

Payroll News

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Welcome to Payroll News

In this issue we tell you what you need to do when existing employees opt in to KiwiSaver, how to tax GST-registered contractors, protecting net earnings of employees who have child support deductions, and how to tax shearers, shed-hands and shearing contractors.

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.

Existing employees opting in to KiwiSaver

In the August edition of *Payroll News* we told you that there are two ways existing employees can opt in to KiwiSaver. We've been asked to clarify what employers need to do in both situations.

Your employee registers with a KiwiSaver scheme provider

If your existing employee has opted to join KiwiSaver by registering through a scheme provider, you don't need to complete a *KiwiSaver employee details (KS 1)* form.

The KiwiSaver scheme provider will send us your employee's information and we'll send you a letter showing the employee's name, IRD number and the KiwiSaver deduction rate your employee has chosen.

Once you've received a letter from us showing this information please start making KiwiSaver deductions from your employee's wages.

Your employee completes a *KiwiSaver deduction (KS 2)* form

If your existing employee completes a *KS 2* form you'll need to complete a *KiwiSaver employee details (KS 1)* form and send this to us. You can start making KiwiSaver deductions from your employee's wage at the nominated rate from their next pay.

KiwiSaver – opting out

Once an existing employee opts into KiwiSaver scheme they can't opt out. The only way they can stop having deductions made from their wages is to complete a *Contributions holiday request (KS 6)* form.

Note

Employees can only take a contributions holiday once they've been a KiwiSaver member for a year unless they are facing financial hardship.

Hiring GST-registered contractors and deducting withholding tax

Withholding tax is deducted from payments made to people who aren't 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 the contractor. If they don't complete an IR 330, you'll need to deduct withholding tax using the no-declaration rate.

Withholding tax must be deducted from payments made to contractors unless any of the following criteria are met:

- The type of work you've hired the contractor to do isn't 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 or involved in agriculture, horticulture or viticulture).
- The payment is for a non-resident contractor who is eligible for total relief from tax through a double tax agreement, and is 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'll 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

Commission	\$ 1,000
plus GST	\$ 125
GST-inclusive amount	\$ 1,125
less withholding tax (20% of \$1,000)	\$ 200
Net payment	\$ 925

You'll need to deduct withholding tax from the \$1,000 and show the \$1,000 as the gross payment on the *Employer monthly schedule (IR 348)*. Show a withholding tax (WT) tax code for contractors when completing the IR 348.

Audits

We conduct regular audits to check that the *Employer monthly schedules (IR 348)* have been correctly completed and that the right amount of tax has been deducted and paid.

As an employer you can expect us to audit you from time to time. This will involve checking your businesses PAYE records against the employer monthly schedules you've sent us.

You must keep all wage records for seven years. If you want to know more about what happens in an audit, read our booklet *Inland Revenue audits (IR 297)*. You can view this at www.ird.govt.nz under "Forms and guides" or order a copy by calling INFOexpress on 0800 257 773.

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%. Employees must receive 60% of their net pay—this is called “protected net earnings”.

Protected net earnings are normally only affected if an 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 won't need to deduct the difference in future pays. We'll make arrangements with the employee to pay the balance.

Protected net earnings only apply to child support. After deducting PAYE you must deduct child support before any other deductions, for example:

- KiwiSaver contributions
- 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

Sarah's normal child support deductions are \$61.35 each week.

Weekly wage	\$ 480.00
PAYE deductions	\$ 96.07
Net pay	\$ 383.93
40% of \$383.93 is	\$ 153.57

Because \$61.35 is less than 40% of Sarah's net pay the full amount of child support should be deducted.

Example – Less than full wages paid

Sarah takes four days' leave without pay.

Reduced wage	\$ 96.00
PAYE deductions	\$ 15.64
Net pay	\$ 80.36
40% of \$80.36 is	\$ 32.14

Because 40% of Sarah's net pay is less than the normal \$61.35 child support deduction, only \$32.14 child support should be deducted from her pay.

If you'd like to talk to us or see a staff member to discuss child support, please call us on 0800 220 222.

Shearers, shed-hands and shearing contractors

Some of you may soon be hiring shearers, shearing shed-hands or shearing contractors. We'd like to remind you how to apply PAYE to the payments you make to them.

- Shearers and shearing shed-hands have PAYE deducted at a flat rate and use the tax code Casual agricultural employees (CAE).
- Shearing contractors have withholding tax deducted unless they hold a current *Certificate of exemption (IR 331)*.
- If a contractor or employee has a *Special tax code or deduction rate (IR 23)* certificate, deduct tax at the rate specified.
- If you don't get an IR 23 or *Tax code declaration (IR 330)*, or the IR 330 is not fully completed, deduct tax at the no-declaration rate.
- The current tax rate for CAE is 22.3 cents in the dollar (including ACC earners' levy) or 46.3 cents in the dollar for the no-declaration rate.

The current withholding tax rate for shearing contracts is 15 cents in the dollar or 30 cents in the dollar for the no-declaration rate.

Combined farming and shearing

If you employ a shearer who does ordinary farm work include any wages for this work with their shearing wages.

If a farm worker employed for farm work also does shearing work at shearers' rates of pay, treat the shearing wages as part of their normal pay for that pay period. Calculate the PAYE using the 2008 *PAYE deduction tables (IR 340)* or *(IR 341)*. Don't use the CAE tax rate.

If a farmer does part-time shearing for another farmer, a *Tax code declaration (IR 330)* should be completed and PAYE deducted at shearers' rates using the CAE tax code.

Shearing contractors

You may come across the following situations if you have shearing contractors and shearing gangs working for you.

- The contractor pays the shearing gang. If the contractor has a current *Certificate of exemption (IR 331)*, pay the full contract price. If not, get the contractor to complete a *Tax code declaration (IR 330)* and deduct withholding tax from the payment.
- You pay the wages of the contractor's employees. In this case, treat them as if you were employing them directly.

Travelling allowances and hand-piece allowances are non-taxable. All other types of allowances, including the value of free meals and board, are taxable. Add the value of these allowances to wages. Show any tax-free allowances paid in your wage records.

For more information please see www.ird.govt.nz > **employer responsibilities**, or read the *Employer's guide (IR 335)*. You can view this on our website or order a copy by calling INFOexpress on 0800 257 773.



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