



Inland Revenue
Te Tari Taake

IR 335
November 2009

Employer's guide

Information to help you with your
responsibilities as an employer

Introduction

If you have anyone working for you, it's your responsibility to deduct tax and other amounts from payments you make to them, as well as giving information to us. We explain what you're required to do, and what happens if you don't comply.

If you haven't yet registered as an employer, read our *First-time employer's guide (IR 333)*. It tells you what you need to know before you register as an employer.

If you need help with any of your employer responsibilities, or you have questions about anything in this guide, please call us on 0800 377 772.

Work permits

If you're thinking of hiring someone from overseas, they may need a work permit. Only citizens and permanent residents of New Zealand and Australia may work in New Zealand without a work permit. Part 3 of the *Tax code declaration (IR 330)* covers entitlement to work, which must be completed by employees.

Note: In some cases a visitor or student permit or other entitlement may allow employment in New Zealand. For more information on this and work permits please go to www.immigration.govt.nz or call the New Zealand Immigration Service on 0508 558 855.

How to use this guide

Part 1 – Your responsibilities as an employer

Part 1 deals with employers' day-to-day responsibilities. It explains who is an employee, and about the amounts you may have to deduct from your employees' wages.

Part 2 – Record keeping and making payments

This part tells you what records you need to keep, how often to make payments to us, and what forms you need to complete when you make those payments. It also tells you what to do if you stop being an employer.

Part 3 – Other payments

Employers may make payments to their workers other than normal wages. This part explains the tax treatment of these other types of payments.

Part 4 – Penalties

This part tells you about the penalties and charges if you fail to meet your tax responsibilities.

Part 5 – Special types of workers

Part 5 explains how to deduct tax from the payments you make to special types of workers.

Part 6 – Services you may need

This part lists our services, contact details and some useful publications.

Note

Unless otherwise stated, the PAYE amounts used in the examples in this guide are from the 2008 PAYE deduction tables. They are based on pay periods ending on or after 1 April 2007.

www.ird.govt.nz

Go to our website for information, services and tools.

- **Secure online services** – login to check your account information, file an employer schedule, confirm personal tax summaries and update your family details and income.
- **Get it done online** – complete and send us forms and returns, make payments, make an appointment to see us and give us feedback.
- **Work it out** – use our calculators, worksheets and tools to help you manage your tax business like checking your tax code, or your filing and payment dates.
- **Forms and guides** – download our guides, and print forms to post to us.

You can also check out our newsletters and bulletins, and have your say on items for public consultation.

How to get our forms and guides

You can view copies of all our forms and guides mentioned in this guide by going to www.ird.govt.nz and selecting “Forms and guides”. You can also request copies by calling 0800 257 773.

Tax terms updated

In the Income Tax Act 2007, a number of tax terms have been updated to more clearly reflect their meaning. Their intent has not changed. These terms are being introduced to all Inland Revenue’s publications as we update them. During the transition you can still rely on the information you get in our booklets, guides and forms, on our website and from our people, even where old terms and references are used.

When we use any updated terms in this guide we’ll also include a reference to their former name.

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* Formerly withholding payments

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Part 1 – Your responsibilities as an employer

In this part, we explain the tax codes and various amounts you'll need to deduct from your employee's pay. You must pay these amounts to us by the due dates.

Who is an employee?

It's very important you're sure about whether the people who work for you are your employees, or whether they're self-employed. This is because tax, KiwiSaver, student loan and accident compensation laws treat the two groups of people differently. You're responsible for your employees' tax deductions.

It's illegal to treat a true employee as self-employed to avoid deducting tax. If you do this you may be prosecuted and fined, and still have to pay the amount of PAYE (pay as you earn) you should have deducted.

In most cases it will be quite clear whether or not someone is an employee. Generally, if you control how and when the person's work is done, the person is your employee.

If you answer "yes" to all or most of the following questions, the worker is probably your employee.

- Does the person have to do the work, rather than being able to hire someone to help?
- Can you tell the worker what to do on the job, and when and how to do it?
- Do you pay the worker at a set rate (eg, hourly, weekly, monthly, or by unit of production)? A person paid by commission or on a piece-work basis may still be an employee, especially if there are other employees who work on the same basis.
- Can the worker get overtime or penal rates?
- Does the person work set hours, or a given number of hours, each week or month?
- Does the person work at your premises, or at a place you specify?
- Do you set the standards for the amount and quality of the person's work?

Note

A person can be self-employed in one line of work and still work for someone else as an employee.

For more help

If you need more help to decide whether your worker is an employee, see our leaflet *Self-employed or an employee? (IR 336)*.

If you're still not sure, call us on 0800 377 772.

If you decide someone is not an employee, you may still have to deduct tax from any schedular payments* you make to them (see page 10).

* Formerly withholding tax

Amounts you'll need to deduct

PAYE is the basic amount of income tax you take out of your employees' wages whenever you pay them. PAYE includes an ACC earners' levy (see page 11). Besides PAYE, there are other amounts you may have to deduct from your employees' pay—these include student loan repayments, child support and KiwiSaver deductions.

Deducting PAYE

You can use the PAYE calculator at www.ird.govt.nz to calculate the amount of tax to deduct from an employee's gross wages. You can also work out how much PAYE you'll have to account for, if you've paid the employee a net amount. There's a separate holiday pay calculator to work out the amount of tax on holiday pay.

Tax codes

Tax code declaration

All new employees must complete a *Tax code declaration (IR 330)* when they start working for you. If they want to change their tax code, they must complete a new tax code declaration.

It's not necessary for your employees to complete a new declaration every year, providing their tax code remains the same. Each employee needs to read the notes on the IR 330 to work out their correct tax code.

From 1 April 2009 if any of your employees qualify for the independent earner tax credit (IETC) they will be able to choose one of two new tax codes, ME and ME SL. Any new or existing employees who want to receive the IETC as part of their pay will have to fill in a new *Tax code declaration (IR 330)* choosing one of the new tax codes and give it to you to use from this date. These new tax codes are included in the PAYE deduction tables (IR 340 and IR 341) for the current tax year.

You must keep the tax code declarations for seven years after the last wages payment is made to the employee.

If you need extra forms, you can print them from www.ird.govt.nz, photocopy them or order them—see page 58.

Employees on the wrong tax code

It's important your employees use the right tax code. Using the correct tax code can help your employee avoid a tax bill or underpayment of their student loan repayment obligation at the end of the year.

We regularly check the details on your *Employer monthly schedule (IR 348)* to ensure the right amount of tax and student loan repayments are deducted from the salary or wages of the employees listed on your schedule.

When we identify a salary or wage earner using the wrong tax and/or student loan repayment code, we'll write to you asking you to change it. We'll tell you which employees are using incorrect tax codes and let you know which code they should be on. To make sure affected employees pay the correct amount of tax or student loan repayments as quickly as possible, you'll need to change their tax code to the correct code starting the next pay period.

We'll also write to any of your employees using the incorrect tax code to advise them the tax code they've been using is incorrect for their circumstances and we've asked you, as their employer, to change it from their next pay day.

If any of your employees disagree with this change, please ask them to contact us.

Primary employment

Most employees have one main job which is their main or only source of income. This job is primary employment. A taxable pension, benefit or student allowance can be primary employment if it's the main or only source of income.

An employee can use only one primary tax code for their main source of income at any time, ie, M, ME or ML. Employees who are repaying their student loan should use the M SL or ME SL tax code—see page 12. The IR 330 explains how to select a tax code.

Once you have the employee's tax code, use the PAYE tables to work out how much PAYE to deduct from each pay.

Secondary employment

If an employee is already using a primary tax code (M, ME, ML, M SL or ME SL for their main source of income from a job or a benefit) and decides to take another job, that other job is secondary employment.

The employee must complete another IR 330 for secondary employment, using one of the secondary tax codes: S, SH or ST. Employees repaying student loans must use the S SL, SH SL or ST SL code if they are already using the M SL or ME SL code for another job.

See the PAYE tables for the current secondary tax rates. Employees can choose to have their secondary income taxed at a higher rate than would be deducted if they used the S (secondary) code by using either the SH (secondary high) or ST (secondary top) codes on their IR 330 tax code declaration.

Using the correct secondary tax code will reduce the likelihood of a tax bill at the end of the year.

Unlike the primary tax codes, an employee can use the secondary tax codes on more than one IR 330 at the same time.

Example

Belinda has one full-time job and three part-time jobs. She uses a primary tax code for her full-time job and a secondary tax code for her three part-time jobs.

If an employee works for you using a primary tax code and also does different work for you outside normal working hours, you would generally add the payment for the unrelated work to the normal pay and calculate PAYE on the total payment.

However, where the unrelated work covers a different period from the normal pay period, or separate wage records are kept (eg, the work is undertaken in a different department), use the secondary tax code. The employee must fill in a separate IR 330 if the secondary code is used.

Example

Amy works in the spray painting division of Cars & Cars Ltd between 8 am and 5 pm, Monday to Friday, and is paid fortnightly. She also works between 6 pm and 10 pm, Tuesdays and Thursdays, in the glass division of Cars & Cars Ltd, and is paid monthly. Amy has completed two IR 330s—the one for the spray painting division shows the tax code “M”, while the one for the glass division shows the tax code “S”.

No-notification rate

Use this rate when an employee or person receiving a salary, wages or schedular payments does not give you a fully completed IR 330 declaration form. You are legally required to use the no-notification rate where the employee or person has failed to give you a completed IR 330. A completed IR 330 declaration must include their:

- name
- IRD number
- tax code.

The rate you deduct is either:

- PAYE of 46.7 cents in the dollar (which includes earners' levy) for employees, or
- 15 cents in the dollar on top of the normal rate of tax for persons receiving schedular payments.

For more information on schedular payments see page 10.

If an employee doesn't fill in an IR 330 form or complete it fully, enter “ND” as the tax code on your *Employer monthly schedule (IR 348)*, and tax their pay at the no-notification rate.

This is how to calculate PAYE at the no-notification rate for salaries and wages.

1. Take gross earnings.
2. Add the value of taxable allowances, if any.
3. The total is “earnings subject to PAYE”.
4. Work out PAYE at the rate of 46.7 cents in the dollar. Use whole dollars only.

Example

Basic weekly pay is \$385.75. The tax on whole dollars is $\$385 \times 0.467$.
PAYE to be deducted is \$180.14.

If an employee has a *Special tax code or deduction rate (IR 23)* certificate

For some employees or other workers you may have to deduct tax at a special rate, or not deduct tax at all. They'll have an IR 23 certificate that tells you the rate you should use. If you don't see a certificate, you must deduct the normal rate of tax and other deductions.

People who receive wages or schedular payments may apply to us for an IR 23 certificate which authorises you to deduct:

- PAYE using a specified code
- tax at a certain rate
- earners' levy only, or
- student loan repayments at a specified rate.

Note

If the IR 23 authorises you to deduct earners' levy only (no PAYE) the earners' levy amount should be shown in the "PAYE tax" column of your employer monthly schedule.

Quote this number if you need to discuss the certificate with us → **No. 5 3 2 4** *Example Only*

IR 23
January 2009

Inland Revenue
Te Tari Taake

Special tax code or student loan repayment certificate

IRD number → IRD number
Work and Income NZ number Date of issue 19 March 2008

Name and address of holder → Employee's name Matt Finnish
Employee's address 15 Kakapo Cres
GREYMOUTH

Expiry date of certificate → Valid from to
Day Month Year Day Month Year

Name of employer. If more than one employer, wording is "to whom it may concern" → To: Paula Royd Photographer

Deduct at the rate indicated with an "X" → You are authorised to deduct the following from the earnings of the above employee:
 PAYE under tax code _____
 PAYE at the rate of 23 cents in each dollar of gross income
 tax at the rate of _____ cents in each dollar of schedular payments
 earner levy—multiply gross income by 0.014
 Student loan repayments at the rate of _____ cents in each dollar of gross income

Please keep this certificate with your employee's wage records.
 At expiry date, your employee must give you either a new certificate or a tax code declaration to use after that date.

The certificate is invalid unless it's signed by Inland Revenue → Team Manager [Signature] 19 / 3 / 2008
Date

Must be signed by the holder → Please sign this panel before handing this form to your employer. It is an offence to alter this certificate.
Employee's signature M Finnish 26 / 3 / 2008
Date

Checking the IR 23

When an employee gives you an IR 23, make sure it's valid. Check:

- the person named on the certificate is the person working for you and the IRD number is the same as their IR 330
- it's signed by an Inland Revenue manager (Team Manager)
- it's for the current tax year
- it shows the rate at which tax is deducted
- the employee has signed it
- the certificate shows the period it applies for.

When that period ends, the employee must show you a new IR 23 or complete a new IR 330 and select the appropriate code for their changed circumstances. If you don't have either of these, deduct tax at the no-notification rate—see page 7.

Making deductions

Calculate the tax by multiplying the employee's gross pay by PAYE at the special rate shown.

Example

An employee's IR 23 shows the following:

PAYE deducted at the rate of 23 cents in each dollar of gross income.

Earners' levy deducted—multiply gross income by 0.017.

Gross earnings for pay period are \$1,000.

Rate to deduct from employee's wages is $23 + 1.7 = 24.7$ cents.

PAYE to be deducted is \$247.00
 ($\$1,000 \times 0.247$ cents).

If a student loan deduction rate is shown on the IR 23, use this rate to calculate the student loan deduction.

As they have a special repayment rate for their student loan, you don't need to use the student loan repayment column in the PAYE tables. Deduct PAYE using the M, ME, S, SH or ST rates shown in the tax tables, then add the student loan deduction calculated.

Example

An employee's IR 23 shows the following:

PAYE deducted under tax code M SL.

Student loan repayments at the rate of 15 cents in each dollar of gross income.

Fortnightly gross earnings are \$1,000.

Student loan to be deducted is \$150
 ($\$1,000 \times 0.15$).

PAYE deducted \$181.23 (using the tax tables from 1 April 2009).

What tax code goes on the *Employer monthly schedule (IR 348)*?

- If the IR 23 shows a special rate for PAYE, show “STC” in the tax code box on your *Employer monthly schedule (IR 348)*.
- If the IR 23 shows a special repayment rate for student loans, use the tax code shown on the IR 23 on your IR 348. This code should be M SL, ME SL, S SL, SH SL or ST SL.
- If the IR 23 shows a special rate for PAYE deducted and student loans, show “STC” in the tax code box on your IR 348.
- If the IR 23 shows a special tax rate for schedular payments, show “WT” on your IR 348.

Schedular payments*

Schedular payments are payments made to people who are not employees but who are employed on a contract-for-service basis—see page 5 for information to help you work out who is an employee. These activities are taxed at a flat rate.

The main activities and the tax rate for each are listed on the back of the IR 330. If you're paying someone to do one of the types of work listed you must deduct tax from the payments.

Tax is deducted even if the worker is registered for GST. The only exception is if they provide you with a *Certificate of exemption (IR 331)*—see page 11.

Some types of schedular payments—such as commissions, directors' fees and payments to non-resident contractors—are covered in more detail in Part 5.

If the type of work you've hired your contractor to do isn't listed on the back of the IR 330 you don't need to ask them to complete an IR 330 or deduct tax from payments you make to them.

Note

Don't deduct earners' levy, KiwiSaver deductions or student loan repayments from schedular payments. In these circumstances this is the worker's responsibility, not yours.

Don't deduct tax from schedular payments made:

- to a company (except a company that is a non-resident contractor or non-resident entertainer or involved in agriculture, horticulture or viticulture)
- to a non-resident contractor who is eligible for total relief from tax through a double tax agreement, and is present in New Zealand for a total of 92 days or less in any 12-month period
- to or for the contract activities of a non-resident contractor who has been paid \$15,000 or less in total from all payers in any 12-month period
- for work or services completed by a public, local or Māori authority
- to a holder of a current certificate of exemption.

A worker who is GST-registered will charge GST on goods and services supplied. This means the worker's gross earnings will increase by the GST charged.

If the worker gives you a tax invoice, work out and deduct tax on the amount, excluding GST.

Example

You receive a tax invoice showing:

Cost	\$500.00
Less tax (20% of \$500)	\$100.00
	\$400.00
Plus GST (12.5% of \$500)	\$62.50
Net payment	\$462.50

You would deduct tax from the \$500 and show the \$500 as the gross payment on the *Employer monthly schedule (IR 348)*.

Show a WT tax code when completing the IR 348 for a schedular payment recipient.

* Formerly withholding payments

If a worker has a *Certificate of exemption (IR 331)*

People who are in business for themselves, and who receive a schedular payment can apply for a certificate of exemption from PAYE.

A certificate of exemption may also be held by a non-resident contractor undertaking contract activity in New Zealand. See page 52 for further information.

If a worker has a certificate of exemption, you can make payments without deducting tax. It cannot be used to exempt an employee's salary or wages from deducting PAYE.

Checking the IR 331

When someone shows you a certificate of exemption, you must check it is valid and current.

If the certificate is valid and current, don't deduct tax from payments you make to them.

If the certificate is neither valid nor current, the worker must complete an IR 330 tax code declaration. You must deduct tax from payments you make.

You don't need to include tax-exempt payments on your *Employer monthly schedule (IR 348)*. However, you must keep a record of these payments.

It's a good idea to keep a record of the certificate number, in case we review your records. This number is on the bottom right-hand corner of the certificate.

ACC earners' levy

All employees must pay an ACC earners' levy to cover the cost of non-work-related injuries. We collect this on behalf of the Accident Compensation Corporation (ACC).

For employees, this levy has been built into the PAYE tables and is deducted along with the tax. This means you don't need to do any extra calculations for it in each pay period.

Almost all earnings subject to PAYE are liable for the levy. They include:

- wages and salaries
- overtime pay
- backpay and holiday pay
- long-service leave pay
- bonuses or gratuities
- taxable allowances
- shareholder-employee salaries that have PAYE deducted
- salaries to partners in a partnership.

The main exceptions are schedular payments, retirement payments, redundancy payments, jury fees, witness fees, taxable and non-taxable pensions, and tax-free allowances.

ACC will invoice close company employers for earners' levy on shareholder-employee remuneration that doesn't have PAYE deducted. The levy will be based on the shareholder-employee remuneration declared in the company's IR 4 income tax return.

KiwiSaver

You must make KiwiSaver available to all employees.

As an employer you're required to:

- check whether new employees are eligible to join KiwiSaver
- check whether new employees should be automatically enrolled
- give the *KiwiSaver employee information pack (KS 3)* to:
 - new employees who qualify for automatic enrolment, and
 - existing employees who want to opt in
- give us information about:
 - all new employees who qualify for automatic enrolment, and
 - eligible employees who want to opt in to KiwiSaver
- give new employees a written statement and investment statement if you have an employer-chosen scheme
- contribute to your employee's KiwiSaver scheme or complying fund (some exceptions apply).

Note

For more information please read our *KiwiSaver employer guide (KS 4)*.

Student loan deductions

Students taking out loans under the student loan scheme only have to make repayments if they earn over a certain amount, called the repayment threshold.

When they expect to earn over the repayment threshold from primary employment, they must tell their employers to start deducting loan repayments.

They do this by selecting an M SL or ME SL tax code for primary employment, or an S SL, SH SL or ST SL tax code for secondary employment, on their IR 330.

The PAYE deduction tables have columns for the M SL, ME SL, S SL, SH SL and ST SL codes, which show the amount of PAYE and student loan repayments to be made.

Employers then have to deduct the loan repayments from their wages and pay the repayments to us with the PAYE deducted.

If they tell you part-way through the year that they should have been using one of the student loan codes, deduct the repayments only from the time you get the new code.

It's important your employees are using the correct tax and/or student loan repayment code. Using the correct code can help your employee avoid a tax bill or underpayment of their student loan repayment obligation at the end of the year—see page 6 for more details.

You'll need to keep records of PAYE and student loan repayments separately.

By law, you cannot discriminate in any way against any employee because of their student loan responsibilities—see page 47 for more details.

Note

Don't deduct student loan repayments from schedular payments (see page 10).

Child support deductions

Inland Revenue Child Support assesses and collects child support from parents who don't live with their children.

The payments we collect are paid directly to the parent who has care of the child, if that parent is not a beneficiary. If they are a beneficiary, the payments are passed on to the government.

Employees can choose how they want to pay their child support. It may be a private arrangement that doesn't involve the employer. However, if we ask you to deduct child support from any employee's wages, you're required to do this by law.

We work out how much child support a paying parent should pay from each pay. If the parent is your employee, we may contact you for some information. This will usually be details about how often you pay wages, the next regular payday or pay period for that employee, and whether you want an employee reference on the notice we send you.

Child support deduction notice

When we have all the information, we'll send you a child support deduction notice. This tells you to deduct child support payments from your employee's pay.

The notice shows:

- your employee's name and IRD number
- the payday or pay period when you must start deducting child support
- the amount to deduct from each pay
- employee reference, if provided.

Don't make any deductions before the start date on the notice.

If a payday is specified on the notice and it's different to your actual payday you need to contact us so we can change our records. Similarly, if a pay period is specified that is different to your actual pay period please contact us.

It's important the deductions shown on your *Employer monthly schedule (IR 348)* match the amount we expect to receive from the employee. If the payday or pay period on the notice is incorrect, these amounts may not match and your employee may be charged unnecessary late payment penalties.

If the deductible amount changes during the year, we'll send you another child support deduction notice. This will show the new amount of child support and when you must start deducting it.

Child support has priority over any other deductions from an employee's net pay. This means after you have deducted PAYE, you must deduct child support before you deduct anything else (such as student loan repayments, insurances, KiwiSaver and other superannuation deductions, or union fees).

We might ask you to deduct child support from payments to someone who is not your employee—eg, a contractor or a commission agent. The notice we send you explains how to make and pay the deductions.

Where possible, all child support notices issued for the same pay will be in one envelope. We will issue an individual notice for each employee you make deductions for. However, you may wish to receive notices in one of the following:

- a consolidated deduction notice—a notice in schedule form showing all additions and changes to child support payments for multiple employees, or
- both individual deduction notices and a consolidated deduction notice.

Please call us on our freephone number for child support employers if you would like to use either of the above options. You can call 0800 220 222 between 8 am and 5 pm Monday to Friday.

Protected net earnings

All employees must be allowed to keep 60% of their net (after tax) pay, after child support is deducted. This is the employee's "protected net earnings", to cover their living expenses.

Protected net earnings apply to child support only. So you must still deduct other deductions such as student loan repayments, KiwiSaver deductions, insurances, superannuation and union fees from the protected net earnings.

Protected earnings are usually only affected if your employee receives less pay than usual for some reason. If you're asked to deduct more than 40% of your employee's net pay, you must not deduct the full amount of child support. If you don't deduct the full amount of child support, don't make up the difference from future pays. We'll make arrangements with the employee to pay the balance owing.

Example 1 – Full wages paid

John is liable for payments of \$70 child support each week.

John's weekly wage	\$ 420.00
PAYE deducted	\$ 72.45
Net pay	\$ 347.55
40% of \$347.55 is	\$ 139.02

Because \$70 is less than 40% of John's net pay (\$139.02) the full amount of child support can be deducted.

Example 2 – Less than full wages

John has had three days leave without pay in a week.

John's reduced wage	\$ 168.00
PAYE deducted	\$ 23.85
Net pay	\$ 144.15
40% of \$144.15 is	\$ 57.66

Because \$70 is more than 40% of John's net pay (\$57.66) the full amount of child support cannot be deducted, otherwise John would be left with less than 60% of his net pay. Any other deductions, eg, student loan deductions, would still have to be taken out of John's remaining pay.

Paying child support deductions

Child support deducted in one month is due by the 20th of the following month.

Show the total child support deducted for the period on the *Employer deductions (IR 345)* form. You also need to show the amount deducted on the *Employer monthly schedule (IR 348)*. See pages 25 to 30 for instructions on completing these forms. You must keep records of child support deducted along with your normal wage records.

Employers who pay PAYE twice-monthly have the option of paying child support once a month on the 20th, or twice-monthly on the 5th and the 20th along with other tax deductions.

It's important the IR 348 shows all deductions made in the month, no matter whether you pay it to us monthly or twice-monthly.

Employee privacy and prejudice

The law requires you to protect the privacy of your employees who pay child support. You can't give out information about their child support responsibilities (with two exceptions—see page 48).

By law, you cannot discriminate in any way against any employee because of their child support obligations. It's very important you read the full statements about privacy, prejudice and penalties on pages 45 to 48.

Deducting employees' arrears

Sometimes, we're unsuccessful in our attempts to obtain payment from your employee(s) and may need your assistance. We may send you a notice requiring you to deduct tax or student loan arrears from an employee's wages. You must deduct any child support payments before tax or student loan arrears. Pay the arrears to us by the end of each calendar month, separately from PAYE.

Don't use an *Employer deductions (IR 345)* to pay the arrears. Instead, attach a copy of the deduction notice with your payment.

Superannuation fund contributions

A superannuation fund is a scheme registered under the Superannuation Schemes Act 1989.

An employer's superannuation contribution* is any contribution to a superannuation fund an employer makes for the employees' benefit. An employer is required to make a deduction of ESCT** (employer superannuation contribution tax) when making any specified employer contribution.

If your employees ask you to make deductions from their wages and pay them to a superannuation scheme, these are not employer superannuation contributions.

* Formerly specified superannuation

** Formerly specified superannuation contribution withholding tax (SSCWT)

Note

Compulsory employer contributions to KiwiSaver and other complying funds are exempt from ESCT, up to 2% of the employee’s gross salary or wages. You will need to pay ESCT on any KiwiSaver or complying fund contributions above 2%. Any contributions made to a KiwiSaver or complying fund that aren’t compulsory, eg, when an employee is on a contributions holiday or on leave without pay, are liable for ESCT.

If your superannuation fund is not a KiwiSaver scheme or a complying superannuation fund, any contribution an employer makes to a superannuation fund for the benefit of an employee is liable for ESCT.

The contribution is:

- taxed at the rate of 33 cents in the dollar, or
- taxed at an ESCT rate based on the annual salary or wages paid to the employee, plus the superannuation contribution (being the gross amount of the contribution before ESCT is deducted) the employer paid on behalf of the employee, in the previous standard tax year, 1 April to 31 March. When employees have not worked for the full previous year, an annualised estimate based on the salary or wages they have received or will receive, can be used. This option is voluntary and at the discretion of the employer or,
- treated as salary or wages of the employee and taxed at the employee’s personal tax rate, if the employer and the employee agree.

See pages 15 to 18 for examples on how to calculate ESCT.

For more help

To check whether your fund is liable for ESCT, contact your fund manager.

ESCT

An employer is required to make an ESCT deduction when making any specified superannuation contribution. If an employer fails to withhold as required, the ESCT is worked out on the grossed-up amount of the employer’s superannuation contribution. To calculate the tax, use the formula:

$$ESCT = \frac{a}{1 - a} \times b$$

Where: a is the rate of ESCT, and
b is the actual amount paid to the fund.

The grossed-up contribution is then:

- the actual amount paid to the fund, plus
- the amount of ESCT worked out using the formula.

Example

An employer made a contribution of \$1,000 to a superannuation fund. Using the formula, the amount of ESCT to be paid is:

$$ESCT = \frac{0.33}{0.67} \times \$1,000 = \$492.53$$

The gross superannuation contribution is:

The amount received by the superannuation fund	\$1,000.00
Plus the tax on that amount	\$ 492.53
Grossed-up contribution	\$1,492.53

Tax on \$1,492.53 at 33 cents in the dollar is \$492.53. This is the tax on the grossed-up contribution. The ESCT is deducted from the grossed-up contribution.

Note

The above formula and example assumes that no ESCT has already been paid for the contribution.

ESCT rate based on 33 cents in the dollar

Example

Joanne is a KiwiSaver member and employed by Black Ltd. Joanne is contributing 4% of her salary and her employer has agreed to match the employee contributions dollar for dollar. This means that Black Ltd is also contributing 4% as employer contributions.

From 1 April 2009, as Black Ltd is contributing at a rate greater than the compulsory employer contribution rate (2%), they are required to pay ESCT on the portion which is considered to be voluntary. So, for the purposes of calculating ESCT:

Joanne's weekly salary is	\$1,200.00
KiwiSaver deduction	\$ 48.00
Employer contribution (compulsory 2%)	\$ 24.00
Employer contribution (voluntary 2%)	\$ 24.00
Black Ltd is liable for ESCT on the 2% voluntary portion	\$ 24.00
ESCT rate (0.33) × \$24.00 =	\$ 7.92
\$24.00 – \$ 7.92 =	\$ 16.08

Black Ltd would return the following information on the *Employer monthly schedule (IR 348)*:

KiwiSaver deduction (Box 6)	\$ 48.00
KiwiSaver employer contributions (Box 7)	\$ 40.08

The employer contribution is made up of the compulsory contribution of \$24, plus the voluntary contribution of \$24 less ESCT of \$7.92

Total savings	\$ 88.08
----------------------	-----------------

Black Ltd would also account for the \$7.92 on their *Employer deductions (IR 345)* form for ESCT in Box 8.

In some cases an employer may be “locked-in” to an employment agreement where they contribute a set percentage of their employee’s salary. In those cases it may be necessary to gross up the employer contribution so the employee receives their full entitlement. If this applied to Black Ltd’s employment agreement with Joanne the result would be:

Example

KiwiSaver deduction	\$ 48.00
Employer contribution (compulsory 2%)	\$ 24.00
Employer contribution (voluntary 2%)	\$ 24.00
Total savings	\$ 96.00

Black Ltd would then gross up their contribution to account for ESCT while ensuring Joanne received the full 4% employer contribution using the following formula.

$$\frac{\text{ESCT rate (0.33)} \times \$24.00}{1 - \text{ESCT rate (0.67)}} = \$ 11.82$$

Black Ltd would return the information on the *Employer monthly schedule (IR 348)* as this:

KiwiSaver deduction (Box 6)	\$ 48.00
KiwiSaver employer contributions (Box 7)	\$ 48.00
Total savings	\$ 96.00

Black Ltd would also account for the \$11.82 on their *Employer deductions (IR 345)* form for ESCT in Box 8.

Example

If Joanne’s superannuation scheme was not a KiwiSaver scheme or complying fund, the entire contribution would be liable for ESCT. The contribution would not be shown on the IR 348 but ESCT must still be returned on the IR 345.

ESCT rate based on employee salary or wages

Employers can offer their employees an ESCT rate based on the employee’s salary or wages plus gross superannuation employer contributions received in the previous standard tax year, ie, 1 April to 31 March. The tax rate is used for all non-exempt employer superannuation contributions made in the current standard tax year.

From 1 April 2009

Employee’s salary or wage income for year ended 31 March 2009	ESCT from 1 April 2009
\$0 – \$16,800	0.125
\$16,801 – \$57,600	0.210
\$57,601 upwards	0.330

From 1 April 2010

Employee’s salary or wage income for year ended 31 March 2010	ESCT from 1 April 2010
\$0 – \$16,800	0.125
\$16,801 – \$60,000	0.210
\$60,001 upwards	0.330

From 1 April 2011

Employee’s salary or wage income for year ended 31 March 2011	ESCT from 1 April 2011
\$0 – \$16,800	0.125
\$16,801 – \$60,000	0.200
\$60,001 upwards	0.330

Where the employee didn’t work for the employer for all of the previous standard tax year, the employer can estimate the amount of salary or wages and gross superannuation employer contributions that will be earned by the employee in the current year, and base the ESCT rate on the estimate.

Example

Regan’s Trucks Ltd employs John and makes employer’s superannuation contributions on his behalf. John is not a KiwiSaver or complying fund member. John worked at Regan’s Trucks Ltd for the full year 1 April 2008 to 31 March 2009. He received a salary during that year of \$36,400 and employer contributions of \$1,000.

For the 2010 tax year Regan’s Trucks Ltd have elected to tax the employer’s superannuation contributions using a rate based on John’s previous year’s salary and employer contributions. As his salary was between \$16,801 and \$57,600, the ESCT rate is 21 cents in the dollar. The rate for deducting ESCT from each employer contribution made during the 2010 tax year is 21 cents in the dollar.

John’s salary is now \$39,000, or \$750 per week. Regan’s Trucks Ltd’s contribution to John’s superannuation is 5% of his salary, or \$37.50 per week. As these are not KiwiSaver or complying funds contributions, the full amount is liable for ESCT. Please note the amount paid to John’s superannuation is not shown on the IR 348.

If the superannuation contribution amount included ESCT, the ESCT calculation is:

$$\$0.21 \times \$37.50 = \$7.88$$

The amount passed to John’s superannuation scheme is \$29.62 (\$37.50 – \$7.88) and ESCT of \$7.88 is shown on the IR 345.

If the superannuation contribution amount excluded ESCT, the ESCT calculation is:

$$\frac{0.21 \times \$37.50}{0.79} = \$9.97$$

The amount passed on to John’s superannuation is \$37.50 and the ESCT amount of \$9.97 would be shown on the IR 345.

Paying ESCT

Pay any ESCT deducted with your PAYE by the due date.

Enter the amount of ESCT deducted for the period in Box 8 on the IR 345.

Taxing contributions at the employee's personal tax rate

If employers agree, employees can choose to have all or part of the value of the employer's superannuation contribution included in their gross salary and wages and taxed at their personal tax rates. Employees must understand classifying this amount as salary and wages will affect their working for families tax credits and independent earner tax credit entitlements, the amount of child support they pay and their student loan repayments. However, they can change back at any time.

The actual employer contribution is paid into the superannuation fund—the employee doesn't receive the contribution in the hand. The value of the employer contribution will be added to the employee's gross wages for the pay period and taxed at the appropriate rate using the PAYE tables. The rate will depend on the employee's tax code.

Contributions treated as salary and wages are subject to earners' levy (included in the PAYE tables).

Example

Rachel is employed by Red Bottle Ltd. She is not a KiwiSaver member. Her employment agreement includes Red Bottle Ltd making contributions of \$50 per week to her superannuation scheme, in addition to her normal weekly salary of \$500.

Rachel elects to have these contributions included as part of her salary.

This means Red Bottle uses the total of her salary and the employer contributions of \$550 to calculate her PAYE.

They would then pay Rachel the total of \$398.04 (her salary of \$500 less the PAYE of \$101.96) and pay the \$50 to her superannuation scheme, while they would return the gross salary of \$550 on the IR 348.

Withdrawal tax

This tax applies to employer contributions withdrawn from a superannuation fund, but not to contributions made by employees, as long as the trustee of the superannuation fund can identify these separately.

If you make contributions to a superannuation fund on behalf of your employees, you may have to provide information to the superannuation fund about any of your current or past employees. So if a withdrawal is made, the correct amount of withdrawal tax can be determined. The information requested by the superannuation fund could relate to an employee's period of employment, income details and superannuation contribution details. You need to be able to provide this information.

Withdrawal tax exemptions where you may be required to give information

The withdrawal tax has a number of exemptions. In some cases, you'll need to give information about an employee to a superannuation fund to let the fund determine whether an exemption applies. These are some of the exemptions you may need to give information about:

- Contributions to a superannuation fund made before 1 April 2000, and contributions that continue at the same level as that of the last pay period ending before 1 April 2000, are not subject to the withdrawal tax.
- If an increase in an employer's contributions is required by a trust deed of the superannuation fund, if a contract exists before 1 April 2000, or if an employee's salary increases and their percentage of contribution from employers remains the same; the contributions aren't subject to withdrawal tax. You need to make sure you've kept sufficient records, including the basis of any pay increase and whether that increase was over 50%.

- Withdrawals on partial retirement are exempt. Partial retirement means if all employer and employee contributions to a superannuation fund cease. If a member of a fund reduces their working hours to less than 30 hours a week as a lead-in to full retirement, they may make a withdrawal with no tax applying. The member must provide written notification they don't intend to increase their hours of paid employment in the future. The written notice also needs a statement from the member's employer(s) that there is no agreement work hours will increase.
- The withdrawal tax doesn't apply when funds are withdrawn after the employee ceases employment. An exception to this may apply if the employee started within the last two years, or if the employer contributions to superannuation savings have increased by 50% or more in either of the last two years. Ceasing employment doesn't include an employee transferring from one employer to another, related employer. Employers are related if they are separate employers but one is a branch or division of the other, or if they are associated.
- The tax doesn't apply if withdrawals are used to purchase a life annuity or pension, or an annuity or pension to be paid over 10 or more years. Withdrawals made to meet fund administration costs and the costs of group and individual life, health, sickness or accident insurance on behalf of members are also exempt.

Other exemptions

Where it can be proved significant financial hardship exists, the tax won't apply. The fund has been provided with a list of events that may give rise to serious financial hardship.

Withdrawal tax doesn't apply to withdrawals necessary to settle the division of relationship property.

Reducing withdrawal tax

The withdrawal tax is reduced by 25% for each of the four income years before the year the withdrawal is made, as long as the employee's taxable income and the employer's superannuation contributions are less than \$70,000 for each year. This means if the \$70,000 threshold is not exceeded in all the previous four years, no withdrawal tax applies at all.

Note

Withdrawal tax doesn't apply where an employee's gross annual earnings for each of the previous four years are less than \$70,000 and ESCT of 33% has been deducted.

Part 2 – Record keeping and making payments

Records you need to keep

You must keep all wage records for at least seven years, including all paysheets and PAYE payment receipts. Your records must be in English, unless you've asked us for approval to use another language.

To help with your record keeping, you can get specially designed wagebooks or computer payroll packages.

If you have a computer payroll system you must keep the same records as for a manual one. You may keep your records stored electronically, but you must be able to print them out if we ask you to.

PAYE intermediaries

Employers can hire a PAYE intermediary to complete their payroll requirements. If a PAYE intermediary is used, both the employer and the intermediary must meet the following requirements.

Employers need to:

- provide information requested by the intermediary within the time agreed by the employer and intermediary
- pay employees' gross salary or wages (and compulsory employer contributions for employees' KiwiSaver schemes) for the pay period into a trust account established by the PAYE intermediary by the date specified by the intermediary
- keep records of the gross salary or wages paid for the period.

The government subsidises or partly subsidises the cost of using a payroll intermediary. The subsidy is available to employers whose gross annual PAYE is less than \$500,000 and for up to five employees per month. To get the subsidy you must use a listed PAYE intermediary. The listed PAYE intermediary will receive the subsidy provided certain conditions are met.

PAYE intermediaries:

- calculate the employer's respective payroll information
- pay the employer's respective employees, including payment of any third party deductions
- pay the employer's respective tax deductions (including student loans, KiwiSaver, child support, ESCT and additional employee-related deductions) to us
- meet all the employer record keeping and return filing requirements.

Providing an employer has supplied the intermediary with all their relevant payroll information and gross payments, the responsibility for applying the PAYE rules correctly will rest with the intermediary and not the employer.

Manual record keeping

- Start a new page in your wagebook as soon as an employee starts work with you or at the beginning of each tax year. Make sure they give you the personal details you need.
- Keep a separate page for each employee, even if they were only employed for one day.
- Complete all these wage details each payday:
 - total gross earnings, including taxable allowances (the amount before PAYE is deducted)
 - the amount of PAYE deducted
 - any child support deductions
 - any KiwiSaver deductions
 - any KiwiSaver employer contributions
 - any student loan repayments
 - any ESCT (see page 15)
 - the value of tax-free reimbursing allowances.
- Summarise the details for each employee at the end of each deduction payment period. This will be either twice-monthly or monthly—see page 23.

- Keep a summary that shows the following totals for each deduction period:
 - gross wages
 - PAYE deducted
 - child support deductions
 - student loan repayments
 - KiwiSaver deductions
 - KiwiSaver employer contributions
 - ESCT.

The information in your wagebook will help you complete the IR 345 form (see page 25), and complete the *Employer monthly schedule (IR 348)*—see page 27.

Note

When completing the *Employer monthly schedule (IR 348)* it doesn't matter when a pay period starts or ends. Only include those deductions from gross earnings actually paid or credited to employees during the period covered by the schedule.

Start a new page for each employee

Your employee gives you this code on the Tax code declaration (IR 330)

My Wagebook

(a) Name *Joe Bloggs*

(b) Address *10 KiwiSaver Way, Wellington*

(c) Occupation *Designer*

(d) Date started *7/5/2008*

Employee's IRD no *22-222-222*

Employee's tax code *M SL* Date applied

Annual holidays Start date Finish date

Week ending	Gross pay		PAYE calculated		Child support deductions		Student loan deductions		KiwiSaver deductions		Total deductions	Net after tax and deductions	Non-taxable allowances	Net pay to worker	KiwiSaver employer contributions	
	For week	For month	For week	For month	For week	For month	For week	For month	For week	For month					For week	For month
<i>14/5/2008</i>	<i>405.00</i>		<i>79.75</i>				<i>5.60</i>		<i>16.20</i>		<i>107.55</i>	<i>303.45</i>				<i>4.05</i>
<i>21/5/2008</i>	<i>405.00</i>		<i>79.75</i>				<i>5.60</i>		<i>16.20</i>		<i>107.55</i>	<i>303.45</i>				<i>4.05</i>
<i>Month's total</i>	<i>810.00</i>		<i>159.50</i>				<i>11.20</i>		<i>32.40</i>		<i>203.10</i>	<i>606.90</i>				<i>8.10</i>

Copy monthly totals to the summary

My Wagebook – Monthly summary of wages and tax deductions For month ending *31 May 2008*

Employee's name	Gross pay	PAYE calculated	Child support deductions	Student loan deductions	KiwiSaver deductions	Total deductions	Net after tax and deductions	Non-taxable allowances	Net pay to employee	KiwiSaver employer contributions
<i>Davies, Robyn</i>	<i>2,400.00</i>	<i>451.64</i>		<i>8.60</i>	<i>8.48</i>	<i>621.72</i>	<i>1,778.28</i>		<i>1,778.28</i>	<i>24.60</i>
<i>Rawlins, Stacey</i>	<i>192.30</i>	<i>28.84</i>				<i>28.84</i>	<i>163.46</i>		<i>163.46</i>	
<i>Bloggs, Joe</i>	<i>810.00</i>	<i>159.50</i>		<i>11.20</i>	<i>32.40</i>	<i>203.10</i>	<i>606.90</i>		<i>606.90</i>	<i>8.10</i>
<i>Manoa, Katerina</i>	<i>1,057.00</i>	<i>173.88</i>				<i>173.88</i>	<i>883.12</i>		<i>883.12</i>	
<i>Total</i>	<i>4,459.30</i>	<i>813.86</i>		<i>92.80</i>	<i>120.88</i>	<i>1,027.54</i>	<i>3,431.76</i>		<i>3,431.76</i>	<i>32.70</i>

Paying PAYE to Inland Revenue

If the PAYE due date for payment falls on a Saturday, Sunday, or public holiday, you can make your payment on the next working day without penalty.

Whether you pay your PAYE to us monthly or twice-monthly depends on your gross annual PAYE deducted. Gross annual PAYE is the total PAYE, including any ESCT, but excluding earners' levy, student loan repayments, KiwiSaver deductions and child support.

You can file your *Employer deductions (IR 345)* form electronically using ir-File. Your payment can be made electronically. If you don't file electronically we'll send your IR 345 form before the due date for each payment. See page 25 for more information about these forms.

Employers who file manual returns will also receive an *Employer monthly schedule (IR 348)* each month—see page 27 for more information.

Paying once a month

If your gross annual PAYE (including ESCT) is less than \$500,000 you must pay PAYE monthly. PAYE deducted in the month is due by the 20th of the following month.

Example

An employer pays wages fortnightly on Thursdays.

Period PAYE deducted	Due date
August 2008 (two paydays)	
9 and 23 August 2008	20 September 2008

Paying twice a month

If your gross annual PAYE and ESCT is \$500,000 or more in the previous year ended 31 March, you're required to pay PAYE:

- from wages paid between the 1st and 15th of the month by the 20th of the same month
- from wages paid between the 16th and the end of the month by the 5th of the following month, except for the second period of December, which is due on 15 January.

Period PAYE deducted	Due date
1 to 15 July 2008	20 July 2008
16 to 31 July 2008	5 August 2008
1 to 15 August 2008	20 August 2008
16 to 31 August 2008	5 September 2008

If your payment is made late, you'll be charged interest and may also be charged late payment penalties and non-payment penalties (see page 45).

Note

In deciding whether you're required to pay twice monthly, we treat the following as one employer:

- any companies in a group that have 66% or more common ownership
- all partners in a partnership
- all persons who have control of the same property, such as
 - a deceased person's estate, or
 - a company in liquidation.

Are you a new employer?

If your gross annual PAYE is \$500,000 or more at any time during the first year of employing we'll send you *Employer deduction (IR 345)* forms so you can pay twice-monthly. You'll also need to register for electronic filing (ir-File)—see page 33 for more information.

Employers with other pay periods

In all the following situations, the due dates are:

- the 20th of the month in which PAYE was deducted (for PAYE deducted between the 1st and the 15th of the month)
- the 5th of the month following the one in which PAYE was deducted (for PAYE deducted between the 16th and the end of the month), except for the second period of December, which is due on 15 January.

Salary and wages paid once a month on the same day each month

On request, we can send only one *Employer deductions (IR 345)* form per month. The due date depends on the date of deduction.

Salary and wages paid every four weeks

Generally, amounts deducted have to be paid once a month. However, there may be occasions when deductions are paid twice a month. This is because the payday falls on a different day each month.

Example

Date wages paid	PAYE period ending	Due date
10 September 2008	15 September 2008	20 September 2008
8 October 2008	15 October 2008	20 October 2008
5 November 2008	15 November 2008	20 November 2008

Salary and wages paid every three weeks

Amounts deducted may have to be paid once or twice a month, depending on which day in the month the payday falls.

Example

Date wages paid	PAYE period ending	Due date
3 September 2008	15 September 2008	20 September 2008
24 September 2008	30 September 2008	5 October 2008
15 October 2008	15 October 2008	20 October 2008
5 November 2008	15 November 2008	20 November 2008

Salary and wages paid irregularly

The due date for paying the amounts deducted depends on the date you pay wages.

Remember, if you don't pay wages in any period, you must still file a nil *Employer deductions (IR 345)* form, and *Employer monthly schedule (IR 348)*—see page 25.

Employer deductions (IR 345) form

You can file your *Employer deductions (IR 345)* form online using ir-File.

If you do not file online, fill in the IR 345 details and send back to us with your payment.

Completing the IR 345

Enter the following details for the period covered by the IR 345.

PAYE and tax on schedular payments (Box 3)

Print the total PAYE deducted from your employees' gross earnings during the period.

Also include tax deductions in this box.

Child support deductions (Box 4)

Total the child support deductions made for all employees for the period and enter the figure in Box 4.

Student loan deductions (Box 5)

Total the student loan deductions made for all employees for the period and enter the figure in Box 5.

KiwiSaver deductions (Box 6)

Total the KiwiSaver deductions made for all employees for the period and enter this figure in Box 6.

KiwiSaver employer contributions (Box 7)

Total the KiwiSaver employer contributions you've made to your employees' KiwiSaver schemes for the period and enter this figure in Box 7.

ESCT deductions (Box 8)

Total the ESCT deductions you've made and enter this figure in Box 8.

“Nil” IR 345

If you don't pay salary or wages in any period, file a nil IR 345. If you don't file one, we'll ask you to explain why you haven't made a payment. Also file your IR 348 schedule.

Complete the IR 345 showing the period no PAYE was deducted and enter 0.00 in Boxes 9 and 10.

If you have ceased employing please see page 34.

Note

Remember, if you've made deductions for employees' arrears, don't show these on your *Employer deduction (IR 345)* forms—attach a copy of the deduction notice instead.

Records and payments



Employer deductions



A C Design Limited
PO Box 2198
Wellington

Please see notes on the back to help you complete this form and the EMS schedule.

For more information:
website www.ird.govt.nz
telephone 0800 377 772
INFOexpress 0800 257 773

IRD number **1** 12-345-678
Period ended **2** 31 05 2009

These will be preprinted

If your postal address is different from that printed above, please enter your new address below.

Street or PO Box
Suburb
Town or city

OFFICE USE ONLY
 Operator code Corresp. indicator
 Payment attached Return cat.

Declaration I declare that the information given in this return is true and correct.

Signature T. Day Date 31/ 5/ 09

PAYE (incl. tax on schedular payments) **3** \$ 7 3 9 . 4 5

Child support deductions **4** \$

Student loan deductions **5** \$ 8 0 . 9 6

KiwiSaver deductions **6** \$ 1 2 8 . 4 0

KiwiSaver employer contributions **7** \$ 6 4 . 2 0

ESCT deductions **8** \$

Totals from employer monthly schedule

Add Boxes 3, 4, 5, 6, 7 and 8. This is the amount you need to pay **9** \$ 1 0 1 3 . 0 1

Inland Revenue copy
Please make a copy for your own records

Has payment been made electronically? (Tick one) Yes No



Payment slip

DED

A C Design Limited

IRD number 12-345-678

Period ended 31 05 2009

Amount of payment **10** \$ 1 0 1 3 . 0 1

This return and any payment are due 20/06/09

Copy your total from Box 9 and include any late payment penalties and interest, for this period only.

This is the amount to pay to Inland Revenue

Completing the *Employer monthly schedule (IR 348)*

Once a month you must complete an *Employer monthly schedule (IR 348)*, which has details of your employees' gross wages and deductions made.

Employers with gross annual PAYE of less than \$500,000 will file their *Employer monthly schedule (IR 348)* at the same time as their *Employer deductions (IR 345)*. This is due on the 20th of the month following the month of deduction—see page 23.

Employers with gross annual PAYE of \$500,000 or more will file their *Employer monthly schedule (IR 348)* once a month on the 5th of the following month, which is at the same time as the payment for the period from the 16th to the end of the month. The IR 348 will include details of wages paid and deductions made for the whole month.

Employers with gross annual PAYE of \$100,000 or more must file their *Employer monthly schedule (IR 348)* electronically. See page 33 for more information on electronic filing.

On your first IR 348 you'll need to enter each employee's name, IRD number, tax code and start date. After that, we'll preprint this information on the IR 348, and you'll only need to enter details of any new employees. Note: The employer monthly schedule (EMS) is preprinted on both sides.

Note

For employees who have used both a PAYE tax code and schedular payment tax code (WT) during the month, please show the respective details for each tax code on separate lines when completing your IR 348.



Inland Revenue
Te Tari Taake

Employer monthly schedule

For help, refer to notes on employer deductions form.

A C Design Limited

This schedule is due 20/06/09

Gross earnings and/or schedular payments	Earnings and/or schedular payments not liable for ACC earners' levy	3 PAYE and/or schedular tax deductions	4 Child support deductions	5 Student loan deductions
Employee name and IRD number				
Surname: <i>Bloggs, Joe</i>		IRD number: <i>22222222</i>		Employment start: <i>07</i>
First name(s): <i>Joe</i>		Tax code: <i>MSL</i>		Day: <i>07</i>
<input type="checkbox"/> Tick if lump sum payment made and taxed at lowest rate		CS code: <input type="checkbox"/>		
\$ <i>810</i> 00	\$ <i>00</i> 00	\$ <i>115</i> 00	\$ <i>00</i> 00	\$ <i>00</i> 00
Employee name and IRD number				
Surname: <i>Rawlins, Stacey</i>		IRD number: <i>12111222</i>		Employment start: <input type="checkbox"/>
First name(s): <i>Stacey</i>		Tax code: <i>WT</i>		Day: <input type="checkbox"/>
<input type="checkbox"/> Tick if lump sum payment made and taxed at lowest rate		CS code: <input type="checkbox"/>		
\$ <i>192</i> 00	\$ <i>192</i> 00	\$ <i>288</i> 00	\$ <i>00</i> 00	\$ <i>00</i> 00
Employee name and IRD number				
Surname: <i>Davies, Robyn</i>		IRD number: <i>12221221</i>		Employment start: <input type="checkbox"/>
First name(s): <i>Robyn</i>		Tax code: <i>MSL</i>		Day: <input type="checkbox"/>
<input type="checkbox"/> Tick if lump sum payment made and taxed at lowest rate		CS code: <input type="checkbox"/>		
\$ <i>240</i> 00	\$ <i>00</i> 00	\$ <i>445</i> 59	\$ <i>00</i> 00	\$ <i>809</i> 60
Employee name and IRD number				
Surname: <i>Munro, Kathryn</i>		IRD number: <i>12222345</i>		Employment start: <i>10</i>
First name(s): <i>Kathryn</i>		Tax code: <i>M</i>		Day: <i>10</i>
<input type="checkbox"/> Tick if lump sum payment made and taxed at lowest rate		CS code: <input type="checkbox"/>		
\$ <i>105</i> 70	\$ <i>00</i> 00	\$ <i>150</i> 06	\$ <i>00</i> 00	\$ <i>00</i> 00
Total gross earnings and/or schedular payments	Total earnings not liable for ACC earners' levy	3 Total PAYE and/or schedular tax	4 Total child support	5 Total student loan
\$ <i>445</i> 90	\$ <i>192</i> 00	\$ <i>739</i> 45	\$ <i>00</i> 00	\$ <i>809</i> 60

IR 348 February 2009

If your correct daytime phone number is not shown below, print in the box

(04)555 6666

If your correct contact person's name is not shown below, print in the box

Kathryn Munro

Declaration

I declare that the information given is correct.

Signature: *K Munro*



Fill in the following monthly details for each employee:

Full name

Surname, then first name, for example, "Davies, Ross". Complete this if the employee has started working for you and their name does not appear elsewhere on the IR 348.

IRD number

Complete this if the employee has started working for you and their details don't appear elsewhere on the IR 348.

Use the IRD number the employee has given you on the Tax code declaration (IR 330).

Tax code

Complete this if the employee has begun working for you during the month and their details don't appear elsewhere on the IR 348. Use the tax code the employee has given you on the Tax code declaration (IR 330) (or the tax code shown on the Special tax code or deduction rate (IR 23)—see page 8).

Employer's IRD number **1** 12-345-678
 Period ended **2** 31 05 2009

6 KiwiSaver deductions **7** KiwiSaver employer contributions

start and/or finish date
 0 5 0 8 Finish
 Month Year Day Month Year

\$ 3 2 4 0 \$ 1 6 2 0

start and/or finish date
 Finish
 Month Year Day Month Year

\$ \$

start and/or finish date
 Finish
 Month Year Day Month Year

\$ 9 6 0 0 \$ 4 8 0 0

start and/or finish date
 0 9 0 7 Finish
 Month Year Day Month Year

\$ \$

6 Total KiwiSaver deductions **7** Total KiwiSaver employer contributions

\$ 1 2 8 4 0 \$ 6 4 2 0

I declare that the information given in this return is true and correct.
 17/06/09
 Date

OFFICE USE ONLY
 Operator code Corresp. indicator
 Payment attached Return cat.

If an existing employee tells you during the month they have changed their tax code, don't forget when completing your IR 348, to cross out the old preprinted one and write in the new one.

Employment start and/or finish date

If the employee has started or finished working for you during the month, show the relevant start and/or finish date.

The start date is the actual date the employee starts working for you. The finish date is the earlier of the date when the employee actually stopped working for you or the date they received their final pay.

If you cease employing, your final IR 348 schedule must show finish dates for all employees.

Gross earnings and/or schedular payments

Write the total gross earnings paid to each employee during the month. Include bonuses, backpay, taxable allowances, and schedular payments (except where no tax has been deducted because the employee has a certificate of exemption—see page 11). Show whole dollars only.

Earnings and/or schedular payments not liable for earners' levy (ACC)

For each employee, write the amount of any earnings not liable for ACC earners' levy. The following payments are not liable for earners' levy:

- schedular payments
- redundancy payments
- retiring allowances
- pensions from schemes not registered under the Superannuation Schemes Act 1989.

The maximum earnings on which the earners' levy deduction is payable is \$106,473, for the 2010 year. If an employee earns over the maximum liable earnings threshold, set for that year, the excess amount doesn't go in this column of your EMS.

Lump sums taxed at lowest rate

Tick the circle if a lump sum was paid and taxed at the lowest rate. Lump sum payments, such as annual or special bonuses, gratuities, or backpay are "extra emolument" payments and can be taxed at three different rates. See page 37 for more information on the lump sum rates.

PAYE

Write the total PAYE deducted from each employee's gross earnings for the month. Also include tax on schedular payments in this box.

Child support

Write the total child support deductions made from each employee's earnings during the previous month. Your child support deduction notice tells you whether to use paydays or pay periods to calculate the total.

You may also need to fill in the child support (CS) code. See "Child support codes" below for an explanation of these.

Student loan

Write the total student loan repayment deductions made from each employee's gross earnings for the month.

KiwiSaver deductions

Write the total KiwiSaver deductions made from each employee's gross earnings for the month.

KiwiSaver employer contributions

Write the total KiwiSaver employer contributions you've made to each employee's KiwiSaver scheme for the month.

Totals

At the bottom of each page, add up each column and put the total in the boxes. If there is more than one page of the IR 348, you can either total each page, or do one total on the last page.

Check the preprinted contact phone and name details and make any necessary changes. Sign and date the IR 348.

Child support codes

It's important you complete the child support code on the IR 348, if the amount you deduct is different to the amount on the child support deduction notice—see page 13. This is because we keep a record of the amount we expect from each employee for a month.

Use one of these codes:

A – Payment in advance

Sometimes you may pay an employee in advance, eg, when they'll be on holiday on the next payday. In this case, deduct the same amount of child support as you would if you were paying the employee on the usual payday. You must

include the child support with the deductions for the period when the employee was given the advance pay. Your child support will be more than usual for that period, so enter "A" as the variation code.

C – Ceased employment

If an employee stops working for you, deduct child support only from the last full pay you gave them, and from any holiday pay owed. Enter "C" as the variation code, so we can remove the employee from your records. If an employee stops then restarts working for you within the same month, don't use this variation code.

D – Previously deducted

Sometimes the full amount of child support requested from an employee's wages may not have been deducted because you previously made an advance payment. Your child support will be less than usual for that period, so enter "D" as the variation code.

P – Protected earnings

If you're unable to deduct the full amount of child support requested from an employee's wages due to net protected earnings, enter "P" as the variation code.

S – Short-term absences

If an employee is off work on unpaid leave for a short period of time and you're unable to deduct any or all of the amount of child support requested, enter "S" as the variation code.

O – Other

If none of the other variation codes can be used to explain why the amount of child support deducted doesn't equal what was expected, enter "O" as the variation code.

For more help

If you have any questions about filling in the child support part of the IR 348, call us on 0800 220 222.

Correcting your IR 348 after it's been filed

Electronic filing amendments

If you file your IR 348 electronically you can amend your EMS in the ir-File workspace.

If you want to amend your EMS after the cut-off time you can do this by calling us on 0800 377 772 or you can file an *Employer monthly schedule amendments (IR 344)* form. Please note this form cannot be filed electronically.

Completing the IR 344

If you've filed an IR 348 and then want to amend some information on it, you can complete an *Employer monthly schedule amendments (IR 344)* form and send it to us.

If there are a small number of adjustments you can call us on 0800 377 772 to have them updated over the phone—you'll also need your IRD number handy.

Enter your business name, IRD number and the period you're changing, on the top of the IR 344.

To amend an employee's pay details, write in the employee's name and IRD number, the figures you originally sent in, and what these should be changed to. We need this information so we can match your details. You can amend up to three employees' details per form.

Example

After checking your wage records, you see you transposed an employee's PAYE amount. Enter the employee's full name, IRD number and PAYE amount on the "original details sent" line. Below, in the "changed to" line, you only need to enter the amended PAYE amount.

If an employee's details were missed off your IR 348, complete the "changed to" line only.

Note

The IR 344 form can only be used for amendments to one month's PAYE details. If changes cover more than one month, you should use a separate form for each month.

Making KiwiSaver adjustments

All contributions made to a KiwiSaver scheme are passed to the scheme provider. If you make adjustments to your employee's KiwiSaver deductions and/or contributions we'll pass this information to the scheme provider.

For more information about making amendments to KiwiSaver please see our *KiwiSaver employer guide (KS 4)*.



Inland Revenue
Te Tari Taake

Employer monthly schedule amendments

IR 344
June 2009

Employer's name

AC Design Limited

Please read the notes on the back of this form. If details for more than three employees need amending for this period, attach additional amendment forms and show the period ending date on each form. Use a separate form for each period that needs amendment.

IRD number (8 digit numbers start in the second box.)
For the period ending

Staple cheque here

Employee details

(Amounts advised must be for the whole month)

Original details sent	Full name	Employment start and/or finish date	Gross earnings and/or scheduled payments	Earnings and/or scheduled payments not/liable for ACC earners' levy	PAYE (incl. tax on scheduled payments)	Child support deductions	Student loan deductions	KiwiSaver deductions	KiwiSaver employer contributions
Original details sent	Davies, Ross	Start: Day: Month: Year: Finish: Day: Month: Year:	IRD number: <input type="text" value="12173142"/>	Tax code: <input type="text" value="SH"/>	Tick if lump sum payment made and taxed at lowest rate: <input type="checkbox"/>	CS code: <input type="text"/>			
Changed to	Paul William	Start: Day: Month: Year: Finish: Day: Month: Year:	IRD number: <input type="text" value="179000"/>	Tax code: <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate: <input type="checkbox"/>	CS code: <input type="text"/>			
Original details sent	Paul William	Start: Day: Month: Year: Finish: Day: Month: Year:	IRD number: <input type="text" value="98712365"/>	Tax code: <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate: <input type="checkbox"/>	CS code: <input type="text"/>			
Changed to	Paul William	Start: Day: Month: Year: Finish: Day: Month: Year:	IRD number: <input type="text" value="110000"/>	Tax code: <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate: <input type="checkbox"/>	CS code: <input type="text"/>			

Employer tax credits claimed (ETC)

Underpayment or overpayment (see notes on back)

Declaration: I declare that the information given is true and correct.

Records and payments

(Please provide explanation of changes on back)

Signature *T. Day*

Daytime phone number *09 237 6677*

Contact person's name (please print) *TOMMY DAY*

KiwiSaver ETC Complying funds ETC

Original details sent: \$: : : : :

Changed to: \$: : : : :

Underpayment (please send payment)

Cheque attached Paid electronically

Overpayment

Transfer to PAYE period ending

Transfer to other tax type (complete panel on back)

Refund

Signature *T. Day*

Daytime phone number *09 237 6677*

Contact person's name (please print) *TOMMY DAY*

Electronic filing (ir-File)

All employers can file their *Employer monthly schedule (IR 348/EMS)* and *Employer deductions (IR 345/EDF)* form electronically.

The service enables employers to send their monthly payroll details to us over a secure internet connection and it's fast and efficient.

To file your IR 348 electronically you have two options:

- onscreen form
- file transfer.

If you're using a computerised payroll system, file transfer is probably the best method to use. Payroll software developers have our specifications and can help you buy a suitable package or upgrade any existing software.

If you keep a manual wagebook, the onscreen form option may suit you. This is an onscreen version of the paper form you can send us through the internet.

Before you can file electronically, you'll need:

- a computer that can connect to the internet
- an internet browser, either Internet Explorer 6 or higher, or Mozilla Firefox v:02 or higher
- an internet connection
- an email address.

Once you're registered, you'll have a user ID and password to log in to the service.

To register, go to www.ird.govt.nz "Secure online services".

If the PAYE amount deducted is \$100,000 or more, you must file electronically. We'll write to you telling you what to do when this happens.

Note

An interactive demonstration of ir-File is available at www.ird.govt.nz

How to pay your deductions

You can make tax payments electronically through your bank, by cheque or at branches of Westpac.

Electronic payments are automatic payment, direct credit and online banking. Major banks offer an online tax payment service on their website which ensures sufficient payment reference details are included with your payment. If your bank does not offer this service you can pay using their standard online service but you need to ensure we have all the details for us to credit your payment to your account.

If you're paying PAYE you need to select the DED tax type. DED relates to "employer deductions" and applies to PAYE or any combination of PAYE, child support, student loan, KiwiSaver and employer's superannuation contribution deductions.

Please tell us on the *Employer deductions (IR 345)* form if you're paying electronically.

You can post us a cheque on the last day for payment and it will still be on time as long as it's postmarked with the due date. Please:

- make your cheque payable to "Inland Revenue"
- cross it "Not transferable", and
- post it with the payment slip.

Note: Do not send cash.

You can also make your payment by cash, eftpos or cheque at branches of Westpac. Please take your preprinted payment slip with you so the teller has all the information to process your payment.

For more information about all payment methods, see our booklet *Making payments (IR 584)*.

When an employee stops working for you

You must show each employee's finish date on the IR 348.

Employee rehired in the same year

If an employee stops working for you and is rehired in the same year ended 31 March, you must get another *Tax code declaration (IR 330)*. You'll also need to show the employee's start date on your IR 348.

Employee on transfer

If an employee transfers from one branch of a company to another and is paid by the new branch office on a separate payroll:

- the old branch treats the transfer as if the employee has stopped work
- the new branch must get the employee to fill in another *Tax code declaration (IR 330)* and will show the employee's start date on their IR 348.

If the employee is paid from a central or head office, that office continues deducting PAYE from the employee's earnings. The employee doesn't need to complete a new IR 330.

If you've ceased or are about to cease providing fringe benefits

If you've ceased or are about to cease providing fringe benefits, call 0800 377 772 and let us know. For more information, see our *Fringe benefit tax guide (IR 409)*.

If you stop paying wages permanently

If you've stopped paying wages permanently, call 0800 377 772 and let us know, even if your business is still going.

A company has not stopped paying wages permanently until all its wages, including shareholder-employee salaries, have been finally calculated.

Shareholder-employee salaries with no tax deducted are included in the company's IR 4 tax return.

If you've ceased or are about to cease business

If you've ceased or are about to cease business, call 0800 377 772 and let us know—or complete a *Business cessation (IR 315)* form and send it to us.

Note

If you've ceased or are about to cease business or stopped paying wages, you'll need to file an IR 348 for the month that you ceased. You'll also need to record a finish date for each employee. After receiving this schedule, we'll stop sending you IR 345s and IR 348s.

Running totals

Running totals are your gross earnings and the PAYE amounts deducted since 1 April. The totals given are as at a certain date, and may not include all PAYE payments you have sent in, if the details from your last *Employer monthly schedule (IR 348)* were not recorded when you phoned.

Student loan deductions and child support deductions are not included.

If you need more information or would like to query the totals, call us on 0800 377 772.

Part 3 – Other payments

Besides normal salaries and wages, you may make other payments to, or on behalf of, your workers. This part covers the most common of these and explains the tax treatment for each.

Allowances

Allowances can be taxable or tax-free, and are usually paid as a result of:

- an industrial collective agreement, or
- an agreement made between the employer and employees—commonly known as an inhouse agreement.

Taxable allowances must have PAYE deducted, along with the employee's wages. If you don't do this, you could be liable for the PAYE that should have been deducted, as well as penalties. Include the total taxable allowances in with your employees' gross wages on your IR 348.

Tax-free allowances should be added to your employees' net wages (wages after PAYE) when you pay them. Show the total amount of tax-free allowances paid in your wagebook.

You don't need to apply for our approval to pay tax-free allowances to your employees. You can decide for yourself (using our guidelines) whether the allowance you want to pay will be tax-free or not. To help you work this out we've set out the three types of allowances commonly paid. They are:

- benefit allowances
- reimbursing allowances
- travelling allowances.

We can also issue binding rulings on which allowances may be paid tax-free.

Benefit allowances

Benefit allowances are payments made in addition to salary or wages, which benefit the employee. A benefit allowance is taxed with the employee's wages in the pay period it's paid.

Food or accommodation provided to employees may also be a benefit allowance. The taxable benefit is the difference between the market value of the benefit provided, and any amount the employee pays.

Add the taxable value of the benefit to the employee's wages each pay period and deduct PAYE from the total.

Example

Market value of accommodation	\$250 per week
Less rent paid	\$100 per week
	<hr/>
Value to be added to wages and taxed	\$150 per week

If the employee paid no rent, the value to be taxed would be \$250 per week.

Any allowance you pay to an employee instead of providing them with accommodation is fully taxable.

Reimbursing allowances

Reimbursing allowances are payments made to employees to compensate them for expenses they've had while doing their job—such as meal allowances, mileage allowances or tool money.

Reimbursing allowances are not taxable. However, if the payment is more than the employment-related expenses, the excess is taxable.

Travelling allowances

Employers need to decide how to tax a travelling allowance paid to an employee. An allowance paid for an employee's usual travel costs between home and work is taxable. A travel allowance is tax-free to the extent that the amount paid reimburses an employee's additional transport costs, is for the employer's benefit, and one or more of the following special circumstances exists:

- the employee is working outside the normal hours of work (eg, overtime, shift or weekend work)
- the employee needs to transport work-related tools, equipment or materials (eg, the employee normally takes the bus to work but has to use some other type of transport to carry work-related gear)
- there's a temporary change in workplace
- the employee is travelling to fulfil a statutory obligation for the employer
- there's some other condition of the employee's job (eg, the employee usually takes the bus to work but their employer requests using their private vehicle while the company car is in the workshop)
- there is no adequate public transport system serving the workplace.

For all the special circumstances above, except the lack of adequate public transport, the tax-free amount is the actual cost of travelling between home and work, less the employee's usual travel costs.

Example

You change the roster, requiring some of your employees to work the night shift.

If your employee's usual travel from home to work is by:

- bus during the day and bus to do the new night shift, or
- private car during the day and private car to do the new night shift

there are no additional transport costs.

Any travelling allowance paid is taxable.

But, if your employee's usual travel from home to work is by bus, costing \$6 during the day, and they have to travel 22 km by private car to do the new night shift because there is no late bus, part of the travel is tax-free.

Actual cost: 22 km @ 70 cents for each km*	\$15.40
Less usual travel costs	\$ 6.00
Additional transport costs (tax-free amount)	\$ 9.40

So:

- if the travelling allowance paid is \$15.40, \$9.40 is tax-free and \$6.00 is taxable
- if the travelling allowance paid is \$12.00, \$9.40 is tax-free and \$2.60 is taxable.

Add the taxable amount to your employee's gross income and work out PAYE on the total.

If there's no adequate public transport, the usual cost of travel between the employee's home and place of work is set at \$5 a day.

For a combination of any of the special circumstances set out above and there's no adequate public transport, use the calculation method that gives the greatest benefit to the employee.

Example – no public transport

There's no public transport so an employee travels 22 km by private car between their home and work, for their employer's benefit.

Actual cost: 22 km @ 70 cents for each km*	\$15.40
Less \$5.00 per day	\$ 5.00
Additional transport costs (tax-free amount)	\$10.40
\$10.40 is payable tax-free.	

* The Inland Revenue mileage rate is currently 70 cents per km. For more information go to www.ird.govt.nz (keyword: mileage rates).

Example – no usual transport costs

A paramedic works during the day at a medical centre. They're called out at night to a car accident, travelling 57 km return in their private car.

Actual cost: 57 km @ 70 cents for each km*	\$39.90
Less usual travel costs (nil cost, because this is additional to the usual travel from home to work)	\$ 0.00
Additional transport costs (tax-free amount)	\$39.90

* The Inland Revenue mileage rate is currently 70 cents per km. For more information go to www.ird.govt.nz (keyword: mileage rates).

You may make a reasonable estimate of the likely costs for an employee or a group of employees and you may use an average. You don't have to calculate the costs for each employee in each pay period.

If your employee travels more than 70 km a day you must contact us to advise why this travel is necessary for the purposes of the additional transport cost calculation.

If a group of employees has a travelling arrangement, for example, sharing one employee's car, you must calculate the non-taxable amount. This amount will be based on either the average expenses of each individual or the average expenses of that group of employees.

GST on allowances

You can claim a GST credit for reimbursement of an employee's actual expenses if the employee incurs the expenditure in the course of your business and you're registered for GST. You must hold a correct GST tax invoice to claim the credit, except for amounts under \$50. However, we suggest you keep records such as vouchers or receipts for these purchases.

You can't claim a GST credit if the allowance is a general one that doesn't reimburse the employee's actual expenses incurred on your behalf, or if it's paid to meet the employee's private expenses.

Lump sums (extra emoluments)

Lump sum payments paid as annual or special bonuses, retiring or redundancy payments, restrictive covenant or exit inducement payments, gratuities, or backpay are "extra emolument" payments.

There are three tax rates for lump sums, which are shown in the current PAYE deduction tables. ACC earners' levy is added to these rates, except for:

- retiring or redundancy payments, or
- where the combined earnings of the employee, including the lump sum, exceeds or is likely to exceed the ACC earners' levy maximum.

Refer to the current PAYE deduction tables (IR 340 or IR 341) for the "ACC earners' levy" threshold and "Lump sum payments" for tax rates.

If your employee's annual salary or wages plus the lump sum will be more than \$48,000, you must deduct tax at one of the higher rates as applicable. This means your employee will be less likely to have a large tax bill at the end of the year from an under-taxed lump sum payment.

Your employees can also elect to have any lump sums taxed at a higher rate. They may choose to do this if, for example, they have another job or other untaxed income, such as rent. They will tell you if they want to use a higher rate.

The PAYE deducted is paid with the other PAYE for the period the lump sum was paid in.

If the lump sum is taxed using the lowest rate, tick the box on the IR 348 to show this.

Note

Any lump sums paid regularly or any lump sums for overtime are not extra emolument payments. The lump sum amount is added to the employee's gross wages and PAYE is deducted from the total using the PAYE deduction tables.

If the employee uses an M SL, ME SL, S SL, SH SL or ST SL code, you'll also have to deduct student loan repayments from lump sum payments.

Example

Chris has a student loan. He receives a Christmas bonus of \$640 gross. The PAYE, at the lowest lump sum rate of 22.7 cents in the dollar, including earners' levy, is \$145.28. The student loan deduction is \$64 (10 cents in the dollar).

The net bonus paid to Chris is:

Gross bonus	\$ 640.00
Less PAYE	\$ 145.28
Less student loan deductions	\$ 64.00
Net bonus	\$ 430.72

Bonuses – annual or special

Bonus payments that you make irregularly, are taxed at the lump sum rate (refer to the PAYE deduction tables for the current lump sum rates).

If the employee uses an M SL, ME SL, S SL, SH SL or ST SL code, you'll also have to deduct student loan repayments from the bonus.

Example

You are going to pay a bonus payment of \$25,000 to one of your employees. The employee's gross earnings for the last four weeks were \$6,507.

Last four weeks' income	\$ 6,507
Multiply by 13 (to gross-up to an annual income)	\$ 84,591
Add the bonus payment	\$ 25,000
Total	\$109,591
ACC earners' levy threshold	\$106,473 *
Earnings in excess of threshold	\$ 3,118

* Based on the threshold applying from 1 April 2007.

The bonus payment of \$25,000 should be taxed as follows:

\$21,182 at 39.7 cents in the dollar (includes earners' levy)	\$8,409.25
\$3,118 at 38 cents in the dollar	\$1,184.84
Total tax	\$9,594.09

Paying a net bonus

If you want to pay an employee a net bonus, you must calculate the gross amount to include in your wage records. The PAYE and any student loan repayment calculated on the bonus must be paid with other deductions for that pay period. The method for working out the gross bonus depends on the employee's tax code.

Example – M, ME, ML, S, SH or ST codes

The employee is to be paid a net bonus of \$60. Here is how the gross bonus is worked out:

1. Deduct the lump sum PAYE rate from \$1 (1 – 0.227 cents is 0.773 cents)
2. Divide the net payment by 0.773 cents
(\$60 ÷ 0.773) \$ 77.61
3. The gross bonus is \$ 77.61

To calculate the PAYE, multiply the gross bonus by the lump sum rate:

Gross bonus	\$ 77.61
Less PAYE deducted (at 22.7 cents)	\$ 17.61
Net bonus	\$ 60.00

Example – M SL, ME SL, S SL, SH SL or ST SL codes

The employee's net bonus is \$60.

1. Add the student loan rate (10 cents in the dollar) to the lump sum rate (22.7 cents in the dollar) 32.70
2. Deduct this combined rate from \$1 (1 – 0.327 cents) 0.673
3. Divide the net payment by 0.673 cents (\$60 ÷ 0.673) \$ 89.15
4. The gross bonus is \$ 89.15

To calculate the tax deducted, multiply the gross bonus by the lump sum and student loan repayment rates:

Gross bonus	\$ 89.15
Less PAYE deducted (at 22.7 cents)	\$ 20.24
Student loan repayments (at 10 cents in every dollar)	\$ 8.91
Net bonus	\$ 60.00

Note

Both the examples assume that the annual earnings of the employee are less than \$48,000 and the primary tax code is used.

Restrictive covenant and exit inducement payments

These payments are taxable as follows:

Restrictive covenant payments

These are payments made in return for a person agreeing to restrict their ability to perform services. This includes payments made to an employee when their employment is terminated and they agree not to carry on business in competition with their former employer. It also includes payments made when an employee enters into a restrictive covenant with a wholly owned company and then sells the shares in that company to their employer. These types of payments are classed as source deduction payments, so PAYE must be deducted.

Exit inducement payments

Exit inducement payments are made by a prospective employer or contractor to a person to give up a particular status or position. These include payments to employees whose job status changes, even if they don't have a career change. These types of payments are also defined as source deduction payments, so PAYE must be deducted.

Both restrictive covenant and exit inducement payments are taxed at the lump sum rate. See the PAYE deduction tables for the current lump sum rates.

Retiring and redundancy payments

Retiring allowances

A retiring allowance is a payment made to an employee on retirement. The employment must have been fully terminated because of:

- the employee's decision
- the terms of any union contract
- the length of service of the employee, or
- the employer's policy.

It's not based on the age of the employee.

Retiring allowances are taxable in full, but are not liable for earners' levy. See the PAYE deduction tables for the current lump sum rates. See the notes on page 37 about when to deduct at a higher tax rate.

Example

Retiring payment	\$10,200.50
PAYE (on whole dollars) at 33 cents in the dollar is*	\$ 3,366.00

* This example assumes that the employee's gross annual income is between \$48,001 and \$70,000.

Redundancy payments

A redundancy payment is different from a retiring allowance. The decision to terminate employment is the employer's. Redundancy payments may be made:

- to an employee whose position is no longer needed, or
- to a seasonal worker whose usual seasonal position is no longer needed (the employee works for you at a regular time each year for a continuous period of less than 12 months).

The following are not redundancy payments, and are liable for earners' levy:

- any payment made to an employee solely because of a seasonal lay-off
- any payment made at the end of a fixed-term contract or a contract for a predetermined amount of work
- any payment made instead of giving an employee notice
- any payment of deferred wages made to an employee when finishing work (such as holiday pay, accrued bonuses and commissions)
- any payment by a company under its articles of association to any of its directors.

A severance payment may be a redundancy payment for tax purposes. A lump sum severance payment made to a permanent employee when a specific job or project is finished is a redundancy payment if the position of the employee has been fully terminated, and the position is no longer required by the employer.

If the employee stays with the same employer on another job or project, any payment is liable for earners' levy.

If the employee uses an M SL, ME SL, S SL, SH SL or ST SL code, you'll also have to deduct student loan repayments from retiring and redundancy payments.

Redundancy tax credit

Employees who received a redundancy payment from 1 December 2006 may be able to claim a 6% redundancy tax credit, up to a maximum of \$3,600. To claim the tax credit they'll need to complete the *Redundancy tax credit (IR 524)* form.

Termination of employment

To treat any payment as a retiring allowance or redundancy payment, the person's employment must have been terminated. If employment is not terminated, the payment is liable for earners' levy.

Employment is not terminated if the employee:

- is still employed by a company that is at least 50% owned by the same shareholders, or under the control of the same persons
- is still employed by the same employer, even if the employer's business has changed
- is still with the same business, even if the ownership of the business has changed
- has remained in substantially the same employment. This means if the employee continues to work under a contract of employment with substantially the same employer.

The following two types of payment are not retiring allowances or redundancy payments, and are liable for ACC earners' levy.

- Payments for accumulated annual leave, long-service leave, and sick leave. These are payments that don't relate to retirement or redundancy.

- Payments made as a result of a merger, takeover, amalgamation or reconstruction between two parties if:
 - the employee is rehired by any party to the transaction within six months of termination of employment, and
 - the employee's new job is substantially the same kind of employment they had before.

"Substantially the same kind of employment" means doing the same type of work. This is based on such things as similarity of duties, similar conditions of employment, and a similar job description.

For example, if you rehire an employee to do most of the old duties but with slightly different salary and leave arrangements, the employment is substantially the same kind. However, if you rehire the employee in a different area that needs new skills, it's not substantially the same.

Completing the IR 348

Because retirement or redundancy payments aren't liable for ACC earners' levy, the IR 348 should be completed like this:

- The "gross earnings" box should include all taxable earnings including the retirement or redundancy payment.
- The "earnings not liable for earners' levy (ACC)" box should show the retirement or redundancy payment.

Regular bonuses

Regular incentive or production bonuses

Add these bonuses to wages for the pay periods in which they were earned. Use the PAYE tables to work out the amount of PAYE to deduct. Remember, if the employee uses an M SL, ME SL, S SL, SH SL or ST SL code you must also deduct student loan repayments from the bonus. Use the student loan columns in the PAYE tables. The following notes refer only to PAYE, but the same method applies for employees with student loans.

Bonuses for one pay period

For bonuses relating to one pay period, add the bonus to other wages for the pay period the bonus was earned in. Deduct the PAYE from the total earnings.

Example

Ordinary wages for pay period	\$270
Bonus for same pay period	<u>\$ 54</u>
Total earnings	\$324

Monthly bonuses – more than one pay

If you pay a monthly bonus relating to more than one pay period:

1. Add up the gross wages paid in the month.
2. Add on the bonus and work out the PAYE (using the monthly tables) on the total.
3. Work out the PAYE on the gross wages (excluding the bonus) for the month, and subtract this from the PAYE on the total calculated at step 2 above. This gives you the PAYE on the bonus.

Example

Margaret is paid weekly. She is also given a monthly production bonus.

1. Add together the gross wages paid in that month:	
\$222 + \$240 + \$276 + \$264	\$1,002.00
2. Add bonus	<u>\$ 300.00</u>
Total	\$1,302.00
3. Using monthly tables*, calculate the PAYE on \$1,302	\$ 196.28
4. Deduct PAYE on \$1,002 (M code)	<u>\$ 142.28</u>
The PAYE to be deducted from the bonus is	\$ 54.10

* PAYE tables in this example are from 1 April 2009.

Use the same method if a bonus is paid fortnightly or four-weekly. Use the fortnightly or four-weekly PAYE deduction tables to work out how much PAYE to deduct.

Include the PAYE on the bonus with the PAYE on the wages for the period in which the bonus was actually paid.

Bonuses covering more than one month

For a bonus that covers more than one month:

1. Divide the bonus by the number of months it covers. This gives you the monthly bonus amount.
2. Add the monthly bonus to the normal pay for the month, and use the monthly PAYE tables to calculate the PAYE.
3. Calculate the PAYE on the normal monthly pay and subtract this amount from the PAYE calculated at step 2. This gives you the PAYE on the monthly bonus.
4. Multiply this by the number of months the bonus covers to get the total PAYE to be deducted from the bonus.

Example

Patrick gets a monthly salary of \$1,120. He's paid a three-monthly incentive bonus of \$720.

1. Monthly bonus is	
$\frac{1}{3}$ of \$720	\$ 240.00
2. Add normal monthly pay	<u>\$1,120.00</u>
Total	\$1,360.00
Using monthly tables, the PAYE on \$1,360 is	\$ 209.51
3. Deduct PAYE on \$1,120 using the monthly PAYE tables*	<u>\$ 159.03</u>
The difference is the PAYE payable on the bonus for one month	\$ 50.48
4. Multiply the one month's PAYE by three to get the PAYE on the bonus for three months (3 × \$50.48)	\$ 151.44
Deduct this amount from \$720.	

* PAYE tables in this example are from 1 April 2009.

Include the PAYE on the bonus with the PAYE on the wages for the period in which the bonus was actually paid.

Bonuses for a broken period

If a bonus covers a broken period, such as when an employee leaves, treat the bonus as being for the whole of the pay period. Add the bonus to wages in that pay period.



Holiday pay

Include holiday pay and pay for statutory holidays as earnings in the period you actually pay them. See our PAYE tables (IR 340 or IR 341) for how to calculate your employees' holiday pay earnings. Before calculating your employees' holiday pay, please check your obligations under the Holidays Act 1981.

For more help

The Department of Labour's pamphlet *Holidays and other leave*, explains the rules for holiday pay. Call the Department of Labour's employment relations Infoline on 0800 800 863 for more information about holiday pay, or go to their website www.ers.govt.nz

Loss of earnings compensation

Loss of earnings compensation paid by ACC to your employees is liable for PAYE. ACC will deduct PAYE using the employee's tax code.

Similarly, if an injury occurs at work and you pay an employee for the period up until the time compensation is payable, you must deduct PAYE using the employee's tax code.

If you subsidise an employee who's receiving compensation, deduct PAYE on the extra payment you make using the secondary tax rates.

If you pay the employee salary or wages and ACC then reimburses you, deduct PAYE using the employee's tax code.

Honoraria

Sometimes payments are made for a service, where the usual custom is that a price is not set. These payments are called honoraria.

They include payments made to mayors, chairpersons and/or members of local bodies, clubs, societies and organisations. All these payments are taxable.

If paid to employees, use the PAYE tables to work out the amount of tax.

Note

Recipients of schedular payments are liable for their own student loan repayments, KiwiSaver deductions and ACC levies.

Payments to school trustees

The following amounts made to school trustees for attending board meetings are considered to be reimbursements.

- Chairperson—the first \$75 per board meeting (up to a maximum of \$825 a year) can be seen as being expenditure and not subject to tax.
- Board member—the first \$55 per board meeting (up to a maximum of \$605 a year) can be seen as expenditure and not subject to tax.

However, if the chairperson or a board member receives more than the amounts above, the exemption is reduced by the amount of the additional reimbursement.

Example

If a board member received \$70, made up of a payment of \$50 and reimbursement for travel expenses of \$20, the first \$55 is reduced by the amount of the reimbursement for travel.

Amount exempt for board members	\$55
Less reimbursement for travel expenses	\$20
Exempt amount	\$35
Payment received	\$50
Less exempt amount	\$35
Balance	\$15

Tax on schedular payments applies to balance amount of \$15.

Life insurance and personal accident premiums

Policies payable on maturity or surrender

Examples of these policies are endowment or whole-of-life policies. If you pay the whole premium of the policy and all the proceeds of that policy will go to the employee, the premiums you pay are treated as salary or wages.

Include the gross premium with wages for the period in which the premium was paid to the insurance company.

If the proceeds of the policy are payable to the employer, the premiums are not taxable to the employee. Don't deduct PAYE.

Policies payable on accident or death only

There are various accident, temporary or term life insurance policies available on the market, and these can have different tax implications.

The premium the employer pays is not income to the employee, even if the benefits of the policy are payable to the employee. If the premium is for cover of work accidents, there's no PAYE or fringe benefit tax (FBT) liability. However, if the employer pays a premium for cover of non-work accidents the premium is not liable for PAYE, but is subject to FBT.

If an employee (or their family member) takes out their own insurance and the employer pays the premium, the payments are treated as salary or wages. The employer doesn't pay FBT on these contributions.

Prize money paid at sporting events and competitions

There's a legal requirement to deduct tax on prize money at any sporting event or competition, not just professional events.

A prize money threshold of \$500 has been set, before 20% tax has to be deducted from the amount exceeding this threshold. This applies to each separate participant, for each separate event the participant enters at the competition or sporting event.

Example 1

A doubles pairing in a tennis tournament win their division. First prize is \$900. The prize money is shared equally—\$450 each. Although the total prize money exceeds \$500, the amount per person is under the \$500 threshold so the payer doesn't have to deduct tax.

Example 2

One of the tennis players from the doubles pairing also wins the singles title in her division. First prize is \$700. The prize money is over the \$500 threshold so tax must be deducted, but only from the portion that exceeds the threshold.

The total amount of tax to be deducted is $\$200 \times 20 \text{ cents} = \40 .

The player has won total prize money of \$1,150. However, the threshold applies to each separate participant for each separate event.

You'll need to get a *Tax code declaration (IR 330)* from the recipient of the prize money. They'll use a WT tax code. If you don't receive a completed IR 330 or it isn't fully completed, deduct tax at the no-notification rate—see page 7.

Include the gross amount and the tax on your *Employer monthly schedule (IR 348)* and show a WT tax code for the prize recipient.

Part 4 – Penalties

As an employer you're responsible for making various deductions, such as PAYE, KiwiSaver, ESCT, student loans and child support, from your employees' gross wages. It's a serious matter if any employer doesn't properly deduct or pay employees' PAYE or other deductions. You face penalties if you don't meet your responsibilities.

If you believe you'll be unable to file or pay by the due date, please contact us as soon as possible. By contacting us before the due date, you may be able to reduce the amount of penalties that will be charged.

The information on pages 45 to 46 applies to all these employer deductions:

- PAYE (including ACC earners' levy)
- child support
- student loan
- KiwiSaver deductions
- KiwiSaver compulsory employer contributions
- ESCT.

For more help

If you would like more information about penalties, see our booklet *Taxpayer obligations, interest and penalties (IR 240)*.

Late filing penalty

By law you must file your tax returns on time. If you don't file your *Employer monthly schedule (IR 348)* by the due date, you may have to pay a late filing penalty.

A late filing penalty of \$250 is imposed for each late IR 348. We'll send you a statement advising you of the late filing penalty and the due date for paying it.

Late payment penalties and interest are also charged on late filing penalties which aren't paid by the due date.

Interest

These rules apply when you either overpay or underpay the amount due.

If you overpay the amount due, we'll generally pay you interest from the day after the original due date (within certain rules).

If you underpay the amount due, we'll charge interest on the unpaid amount from the day after the original due date.

We won't charge interest on unpaid amounts less than \$100.

We won't charge interest on any overdue KiwiSaver employer contributions.

The interest rates are set by government and are based on market rates, so will vary from time to time. You can check the current rates at www.ird.govt.nz or by calling us on 0800 377 774.

Late payment penalties

A payment is late if it's posted or delivered to Inland Revenue after the due date. See page 23 for information about due dates. Penalties are not charged on unpaid amounts less than \$100.

We'll charge you interest if you don't make your tax payment by the due date. We'll also charge you a late payment penalty if you miss a payment, but if you have a good payment history with us we may contact you before we do this.

Otherwise, we'll charge an initial 1% late payment penalty on the day after the due date. We'll charge a further 4% penalty if there is still an amount of unpaid tax (including penalties) seven days after the due date.

Every month the amount owing remains unpaid after the due date a further 1% incremental penalty will be charged.

Penalty notice

If a payment is late, and the penalty isn't paid, we'll send a separate notice showing the penalty charged. This notice isn't an *Employer deductions (IR 345)* form, so don't use it for your normal PAYE payment. Only use this notice as a payment slip to pay the penalty.

Note

If the due date for a payment falls on a Saturday, Sunday or public holiday, you can make your payment on the next working day without penalty.

Non-electronic filing penalty

Employers who must file their *Employer monthly schedule (IR 348)* electronically and fail to do so in the required format (see page 33) may be charged a non-electronic filing penalty.

The penalty is the greater of \$250 or \$1 for each person employed at any time during the month the schedule relates to.

For example, if there are 500 employees listed on the schedule each month, the penalty will be \$500 each month. This penalty is payable by the 5th of the following month and will attract late payment penalties and interest if unpaid.

Employers who have an exemption from filing the schedule in the prescribed format and voluntary electronic filers won't be charged a non-electronic filing penalty.

Shortfall penalties

Shortfall penalties apply to certain offences, including failing to deduct PAYE or failing to pay PAYE to Inland Revenue.

We charge shortfall penalties on top of any normal tax. The shortfall penalty is a percentage of the tax shortfall (deficit or understatement of tax), which results from certain actions by the employer. There are five types of penalties:

- lack of reasonable care 20%
- unacceptable tax position 20%
- gross carelessness 40%
- abusive tax position 100%
- evasion 150%.

The rate of shortfall penalty may be reduced for previous good behaviour.

In addition to these penalties you could be fined and/or imprisoned for up to five years.

Disputing shortfall penalties

You may dispute a shortfall penalty if you feel it is wrongly imposed. See page 48 for further information about disputes.

Employer monthly schedule non-payment penalty

From 1 April 2008, if you file your *Employer monthly schedule (IR 348)* (EMS) and the amount owing isn't paid by the due date we'll send you a reminder letter. If the overdue amount isn't paid or an instalment arrangement agreed to, we'll charge you a 10% non-payment penalty (NPP).

Every month an amount remains outstanding a further 10% NPP will be charged. If, after we've imposed the penalty, you pay in full or enter into an instalment arrangement, the last NPP is reduced to 5%.

NPPs are not charged on outstanding amounts of \$100 or less or if you meet the requirements of your instalment arrangement.

The total amount of NPP will not exceed 150% of the amount of overdue EMS tax for that period.

If you do not file your EMS and do not pay, you may be subject to shortfall penalties of up to 150%.

Late payment penalties and interest still apply.

Example

Tom's EMS and payment for the period ended 30 June 2008 are both due on 20 July 2008.

Tom files his EMS on 20 July but doesn't make the payment.

A month later, Tom receives a reminder letter asking him to make full payment or enter into an instalment arrangement within one month to avoid becoming liable to pay non-payment penalties.

If Tom takes no action, after one month he will be liable for a non-payment penalty.

The amount of the penalty is 10%, unless full payment is received or an instalment arrangement is entered into within the following month, in which case the penalty is reduced to 5%.

Failing to make deductions

Employers must deduct PAYE, KiwiSaver deductions, ESCT, student loan repayments or child support when required, from any payments made to employees. Failure to do this is a serious offence and can result in penalties and fines being imposed.

Anyone who knowingly fails to make deductions can be fined up to \$25,000 for a first offence and \$50,000 for subsequent offences. Shortfall penalties may also be charged.

Note

If you can't make the student loan, child support, KiwiSaver and/or PAYE deductions, contact us straightaway. You must still file your IR 348 and IR 345 by the due date.

Failing to pay deductions

Employers must pay deductions to Inland Revenue by each due date.

The money deducted doesn't, at any stage, belong to employers. Under no circumstances should the deductions be used for any other purpose than for payment to Inland Revenue. We'll help employers who try to meet their responsibilities but will take action against employers who don't comply with the tax laws.

Failing to pay deductions to Inland Revenue is a serious offence and can result in prosecution. An employer who is convicted may be:

- fined up to \$50,000 and/or
- sent to prison for up to five years.

The name of anyone convicted will also appear in the *New Zealand Gazette*.

Note

The imprisonment penalty doesn't apply to ESCT offences.

Evasion

Anyone convicted of knowingly attempting to evade their responsibilities can be fined up to \$50,000 and/or be imprisoned for up to five years. It's also illegal for an employer to aid or assist another person to commit an offence.

Additional student loan penalties

Employers must give Inland Revenue details about their employees who have student loans, such as IRD number, name and amounts deducted. Failing to provide the correct information is an offence and may result in the employer being prosecuted.

If convicted, an employer can be fined up to \$25,000 for the first offence and \$50,000 for subsequent offences. Shortfall penalties may also be charged.

Prejudice

It's also an offence to discriminate against an employee or potential employee because of a responsibility to deduct student loan repayments. An employer may not:

- refuse to employ the person, or refuse to pay wages
- dismiss or threaten to dismiss the employee
- stop or threaten to stop paying wages
- show or threaten prejudice against the employee
- intimidate, coerce, penalise or discipline the employee because of student loan responsibilities.

An employer convicted of prejudice may be fined up to \$2,000 and ordered to pay the employee compensation.

Additional child support penalties

Employee privacy

The law requires you to protect your employees' privacy by not giving out any information about their child support responsibilities.

There are only two exceptions.

1. when Inland Revenue Child Support asks you for information
2. when you have to give the information as part of running your business, for example, when you have to show your records to Inland Revenue investigators.

An employer who is convicted of violating this law can be fined up to \$15,000.

Prejudice

It's also an offence for employers to discriminate against an employee or potential employee because of child support responsibilities. An employer may not:

- refuse to employ the person, or refuse to pay wages
- dismiss or threaten to dismiss the employee
- stop or threaten to stop paying wages
- show or threaten prejudice against the employee
- intimidate, coerce, penalise, or discipline the employee because of child support responsibilities.

An employer convicted of prejudice may be ordered to pay compensation to the employee and to take action to remedy or reduce the loss suffered.

Employee start and finish information penalties

Employers must provide Inland Revenue with their employees' start and finish dates.

Failing to provide the correct details is a serious offence and can result in the employer being prosecuted and penalised.

Audit procedures

Every employer can expect to be audited by Inland Revenue from time to time. This will involve checking your PAYE records against the returns filed to make sure the returns are correctly completed.

Remember, you must keep all financial records of your taxable activity for seven years. We may ask you to keep your records for an additional three years when auditing or investigating you. Failure to keep adequate records is a very serious matter and can result in a fine.

If you want to know more about audit procedures, read our booklet *Inland Revenue audits (IR 297)*.

Voluntary disclosure

If there's any omission or error in your PAYE affairs, you should tell us about it. We may still charge shortfall penalties but, if you tell us before we notify you of an audit or investigation, we may reduce these by up to 100%.

For more help

If you'd like to know more about this process, read our booklet *Putting your tax affairs right (IR 280)*.

If you disagree

At Inland Revenue we make every effort to apply the tax laws fairly and correctly, but sometimes you may disagree with how we've assessed your tax. In most cases we can correct the assessment before you need to make a formal complaint. If we can't agree, there is a formal process to follow, so your rights are protected in case the matter goes to court.

For more information, read our leaflet *If you disagree with an assessment (IR 778)*.

Part 5 – Special types of workers

This part explains what you need to do for the following types of workers:

- casual agricultural workers
- commission agents
- directors
- drovers and musterers
- election day workers
- fishers
- IR 56 taxpayers
- jockeys and trotting drivers
- musicians, dance bands and orchestras
- non-residents
- partners in a partnership
- piece-workers and outworkers
- recognised seasonal workers
- screen production industry workers
- shareholder-employees in close companies
- shearers, shedhands and shearing contractors
- spouses or partner
- students
- subsidised workers
- workers engaged in “activity in the community” projects
- workers under labour-only contracts in the building industry.

For the tax rates, see the current PAYE tables (IR 340 or IR 341).

Casual agricultural workers

Casual agricultural workers are employees who do casual seasonal agricultural work on a day-to-day basis, for up to three months. Use the tax code CAE on the *Tax code declaration (IR 330)*. These workers are taxed through the PAYE system at a flat rate listed in the PAYE tables under casual agricultural workers.

Note

Agricultural contractors are independent contractors, not employees, and are subject to tax on schedular payments.

Commission agents

For agents who receive commission only, tax the gross commission as a schedular payment—see page 10.

Some agents get a salary or other fixed remuneration plus commission from the same employer.

If an agent is an employee, add the gross commission to the fixed remuneration for the period it was paid in. Calculate PAYE using the current PAYE tables.

Whether you deduct PAYE using the tax tables or schedule 4 rates listed on the back of the IR 330 depends on whether the agent is an employee or is self-employed. For more information on employment status, see “Who is an employee?” on page 5 of this guide.

Directors

Fees paid to directors are generally schedular payments. Tax the fees paid using the correct rate of tax on schedular payments. Some directors who are shareholder-employees of the company may pay provisional tax.

Drovers and musterers

For employees doing occasional droving and mustering work, calculate PAYE using the current PAYE tables.

If they supply their own dogs, horses or saddlery and receive allowances, deduct the amount of allowances paid (up to the maximum in the table below) before calculating the PAYE.

Type of reimbursing allowance	Maximum deduction per week
Dog	\$1 for each dog, to a maximum of 4 dogs
Horse and saddlery	\$1.50
Horse only	\$1.00
Saddlery	\$0.50

Deduct tax from the gross payments made to a droving contractor (see the back of the IR 330).

Election day workers

Election day workers are people employed on a casual basis immediately before, on, or after polling day. Election day workers are taxed through the PAYE system at a flat rate and use the tax code EDW on the IR 330.

Fishers

Fishers paid at an hourly or daily rate are employees. Deduct PAYE from their wages using the current PAYE tables.

Please note, sharefishers are subject to tax—see the back of the IR 330.

If you're unsure whether a fisher is an employee or self-employed, read page 5 of this guide.

IR 56 taxpayers

IR 56 taxpayers are workers whose employer isn't required to deduct PAYE from their earnings. They're responsible for paying their own PAYE, but they're not classified as self-employed. Examples of IR 56 taxpayers are:

- part-time private domestic workers, such as home helpers, attendant caregivers, nannies, gardeners and domestic odd-jobbers
- embassy staff
- New Zealand-based representatives of overseas companies
- Operation Deep Freeze personnel.

IR 56 taxpayers have to complete and send in IR 345 and IR 348 forms with their payments each month. For further help see our booklet *IR 56 taxpayer's handbook (IR 356)*.

Jockeys and trotting drivers

Wages paid to apprentice jockeys or probationary drivers are liable for PAYE. Deduct tax from any riding or driving fees that aren't wages.

The schedular payments tax rates are listed in the PAYE tables and on the back of the IR 330.

See page 10 of this guide for more information on schedular payments.

Musicians, dance bands and orchestras

If bands or other entertainers are actual employees, you must deduct PAYE from payments made to them. Each performer in a band must fill in an IR 330.

Musicians hired on a casual basis are usually paid schedular payments. Every performer in a group must fill in an IR 330 using a WT tax code.

In the case of larger bands where the leader is in business and files income tax returns for that business, a *Certificate of exemption (IR 331)* may be used—see page 11 of this guide for more information. The leader must make deductions of PAYE or tax (as the case may be) from payments made to musicians involved in the band.

If the band is registered with Inland Revenue as a partnership, show the IRD number of the partnership on the IR 330 (use the WT tax code).

Door charges

Where a band member collecting door charges is accompanied by a hotel employee and the employee performs the licensing responsibilities of the licensee or manager (eg, allows or restricts entry), don't deduct tax from the door charges.

Where the band member isn't accompanied by a hotel employee, tax must be deducted from the charges made.

Non-residents

Generally, someone who comes to New Zealand, stays less than 183 days in any 12-month period, and who doesn't have an "enduring relationship" with New Zealand, is taxed as a non-resident.

A non-resident is liable for New Zealand tax on income for personal services performed in New Zealand, and other income from New Zealand sources.

For more help

If you want more information about tax residency, see our guide *New Zealand tax residence (IR 292)*.

Non-resident employees

Employers must deduct PAYE from wages paid to non-resident employees in the same way as for resident employees (see page 5 of this guide for a definition of an employee). However, a non-resident may be entitled to an exemption from New Zealand tax, either under a double tax agreement, or under the 92-day rule.

In general, the 92-day rule applies if all the following criteria are met:

- the visit is less than 92 days
- the person's income is being taxed in another country
- the employer is also a non-resident.

If you need more information about the 92-day rule call us on 0800 377 772.

Whether or not a non-resident qualifies for the exemption may not be obvious when the person arrives, or may not be established for some time. This means that if PAYE is deducted, it may have to be refunded at a later date. Also, if a foreign tax administration requires tax payments, employers may have to make double deductions.

The law gives employers the option of providing a bond or other form of security to Inland Revenue. Please contact Large Enterprises Non-resident Contractors Team (details below) for a copy of the standard bond agreement. We must approve any other form of security offered. Providing a bond or security means we can recover the PAYE if the employee becomes liable and payment is not made.

To apply for an exemption, contact Large Enterprises. If we agree, you may lodge a bond or security. If we accept the bond or security, you can stop deducting PAYE until the employee clearly becomes liable for tax in New Zealand. Please note, you must deduct PAYE until we accept the bond.

If it turns out the employee is not entitled to an exemption, you'll have to pay the PAYE on past wages paid. We'll tell you when the payment is due. If the person is employed over more than one income year, you must apportion the PAYE to the years the income was actually earned.

Once the PAYE is paid, we'll release you from the bond. However, if an employer doesn't pay the PAYE owing on the non-resident's wages, we'll exercise our rights under the bond.

If it becomes clear the employee is exempt from New Zealand tax, we'll release you from the bond.

Send bond applications to:

Team Leader
 Non-resident Contractors Team
 Inland Revenue Large Enterprises
 Private Bag 39984
 Wellington Mail Centre
 Lower Hutt 5045

Phone 04 890 3056
 Fax 04 890 4510
 Email nr.contractors@ird.govt.nz

Contact Large Enterprises if you would like more information about these bonds.

Non-resident contractors

Payments to non-resident contractors must have tax deducted, unless they hold a valid certificate of exemption or are present in New Zealand for 92 days or less in any 12-month period. This means you won't be required to deduct any tax.

However, the non-resident contractor must have come from a country New Zealand has a double tax agreement with, and the activity or service carried out is exempt under the double taxation agreement.

Payments for contract work amounting to \$15,000 or less in a 12-month period will be exempt from non-resident tax. The non-resident contractors themselves will be responsible for paying any New Zealand tax owing at the end of the year.

Specified contract activities or services are:

- work carried on in New Zealand for construction, installation, assembly and similar projects, or consultancy, advisory and other professional or technical services for these projects
- the hire of personnel or equipment to be used in New Zealand.

For more help

If you have any questions about how to treat non-resident contractors, contact the Non-resident Contractors Team (see page 51).

Non-resident entertainers

Deduct tax from payments to non-resident entertainers, except from payments for a performance:

- that is part of a New Zealand or foreign government sponsored cultural programme, or
- that forms part of a programme of an overseas non-profit organisation, or
- in relation to a game or sport, where the participants are the official representatives of the organisation that administers the game or sport in an overseas country.

If you have any questions about non-resident entertainers, call Inland Revenue Large Enterprises, Auckland, on 09 984 4329.

Interest, dividends or royalties

Any interest, dividend or royalty payments to a non-resident are liable for non-resident tax. Details of the rates of tax and method of payment are in the *Non-resident withholding tax payer's guide (IR 291)*.

For more help

If you have any questions about taxing non-residents and visitors to New Zealand, other than non-resident contractors and non-resident entertainers, contact the:

Non-resident Centre
Inland Revenue
Private Bag 1932
Dunedin 8140

Phone 03 951 2020

Fax 03 951 2216

Partners in a partnership

A partnership (except an investment partnership) may make payments to a working partner for services personally performed. These payments are treated as salary or wages if all of the following apply:

- the partner is employed under a binding written contract of service, signed by all the partners
- the contract states the amount payable to the working partner for the services
- the working partner personally and actively performs the services for the partnership.

These services may be of any kind needed for the partnership's business.

The payments are treated as salary and wages for the period between the date the contract became binding and the date the contract is terminated. The partnership must deduct PAYE and pay it to us.

Piece-workers and outworkers

If the payment is for piece-work or is based on output, and is solely for personal services, deduct PAYE as usual.

If you don't pay salary or wages regularly, average the taxable earnings over the number of weeks in the working period. Treat any odd days as an extra week. Calculate the PAYE for each week separately and add up the PAYE to arrive at the total amount to deduct.

Payments to a labour-only contractor in the building industry are liable for tax. To work out whether a worker is an employee or a contractor—see page 5 of this guide.

Recognised seasonal workers

Recognised seasonal workers must be employed by a registered employer from the Recognised seasonal employer (RSE) scheme and are generally employed in the horticulture and viticulture industries.

They're non-resident for New Zealand tax purposes, but have to pay New Zealand tax on their New Zealand income. Recognised seasonal workers are taxed through the PAYE system at a flat rate and use the tax code NSW (non-resident seasonal worker) on their IR330.

Use the NSW tax code for any RSE workers on your *Employer monthly schedule (IR 348)*. You may have to make deductions for child support payments. However RSE workers won't have student loan deductions or be eligible to join KiwiSaver.

The RSE scheme is administered by the Department of Labour. To find out more information go to www.dol.govt.nz.

Screen production industry workers

All resident contractors working in the screen production industry (generally, those contractors who work behind the camera, including television, video and film) must have tax deducted at 20 cents in the dollar. If they don't provide a tax code declaration the no-notification rate of 35 cents in the dollar needs to be used. Any contractors who'd like a higher or lower rate of deduction can still apply to Inland Revenue for a special tax rate or a certificate of exemption.

Taxing daily allowances

Daily allowances paid to resident and non-resident contractors and entertainers working in the screen production industry in New Zealand form part of their gross income and are subject to tax.

However, if you pay a contractor or entertainer a daily allowance in relation to services provided to a screen production, where the contractor or entertainer is working away from their town of normal residence, \$60 each day will be considered as expenditure, and you don't need to deduct tax from this amount.

If the daily allowance exceeds \$60, deduct tax from the portion that exceeds \$60.

Example

You pay a contractor a \$45 daily allowance as they're required to work away from their town of normal residence. You don't have to deduct tax because the total payment is less than \$60.

However, if the contractor or entertainer is also provided with the goods or services for which the allowance is paid, either by the payer or another party acting on the payer's behalf, the amount regarded as expenditure is reduced on a pro-rata basis. This is because the recipient of the allowance hasn't actually incurred the expenditure.

Example

You pay a contractor a \$60 daily allowance. The contractor is also provided with all meals while working, either on the set or at another location. The recipient has not incurred the expense so you must deduct tax from the allowance.

Shareholder-employees in close companies

Deduct PAYE from:

- regular salaries paid to shareholder-employees for pay periods of one month or less
- other payments made to shareholder-employees we consider to be liable for PAYE.

Don't deduct PAYE from irregular salary payments made to a shareholder-employee.

Include in the IR 4 company tax return all shareholder-employee salaries where PAYE has not been deducted.

Shearers, shedhands and shearing contractors

Shearers and shearing shedhands have PAYE deducted at a flat rate and use the tax code CAE.

Combined farming and shearing

When a shearer does ordinary farm work because shearing is impossible, include any wages for this work with shearing wages.

If a farm worker employed for normal farm work also does shearing work at shearers' rates of pay, treat the shearing wages as part of the normal pay for the pay period. Calculate the PAYE using the current PAYE tables. Don't use the special rate for shearers and shedhands.

If a farmer does part-time shearing for another farmer, an IR 330 declaration should be completed and PAYE deducted using the CAE tax code.

Shearing contractors

Here are some of the situations you may come across if you have shearing contractors and shearing gangs working for you:

- The contractors pay their own shearers and show you a current *Certificate of exemption (IR 331)*—see page 11.

In this case don't deduct tax—pay the full contract price to the contractor.

- The contractors pay their own shearers and don't show you a current IR 331.

You must get an IR 330 from the contractor, who'll use a WT tax code. Alternatively, the contractor may have a *Special tax code or deduction rate (IR 23)* certificate (see page 8). If you don't get an IR 23 or IR 330, or the IR 330 is not fully completed, deduct tax at the no-notification rate. The contractor must deduct PAYE from wages paid to employees.

- You pay the wages of the contractor's employees.

In this case treat them as if you were employing them direct:

- Get a fully completed IR 330 from each employee. If an IR 330 isn't given to you or isn't fully filled in, deduct PAYE at the no-notification rate.
- Deduct PAYE for shearers and shearing shedhands using the CAE tax code.
- If the contractor has a current *Certificate of exemption (IR 331)*, pay the contractor the contract price less the wages you've paid to the employees.
- If the contractor doesn't have a current *Certificate of exemption (IR 331)*, you must get an IR 330 from them and deduct tax from the contract payment or, if they have a *Special tax code or deduction rate (IR 23)* certificate, you can deduct tax at the rate shown. If you don't get an IR 23 or IR 330, or the IR 330 is not fully completed, deduct tax at the no-notification rate.

- Farmers who employ open-shed shearers or shearing shedhands must follow these steps:
 - Get a fully completed IR 330 from each employee. If the IR 330 is not completed, deduct PAYE at the no-notification rate.
 - Deduct PAYE for shearers and shearing shedhands at the current rates using the CAE tax code.

Contractors who pay shearers

If you're a contractor and employ shearers and shearing shedhands, you must deduct PAYE from any payments you make.

Allowances

Travelling allowances and hand-piece allowances are non-taxable.

All other types of allowances, including the value of free meals and board, are taxable. Add the value of these allowances to wages. Show any tax-free allowances paid in your wagebook.

Spouses or partners

The term spouse or partner means a husband or wife, or a civil union or de facto partner you're living with. It doesn't mean a person you're separated from.

If you employ your spouse or partner in your business (unless your business is a company) you must get approval from us to pay wages. If you don't have approval you can't claim a deduction for the wages in your business accounts.

We give approval if:

- the payment is solely for services given in the course of carrying on the business, and
- the payment is not excessive. The rates must be the same as those you would pay to an unrelated employee for doing similar work.

Write to us giving the following details:

- The type of business which your spouse or partner is employed in.
- Full details of the work done by your spouse or partner.
- The average number of hours your spouse or partner works each week, and the number of

weeks worked during the year.

- Details of any other workers you employ and the total amount paid as wages, not including the wages paid to your spouse or partner.
- How payment of wages is made, such as cash at regular intervals, periodically, or crediting to an account.
- The amount of wages paid to your spouse or partner.

You should apply for approval before you start paying your spouse wages. You need to make another application if you increase the wages as a result of:

- an increase in the duties performed by your spouse, or
- an increase in pay that isn't a general wage increase.

Students

Primary and secondary school students

If primary or secondary school students work for you, tax them as follows.

Weekly earnings of less than \$45

Schoolchildren whose total earnings from all employment are less than \$45 a week don't have to complete an IR 330. Don't deduct PAYE from their earnings or include them on your *Employer monthly schedule (IR 348)*. However, you still have to keep wage records for them.

Weekly earnings of more than \$45

Schoolchildren who earn more than \$45 a week but whose annual earnings aren't expected to be more than \$2,340 don't need to fill in an IR 330. Don't deduct PAYE or earners' levy from their earnings or include them on your *Employer monthly schedule (IR 348)*.

Schoolchildren who earn more than \$45 a week and/or expect to earn more than \$2,340 a year must fill in an IR 330. Deduct PAYE or tax from the full payment. See page 5 of this guide to

work out whether the child is an employee.

Children are entitled to a tax credit* of \$292.50 each year if the income is over \$2,340. If the income is less than \$2,340, generally the tax credit is 12.5% of the income. If a child has used the M tax code on the IR 330, reduce the PAYE to be deducted by \$5.62 each week. Schoolchildren under 18 don't qualify to use the ML tax code.

University, polytechnic, and other students

Deduct PAYE in the normal way. An IR 330 must be filled in. Some of these students may use an M SL, ME SL, S SL, SH SL or ST SL code. You must then make student loan deductions along with their PAYE.

Subsidised workers

If you employ someone who has been unemployed for a certain time, Work and Income may subsidise their wages.

Deduct PAYE from the employee's wages using the current PAYE tables. Tax deductions should be made from the gross wage, not the gross wage less the subsidy.

You must keep a record of the grants or subsidies received and how you've used them.

There are GST obligations for these grants. If you're registered for GST, the wages subsidy received will be GST-inclusive and the GST component will need to be returned in your GST return. You can't claim GST on wages paid out.

Workers engaged in “activity in the community” projects

Under current benefit laws, people may choose to participate in a recognised community activity. The sponsor is the organisation that provides the recognised community activity. As an employer, you may be a sponsor.

Participants of “activity in the community” projects still receive income support. Those who choose to participate in a recognised community activity receive an allowance in addition to their income support. The sponsor is responsible for paying this allowance and can claim it back from Work and Income every four weeks.

The sponsor is not an employer of any community work participants—they are acting as an agent of Work and Income in paying the allowance to the participant. This means the allowance isn't subject to GST or income tax in the hands of the sponsor. You're not required to make any deductions from this allowance.

Workers under labour-only contracts in the building industry

Payments made under labour-only contracts for the following activities in the building industry are liable for tax:

- erecting, extending, protecting, decorating, repairing or renewing buildings, other constructions, prefabricated or precast buildings
- carpenters under a building contract (excluding employees—their earnings are liable for PAYE)
- laying concrete, bricks, blocks, tiles, slabs or stones of any description
- fixing roofs or fences
- hanging wallpaper, other decorative wall-coverings or furnishings
- painting, decorating and plastering
- installing any fibrous plaster, wallboard, insulating material, interior tiles, carpets, linoleum or other floor coverings.

*Formerly rebate

Part 6 – Services you may need

Registering for online services

To register or view a demonstration, go to www.ird.govt.nz “Secure online services”. You will need your organisation’s IRD number with you. After completing a few questions and phoning us to verify your identity, your organisation can be up and running.

“Tool for business”

The online Tool for business helps you understand business tax, quickly and simply. It’s free, interactive and easy to use. You’ll find it at www.ird.govt.nz (keyword: tfb).

Need to talk to us?

Personal tax enquiries

General tax, rebates and refunds	0800 227 774
Working for families tax credit and payments	0800 227 773
Payment options	0800 227 771
Paid parental leave	0800 377 777
Child support	0800 221 221
Student loan	0800 377 778

Business tax enquiries

General tax, rebates and refunds	0800 337 774
Employers	0800 377 772
GST	0800 377 776
Large enterprises	0800 443 773

Mobile or international callers

Free calling doesn’t apply to mobile phones or international calls for other tax enquiries.

For direct dial numbers go to www.ird.govt.nz

Passwords – individuals only

Want a password on your account to save you time when calling?

Personal tax customers	0800 227 774
Business tax customers	0800 377 778

Complaints Management Service

(8 am to 5 pm 0800 274 138
Monday to Friday)

We’re here to take your call between 8 am and 8 pm Monday to Friday and Saturday between 9 am and 1 pm. Remember to have your IRD number with you when you call.

0800 self-service

This service is available seven days a week (anytime, except between 5 am and 6 am) for a range of self-service options. Remember to have your IRD number with you when you call.

For personal information, such as account balances, you’ll also need a personal identification number (PIN). You can get a PIN by calling 0800 257 777 and following the step-by-step instructions.

Order publications and taxpacks	0800 257 773
Request a summary of earnings	0800 257 778
Request a personal tax summary	0800 257 444
Confirm a personal tax summary	0800 257 771
All other services	0800 257 777

Customer service quality monitoring

As part of our commitment to providing you with a quality service, we record all phone calls to and from our contact centres. Find out more about this policy or how to access your recorded information at www.ird.govt.nz

Business tax information officers and kaitakawaenga Māori

Business tax information officers (BTIOs) offer a free business tax information service to new businesses and organisations to help them meet their tax responsibilities. This service is available to individuals and groups.

Most of our offices also have a kaitakawaenga Māori who can advise Māori organisations and individuals on their tax responsibilities. Our BTIOs and kaitakawaenga Māori will tell you:

- which taxes you need to know about
- what records you need to keep
- how to complete your tax returns (eg, GST and employer returns)
- when to file returns and make payments.

Find out more about these services or arrange an appointment by going to www.ird.govt.nz or calling us on 0800 377 774.

Child support services

If you'd like more information about Child Support, go to our website www.ird.govt.nz/childsupport/ This site offers general child support information, access to our forms and publications, and answers to frequently asked questions.

Business Tax Update (formerly Payroll News and GST News)

Get all your business tax news in one newsletter. Our *Business Tax Update* was launched in September 2009, available online only. It gives you tax updates on payroll, GST, FBT and other relevant tax issues. Subscribe through the newsletter page at www.ird.govt.nz/subscribe and we'll send you an email when each issue is published.

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. You can find it on www.ird.govt.nz under "Newsletters and bulletins". You can subscribe to receive an email when each issue is published on our website.

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Act we administer.

We may charge penalties if you don't.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them
- Statistics New Zealand (for statistical purposes only).

If you ask to see the personal information we hold about you, we'll show you and correct any errors, unless we have a lawful reason not to.

Call us on 0800 377 774 for more information.

For full details of our privacy policy go to www.ird.govt.nz (keyword: privacy).

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it. You can call the staff member you've been dealing with or, if you're not satisfied, ask to speak with their team leader/manager. If your complaint is still unresolved you can contact our Complaints Management Service. For more information go to www.ird.govt.nz or call us on 0800 274 138 between 8 am and 5 pm weekdays.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process. For more information, read our factsheet, *If you disagree with an assessment (IR 778)*.

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* Formerly specified superannuation contribution withholding tax (SSCWT)

** Formerly withholding payments

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* Formerly withholding payments