

# Payroll News

## Welcome to Payroll News

In this issue we tell you about easier access to the new look ir-File, we also tell you about non-taxable allowances and what you need to do when hiring entertainers.

If you have an employer topic you'd like to see covered in future newsletters, please write to the Editor, Payroll News, PO Box 2198, Wellington or email us at [payroll.news@ird.govt.nz](mailto:payroll.news@ird.govt.nz) and we'll aim to cover the topic in a future edition.

## New look ir-File allows easier access to file employer monthly schedules online

On 31 July 2005 we introduced a new ir-File system. The new ir-File can be accessed on the "Online services" page of our website [www.ird.govt.nz](http://www.ird.govt.nz) > services requiring login

You can now login and access all online services that you are registered for in one place. Although the login screen looks different, there is no change to the login process and you can use your existing "Online services" user ID and password.

If you are still using the old ir-File system, please note that the link to this site will no longer be available after October 2005.

Please use the new ir-File system to familiarise yourself with the way it works. If you have problems sending us your employer monthly schedule using the new system, please call us on **0800 473 829**. Our ir-File technical support team will be happy to help you.

We would like your feedback on the new ir-File design as we continue to update and improve it. Please let us know what you think through our feedback page. This can be accessed from the ir-File page on our website [www.ird.govt.nz](http://www.ird.govt.nz) > services requiring login > login

## What employee allowances are tax-free?

There are three types of allowances commonly paid: travelling, benefit and reimbursing.

### Travelling allowances

These are cash allowances paid to employees for travel between home and work, and may be tax-free. The allowance will be tax-free if the amount paid reimburses an employee's additional transport costs and any of the following special circumstances exist:

- the employee is working outside the normal hours of work (eg overtime, shift or weekend work)
- the employee needs to transport work-related tools and equipment (eg the employee normally takes the bus to work but has to use some other type of transport to carry work-related equipment)
- there is a temporary change in workplace (eg your employee normally works in Wellington but for the next fortnight you require them to work in Palmerston North)
- the employee is travelling to fulfil an obligation for the employer

- there is some other condition of the employee's job (eg your employee is on call and uses their car for these call-outs)
- there is no adequate public transport system serving the workplace.

For all these special circumstances, except lack of adequate public transport, the tax-free amount is the actual cost of travelling between home and work, less the employee's usual transport costs. If you pay a travelling allowance because there is a lack of adequate public transport the first \$5 of the daily travelling allowance is taxable and any additional amount is tax-free.

If you are registered for GST you can claim a GST credit for the reimbursement for your employee's actual expenses, provided normal GST requirements are met.

### Benefit allowances

These are payments made in addition to salary and wages which benefit your employee. A benefit allowance is taxed with your employee's wages.

### Reimbursing allowances

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

An employer may make a reasonable estimate of the expenditure incurred by an employee and treat this as if it was the amount incurred by the employee.

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

If your employee's allowance is taxable add the taxable value of the benefit to the employee's pay for each pay period, and deduct PAYE from the total.

## Do you hire entertainers?

Are you planning on having entertainment at your next Christmas or office party? If you hire entertainers you will need to deduct 20% withholding tax from the payments you make to them. The only time you don't need to deduct withholding tax is if the payment is made to a company or to an individual who has a certificate of exemption.

If the entertainer is GST registered deduct the withholding tax on the GST exclusive amount. Show the GST exclusive amount as gross earnings on the *Employer monthly schedule (IR 348)*. Don't forget to show the WT tax code when completing the IR 348 for a withholding tax recipient.



## Protected net earnings and child support

Some employees may have child support deducted from their pay. The maximum amount of child support that can be deducted from an employee's net pay is 40%. Your employee must be able to keep 60% of their pay; this is called "protected net earnings".

Protected net earnings are normally only affected if your employee is paid less than usual. If the child support deduction is more than 40% of your employee's net pay (after tax) don't deduct the full amount of child support.

In this situation you don't need to make up the difference in future pays. We will make arrangements with your employee to pay the balance owing.

Protected net earnings only applies to child support. After deducting PAYE, you must deduct child support before deducting anything else such as:

- student loan repayments
- insurance
- superannuation
- union fees.

These deductions should be made even if your employee will receive less than 60% of their pay.

### Example - Full wages paid

Luca's normal child support deductions are \$70 each week.

Luca's weekly wage	\$ 420.00
PAYE deductions	\$ 82.27
Net pay	\$ 337.73
40% of \$337.73 is	\$ 135.09

Because \$70 is less than 40% of Luca's net pay (\$135.09) the full \$70 amount of child support should be deducted.

### Example - Less than full wages paid

Luca takes three days leave without pay in a week.

Luca's reduced wage	\$ 168.00
PAYE deductions	\$ 27.21
Net pay	\$ 140.79
40% of \$140.79 is	\$ 56.32

As 40% of Luca's net pay (\$56.32) is less than the normal \$70 child support deduction. Only \$56.32 child support should be deducted from Luca's pay.

## Payroll News index

In December we will issue our last paper *Payroll News index*. The decision to stop issuing the paper index is based on the findings of the August 2004 *Payroll News survey*, in which a number of you took part.

The survey revealed that not many of you use the index. However, it was indicated that you would like to retain it in some form in case you wanted to refer to it. From 2006 the *Payroll News index* will be updated monthly and available from our website [www.ird.govt.nz/newsletters and bulletins](http://www.ird.govt.nz/newsletters and bulletins).

## Correction

In the article about withholding payments and GST in September's edition we omitted to say that withholding tax needs to be deducted from payments made to a company that is a non-resident contractor in relation to any work or services performed by it.

## Business consultation website

Business people wanting to comment on government regulations will find it easier to do so with a new website launched this month by the Ministry of Economic Development (MED).

The website allows business operators, and others interested in business, to register their interest in providing input on regulations being considered by government agencies.

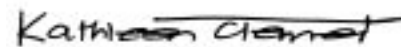
You can register to receive information about regulations being publicly consulted on, and/or register to be contacted directly by the government agencies seeking input.

Through MED government agencies will draw on the database when seeking to consult with business stakeholders.

You will be able to choose how you are consulted; by email, post, phone or face-to-face. To ensure you are not contacted more than you want, the website is designed so that:

- you will only be asked for input on aspects you are interested in
- you can specify the number of times per year you wish to be consulted.

For more information or to register, go to [www.businessconsultation.govt.nz](http://www.businessconsultation.govt.nz)



Delivery, Planning and Initiation

### Employer monthly schedules

If you are an employer who is required to make payments on the 5th and the 20th of each month. Remember you only need to file your employer monthly schedule (EMS) once a month on the 5th of the following month in which the wages were paid.

The EMS must include the gross earnings and deductions made from your employees' wages from the first of the month until the end of the month.



Inland Revenue  
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