



Employee tax code requirements

Late last year we wrote to employers asking them to check that their employees were using the correct tax code.

If an employee is on the right tax code, it helps to ensure they pay enough tax and the correct amount of student loan repayments. If the wrong tax code has been used, employees may end up with a bill to pay at the end of the tax year.

As a result of our focus on tax codes we've identified a number of simple solutions to help keep things on track. So, here are a few tips we'd like you to share with your employer clients to help when filling out their employer monthly schedules (EMS).

- **Start and end dates** – Please only enter a start date when an employee first starts employment with you. Only enter a finish date when an employee finishes permanently. Leave the finish field blank otherwise.
- **Matching tax code and amounts deducted** – We've noticed that in some cases the correct amount is being deducted but the wrong tax code has been recorded on the EMS. In a few cases the correct tax code is showing but the wrong amount is being deducted, meaning the employee is paying too much or too little tax.
Please ask your clients to make sure the tax code on the EMS matches the amount of tax or repayment being deducted. If we notice the tax code is wrong we'll write to the employer asking them to change it.
- **Tax code declaration (IR 330)** – If an employee completes and signs a *Tax code declaration (IR 330)*, the employer must change the employee's tax code according to the signed declaration. The signed IR 330 is the only authority Inland Revenue can accept from an employee to change their tax code.
- **Primary employment** – Most employees have one main job which is their main or only source of income. This is their primary employment. This includes a taxable pension, benefit or student allowance if it's the main or only source of income. An employee can use only one primary tax code for their main source of income at any time, ie, M or ML or ME. Employees who are repaying their student loan should use the M SL tax code.

- **Secondary employment** – If an employee is already using a primary tax code (M, ML, ME or M SL for their main source of income from a job or a benefit) and takes another job, that job is secondary employment. The employee must complete another IR 330 for secondary employment, using a secondary tax code, S, SH or ST. Employees repaying student loans must use the S SL, SH SL or ST SL code if they're already using the M SL code for another job.

Employees can use the "Work out your tax code" decision tree on www.ird.govt.nz/how-to/taxrates-codes or by calling us on 0800 227 774.

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

Independent earner tax credit (IETC)

From 1 April 2009 eligible taxpayers earning an annual net income (before tax) between \$24,000 and \$44,000 will be entitled to an extra \$10 each week. For eligible tax payers earning over \$44,000 the independent earner tax credit (IETC) decreases by 13 cents for every additional dollar earned up to \$48,000. Individuals will have to work out whether they'll be eligible for the tax credit.

To receive the tax credit through their pay, employees will need to choose a new tax code and give their employer a new IR 330. This is so the right amount of tax can be deducted from their salary or wages.

This new tax code can only be used for their main job or source of income.

The new tax code is ME, or ME SL for people with a student loan.

IR 3 filers will claim the IETC on their return at the end of the year.

Your employer clients need to be made aware that they are likely to receive IR 330 forms from employees who want to change to this new tax code, so they can get the IETC. Copies of the IR 330 can be downloaded from Inland Revenue's website.

Full details on the IETC are available at www.ird.govt.nz





IRD numbers

Please make sure you enter IRD numbers for all employees on your employer monthly schedule. Please also remember that if employees haven't provided an IRD number, employers are required to deduct tax at the no-notification rate of 46.7% (formerly the no-declaration rate) until they supply an IRD number.

If you receive an EMS showing this alongside an employee's name

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it means an incorrect IRD number has been used. Please check the number with the employee.

Back-year student loan assessments

Did you know that if you request a back-year personal tax summary for your client and they have a student loan, this may adversely affect your client?

First, where a client has used an incorrect tax code, it will usually result in the student loan being underpaid for that year. Any resulting income tax credit will be used to offset the student loan underpayment.

This is also likely to create penalty charges for that underpayment.

Second, the year order which the personal tax summaries are requested in must be correct. If it isn't, there can be delays for the agent and client and penalties may also apply.

For example, if a loan was repaid in 2008 but a personal tax summary has been requested for 2008, then 2007, then 2006, it could change the assessment amount due for each year.

So, the student loan borrower may not have known they'd underpaid their student loan and get an unexpected end-of-year debit.

What can you do to help? Check the student loan assessment as well as the income tax assessment.

ir-File is 10 years old

On 1 April the ir-File service will have been operating for 10 years. We think it's time to re-emphasise the cost and time savings of this easy-to-use e-tool.

ir-File lets payroll administrators file their *Employer monthly schedule (IR 348/EMS)* and *Employer deductions (IR 345/EDF)* forms electronically.

It also offers all these advantages:

- 24-hour access
- total security
- no need to buy any software—it's all online
- no waiting on forms to arrive
- no postage
- no registration fee
- less chance of numerical errors
- quick access to payment online.

If your clients aren't using ir-File, encourage them to make this 10th anniversary year, the year they register.

To learn how it works go to www.ird.govt.nz/help/demo/ and check out the online demonstration. This will step you through the whole process without using any of your personal details.

You can ask your agent account manager for more details or go to www.ird.govt.nz/online-services



Tax agents who ir-File for clients

Just a reminder that if you ir-File an *Employer monthly schedule (IR 348)* each month, you should also be ir-Filing the *Employer deductions (IR 345)* form.

The advantages of sending IR 345s electronically are:

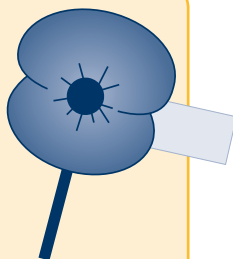
- no delay in acknowledging payments have been made
- your clients can be notified about incorrect balances or arrears quickly and avoid extra penalties
- you won't receive statements with incorrect account balances
- your clients won't have incorrect credit balances transferred to other tax types.

If your gross annual PAYE deductions go over \$100,000 in a year of employing, the next year you're classed as a large employer and are required to file electronically.

If you're not sure how to complete the IR 345 online, check out our demonstration site at www.ird.govt.nz/help/demo/ or talk to your local agent account manager.

ANZAC Day Saturday 25 April

The agents' call line
0800 377 779 will be closed
for ANZAC weekend 2009



PAYE tax tables from 1 April 2009

Please remind your clients who are employers that they should now be using the 2010 PAYE tax tables for calculating PAYE. These tables should be used for pay periods ending on or after 1 April 2009.

The tables have been updated as a result of the personal income tax rate changes, effective from 1 April 2009.

For further information about these changes go to www.ird.govt.nz

PAYE payroll software users

Please make sure your clients who use payroll software have updated it to include any relevant April 1 changes.

Election to change a balance date

Inland Revenue has published a standard practice statement (SPS08/04) which reviews the practices of applying for a non-standard balance date, or to resume a standard balance date if you've previously had a non-standard date.

This SPS is effective from 1 January 2009 and replaces all other policy statements, including the *Tax Information Bulletin* Vol 3, No 9 (June 1992) and Vol 5, No 11 (April 1994).

This gives details of the criteria for approval and the process to apply.

For full details refer to *Tax Information Bulletin* Vol 21, no 1 (February 2009) at www.ird.govt.nz/technical-tax/tib/



KiwiSaver – April 1 2009 changes

April 1 will see a number of changes to KiwiSaver that all employers need to know about. These are:

- The compulsory employer contribution (CEC) increased to 2% and won't increase in future years.
- The minimum employee contribution rate reduced to 2% of an employee's gross pay.
- Existing KiwiSaver members must apply to their employer in writing to reduce their contribution to 2%.
- 2% is the default rate for new employees who sign up on or after 1 April and don't indicate a KiwiSaver rate.
- The \$40 annual fee subsidy ceases from 1 April.
- Voluntary employer contributions will be liable for ESCT (employer superannuation contribution tax).
- The employer tax credit (ETC) can no longer be claimed from 1 April 2009.
- The KiwiSaver Act has been amended and the Employer Relations Act amendment relating to KiwiSaver has been repealed. So, KiwiSaver compulsory employer contributions must be paid in addition to an employee's gross salary and wages, unless through good faith bargaining, employers and employees agree otherwise. For more information, see the Department of Labour factsheet at www.ers.govt.nz/pay/kiwisaver.html

Many of the KiwiSaver forms and guides you give to new employees may be out of date from 1 April 2009. Download new copies of the updated forms and guides from www.ird.govt.nz

Tax changes for small and medium-sized businesses

On 4 February 2009, the Government announced a package of proposed changes designed to improve cash flow and reduce compliance costs for small and medium-sized businesses.

At the time of printing, these changes, included in the Taxation (Business Tax Measures) Bill, were before Parliament. Once enacted, these changes are expected to take effect from 1 April 2009.

Information about the final changes and how they affect your clients will be available at www.ird.govt.nz around the end of March. Once this happens, we'll begin notifying clients affected by the changes.

We'll also prepare an electronic supplement to this edition of *AGENTSanswers* with more information about the changes, and notify you by email when it's available.

Please see www.taxpolicy.ird.govt.nz for detailed information.

Note from the editor

If your mailing details are incorrect, we have missed someone off the distribution list or you have suggestions for future topics, please email agents.answers@ird.govt.nz or contact:

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