

Payroll News

Inland Revenue
Te Tari Taake

Employer monthly schedule

Issue 85

May 2006

Welcome to Payroll News

In this issue we tell you about the new rate for child rebate, lump sum payments, a temporary exemption for the foreign income of new migrants, and tips for using our website.

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 and we'll aim to cover the topic in a future edition.

Increase in child rebate

An increase in the child rebate from 1 April 2006 now allows primary or secondary schoolchildren to earn up to \$2,340 a year (\$45 a week) before PAYE or withholding tax needs to be deducted. If you employ primary or secondary schoolchildren, and they earn (or are expected to earn) \$2,340 or more a year from all employers, you will need to deduct PAYE or withholding tax from the payments you make to them.

Weekly earnings of less than \$45

Schoolchildren who earn less than \$45 a week, or who expect to earn less than \$2,340 a year **from all employers** do not have to complete a *Tax code declaration (IR 330)*. You don't need to deduct PAYE or withholding tax from payments you make to them 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, or expect to earn more than \$2,340 a year **from all employers** need to complete a *Tax code declaration (IR 330)*. You need to deduct PAYE or withholding tax from the payments you make to them and keep wage records.

Children are entitled to a rebate of \$351 if their income is over \$2,340 and they have had PAYE or withholding tax deductions made. If they use the M tax code on their IR 330 you can reduce the PAYE you deduct by \$6.75 each week. School children under the age of 18 should not use the ML tax code.

Note

PAYE must be deducted from any payments you make to university, polytechnic or any other type of student.

Employees with student loans using the M tax code

If any of your employees have a student loan and their annual income is more than the repayment threshold of \$17,160 (\$330 per week), they must use one of the student loan tax codes on the *Tax code declaration (IR 330)*. If they don't use a student loan tax code, they may end up with a bill at the end of the tax year.

Although student loans are now interest free for borrowers living in New Zealand, they are still required to make repayment towards their loan if their annual income is over \$17,160.

If any of your employees have any questions about whether they are required to make repayments, they can visit www.ird.govt.nz/studentloans for information.

Lump sum payments

Lump sum payments include payments you make to your employees as annual or special bonuses, retiring allowances*, redundancy payments*, gratuities or backpay.

The tax rates for lump sums are shown in the table below.

Full year income	Tax rate	ACC earners' levy	Total PAYE
Up to \$38,000	21%	+1.3%	22.3%
\$38,001 - \$60,000	33%	+1.3%	34.3%
\$60,001 - \$96,619	39%	+1.3%	40.3%
Over \$96,619	39%	+0%	39%

*Retiring allowances and redundancy payments are not liable for ACC earners' levy.

When making lump sum payments you need to establish what the employee's full year income will be. You do this by taking the employees last four weeks' gross income and grossing it up for the full year.

Example

You're going to pay a bonus payment of \$1,000 and the employee's earnings for the last four weeks were \$3,500.

Last four weeks' income	\$ 3,500
Multiply by 13 to get 52 weeks' income	
\$3,500 x 13	\$45,500
Add bonus payment	\$ 1,000
Total income for full year	\$46,500

The employee's total income for the year (including the bonus payment) is between **\$38,001** and **\$60,000** so the bonus payment must be taxed at 34.3%, ie: \$1,000 x 34.3% = \$343.

If your employee has a student loan and uses an M SL, S SL, SH SL, or ST SL tax code, you will also have to deduct student loan repayments from lump sum payments.

Your employees may ask you to tax lump sums at a higher rate if, for example, they have another job or other untaxed income, such as rent.

Note

If the lump sum is taxed using the lowest rate (22.3 cents in the dollar), tick the circle "Lump sum payment taxed at the lowest rate" on the *Employer monthly schedule (IR 348)* to show this.

Temporary tax exemption on foreign income for new migrants and returning residents

From 1 April 2006, to reduce tax barriers to the recruitment of highly skilled people to New Zealand, there will be a temporary tax exemption for new and returning migrants on their foreign income. This exemption is for most types of individual overseas income and is available to people who arrive in New Zealand from 1 April 2006. They can be new migrants or returning New Zealanders who have not been New Zealand tax residents for at least 10 years prior to their arrival in New Zealand. This exemption is for four years.

People who qualify for the exemption do not have to do anything to claim it as it is automatic. When the exemption expires they will have to declare their foreign income on their income tax return.

For more information visit www.ird.govt.nz/news-updates/liketoknow-temp-tax-exempt.html

Note

These exemptions only apply to foreign income, salaries and wages are taxed as normal.

Using our website

There are a number of ways you can access content on our website. The following tips may assist you to find what you are looking for.

Search box - top right corner

When using our search engine you will get better results if you use specific search terms. Using common words like **tax**, **income** or **returns** will give you numerous search results. If you know the form or booklet you want, either type the publication number or name directly into the search box. For example, if you wanted to find the *Employer monthly schedule amendments (IR 344)* form enter **ir344** or **employer amendments**, then click the magnifying glass image. Make sure you **don't** put any spaces between **ir** and **344**.

Navigation - right-hand side

On the right-hand side you'll find many useful shortcuts to the forms and tools you want, including:

- **Get it done online** to file returns, register for services and access account information
- **Work it out** to calculate tax, entitlements, repayments and due dates
- **Forms and guides** for copies of our forms, booklets and other publications

These update with each web page you go to, with topics relevant to the page you are looking at.

Navigation - top row

The top row is broken into categories organised by customer group. For example, under **Businesses** you can drop down to **Payroll for employers**, which splits into many different topics, such as **New employers** or **Types of employees**.

Just above the customer groups is a line with direct links to specific web pages. For example, **Newsletters and bulletins**, takes you to the index page for all of our newsletters and the *Tax Information Bulletin*.

Website feedback

From time to time you may not be able to find the right information—let us know when this happens using our **website feedback** form (a link to this is on our homepage). Your feedback helps us fine-tune our search engine and helps everyone get better search results.

Do you make electronic payments?

Electronic payments such as automatic payment, direct credit and online banking are a popular way of paying us. Most banks offer an online tax payment service on their website which ensures that the correct payment reference details are included with your payment. This means you can simply select the tax type and period end date you wish to pay from their drop down boxes.

If you are 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 and specified superannuation contribution deductions.

Example

Rose is a small employer with five employees. One employee has a student loan and another has child support deductions. When Rose makes her payment for the May period (31/05/2006) she enters the following:

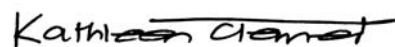
IRD number	Tax type	Period
12-345-678	DED	31052006

If DED is not used, the payment may go to the wrong tax type. For more information read our booklet *Making payments (IR 584)*, available at www.ird.govt.nz or by calling INFOexpress on **0800 257 773**.

Agricultural industry - correction

In April *Payroll News* we mentioned that you were required to record payments in the employer monthly schedule (EMS) whether or not you deduct withholding tax. If the contractor has a certificate of exemption you need only record on your EMS;

- the contractor's name
- their start date
- their IRD number.



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Delivery, Planning and Initiation

