

Payroll News



Inland Revenue
Te Tari Taake

Employer monthly

Issue 88
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Full name	Surname	First name(s)	Start	Finish	Gross ea
Davies	Robyn				\$
IRD number	12173142	Tax code	M		
Rawlins	Stacey				\$
IRD number	12111222	Tax code	WT		
					\$
					\$
					\$

Welcome to Payroll News

In this issue we tell you about options for making tax payments, retiring and redundancy payments, and how to apply the no-declaration rate.

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 or email us at payroll.news@ird.govt.nz and we'll aim to cover the topic in a future edition.

Are you treating your employees as contractors?

As an employer it's important you know whether the people who work for you are employees or self-employed, because tax, student loan and Accident Compensation laws treat self-employed people differently to employees. If you fail to meet your responsibilities as an employer this may result in prosecution and a fine.

So, who is an employee?

If you have control over the work and how and where it is done, the worker is most likely an employee and you are responsible for deducting PAYE. As well as being full-time, employees can include fixed-term or seasonal employees and casual or part-time employees. If someone is not an employee, you may be required to deduct withholding tax from payments you make to them.

Withholding payments

The *Tax code declaration (IR 330)* and the PAYE deduction tables (*IR 340*) and (*IR 341*) list the activities that are subject to withholding tax, and the amount of withholding tax to deduct. If you have a self-employed contractor working for you, who performs work that falls under the withholding payment regulations, you need to deduct withholding tax at the specified rate unless they give you a current certificate of exemption.

For more help

If you're unsure whether a worker is an employee, see our leaflet *Self-employed or an employee? (IR 336)*. You can view this at www.ird.govt.nz or order a copy by calling INFOexpress on 0800 257 773.

Tax payments received in time

We have several different payment options designed to make it as easy as possible for you to make your tax payments in time.

Payments by post

Your payment will be in time as long as it's postmarked on or before the due date. If you live in a rural delivery area, the date of payment is when it's received by New Zealand Post. It is not when the payment is placed in your personal mailbox for collection.

Payments posted from overseas

Must be received by Inland Revenue on or before the due date.

Electronic payments

Your payment will be received in time when it has been electronically paid or direct credited to Inland Revenue, either on or before the due date for payment. Internet payments must be completed before the end of the bank's online business hours to be recorded as received on that specific day. Internet payments after these online business hours will be processed on the next business day.

If you're making an online payment on the last day for payment, it's important that you check your bank's cut-off time to ensure your payment won't be late.

Electronic payments from overseas

A payment will be received in time when it has been electronically paid or direct credited to Inland Revenue, either on or before the New Zealand due date.

Westpac payments

You may also make payments at most branches of Westpac in New Zealand. Payments can be made over the counter or through drop-boxes in the bank. The payment is received in time if it is physically handed to a teller or placed in the drop box at a Westpac branch by the close of business on the due date.

Post-dated cheques

We will not bank post-dated cheques until the specified date. If you send a post-dated cheque please highlight the date. A cheque that is post-dated after the due date, even though it is received on or before the due date, will be treated as late.

Weekends and public holidays

If a due date for payment falls on a weekend or public holiday (including a provincial anniversary day), we will accept payment without charging a penalty when it is handed in or posted on the next working day. If you make an electronic payment on a weekend or public holiday, your payment will be accepted as received in time when it's credited to Inland Revenue on the next working day.

Note

The payment policy on due dates falling on weekends and public holidays does not apply for goods and services tax (GST). GST payments are due on the last working day of the month except for GST payments due on the last working day of December—which are due on 15 January.

Shortfall penalty – possible cancellation

If you've been charged a shortfall penalty between April 2003 and March 2006 for taking an "unacceptable tax position" you may be eligible to have it cancelled.

For us to consider cancelling the penalty you'll need to send us a request in writing by 30 September 2006. To find out what information you need to include, please visit www.ird.govt.nz/news-updates/liketoknow-utp-cancellation.html or call us on **0800 377 771**.

Retiring allowances and redundancy payments

If you make a retiring allowance or redundancy payment to an employee, it's treated as a lump sum payment. The tax rate you use depends on the annual gross income of the employee, which is calculated by adding the lump sum payment and the last four weeks' pay grossed up to give an annual income.

Retiring allowances and redundancy payments are not liable for ACC earners' levy. However, if the employee uses an M SL, S SL, SH SL or ST SL tax code, you will have to deduct student loan repayments from the payments.

Example

Grant pays Craig a redundancy payment of \$6,000. Craig's total wages for the last four weeks were \$3,000. The calculation will look like this:

Pay for last 4 weeks	\$ 3,000
Multiply to get number of weeks in full year	<u>× 13</u>
	\$ 39,000
Add lump sum	<u>\$ 6,000</u>
Equivalent full year income	\$ 45,000

Gross annual income of employee	Rate of tax
Up to \$38,000	21%
Over \$38,000 and up to \$60,000	33%
Over \$60,000	39%

As Craig's income level is greater than \$38,000 but less than \$60,000 the tax rate applied to the redundancy payment is 33 cents in the dollar. $\$6,000 \times 33\% = \$1,980$.

Retiring allowances

A retiring allowance is a payment made to an employee on retirement. Retirement may be because of any of the following:

- the employee's decision to retire at any age
- the terms of any union contract
- the length of service of the employee, or
- the employer's policy.

Note:

If your employee does not work for a full year and you pay them a retirement allowance, it is possible they could be entitled to a tax refund. Once the tax year has ended they can go to www.ird.govt.nz/calculators/keyword/individualincometax/ and use the Personal tax summary calculator to work out if they would receive a refund if they requested a Personal tax summary.

Redundancy payments

A redundancy payment is different from a retiring allowance. The decision to cease employment is the employer's.

Redundancy payments may be made:

- to an employee whose position is no longer needed, or
- to a seasonal worker whose usual seasonal position is no longer needed (the employee works for you at a regular time each year for a continuous period of less than 12 months).

If the payment does not fit the criteria outlined above it is not a retirement or redundancy payment and will be liable for ACC earners' levy.

For more information read the *Employer's guide (IR 335)* which you can view at www.ird.govt.nz or order a copy by calling INFOexpress on **0800 257 773**.

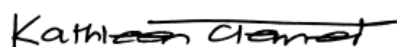
Employing staff and the no-declaration rate

Use the no-declaration rate when an employee, or a contractor receiving withholding payments does not give you a fully completed *Tax code declaration (IR 330)*, a valid *Certificate of exemption (IR 331)* or a *Special tax code or deduction rate certificate (IR 23)*. The IR 330 must show the employee's:

- name
- IRD number, and
- tax code.

The no-declaration rate is:

- PAYE of 46.3 cents in the dollar (which includes the ACC earners' levy of 1.3%), for employees, or
- generally 15 cents in the dollar on top of the normal rate of withholding tax for people receiving withholding payments—see the current PAYE deduction tables (IR 340) or (IR 341) for the exact rate.



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