

# Payroll News

Inland Revenue  
Te Tari Taake

Employer monthly schedule

Issue 83

March 2006

Full name	Surname <i>Davies</i>	First name(s) <i>Robyn</i>	Start	150306	Gross ea
IRD number	12173142	Tax code <i>M</i>	Finish		\$
Full name	Surname <i>Rawlins</i>	First name(s) <i>Stacey</i>	Start	150306	\$
IRD number	12111222	Tax code <i>WT</i>	Finish		\$
Surname	First name(s)	Start			\$

## Welcome to Payroll News

In this issue we tell you about changes from 1 April to PAYE and withholding tax calculations, changing to 9 digit IRD and GST numbers, hiring contractors and deducting withholding tax, and hiring people with certificates of exemption and special tax codes.

If you have an employer topic you'd like to see covered in this newsletter, 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.

## Changes to PAYE deduction tables from 1 April 2006

The following changes have been made to the 2007 PAYE deduction tables and become effective from 1 April 2006.

- The ACC earners' levy rate increases from \$1.20 to \$1.30 (GST-inclusive) per \$100 of earnings.
- The maximum earnings on which earners' levy is payable increases to \$96,619.
- Employees who have a student loan and use the M SL tax code can earn up to \$17,160 (\$330 per week) before having student loan deductions made.

Your 2007 PAYE deduction tables will be sent to you in early March, unless you've told us that you don't want to receive them.

From 1 April 2006 please use the 2007 deduction tables or if you prefer you can use our online calculators at [www.ird.govt.nz](http://www.ird.govt.nz) under Work it out > PAYE > PAYE calculator 2007.

If you use a payroll provider these changes should have been incorporated into your payroll package.

## Hiring contractors and deducting withholding tax

Withholding tax is deducted from payments made to people who are not employees but who are employed on a contract-for-service basis. If you hire contractors you may need to deduct withholding tax from the payments you make to them.

The main contract activities and the withholding tax rates are listed on the back of the *Tax code declaration (IR 330)*, this will need to be completed by your contractors. If they do not complete the IR 330, you'll need to deduct tax using the no-declaration withholding tax rates. Withholding tax must be deducted from payments made to contractors unless any of the following criteria is met.

- The type of work that you've hired the contractor to do is not listed on the back of the IR 330.
- The contractor shows you their current certificate of exemption.
- The work or services are completed by a company (but not a company that is a non-resident contractor or non-resident entertainer).

- The payment is for a non-resident contractor who is eligible for total relief from tax through a double tax agreement, and are present in New Zealand for a total of 92 days or less in any 12-month period.
- The payment is to or for the contract activities of a non-resident contractor and they have been paid \$15,000 or less in total from all payers in any 12-month period.
- The work or services are completed by a public, local or Māori authority.

If your contractor is registered for GST they will charge GST on goods and services supplied. This means the gross earnings will increase by the amount of GST charged. If you receive a tax invoice, deduct withholding tax on the GST-exclusive amount.

## Example

Rourke hires Madeline (a New Zealand resident) as a labour-only contractor to help him complete a house he is building. Madeline invoices Rourke the following details:

Madeline the builder	Phone	04 123 9876
PO Box 9876		
Wellington	GST No.	12-345-678
Labour (40 hours @ \$40 an hour)		\$ 1,600
Plus GST		\$ 200
Amount due		\$ 1,800

When Rourke pays the invoice he deducts 20% withholding tax from the GST-exclusive amount. Rourke would work out the following:

GST-exclusive amount	\$ 1,600
Less 20% withholding tax	\$ 320
Net payment	<u>\$ 1,280</u>
Plus GST charged on Madeline's invoice	\$ 200
Amount paid to Madeline	<u>\$ 1,480</u>

The \$1,600 needs to be shown as a gross payment on the *Employer monthly schedule (IR 348)* and the \$320 as a withholding tax deduction. Please remember to include the \$1,600 in the "Earnings and/or withholding payments not liable for ACC earners' levy" column of your IR 348.

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



## Certificates of exemption

If you hire a contractor who supplies you with a *Certificate of exemption (IR 331)* you don't need to deduct withholding tax from the payments you make to them.

Please check that any certificates of exemption you receive are valid. The work shown on the certificate must be the same as the work the contractor is doing for you. If the certificate is not valid, your contractor needs to complete a *Tax code declaration (IR 330)* and you are required to deduct withholding tax from payments you make to them.

Please remember to keep a record of these payments and the certificate of exemption number, or a photocopy of the original certificate.

## Special tax code certificates

Some of your employees may have a special tax code, or apply for one this year. A special tax code uses a tax deduction rate that we work out to suit your employee's individual circumstances.

If your employee gives you a special tax code certificate you must deduct tax at the rate shown on the certificate. The certificate is only valid for one year and needs to be renewed each year. If you are not given a new certificate by 1 April, you'll need to ask your employee to complete a *Tax code declaration (IR 330)* and deduct tax using the tax code they have indicated. If your employee doesn't complete an IR 330 you will need to deduct tax using the no-declaration ("ND") rate.

## Future changes to IRD numbers

Currently your IRD and GST number is 8 digits long. From 1 April 2007 we'll be adding another digit to all new and existing IRD and GST numbers, because we'll have issued all possible 8 digit combinations. We're updating all existing IRD and GST numbers to 9 digits to reduce confusion when entering IRD numbers on our forms.

If you already have an IRD number it'll have a zero added to the front of it, for example, 12-345-678 will become 012-345-678.

If you apply for an IRD or GST number after 1 April 2007 you'll automatically be issued with a 9 digit number.

### How will this affect my payroll systems?

If you complete a paper-based *Employer monthly schedule (IR 348)* your employees' IRD numbers will be changed to 9 digits on the preprinted IR 348 we send you.

If you file using ir-File and use a payroll provider they'll update their programmes to accommodate 9 digit IRD numbers. If you don't use a payroll provider, you'll need to alter your own inhouse systems by 1 April 2007 to accommodate 9 digit IRD numbers. We'll provide additional information on updating payroll systems later in the year.

## WorkSite/PaeMahi

[www.worksite.govt.nz](http://www.worksite.govt.nz) has been developed by combining the resources of a number of government agencies, including Inland Revenue, to provide an online shortcut to finding staff both in and outside New Zealand. WorkSite/PaeMahi also provides information for people looking for work or establishing a career path. It's there if you need help with:

- education and training
- looking for staff
- establishing and operating a business
- finding publications and information about working in New Zealand.

The site has an advanced search engine that includes "Ask an Expert"—a database with over 100,000 answers to commonly asked questions. Combined with the original search, this gives you access to more in-depth answers to your questions.

## Payment due date for large employers

This year 5 March falls on a Sunday and your *Employer deductions (IR 345)* or *(IR 346)* form, payment and *Employer monthly schedule (IR 348)* for this period will be due on Monday 6 March.



*Kathleen Clement*

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Delivery, Planning and Initiation

