

Payroll News

Issue 114
February 2009

Welcome to Payroll News

In this issue: Tax legislation changes, 2009 income tax changes, the independent earner tax credit, KiwiSaver changes and child support deduction notices.

If you have a topic you'd like to see covered in this newsletter, please email us at payroll.news@ird.govt.nz and we'll aim to cover it in a future edition.

Legislation changes

New tax legislation has been passed in Parliament. It includes changes to personal income tax rates, the introduction of an independent earner tax credit, and changes to KiwiSaver.

Here's a quick summary:

- A three-year programme of changes to personal income tax rates and thresholds from 1 April 2009.
- Introduction of an independent earner tax credit of \$10 a week from 1 April 2009, increasing to \$15 a week from 1 April 2010.
- Changes to KiwiSaver from 1 April 2009, including a reduced employee contribution rate of 2%, capping of compulsory employer contributions at 2%, and discontinuing the employer tax credit and the fee subsidy.

More information is available at www.ird.govt.nz/news-updates/like-to-know-april-2009-tax-changes and www.taxpolicy.ird.govt.nz

2009 income tax changes

Personal income tax rates are changing, so it's important to check your payroll system is up-to-date. If you use payroll software you should incorporate these changes into your payroll package for pay periods ending on or after 1 April 2009.

We'll soon be updating the 2010 PAYE deduction tables:

- weekly and fortnightly (IR 340)
- monthly and four-weekly (IR 341)

The new IR 340 and IR 341 deduction tables will be available online. We'll also be sending you printed copies.

Please use these new tables for pay periods ending on or after 1 April 2009.

If you haven't received your deduction tables by mid-March or you haven't received the tables you require, call us on 0800 377 772. Have your IRD number handy.

Independent earner tax credit

From 1 April 2009 eligible taxpayers earning between \$24,000 and \$44,000 will be entitled to an extra \$10 each week. For those earning over \$44,000 the independent earner tax credit decreases by 13 cents for every additional dollar earned up to \$48,000.

Your employees will have to work out whether they'll be eligible for the tax credit.

To receive the tax credit through their pay your employees will need to choose a new tax code and let you know so you can deduct the right amount of tax from their salary or wages. They can only use this new tax code for their main job or source of income.

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

We'll send you further information later this month and updated *Tax code declaration* (IR 330) forms will be available from March 2009.

KiwiSaver changes

From 1 April 2009 some changes are being made to KiwiSaver. Here's a summary of the main points you need to know.

The compulsory employer contribution (CEC) will increase to 2% and won't increase further in future years.

You'll need to increase your CEC rate to 2% from 1 April 2009, but won't be required to contribute more than this amount in future years unless you want to. You'll need to increase your CEC through your payroll provider or payroll system.

The rate change will apply to the first full pay period after 1 April 2009, so you're not required to calculate a part period at two rates.

The minimum employee contribution rate will reduce to 2% of a member's gross pay.

You may need to reduce the contribution rates for existing KiwiSaver employees if they tell you they want to change their contribution rate to 2%. You'll need to do this through your payroll provider or payroll system. Ask your employees for written confirmation of their intention to reduce their contribution rate or get them to complete a new *KiwiSaver deduction form* (KS 2). There's no need for you to contact us.

If new employees join KiwiSaver and are automatically enrolled after 1 April 2009, but they don't tell you how much they want deducted from their pay, make deductions at the default rate of 2% of their gross pay.

The ESCT (employer superannuation contribution tax) exemption will be capped at the CEC of 2% from 1 April 2009.

If you choose to contribute more than 2% of your employees' gross pay to their KiwiSaver accounts (which is more than the amount exempt from ESCT), you'll have to pay ESCT on contributions above 2% from 1 April 2009.

If you're already contributing more than 2% and want to reduce your CEC to the new rate of 2%, you'll need to re-negotiate contractual arrangements with your employees.

ESCT must be paid to Inland Revenue along with the PAYE deductions on your employer monthly schedules.

The employer tax credit (ETC) will be removed.

The ETC you've been receiving from the government will be removed from 1 April 2009. You'll continue receiving it till then.

You can't claim ETC for the first full pay period after 1 April 2009.

At this stage there's no change to the proposed ETC square-up. The square-up will ensure all employers receive their full \$20 a week ETC entitlement for the year ending 31 March 2009. The ETC square-up wasn't legislated before Parliament dissolved for the 2008 General Election.

The Bill has been reinstated by the new Parliament at the Select Committee stage. We'll be able to tell you more about the ETC square-up once the Finance and Expenditure Committee has considered and reported back to Parliament.

You'll find more information at www.ird.govt.nz/news-updates/like-to-know-april-2009-kiwisaver-changes and we'll continue to update you through *Payroll News*.

Child support deduction notices

In mid-March you'll receive a new child support deduction notice for every employee who has child support deducted from their salary or wages.

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

We send new notices each year as all child support paying parents are reassessed for the new tax year starting on 1 April, resulting in a new payment amount.

Note

If you don't receive a new notice for an employee you must continue to deduct child support at the existing rate.

We usually issue an individual notice for each employee you make deductions for. We can also send you deduction notices in these formats:

- **Consolidated notice** – a schedule showing all additions and changes to child support payments for multiple employees on the same schedule
- **Combination** – individual deduction notices for some employees and a consolidated deduction notice for others.

If you'd find it easier to process deduction notices in one of these formats please call us on 0800 220 222.

Publications update

Wondered what publications we've updated lately? Check here each month for the latest updates of our forms, returns, guides and publications relating to payroll.

October 2008

Tax code declaration (IR 330) – October 2008



Alan Quinn
Manager
Customer Insight



Inland Revenue
Te Tari Taake