



TaxLab

NZ FBT calculation changes for 31 March

Tax band changes: What they mean for FBT

New Zealand's income tax bands changed on 31 July 2024, introducing transitional rates for the 2025 tax year before stabilising in 2026. While these adjustments primarily affect individual taxpayers, they also impact Fringe Benefit Tax (FBT) calculations, which rely on income tax bands. However, the timing of these FBT changes follows a different schedule from income tax updates and other calculation changes that take effect sooner.

When do FBT bands change?

Despite the introduction of transitional income tax bands for individuals in the 2025 tax year, FBT bands will remain unchanged for that year. Employers must continue using pre-2025 rates until the 2026 tax year, starting 1 April 2025, when FBT bands will align with the new individual tax bands. At that point, payroll and finance teams will need to update their FBT calculation methods accordingly. While this approach simplifies administration, it means employers will not benefit from the transitional bands in their FBT liabilities for 2025.

New FBT methodology for 31 March 2025

A key refinement introduced by the **Taxation (Budget Measures) Act 2024** addresses a long-standing issue with FBT attribution calculations. Previously, FBT was calculated by applying FBT rates to an employee's total remuneration, then deducting tax on cash pay separately using individual income tax bands. This process led to rounding inconsistencies,

resulting in small but noticeable mismatches in FBT attribution. From 31 March 2025 returns onwards, the **full-year alternate rate calculation methodology** has been adjusted to improve precision, ensuring the effective FBT rate aligns more accurately with headline FBT rates. This change largely eliminates previous discrepancies, providing a more consistent and mathematically sound outcome for employers. However, this also means all FBT calculations must be updated for 31 March 2025 onward to align with the new methodology.

What you need to do: Before filing 31 March 2025

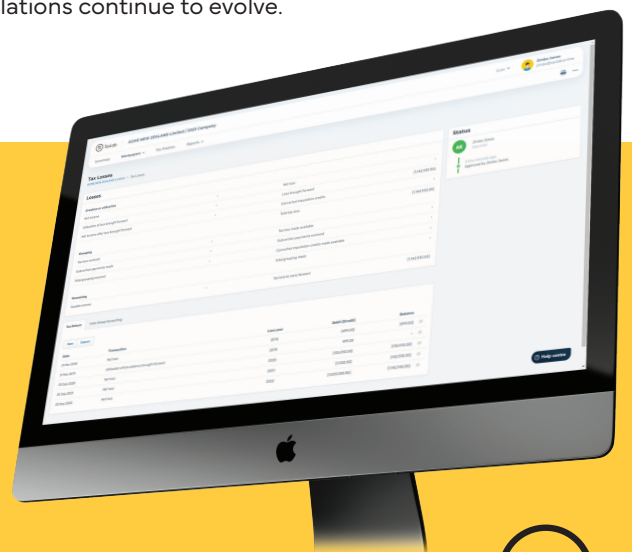
Payroll and finance teams must update all **FBT Excel spreadsheets** to reflect the new methodology before preparing 31 March 2025 returns due 31 May 2025. Using outdated formulas could lead to miscalculations, resulting in compliance and reporting errors, as well as unnecessary FBT audit risks.

Prepare for the transition

Employers should proactively review and update their FBT spreadsheets **as soon as possible** and no later than when your **31 March 2025** FBT compliance begins. Another round of spreadsheet updates will be required for the 2026 tax year to ensure ongoing accuracy. By updating calculations and reporting tools early, businesses can **avoid errors, maintain compliance, and ensure a smoother transition** as tax regulations continue to evolve.

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