

Payroll News

Issue 107
May/June 2008

Welcome to Payroll News

In this issue: employee tax code requirements, a KiwiSaver update, and recognised seasonal employers.

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 6140 or email us at payroll.news@ird.govt.nz and we'll aim to cover it in a future edition.

BUDGET ANNOUNCEMENTS 2008

There have been changes to tax rates in this year's budget. See back page for more information on how this will affect you and your employees.

What happened to the May Payroll News?

On behalf of IR I would like to apologise about the lack of Payroll News this month. We unfortunately missed our publication date with the printers and as such, there will be no May 2008 issue.

Instead, we have produced this combined May/June issue. It contains all the articles originally scheduled for May, as well as those that would have gone in the June issue.

We apologise for any inconvenience this may have caused.

The Editor
Payroll News

Employees' summary of earnings

Shortly we'll be issuing a summary of earnings (SOE) to employees who are required to file a tax return. The information shown is taken from the employer monthly schedule (EMS). If an error is noted from an employee query or from end-of-year reconciliation, please call us on 0800 377 772, or complete an *Employer monthly schedule amendments (IR 344)* form. You can get a copy from www.ird.govt.nz or by calling INFOexpress on 0800 257 773.

Employee tax code requirements

From July 2008 you may be required to change your employee's tax code.

We regularly check employee's details on your *Employer monthly schedule (IR 348)* (EMS) to make sure that the right amount of tax and

student loan repayments are deducted from their salary or wages. If the wrong amount has been deducted for any of your employees, this indicates that they aren't using the right tax code and they may end up with a bill to pay at the end of the tax year.

If we identify a salary or wage earner using the wrong tax and/or student loan repayment code, we'll write to you requesting that you 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 that the tax code they've been using is incorrect for their circumstances and that we've asked you, as their employer, to change it from their next pay day.

If an employee disagrees with this change, please tell them to contact us.

If your employee no longer works for you then you need to show the date they finished working for you on your next EMS.

We'll be making follow-up calls to any employers who haven't changed the tax codes on their next EMS.

Child support deduction notices

If you have been asked to deduct child support on behalf of an employee you may receive new child support deduction notices from us in late July or early August. We send out new notices for every employee who has had a change in the amount of child support they are required to pay. This happens because liable parents may be reassessed as part of the **Salary and Wages Income Finalisation (SWIF)** process.

If you do not receive a new notice for an employee you will need to continue to deduct child support at the existing rate.

What is SWIF?

In February each year, we calculate a liable parent's assessment based on their earnings for the ten months April to January plus an estimate of their expected earnings for February and March. In July, we compare our estimate to the liable parent's actual full year earnings.

New assessments and deduction notices

A new assessment is issued only if the liable parent's assessment income changes by more than \$500.

The new deduction notice you receive tells you when to make deductions for your employee and the amount to deduct.

If you would like to talk to us about SWIF, or see a staff member to discuss child support, please contact us on 0800 220 222.

KiwiSaver update

Employer tax credit square-up

The following applies if any of your employees earn over \$93,000 a year.

The current legislation doesn't achieve the original policy intent of offsetting employer contributions by a credit of up to \$20 per week when there is an extra pay in a PAYE period. So a new square-up process will be in place from April 2009 to ensure you don't miss out on your full entitlement.

When working it out, the employer tax credit for the PAYE period is the lesser of the actual employer contributions made during that period or the amount calculated on the basis of the number of days in the PAYE period. However, not all employer pay periods are evenly distributed between Inland Revenue PAYE periods and this issue arises whenever there is an extra pay. For example, if there are 31 days in a PAYE period with five weekly pay periods instead of four, the amount calculated for the employer tax credit would be \$88.57, not \$100.

In the first year this affects contributions from employees earning over \$93,000 a year or where an employer contribution (compulsory and voluntary) exceeds \$20 per week. This currently results in a shortfall between the contribution made and the tax credit to employers.

We'll be consulting with representatives from industry groups to ensure the square-up process is as simple as possible.

The IR 345 - helpful tips

The *Employer deductions (IR 345)* form is used to record and pay the deductions you make from your employees' pay. It's very important to complete it correctly. This is the only way you can claim the employer tax credit when you make employer contributions to KiwiSaver schemes or complying funds.

We recommend you file your IR 345 electronically through ir-File as it's faster and easier than filling in the paper form.

If you do use the paper form, please follow these guidelines to minimise the chance of the form going into error:

- Put zeros after decimal points to ensure that the wrong number isn't recorded in our system.
- Fill in a new form if you make a mistake. We have an imaging system which scans and electronically reads all documents sent to us. Making corrections on forms eg, using corrector fluid or crossing out will make the form go into error.
- Enter the payment amount on the payment slip and ensure that the amount entered on the form is the amount paid.
- Write amounts beside each tax type that apply to you as well as the total. Only completing the total field on the top half of the form will cause the form to fall into error.
- Enter the correct monetary amount in the correct fields.
- Leave a field blank if it isn't relevant to you. Don't enter a value or write nil/zero.

Questions and answers - contributions to KiwiSaver

Here are some questions we've received recently:

Q. How will we know if we over-contributed employer contributions?

A. Inland Revenue's system takes 1% as compulsory employer contributions. The rest will be considered a voluntary contribution and will show on your statement of account (SOA) as a separate transaction.

Q. Can we get an over-contribution back?

A. Yes, by filling out an *Employer monthly schedule amendments (IR 344)* form.

Q. When an employee opts out, how and when will employers' contributions be refunded to the employer?

A. Employers should already be getting these refunded, by direct credit to your bank account (if one is set up) or by cheque. They will show on your SOA. We'll look into any individual cases if employers haven't been getting their refunds. In some cases we have to contact the providers and ask for the money back. This is taking up to 10 days in some cases. But as soon as the money is available for a refund, we'll issue or transfer it to another tax type and/or period as requested.

Q. If a member continues to contribute to KiwiSaver and is in employment after age 65, does the employer have to continue making compulsory employer contributions?

A. Employers are only required to pay compulsory employer contributions until the employee is entitled to withdraw the funds (in most cases 65 years of age).

Q. If an employee joins when they are 63 years old and remains in the scheme for the minimum five years (ie, until age 68), do compulsory employer contributions apply for the entire five years or until the employee reaches 65?

A. Employers must make compulsory employer contributions until the employee is entitled to withdraw the funds, which is age 68 in this case.

Q. Can an existing KiwiSaver member convert their existing 4% employee contribution scheme to the transitional arrangement ie, 2% + 2% from 1 April? Also, can an employee and employer at some stage in the future agree to convert their 4% + 1% scheme to a 2% + 2%?

A. Yes, provided the rules and rates governing transitional arrangements are followed they can be entered into at any time up to March 2012.

Tax timetable for employees

Here's what's happening over the next two months:

June - Personal tax summaries

Anyone whose only income is from salary and wages and we think they need an end-of-year tax square-up will be automatically sent a personal tax summary during June.

July - Personal tax summary requests

Anyone who doesn't automatically receive a personal tax summary in June and thinks they may need an end-of-year tax square-up can visit our website (go to "Individuals & families/Income tax"), or contact us for more information.

Terms change in updated Income Tax Act 2007

The Income Tax Act has been updated to make it easier to read and understand and to bring separate pieces of legislation together.

Some of the terms in the updated Act have changed to more clearly reflect their meaning. A list of 60 term changes can be found on the Inland Revenue website www.ird.govt.nz under "News and updates".

These terms are being progressively introduced into all Inland Revenue's information. We expect most information to be updated by December 2008, although end-of-year returns and guides will be completed during 2009.

We'll list the old and new terms where we can to help you with the change.

During the transition you can still rely on the information in our

booklets, guides and forms, on our website and from our people, even where old terms and references are used.

In particular you should note that “withholding payments” is now called “schedular payments”. Tax deducted from schedular payments (previously withholding tax) is now included in the term PAYE. You’ll find this in the employer deductions form and the employer monthly schedule.

Detailed information about the Income Tax Act 2007 is available in the *Tax Information Bulletin* Vol 20, No 2, (March 2008). You can read it on our website or order a copy from Stationery Xpress on 0800 101 035.

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 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’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 and employer’s superannuation contribution tax (formerly known as 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 (31/05/2008) she enters the following:

IRD number	Tax type	Period
12-345-678	DED	31 05 2008

For more information about electronic payments, go to www.ird.govt.nz and click on the “Making payments” link at the bottom of the page. Or you can read our booklet *Making payments* (IR 584), available under “Forms and guides”.

Don’t forget!

May is the month we expect to start issuing 9-digit numbers to all new Inland Revenue customers. If you haven’t already checked that the software and systems you use can accept both 8 and 9-digit GST and IRD numbers, now is the time to do it.

Remember:

- All current 8-digit IRD/GST numbers remain unchanged (12-345-678).
- When the 8-digit number range runs out, new customers will be issued with 9-digit numbers (123-456-789).
- If you’re working with an 8-digit IRD/GST number and you’re completing a form that has 9 boxes, please leave the first box blank.
- If you have an 8-digit GST number, you only need to display your current GST number. If you set up a new company or subsidiary and get a 9-digit GST number, you’ll need to display this.

If you have any enquiries or questions, please email us at number.extension@ird.govt.nz or go to our website at www.ird.govt.nz/payroll-employers/employers-didyouknow.html

Recognised seasonal employers* - how to help your employees with their taxes

RSE workers are often entitled to a tax refund when they don’t work a full year in New Zealand. Unfortunately, due to language difficulties, not all workers are aware of their entitlements.

This article explains how you can help your workers claim a refund from last year, and what you can do to simplify their tax requirements for this year.

2007-2008 tax year

Workers wanting to claim a refund for last year (the year ended 31 March 2008) must file an IR 3 tax return. If they don’t have an IR 3, you can download one from our website www.ird.govt.nz (it’s under “Forms and guides”) or by calling INFOexpress on 0800 257 773.

You need to:

1. Fill out page 1, and write “RSE taxpayer” clearly at the top of the page**
2. Notify us of the worker’s arrival and departure dates (at Box 39) on page 6
3. Ask the worker to sign Box 40 on page 6
4. Mail the IR 3 in to us at the following address:
Inland Revenue
P O Box 39090
Wellington Mail Centre
Lower Hutt 5045

**Part-year returns can take up to 12 weeks to process, therefore please ensure that returns are clearly marked “RSE taxpayer” to ensure they are given priority.

We’ll do the rest, including calculating any refund owing.

We recommend getting the refund direct credited to the worker’s bank account. Please make sure the account number appears in Box 8 on page 1, and attach evidence that the number is correct (eg, a deposit slip).

If the refund is to be posted by cheque, leave Box 8 blank, and write the worker’s overseas address in Box 3.

2008-2009 tax year

If you hire an RSE worker this year (the year ended 31 March 2009), tax them at flat rate of 20.4 cents in the dollar (made up of 19 cents PAYE plus 1.4 cents ACC earner premium deductions). This is a “special tax code” (STC) – lower than the standard rate – we’ve introduced specially for RSE workers.

To simplify requirements, workers don’t need to complete an application for the special tax code. Please note, however, only RSE workers qualify for this special rate.

If you deduct tax at the above rate, the worker will “break even” when it is time for them to leave New Zealand.

Please record your deductions in your employer monthly schedule (EMS) as normal, and show your worker is on the special tax code by putting “STC” in the tax code box.

Do you need more information?

Please call us on 0800 227 774. Thank you for helping ensure RSE workers don’t miss out on their entitlements.

*A recognised seasonal employer (RSE) is an employer within the horticulture and/or viticulture industry who has been approved by the Department of Labour to employ workers from the Pacific Islands to plant, maintain, harvest and pack crops.



Budget 2008 announcements

Personal income tax rates changing from 1 October 2008

Legislation has been passed changing personal income tax rates and thresholds for the 2008/09 tax year and subsequent years. The new rates from 1 October 2008 are:

Current rates	From 1 October 2008
15% to \$9,500	12.5% \$0 – \$14,000
21% \$9,501 – \$38,000	21% \$14,001 – \$40,000
33% \$38,001 – \$60,000	33% \$40,001 – \$70,000
39% \$60,001 and over	39% \$70,000 and over

Further changes to thresholds will take effect from 1 April 2010 and 1 April 2011. We will deliver new tax tables and information about these changes closer to their effective dates.

We'll be issuing a new set of tax tables to all employers in early September which they'll need to use from 1 October. We'll also be updating the PAYE calculator at www.ird.govt.nz from early September.

An updated payroll software specification will be issued to payroll software developers shortly, which should enable them to provide you with a new package reflecting the tax rate changes, in time for 1 October.

You may find these questions and answers helpful.

When do I start using the new rates?

You need to start using the new rates from the first pay period that ends on or after 1 October 2008.

For pay periods that straddle 1 October and are one month or shorter, deduct PAYE at the new rates for the whole pay period.

If the pay period straddling 1 October is longer than one month, PAYE needs to be deducted at both the old and new rates. Use the old rates for the part of the pay period up to and including 30 September 2008 and the new rates for the part of the pay period from 1 October 2008 onwards.

What about secondary tax codes?

Although a new low tax rate is being introduced, no new matching secondary tax code is being introduced this year. However because of the new thresholds, you may want to check any employees on secondary tax codes are still using the correct code after 1 October 2008.

How do I handle extra pays?

Lump sum payments made to employees are known as extra pays. Rates for tax on extra pays will not be changing although the new thresholds will need to be used to calculate the annualised pay of employees who receive extra pays. This will be set out in the updated PAYE tables and built into the PAYE calculator.

What about employer's superannuation contribution tax?

All of these rates will change from 1 October 2008. They will be included in the updated payroll specification being issued to developers, and will be set out in the updated PAYE tables and built into the PAYE calculator.

What about withholding tax deductions and flat-rate deductions for special types of workers such as casual agricultural workers?

These are not changing.

What about fringe benefit tax?

The multi-rate fringe benefit tax rates will change. You'll still have the option of paying fringe benefit tax of 64% on all fringe benefits rather than applying the multi-rates.

Does this affect other deductions from my employees' pay such as KiwiSaver contributions, student loan repayments or child support payments?

No.

Where can I get more information?

A *Tax Information Bulletin* will be published and we'll continue to provide updates through *Payroll News*.

More information has been published on our website at www.ird.govt.nz and at www.taxpolicy.ird.govt.nz. The full set of Budget 2008 documentation can be found at www.treasury.govt.nz



Inland Revenue
Te Tari Taake

A handwritten signature in black ink, appearing to read 'Alan Quinn'.

Alan Quinn
Manager
Customer Insight