

# Payroll News

Issue 106  
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## Welcome to Payroll News

In this issue: EMS non-payment penalties, a new process for getting an IRD number, redundancy tax credits and a KiwiSaver update.

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](mailto:payroll.news@ird.govt.nz) and we'll aim to cover it in a future edition.

## Employer monthly schedule non-payment penalties

New legislation has been introduced to encourage employers to pay tax associated with the employer monthly schedule (EMS) on time. This law change won't affect the majority of employers, who already pay their taxes on time.

From 1 April 2008, an employer who pays their tax after the due date may incur a penalty of 10% of the unpaid tax. We'll send you a reminder notice when your payment is due, before any penalty is applied.

If an employer incurs a non-payment penalty, it will reduce to 5% if they pay the tax owing or enter an instalment arrangement within one month of the date printed on the notice.

An employer who doesn't pay their overdue tax or contact us will incur further non-payment penalties each month until the tax is paid. The maximum penalty is 150% of the overdue tax.

The new laws belong to a range of changes designed to encourage our customers to work with us. If you have difficulty paying your tax, please contact us as soon as possible, preferably **before** the due date. We'll do everything we can to help you get back on track.

## New process for getting an IRD number

Are you taking on a new employee who doesn't have an IRD number? Now they can apply for one at an Automobile Association Driver Licensing Agent (AA) or a PostShop. There are hundreds of these outlets throughout New Zealand.

We're keen to make it as easy as possible for people to deal with us.

Applicants will just need to bring two specified forms of identification, plus photocopies, to any AA, any Postshop, or selected New Zealand Post retail outlet.

At least one of the identity documents must have a photo, and both must be original documents. They could be passports, birth certificates, driver licences or an 18-plus card.

The AA, PostShop or NZ Post agents will confirm the applicant's identity and send photocopies of the identity documents to Inland Revenue. Applicants should receive their IRD number within 8-10 working days.

This new process will help to prevent identity theft and the fraudulent use of IRD numbers. It's in line with the new all-of-government evidence of identity (EOI) standard.

Please remember that if an employee doesn't provide you with an IRD number, you are legally required to deduct tax at the no-declaration rate. If we receive an employer monthly schedule with missing IRD numbers, we place the schedule in a "holding account" until the IRD numbers are sent in to us. This will delay the transfer of important employee payments like child support and KiwiSaver.

The new process doesn't affect people with existing IRD numbers and doesn't apply to applications for an IRD number for entities such as companies, trusts and partnerships.

There's more information about IRD numbers, and the application form itself, on our website at [www.ird.govt.nz](http://www.ird.govt.nz)

## Redundancy tax credits

New laws passed in December 2007 mean that employees who receive a redundancy payment may now be able to claim a tax credit shortly after losing their job. And the news gets better—the law has been backdated to take effect from 1 December 2006.

This article explains the new redundancy tax credit. Please pass the information on to any affected employees (or ex-employees).

### How much is the redundancy tax credit?

The redundancy tax credit is 6% of the redundancy payment, up to a maximum claim of \$3,600 per redundancy.

Qualifying employees will get the maximum tax credit of \$3,600 if they receive a redundancy payment of \$60,000 or more.

### Example

If your redundancy payment is ...	then your credit will be ...	
\$20,000	$\$20,000 \times .06$	\$1,200
\$65,000	$\$60,000 \times .06$	\$3,600

### Which redundancy payments qualify for a tax credit?

Employees can generally claim a tax credit if their employment was terminated because their position was surplus to the employer's requirements, and the redundancy payment compensated the employee for their loss of employment.

Anyone who became redundant and received a redundancy payment on or after 1 December 2006 may qualify for the tax credit.

However, the tax credit is **not** available for a payment relating to:

- retirement from employment
- loss of seasonal employment arising from a normal seasonal work cycle
- a contract of employment for a fixed term, or for the duration of a project
- employment for a period following notice of termination of employment.

Redundancy payments paid by an employer to an associated or related person may not qualify for a tax credit. Examples include payments paid directly or indirectly by:

- a company to its director, or to a shareholder-employee
- an employer who is a close relative of the employee, or spouse, or civil union or de facto partner
- a partnership to any of its partners
- a trustee to an employee who is also a beneficiary or a settlor of the trust.

### How do you claim a redundancy tax credit?

You need to fill out a *Redundancy tax credit (IR 524)* form. It's available under "Forms and guides" on our website at [www.ird.govt.nz](http://www.ird.govt.nz). We also need a letter, or a calculation sheet from your employer confirming the amount of the redundancy payment you received. Please staple the letter to the IR 524 and send them in to us as soon as you can. A redundancy tax credit can be claimed at any time—you don't need to wait until the end of the year.

## KiwiSaver compulsory employer contributions

From 1 April you are required to contribute to your employees' savings in KiwiSaver schemes and complying superannuation funds.

The initial contribution rate is 1% of gross salary or wages.

You need to make contributions if an employee:

- is having KiwiSaver or complying fund deductions from their salary or wages
- is aged 18 or over
- has not reached the age of eligibility for New Zealand Superannuation (currently 65), or has not been a member of a KiwiSaver scheme or complying fund for five years, whichever date is later
- is not a defined benefit scheme member.

If your employees are KiwiSaver members use the "KiwiSaver employer contributions" column of the *Employer monthly schedule (IR 348)* to make your compulsory contribution, either through ir-File or by sending us the printed form.

If your employees are members of a complying superannuation fund pay these contributions direct to the scheme provider—don't pay them through Inland Revenue.

## Employer tax credit

From 1 April you can claim a tax credit of up to \$20 per employee per week if you contribute to your employees' KiwiSaver schemes or complying superannuation funds.

You offset the tax credit against the total payment due on the *Employer deductions form (IR 345)* form and pay the net amount to Inland Revenue.

### Note

You must file an IR 345 to claim your employer tax credit, either through ir-File or by sending us the printed form.

For more information on compulsory employer contributions and the employer tax credit please refer to:

- our website [www.ird.govt.nz/kiwisaver/employers/](http://www.ird.govt.nz/kiwisaver/employers/)
- PAYE and holiday pay calculators [www.ird.govt.nz/calculators/keyword](http://www.ird.govt.nz/calculators/keyword)
- *KiwiSaver employer guide (KS 4)*

- Employer's guide to calculating your *KiwiSaver compulsory employer contributions and claiming your employer tax credits (KS 35)*.

**Errata:** You may have recently received a copy of the Employer's guide to calculating your *KiwiSaver compulsory employer contributions and claiming your employer tax credits (KS 35)*. Section 3 of this guide lists the maximum monthly employer tax credit claimable per employee for October as \$85.71. The correct amount for October is \$88.57. An updated version of the KS 35 is available on our website.

## A reminder from the KiwiSaver team

Remember, unless you're exempt, you must automatically enrol all eligible new employees. Send us their details including name, address and IRD number using the *KiwiSaver employee details (KS 1)* form. You can provide this form manually or complete it online through ir-File.

To order more copies of the KS 1 form, you can phone our automated telephone service INFOexpress on 0800 257 773 and have your IRD number handy or download copies from our website [www.ird.govt.nz/kiwisaver/employers](http://www.ird.govt.nz/kiwisaver/employers) under Forms and guides on the right hand menu.

## Effective dates for other legislative changes

### Definition of salary and wages for KiwiSaver purposes

The definition of salary and wages now excludes redundancy payments, accommodation benefits or allowances and overseas living costs. This means no employee deductions or compulsory employer contributions are required for these salary components from 1 April 2008.

### Casual employee definition

The new definition of a casual employee where casual employees engaged on an irregular and intermittent basis and people who receive holiday pay with their wages are not subject to automatic enrolment takes effect from 1 April 2008.



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