

Understanding schedular payments for contractors

This factsheet tells you about schedular payments and what your obligations as a New Zealand tax resident contractor are if you receive them.

There are different rules for non-resident contractors. Go to www.ird.govt.nz (search keywords: non-resident contractor).

What are schedular payments?

Payments received under a contract for service for certain activities, eg commissions, director's fees or labour only contracts in the building industry.

Schedular payments are required to have tax deducted by the person paying them (payer).

How do I know if my contract payment is a schedular payment?

Page three of the *Tax rate notification for contractors (IR330C)* form has a list of schedular payment activities.

If your payment isn't a schedular payment and isn't salary or wages it's treated as income from self-employment or business income. For more information see our *Smart business (IR320)* guide.

Labour hire arrangements

From 1 April 2017 a new group of contractors come within the schedular payment rules.

Tax must be deducted from all payments made to you, on or after 1 April 2017, if you're working under a labour hire arrangement for a labour hire business. This applies no matter what entity type you are contracting under, eg, individual, partnership, company. If you're also an associated party of the labour hire business you are working for, tax may not have to be deducted. Find out more on our website www.ird.govt.nz (search keywords: labour hire).

What is a labour hire arrangement?

A labour hire arrangement is where a person is paid by a labour hire business to perform work or services directly for clients of the business or other person, instead of performing work or services for the business itself.

The client will pay the labour hire business who will pay the worker.

Other names for labour hire business

Labour hire businesses may also be known as:

- on-hire business
- employment agency
- contract management
- recruitment services

You can find more information about labour hire arrangements and labour hire businesses on our website www.ird.govt.nz (search keyword: labour hire).

What do I need to give to my payer?

From 1 April 2017 if:

- you're new to the schedular payment rules, eg, working under a labour hire arrangement for a labour hire business,
- you start with a new payer, or
- you want to change your tax rate

you'll need to complete a *Tax rate notification for contractors (IR330C)* form and give this to your payer. This tells your payer what tax rate you've chosen.

What tax rate do I use?

You can choose to use the standard tax rate for your type of work shown on page three of the IR330C or pick your own rate, provided it's not less than the minimum 10%, or 15% if you have a temporary entry class visa.

Our *Tax rate estimation tool (for contractors)* can help you choose a rate. You'll find this on our website www.ird.govt.nz under "Work it out".

If you choose a rate too low for your circumstances, you may not pay enough towards your end of year tax obligation. This may result in you having to pay further tax in a lump sum and be liable for provisional tax.

Can I change the rate I've chosen?

If your circumstances change you can choose a new tax rate by completing a new IR330C and giving it to your payer.

You can only choose a new tax rate twice within a 12 month period, with the same payer. If you need to change your rate more than twice in a 12 month period you'll need the agreement of your payer.

If you're starting with a new payer you can choose any rate you want, subject to the minimums. It doesn't have to be the same rate you have with another payer. Show this rate on the IR330C form you give this payer.

What happens if I don't complete an IR330C?

If you don't complete an IR330C your payer has to deduct tax at the no-notification rate of 45 cents in the dollar.

Certificate of exemption

If you have a good record of tax compliance you can apply for a certificate of exemption (COE) so no tax is deducted from your payment. You'll still be required to pay tax on your income at the end of the year, and you may be liable for provisional tax.

Apply online through our website www.ird.govt.nz "Work it out" or use the *Request a certificate of exemption from tax on schedular payments (IR332)* form.

Once you've received a COE show this to your payer. You don't need to complete an IR330C as well.

If you're receiving payments under a labour hire arrangement from a labour hire business you won't be able to use a COE for these payments. You'll have to apply for a 0% special tax rate using the *Special tax code application (IR23BS)*.

Special tax rate

If the minimum rate you are able to choose is too high for your circumstances, eg, you have losses to carry forward, you can apply for a special tax rate which allows you to use a rate lower than the minimum. Use the IR23BS form to apply for a special tax rate. Once you've received a special tax rate certificate show this to your payer, along with the IR330C.

Voluntary schedular payments

If you receive income (not salary or wages) that isn't subject to the schedular payment rules you can opt in to have tax deducted from your payments. These payments will be treated as schedular payments.

To opt in you need to get the agreement of your payer. Once you have their agreement you'll need to put it in writing and make sure your payer has a copy. It's recommended the agreement include:

- your name and the name of your payer,
- agreement all payments made to you will be treated as voluntary schedular payments,
- the period the agreement applies to,
- date of the agreement, and
- signatures of you and your payer.

You'll need to give your payer a completed IR330C showing the tax rate you want to use.



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