

Welcome to Payroll News

In this issue we tell you about FBT law changes, the new child support freephone for employers, the fringe benefit prescribed interest rate for loans, and restrictive covenants and exit inducement payments.

Please pass this newsletter on to the person who deals with the payroll, and fringe benefit tax returns, in your business.

Fringe benefit tax (FBT) update

In last month's *Payroll News* we told you about some of the changes to the FBT rules. Here's a further summary of these changes.

New option for FBT – "short-form" multi-rate calculation option

With the recent legislation changes to FBT from 1 April 2001 a second option is now available to FBT filers wishing to use the multi-rate calculation process. This option is a more streamlined approach that allows all attributed benefits to be taxed at a flat rate of 63.93% and all non-attributed benefits to be taxed at a flat rate of 49% (or 64% on fringe benefits provided to major shareholder-employees).

Quarterly filers in quarters one to three can calculate FBT to pay on the taxable value of all benefits provided in that quarter at the flat rate of either 49% or 64%. In the fourth quarter the taxable value of all attributed benefits is taxed at 63.93% and the taxable value of all non-attributed benefits is taxed at 49% or 64%. You then work out your FBT to pay in this quarter by subtracting the amount of FBT assessed in quarters one to three.

Note

This option could appeal to employers who supply fringe benefits mainly to higher income earners and also have non-attributed benefits. Under this option the amount of record keeping and calculations required have been reduced.

Other changes to note

From 1 April 2000 changes were made to the FBT rules that may have an impact on the way you calculate your FBT to pay. More information on these changes can be found in the IR 425 return guide we sent out to you in April. The guide is also on our FBT webpage at www.ird.govt.nz

Key changes

- Options available for calculating the FBT to pay under the multi-rate option can affect the determination of cash remuneration applying to shareholder-employees' and attributed income—if this information has not been determined at the time of the multi-rate calculation.
- Low-interest loans provided by life insurers to policyholders are now deemed to be non-attributed benefits and are taxed at 49%.
- When employers calculate tax payable on cash remuneration they do not have to determine whether the low-income rebate should be apportioned due to the tax residency of the employee.
- Close companies are now included under the subsidised transport exception. Employers can now pool benefits and pay FBT at a flat rate of 49%.

Correct period to account for PAYE

We'd like to remind twice-monthly employers of the correct period in which they should be accounting for PAYE when a payday falls on the 1st or 16th day of the month and employees are able to access their pay from their bank on the day before the actual payday. (This is because the processing systems of some banks allow information to be processed sooner than other banks.)

PAYE source deductions should be accounted for on the day the salary and wages have been paid to all employees. This will be the actual payday determined by the employer irrespective of the banks processing timeframe, that is, the date at which the employer has instructed the bank to make salary and wages available to the employees. These deductions should then be paid to Inland Revenue in the PAYE period covering that particular payday.

Example

An employer pays their employees' salary and wages for the period ended 1 April 2001. The employer deposits money with their bank just before payday and instructs the bank to make it available to employees on 1 April. However some employees were able to access their money on 31 March 2001.

As the payday is 1 April 2001, this is the date the employer would use when accounting for the PAYE deductions on the salary and wage payment. The PAYE would be included on the *Employer deductions (IR 345)* or *(IR 346)* form for the period 1 to 15 April (due 20 April) and on the *Employer monthly schedule (IR 348)* for the period ended 30 April (due 5 May).

New child support freephone dedicated to employers' queries

Employers who may have questions about deducting child support from their employees' wages or completing their child support monthly schedules can now call freephone 0800 220 222.

Child Support recently set up a new team of staff experienced in the area of employer issues. They can be reached Monday to Friday between 8 am and 5 pm or, after these hours, you can leave a message and someone will call you back.

Employers—please note:

If your employees have queries they should continue to call the Child Support freephone **0800 221 221**.

Restrictive covenants and exit inducement payments

In April's issue of *Payroll News* we told you about proposed law changes being introduced to make restrictive covenant and exit inducement payments taxable. These changes have now become law and apply to any of these payments made on or after 27 March 2001.

As a reminder, we've reprinted the article from April *Payroll News* below with some new information about how to tax these payments.

Deduction for person making the payment

Taxable payments will be deductible in the same circumstances as salary and wages and are covered by the ordinary timing rules.

Taxing payments

Restrictive covenant and exit inducement payments made to employees are treated as lump sum payments, and PAYE must be deducted at the lump sum payment rate. See page 10 of the 2002 tax tables for the rates for lump sum payments.



Bryre Patchell
National Manager, BusinessDirect

Restrictive covenants

These are payments made in return for a person agreeing to restrict their ability to perform services. This includes payments made to independent contractors and office holders as well as employees, for example, when an employee's employment is terminated, the employee agrees not to carry on business in competition with their former employer. It also includes payments made when an employee enters into a restrictive covenant with a wholly-owned company and then sells the shares in that company to their employer. Payments made to employees will be classed as source deduction payments, so PAYE must be deducted.

Exit inducement payments

Exit inducement payments are made by a prospective employer or contractor to a person to give up a particular status or position. These include payments to employees whose job status changes, even if they do not have a career change. Payments made to employees are also defined as source deduction payments, so PAYE must be deducted.

Reminder

Who completes a Tax code declaration (IR 330)?

Only new employees or existing employees who want to change their tax code should complete a *Tax code declaration (IR 330)* form. Your existing employees don't have to fill out a new IR 330 each year.

You can order IR 330s by phoning INFOexpress on **0800 257 773** and following the recorded instructions. You'll need a touch tone phone, your IRD number and the number of the form.

FBT filers' prescribed interest rate for loans

For the quarter beginning 1 April 2001 the prescribed rate of interest for calculating the fringe benefit value of low-interest loans to employees is 7.95%. This is a decrease from the previous quarter's rate of 8.5%.

If there are any changes to this rate we will let you know in next month's edition of *Payroll News*.