Business Transformation: Changes in April 2021

Webinar for employers

Inland Revenue
Te Tari Taake

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Rata is a Transformation Account Manager focusing on small and medium enterprise customers, not-for-profit organisations and Iwi. He has both project and service management skills as well as experience working across government and business advisory groups.

Rata is passionate about improving services for employers and Iwi and spends his days working with industry associations, professional bodies and Iwi to update them on the changes, capturing their feedback and advocating on their behalf.

Questions?
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Greetings everyone, and welcome to this presentation introducing some upcoming changes that may be of interest to you.

My name is Rata Kamau and I'm a Transformation Account Manager at Inland Revenue working with Industry Associations, Professional bodies and Iwi across New Zealand. Over the last couple of years, I have been assisting our Community Compliance staff in talking to employers about the Business Transformation changes - many of you may have attended these presentations.

In this webinar I'll tell you about some of the annual changes coming in April this year including the new payday filing format.

Please note that the content is correct as of February 2021 and some details may change.

If you have any questions arising from this webinar, please send them to webinar.questions@ird.govt.nz

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Contents

Today we'll cover:

- Changes in 2021
- New Legislation
- Return changes
- New payday filing format
- Other changes

Here's a list of the topics that we'll be covering today. As you can see we have a bit to get through - we'll start with a reminder of what's changing when in 2021.

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Changes in 2021

To be confirmed
- Legislative changes
- Scope and details around design

- Release 1 – was delivered on **1 March 2021**
  - Paid Parental Leave
  - New Zealand Foreign Trusts
  - Unclaimed Money
  - Duties (Lotteries Duty, Casino Duty and Totalisator Duty)
- Annual and other changes in **April 2021**. These include:
  - The new 39% tax rate
  - Returns changes
  - The move to the new version of the payday filing format
- Release 2 – to be delivered around **October 2021** (date tbc)
  - Child Support
  - An upgrade to a new version of myIR

We'll start with a reminder of what's changing when.

- Release 1 went live on 1 March. This covers changes to Paid Parental Leave , New Zealand foreign trusts, Unclaimed money and Duties. We've covered these topics in previous webinars.
- The next changes will come in into play on 1 April this year. They will include a range of annual changes. Also on 1 April we will require employers to use the new payday filing format. These are the changes we will focus on in this webinar.
- Later this year our next major release, Release 2, will go live. This is planned for October and will include moving Child Support into our new system and upgrading myIR.

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New Legislation

On 3 December 2020 the Government passed the Taxation (Income Tax Rate and Other Amendments) Bill. This was granted assent on 7 December 2020.

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New Legislation

The Taxation (Income Tax Rate and Other Amendments) Bill contains four main measures:

- A new top personal income tax rate of 39%
- Increased disclosure requirements for trusts
- Increasing the Minimum Family Tax Credit threshold for the 2020-21 tax year, and
- Clarifying the ability for Inland Revenue to require information for the purposes of providing quality policy advice.

In the Bill the Government has introduced a new top personal tax rate of 39%, increased disclosure requirements for trusts, increased Minimum Family Tax Credit Threshold, and clarified Inland Revenue’s ability to require information for the purposes of providing quality policy advice. Over the next couple of slides we’ll cover the changes that may impact you as an employer - the 39% tax rate change and Inland Revenue’s ability to require information.

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Tax rate changes

A new top income tax rate for individuals and unincorporated bodies will be in effect from 1 April 2021 - 39% on income over $180,000.

Flow on changes include:

- Two new secondary tax codes SA and SA SL
- PAYE on lump sum payments for impacted employees
- Employer Superannuation Contributions tax (ESCT) calculation
- Fringe Benefit Tax (FBT) calculation

New top income tax rate for individuals and unincorporated bodies	39%
New top Fringe Benefit Tax (FBT) rate	63.93%
New employer superannuation contribution (ESCT) tax	39%

The Bill introduces a new top tax rate of 39% for individuals and unincorporated bodies on income over $180,000. This new rate will come into effect from 1 April 2021.

As well as the rate change, the Bill contains a number of flow on changes including:

- Two new secondary tax codes, SA and SA SL, for employees with student loans.
- How you need to calculate PAYE on lump sum payments (like bonuses) for impacted employees
- Employer Superannuation Contributions tax (ESCT) calculations as there will be a new employer’s superannuation contribution tax (ESCT) rate of 39% on superannuation contributions made for an employee whose ESCT rate threshold amount (usually their prior year’s salary/wages plus gross employer contributions) exceeds $216,000, and
- Fringe Benefit Tax (FBT) calculations to reflect the new top Fringe benefit tax (FBT) rate of 63.93% applying to all-inclusive pay exceeding $129,680.

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Tax rate changes

Getting ready for the change

You will need to ensure you are correctly calculating deductions for employees.

Employers who use the PAYE tax tables to do this will need to use the new (2022) tables.

Software developers will need to update their software.

To prepare for the tax rate changes:

- You will need to be aware of the new tax codes and how you can calculate deductions for employees who will use the new tax codes.
- If you are an employer who uses the PAYE tax tables to calculate employer deductions, you will need to switch to using the updated 2022 version of the tables to calculate PAYE and ESCT correctly.
- Software developers will need to update their software to enable use of the new tax codes and the correct calculation of tax on extra pays when the new rate applies. Please check with your software provider if you have further questions about when these changes will be introduced.

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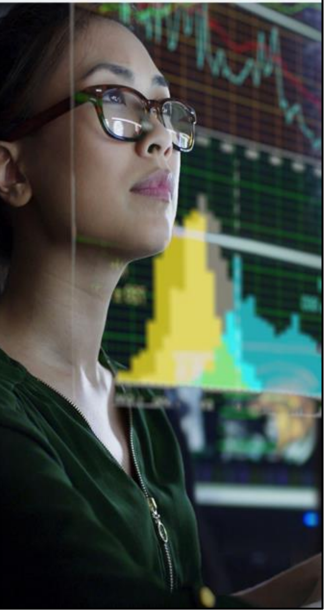
Information gathering measures

The Bill clarifies the existing measures - that the Commissioner of Inland Revenue can require information to be provided to assist with the development of tax policy.

Requests for additional information are approached on a case-by-case basis.



The information gathering powers outlined in the Taxation (Income Tax Rate and Other Amendments) Bill are not new. The Bill simply clarifies the existing measures - that the Commissioner of Inland Revenue can require information to be provided to assist with the development of tax policy.

As always, we take a considered approach to requesting additional information from taxpayers and only does so as appropriate.

Any requests for additional information are approached on a case-by-case basis.

Return changes

Now that we've covered the legislative changes introduced in the Taxation (Income Tax Rate and Other Amendments) Bill, we'll move on to discuss further changes that are coming in April. Let's start with a couple of changes that we are making to returns.

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Return changes

Loss Carry back will be added to IR4, IR6, IR8, IR9 and IR44 to allow the loss carry back to be recorded for the period ending 31 March 2021.

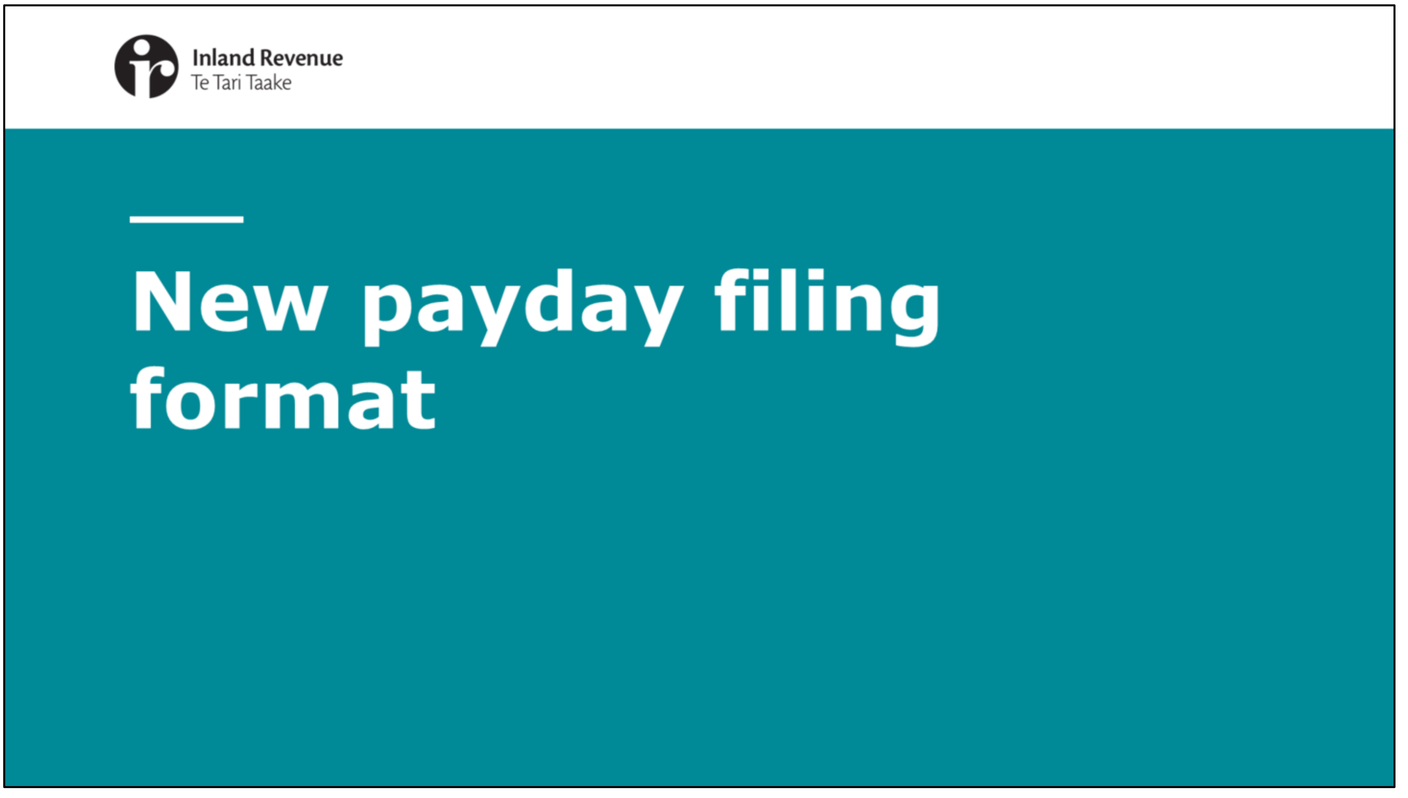
Research and Development Tax Incentive will be expanded from IR4 to all income tax customers.

We will no longer accepted IR3NR, IR4 and IR7 income tax returns submitted through www.ird.govt.nz – you must log in to myIR, use our Gateway services via your software or paper

The **loss carry-back scheme** was introduced as a temporary COVID response measure. A new field has been added on the IR3, IR4, IR6, IR8, IR9 and IR44 to allow you to account for the loss being carried back. You can record this in your income tax returns for the period ending 31 March 2021 onwards.

The **Research and Development Tax Incentive (RDTI)** will be expanded from IR4 filers to all income tax customers – fields for RDTI will be added to the IR3, IR3NR, IR6, IR8, IR9 and IR44 to allow customers to claim RDTI credits. The amount of RDTI credit that you're entitled to will be calculated on your RDTI return. The final values will be pre-populated onto the income tax return and used to offset any income tax debt before posting and being disbursed.

Finally, we will no longer accept 2021 tax year income tax returns through unauthenticated channels. This affects the IR3NR, IR4 and IR7. If you usually file through www.ird.govt.nz, you will need to use a different filing method, such as myIR, gateway services or a paper return. If you file through myIR your return should take less time to complete, as you will benefit from the return pre-populating some of your information.



The new payday filing format (Version 2) is required from 1 April this year.

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Payday filing

What's changing?

- New payday filing format (Version 2) **required from 1 April**

For those:

- Filing on-screen through myIR, or paper – there's no change
- Using a Payroll Bureau or Intermediary service - providers will make the changes
- Filing through software – you should notice little change.
- Using their own inhouse systems - you will need to build Version 2 into those systems.

Amendments to EI will have to be made using the same version as the original file.

If you have questions, please check with your payroll software provider to understand what the changes mean for you

From 1 April 2021, we will require all employers to use the new payday filing format (Version 2).

Version 2 has been available since April 2020 and provides more Employment Information and Employee Detail information than the current Version 1.

Who's impacted?

- Payroll software developers are those most affected by this change and we have been working with them to help ensure they build Version 2 into their systems in good time.
- For employers who file on-screen through myIR or paper there is no change as the Version 2 changes have been in place since April 2020.
- For employers who use a Payroll Bureau or Intermediary service there will likely be no impact as your payroll service provider will make any necessary changes.
- For employers who file through software, you should notice little change.
- Employers who have their own inhouse systems will need to build Version 2 into their system prior to April 2021.

It's important to note that amendments to EI will have to be made using the same version as the original file. For example, if you file through Version 1 you must amend through Version 1.

We are working closely with software providers on making the changes.

If you file through software, please contact your payroll software provider if you want to know more about what will be changing and when.

Payday filing – changes in Version 2

The EI return:

- New **optional** fields: Hours Paid and Prior Period Adjustments
- New fields on each row for special deductions
- Payday frequency field required

The employee details process:

- The employee details form and KiwiSaver combined
- Fewer, and improved, KiwiSaver Status Codes
- No longer need to update IR on KiwiSaver Savings Suspension start and finish
- KiwiSaver exempt income indicator on 'Create' only

Gateway Services only

- A change in the amendment timing between EI V1 and EI V2.

Other changes

- Voluntary KiwiSaver contributions included on the EI will be subject to penalties and interest if unpaid.

As we move away from paper forms and into solely digital design, we are far less constrained. As employers you will see some enhancements in payday filing. Here are some of the main changes:

Version 2 changes to the EI return

- There are some new optional fields: Hours Paid and Prior Period Adjustments. For Prior Period Adjustments, there are new fields you can use for errors in past returns which affect the gross income and PAYE deductions you originally filed. These fields let you make the adjustments in the current return rather than going back and amending the earlier return. There are some rules around when you can use these fields and when you must go back and amend your earlier return. If you are allowed to use these fields, you can still choose to amend your previous returns if you want to.
- There will be new fields on each row for special deductions (eg voluntary and compulsory extra student loans deductions and employee share scheme benefits). This means you won't need to add extra lines into your EI for these deductions.
- As a reminder, the payday frequency field is mandatory if you file on-screen in myIR, through file upload or on paper. In version 2 this is also required if you file via Gateway services.

V2 changes to the employee details process

- The employee details form and KiwiSaver forms are being combined so there will be fewer forms and less duplication of information.
- There are changes to KiwiSaver Status Codes – they will be fewer and improved.
- You will no longer need to update IR on KiwiSaver Savings Suspension start and finish.
- The KiwiSaver exempt income indicator only needs to be applied on the 'Create' function – if this changes you can update via a phone call, otherwise IR will contact you.
- It will be easier to see, keep track of and update employee deductions.

Gateways Services only

In Gateway Services there is a change between EI version 1 and EI version 2.

- In EI v1, a return can be filed and then immediately amended after receiving a successful response.
- In EI v2, a return must be *processed* in order to be amended. Returns should process within 5 minutes, if they conflict with our batch processes this may take longer.

Other

- Any voluntary KiwiSaver contributions included on the EI will be subject to penalties and interest if unpaid.

Other changes

On top of the taxation bill changes and new payday filing format there are some further changes that may impact you as an employer. I'll cover those now.

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KiwiSaver

From 1 April 2021, there will be changes for the treatment of Compulsory Employer Contributions and Voluntary Employer Contributions:

- Both will be liable for Use of Money Interest
- KiwiSaver Voluntary Employer Contributions will also be liable for late payment penalties and non-payment penalties
- IR will be able to take enforcement action for outstanding KiwiSaver Voluntary Employer Contributions
- KiwiSaver Voluntary Employer Contributions will be subject to write-offs, and the ability to write off Compulsory Employer Contributions will be expanded
- Small balance adjustments will apply to both.

From 1 April 2021, there will be changes to the treatment of Compulsory Employer Contributions and KiwiSaver Voluntary Employer Contributions.

Before I tell you the changes, I'll quickly explain the difference between the two contributions - If your employee is a KiwiSaver member and they contribute from their pay, you, as their employer generally must also contribute at least 3% of their gross earnings on top of their regular pay; these contributions are known as compulsory employer contributions. If you, their employer, choose to make contributions above 3%, or when you are not required to make contributions, these are known as voluntary employer contributions.

Currently, voluntary employer contributions are not subject to the same penalties and interest that apply to compulsory employer contributions. For periods from 1 April 2021 and later:

- Both Compulsory Employer Contributions and Voluntary Employer Contributions will be subject to debit use of money interest - this may be applied if you do not pay your assessment on time.
- Voluntary Employer Contributions will also be subject to late payment penalties and non-payment penalties.

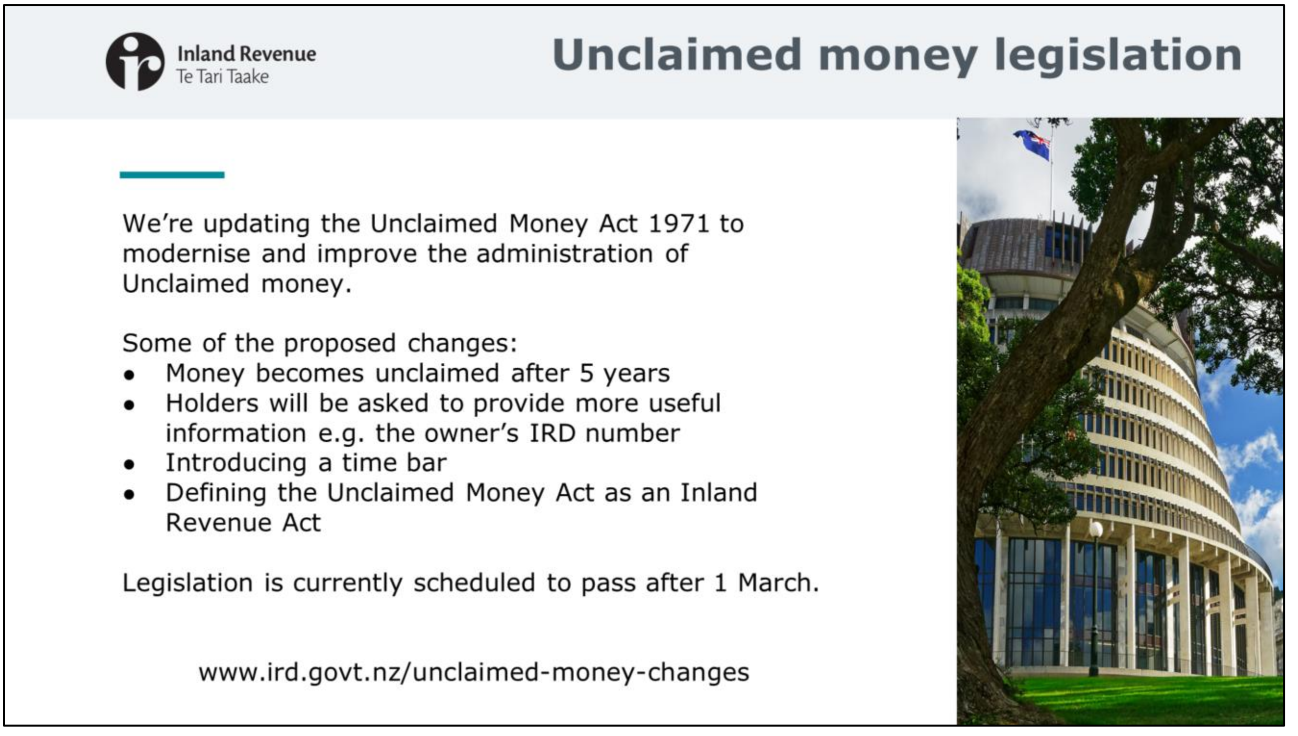
In line with these two changes Inland Revenue will be able to take enforcement action for outstanding voluntary employer contributions.

This ensures that the same penalties and enforcement mechanisms apply to both voluntary and compulsory employer KiwiSaver contributions.

In addition to those changes Voluntary Employer Contributions will also be subject to write-offs, and the ability to write off Compulsory Employer Contributions will be expanded.

The final change to the treatment of Compulsory Employer Contributions and Voluntary Employer Contributions is that any small balance adjustments will apply to both CEC and VEC amounts.

I'll just reiterate that these changes will only apply for periods from 1 April 2021 and later.



Unclaimed money is being moved into our new system on 1 March as part of Release 1 of Stage 4. In addition to unclaimed money being moved into our new system, there are a number of policy changes being introduced to the Unclaimed Money Act 1971 for the purpose of modernising and improving administration of unclaimed money.

The proposed changes include:

- Money becoming unclaimed after 5 years. In some circumstances it can become unclaimed money earlier than this. Remember, currently it’s between 6 and 25 years depending on the type of money. As a result, a 2-year transition period will apply for money that’s older than 5 years. This transition period would give holders additional time to transfer this money, rather than having to do this immediately.
- Holders no longer having to provide information about the occupation of the owner and instead they’ll be asked to provide more useful information like the owner’s IRD number (if held), so owners can identify which money is theirs.
- Holders no longer being required to keep a physical register of UCM or make this available to the public, and
- Introducing a time bar for claiming.

We’re also proposing that the Unclaimed Money Act become a Revenue Act. This will allow us to use other information we hold to help verify claimants as owners.

These proposed changes have been introduced as a Supplementary Order Paper to the Taxation (Annual Rates for 2020–21, Feasibility Expenditure, and Remedial Matters) Bill.

Although unclaimed money is being moved into our new system on 1 March, the legislation is currently scheduled to pass after this date. This means that holders and intermediaries will be able to manage their obligations in myIR (including setting up access to myIR), but that Inland Revenue will continue to operate under current legislation until the bill is passed.

If you would like further information visit www.ird.govt.nz/unclaimed-money-changes

That brings us to the end of our presentation today. Thank you for watching. Remember if you have any questions about this webinar please email: webinar.questions@ird.govt.nz