sum after filing your first return. IR might tell you to pay provisional tax too.

GST


- Check if you need to register.
- Once registered, you must start charging GST.
- Code receipts and invoices as you go to show what they're for.
- Put money aside in a high-interest account until it's time to pay GST — the interest earned might help pay your **ACC** levy.
- Deregister when you need to — this will save you having to file nil returns.



TIP: DO NOT keep the GST you charge. It's not your money — you're collecting it for the Government.

Income tax


- To help cover your tax bill, regularly put money aside — some experts suggest at least 20% of income.
- Consider hiring a tax agent. Their knowledge could save you time and money.
- Always file your tax return by the due date to avoid penalties.
- Tell IR early if you think you might have problems paying. They might help you come to some arrangement.



TIP: DO NOT forget to pay income tax. The payment date may be a few months after you file a tax return.

PAYE


- Register as an employer **online with IR**.
- There are two forms to file each month:
 - IR345: Employer deductions — must be filed, even if you make no deductions.
 - IR348: Employer monthly schedule — only required for the months you pay employees.
- Only deduct child support for an employee if IR tells you to.



TIP: DO NOT file late. Penalties may be more than your **PAYE** deductions.

Unexpected

- If a major disaster happens, you must still file returns even if you can't pay.
- If your records are damaged, tell IR as soon as possible.
- To help your business survive, IR may suggest payment options.
- If you're operating at a loss and are worried about being unable to pay, contact IR.



TIP: DO NOT forget to deregister for GST and as an employer if you wind up your business.

Learn more at [Business.govt.nz's Tax and Accounting section](https://business.govt.nz/tax-accounting).

Source: Making tax time easier from IR website

For more information about types of individual expenses that you can claim.

Types of individual expenses

Claiming expenses

What is a tax assessment and why do I need one?

Individuals with only income taxed at source (e.g. salary, wages, interest, etc.) will receive an automatic individual income tax assessment. They do not need a tax agent or accountant to assess their end of year position. It is assessed automatically by Inland Revenue and issued to the individual after the end of the tax year.

Individuals who have income that is not taxed at source will need to file an IR3 individual income tax return. They can choose to pay a tax agent/accountant to do this for them. The fee for this can be claimed as an expense against their income.



TAX Checkpoint

Let's see what you have learned so far.

1) Why is it important to keep your details up to date regarding your tax rate?

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2) If you work from home running your business, what are some of the home expenses you can claim on?

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3) List other expenses you can claim as an individual.

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Before moving on to your assessment, check that you can:

- ☐ State the difference between tax rates and tax codes and I can explain how they impact income
- ☐ Explain a tax year compared to a normal year.







TAX Assessment Task

This assessment provides an opportunity for you to demonstrate your understanding of how our revenue system works in Aotearoa New Zealand. Before you start, read the TAX Smart rubric to see how you will be assessed.

Select a task that best shows that you can:

- Explain how income tax is collected
- Describe PAYE and GST
- Describe how PAYE is applied to a payslip
- Explain different types of expenses that individuals can claim against their income
- Investigate the way people get paid including wage and salary deductions.

Select one of the tasks :

	A poster Outlining the difference between PAYE and GST, how taxes are collected and how we are paid. These can be used as classroom displays.
	A digital visual resource That can be shared in your school and with your family members, whānau, aiga, or kāinga e.g. presentation, documentary or video.
	A how-to fill out a tax return for the first time guide This can be shared as a Slide presentation with a limit of 10 slides that can be used as a year 9-10 introduction to taxation resource.
	A step-by-step guide That can be used by new immigrants coming to Aotearoa New Zealand.



TAX Smart: Assessment for learning

This self-assessment provides an opportunity for you to demonstrate your understanding of how the tax system works in Aotearoa New Zealand.

This rubric is for you to identify where you are, what you are doing, and your next steps. You can opt to attach evidence to your outcomes.

Complete this rubric by highlighting the outcomes you have achieved and either attaching it to your task electronically or downloading a copy. This evidence might come from some learning during the topic or a link to part of your assessment task.

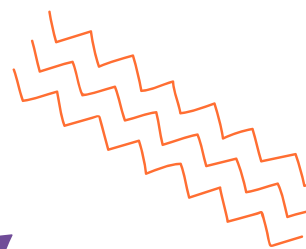
Examples of evidence:



TAX Chats - Written outcomes based on the conversation starters and questions around understanding the tax system as an individual.



TAX Tasks - Screenshot / photograph your outcomes / hyperlink. Examples might include a photo of your tax code declaration form or your KiwiSaver task.



Capability – Manage Money and Income

Outcome	Learning to be TAX Smart	TAX Smart Ready	TAX Smart Proficient	TAX Smart Expert
Describe PAYE and GST and how tax is collected	I can state what GST means. I can state what PAYE means	I can describe what goods and services are. I can describe what PAYE is.	I am TAX Smart Ready. + I can explain how as a consumer I pay my GST. I can explain why it is important that I look at the PAYE deductions on my payslip.	I am a TAX Smart Proficient. + I can justify why these taxes are fair/unfair taxes in Aotearoa New Zealand.
Describe how PAYE is applied to a payslip and why you pay tax.	I can state what a tax code is. I can state what a tax rate is.	I can list reasons why my tax code might change. I can describe why it is important to regularly update your details with your employer.	I am TAX Smart Ready. + I can state the difference between tax rates and tax codes and I can explain how they impact income.	I am a TAX Smart Proficient. + I can complete a tax code declaration and can evaluate the process.
Explain the way people get paid including wage and salary deductions	I can state different types of pay. I can state what a salary deduction is.	I can describe several types of pay. I can give several examples of salary deductions.	I am TAX Smart Ready. + I can explain why there are different types of pay. I can explain examples of salary deductions.	I am a TAX Smart Proficient. + I can evaluate the importance of salary deductions and the benefits long term for these deductions e.g KiwiSaver.
Explain types of expenses that individuals can claim against their income	I can state what an expense is.	I can give several examples of household expenses you can claim if working from home.	I am TAX Smart Ready. + I can explain other expenses you might claim as an individual.	I am a TAX Smart Proficient. + I can generalise the importance of keeping accurate records to track my expenses and deductions.
Explain what an income tax assessment is	I can state what a tax assessment is.	I can describe the purpose of a tax assessment.	I am TAX Smart Ready. + I can explain a tax year compared to a normal year and explain why tax assessments are issued at the end of the tax year.	I am a TAX Smart Proficient. + I can justify why tax assessments are done by IR as a necessary part of how our tax system works.

Te whai hua - kia ora!



Notes:

For more information, please visit sortedinschools.org.nz