



Inland Revenue
Te Tari Taake

IR 335
April 2015

Employer's guide

Information to help you with your
responsibilities as an employer

Introduction

If you have anyone working for you, it's your responsibility to deduct tax and other amounts from payments you make to them, as well as giving information to us. We explain what you're required to do and what happens if you don't comply.

If you haven't yet registered as an employer, read our *First-time employer's guide (IR 333)*. It tells you what you need to know before you register as an employer.

If you need help with any of your employer responsibilities, or you have questions about anything in this guide, please call us on 0800 377 772.

Work permits

If you're thinking of hiring someone from overseas, they may need a work permit. Only citizens and permanent residents of New Zealand and Australia may work in New Zealand without one. Part 3 of the *Tax code declaration (IR 330)* covers entitlement to work, which employees must complete.

Note: In some cases a visitor or student permit or other entitlement may allow employment in New Zealand. For more information on this and work permits please go to www.immigration.govt.nz or call the New Zealand Immigration Service on 0508 558 855.

Changes to note

Student loans

- employees with a student loan must add "SL" to their tax code
- deductions are now made whenever an employee earns over the pay period threshold
- employees may give you a student loan repayment deduction exemption certificate
- employees may give you a student loan special deduction rate certificate on secondary income
- there are two new student loan repayment codes, "SLCIR" and "SLBOR", which must be shown separately on your *Employer monthly schedule (IR 348)*.

KiwiSaver

- the minimum employee contribution rate and the compulsory employer contribution rate for KiwiSaver is 3%.

Tax credits

- the tax credits for transitional circumstances (commonly known as tax credit for income under \$9,880) has been removed so the ML and ML SL tax codes can no longer be used.
- the tax credits for children has been removed.

www.ird.govt.nz

Go to our website for information and to use our services and tools.

- Log in or register for a myIR secure online services account to use a range of secure services
- Demonstrations – learn about our services by watching short videos.
- Get it done online – complete forms and returns, make payments, make an appointment to see us, give us feedback.
- Work it out – use our calculators, worksheets and tools, for example, check your tax code, find filing and payment dates, calculate your student loan repayment.
- Forms and guides – download our guides and forms or fill in forms online.

Forgotten your myIR user ID or password?

Request a reminder of your user ID or reset your password online. You'll need to know your IRD number and have access to the email address we hold for you.

How to get our forms and guides

You can view copies of all our forms and guides by going to www.ird.govt.nz and selecting "All forms and guides" from the right-hand menu, or by entering the shoulder number in the search box. You can also order copies by calling 0800 257 773.

How to use this guide

Part 1 – Your responsibilities as an employer

Part 1 deals with employers' day-to-day responsibilities. It explains who is an employee, and about the amounts you may have to deduct from your employees' wages.

Part 2 – Record keeping and making payments

This part tells you what records you need to keep, how often to make payments to us, and what forms you need to complete when you make those payments. It also tells you what to do if you stop being an employer.

Part 3 – Other payments

Employers may make payments to their workers other than normal wages. This part explains the tax treatment of these other types of payments.

Part 4 – Penalties

This part tells you about the penalties and charges if you fail to meet your tax responsibilities.

Part 5 – Special types of workers

This part explains how to deduct tax from the payments you make to special types of workers.

Part 6 – Services you may need

This part lists our services, contact details and other useful information.

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Part 1 – Your responsibilities as an employer

In this part, we explain the tax codes and various amounts you'll need to deduct from your employee's pay. You must pay these amounts to us by the due dates.

Who is an employee?

It's very important you're sure about whether the people who work for you are your employees, or whether they're self-employed. This is because tax, KiwiSaver, student loan and accident compensation laws treat the two groups of people differently. You're responsible for your employees' tax deductions.

It's illegal to treat a true employee as self-employed to avoid deducting tax. If you do this you may be prosecuted and fined, and still have to pay the amount of PAYE (pay as you earn) you should have deducted.

In most cases it will be quite clear whether or not someone is an employee. Generally, if you control how and when the person's work is done, the person is your employee.

If you answer "yes" to all or most of the following questions, the worker is probably your employee.

- Does the person have to do the work, rather than being able to hire someone to help?
- Can you tell the worker what to do on the job, and when and how to do it?
- Do you pay the worker at a set rate (eg, hourly, weekly, monthly, or by unit of production)? A person paid by commission or on a piece-work basis may still be an employee, especially if there are other employees who work on the same basis.
- Can the worker get overtime or penal rates?
- Does the person work set hours, or a given number of hours, each week or month?
- Does the person work at your premises, or at a place you specify?
- Do you set the standards for the amount and quality of the person's work?

Note

A person can be self-employed in one line of work and still work for someone else as an employee.

For more help

If you need more help to decide whether your worker is an employee, see our leaflet *Self-employed or an employee? (IR 336)*.

If you're still not sure, call us on 0800 377 772.

If you decide someone is not an employee, you may still have to deduct tax from any schedular payments you make to them (see page 10).

Minimum employment rights and obligations

It's important to know what the minimum employment rights and obligations are.

Minimum employment rights include the following:

- Every employee must have a written employment agreement.
- Every employee is entitled to four weeks' paid annual holidays at the end of each year of employment.
- Every employee aged 16 and over must be paid at least the applicable minimum wage.
- Every employee is entitled to 11 public holidays off work on pay if they are days the employee would normally work.
- Every employee is entitled to five paid sick days after six months of employment.

Employer's obligations include:

- keeping accurate records of the employees' time worked, payments, and holiday and leave entitlements
- keeping signed copies of employment agreements
- taking all practicable steps to ensure employees' safety
- providing personal protective equipment for employees
- ensuring the person they're employing has the legal right to work in New Zealand.

For more information on the minimum employment rights and obligations, please go to www.dol.govt.nz/minimumrights or call the Ministry of Business, Innovation and Employment on 0800 209 020.

Amounts you'll need to deduct

PAYE is the basic amount of income tax you take out of your employees' wages whenever you pay them. PAYE includes an ACC earners' levy—see page 11. Besides PAYE, there are other amounts you may have to deduct from your employees' pay—these include student loan repayments, child support and KiwiSaver deductions.

Deducting PAYE

You can use the PAYE calculator at www.ird.govt.nz to calculate the amount of tax to deduct from an employee's gross wages. You can also work out how much PAYE you'll have to account for, if you've paid the employee a net amount. There's a separate holiday pay calculator to work out the amount of tax on holiday pay.

Tax codes

Tax code declaration

All new employees must complete a *Tax code declaration (IR 330)* when they start working for you. If they want to change their tax code, they must complete a new tax code declaration.

It's not necessary for your employees to complete a new declaration every year, providing their tax code remains the same. Each employee needs to read the notes on the IR 330 to work out their correct tax code.

You must keep the tax code declarations for seven years after the last wages payment is made to the employee.

If you need extra forms, you can print them from www.ird.govt.nz photocopy them or order them—see page 59.

Employees on the wrong tax code

It's important your employees use the right tax code. Using the correct tax code can help your employee avoid a tax bill or underpayment of their student loan repayment obligation at the end of the year.

We regularly check the details on your *Employer monthly schedule (IR 348)* to ensure the right amount of tax and student loan repayments are deducted from the salary or wages of the employees listed on your schedule.

When we identify a salary or wage earner using the wrong tax and/or student loan repayment code, we'll write to you asking you to change it. We'll tell you which employees are using incorrect tax codes and let you know which code they should be on. To make sure affected employees pay the correct amount of tax or student loan repayments as quickly as possible, you'll need to change their tax code to the correct code starting the next pay period.

We'll also write to any of your employees using the incorrect tax code to advise them the tax code they've been using is incorrect for their circumstances and we've asked you, as their employer, to change it from their next payday.

If any of your employees disagree with this change, please ask them to contact us.

Primary employment

Most employees have one job which is their main or only source of income. This job is primary employment. A taxable pension, benefit or student allowance can be primary employment 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 ME. Employees who are repaying their student loan should use the M SL or ME SL tax code—see page 12. The IR 330 explains how to select a tax code.

Once you have the employee's tax code, use the PAYE tables or our online PAYE calculator to work out how much PAYE to deduct from each pay.

Secondary employment

If an employee is already using a primary tax code (M, ME, M SL or ME SL for their main source of income from a job or a benefit) and decides to take another job, that other job is secondary employment.

The employee must complete another IR 330 for secondary employment, using one of the secondary tax codes: SB, S, SH or ST. Employees with student loans must use the SB SL, S SL, SH SL or ST SL code.

See the PAYE tables for the current secondary tax rates. Employees can choose to have their secondary income taxed at a higher rate than would be deducted if they used the S code, by selecting either the SH or ST codes on their IR 330.

Using the correct secondary tax code will reduce the likelihood of a tax bill at the end of the year.

Unlike the primary tax codes, an employee can use the secondary tax codes on more than one IR 330 at the same time.

Example

Belinda has one full-time job and three part-time jobs. She uses a primary tax code for her full-time job and a secondary tax code for her three part-time jobs.

If an employee works for you using a primary tax code and also does different work for you outside normal working hours, you would generally add the payment for the unrelated work to the normal pay and calculate PAYE on the total payment.

However, where the unrelated work covers a different period from the normal pay period, or separate wage records are kept (eg, the work is undertaken in a different department), use the secondary tax code. The employee must fill in a separate IR 330 if the secondary code is used.

Example

Amy works in the spraypainting division of Cars & Cars Ltd between 8 am and 5 pm, Monday to Friday, and is paid fortnightly. She also works between 6 pm and 10 pm, Tuesdays and Thursdays, in the glass division of Cars & Cars Ltd, and is paid monthly. Amy has completed two IR 330s—the one for the spraypainting division shows the tax code “M”, while the one for the glass division shows the tax code “S”.

No-notification rate

Use this rate when an employee or person receiving a salary, wages or schedular payments does not give you a fully completed IR 330 declaration form. You are legally required to use the no-notification rate where the employee or person has failed to give you a completed IR 330. A completed IR 330 must include their:

- name
- IRD number
- tax code.

The rate you deduct is either:

- PAYE of 46.45 cents in the dollar (which includes earners' levy) for employees, or
- 15 cents in the dollar on top of the normal rate of tax for persons receiving schedular payments.

For more information on schedular payments see page 10.

If an employee doesn't fill in an IR 330 form or complete it fully, enter “ND” as the tax code on your *Employer monthly schedule (IR 348)*, and tax their pay at the no-notification rate.

This is how to calculate PAYE at the no-notification rate for salaries and wages.

1. Take gross earnings.
2. Add the value of taxable allowances, if any.
3. The total is “earnings subject to PAYE”.
4. Work out PAYE at the rate of 46.45 cents in the dollar. Use whole dollars only.

Example

Basic weekly pay is \$385.75. The tax on whole dollars is 385×0.4645 .
PAYE to be deducted is \$178.83.

Special tax codes and student loan special deduction rate certificates

For some employees or other workers you may have to deduct tax at a special rate, or not deduct tax at all. They'll have a certificate that tells you the rate you should use. If you don't see a certificate, you must deduct the normal rate of tax and other deductions.

Note


If the certificate authorises you to deduct earners' levy only (no PAYE) the earners' levy amount should be shown in the "PAYE tax" column of your employer monthly schedule.

People who receive wages or schedular payments may apply to us for a special rate which authorises you to deduct:

- PAYE using a specified code
- tax at a certain rate
- earners' levy only, or
- student loan repayments at a specified rate.

The standard deduction rate for student loans is:

- 12 cents in the dollar from 1 April 2013
- 10 cents in the dollar until 31 March 2013.



Inland Revenue
Website: www.ird.govt.nz
Telephone: 0800 377 772

Student loan special deduction rate certificate

Date of issue: 01 April 2013

Expiry date of certificate → This certificate is valid from **01 April 2013 to 31 March 2014**

Name of employer. If more than one employer, wording is "to whom it may concern" → Dear CHAIR

Name of holder → For your employee Bloggs Smith, IRD Number 123-456-789, you are authorised to:

IRD number: **60-005-591** ← IRD number

Certificate Number: **210000794200** ← Quote this number if you need to discuss the certificate with us

From **01 April 2013 to 30 June 2013**

- use tax code **S SL**
- make student loan deductions at the special deduction rate of 0 cents in each dollar of gross income

From **01 July 2013 to 31 March 2014**

- use tax code **S SL**
- make student loan deductions at the standard deduction rate from each dollar of gross income

This is the rate at which you make deductions ←

This replaces any other student loan deduction rate or repayment deduction exemption certificate we have previously issued for the same period for the above employee.
Your employee must give you a new certificate when this one expires. If they don't, you'll need to make student loan deductions at the standard deduction rate from each dollar of gross income.

Please keep this certificate with your employee's wage records.

For more information on the standard deduction rate go to www.ird.govt.nz
(keywords: student loan glossary)

Yours sincerely

Eleanor Young

Manager, Inland Revenue

The certificate is invalid unless it's signed by Inland Revenue →

Please note - it is an offence to alter this certificate.

Checking the certificate

When an employee gives you a certificate, make sure it's valid. Check:

- the person named on the certificate is the person working for you and the IRD number is the same as their IR 330
- it's signed by an Inland Revenue manager
- it's for the current tax year
- it shows the rate at which tax is deducted
- it shows the period it applies for.

When that period ends, the employee must show you a new certificate or complete a new IR 330 and select the appropriate code for their changed circumstances. If you don't have either of these, deduct tax at the no-notification rate—see page 7.

Making deductions

Calculate the tax by multiplying the employee's gross pay by PAYE at the special rate shown.

Example

An employee's certificate shows the following: PAYE deducted at the rate of 23 cents in each dollar of gross income.

Earners' levy deducted—multiply gross income by 0.0145.

Gross earnings for pay period are \$1,000.

Rate to deduct from employee's wages is $23 + 1.45 = 0.2445$ cents.

PAYE to be deducted is \$244.50 ($\$1,000 \times 0.2445$ cents).

If a student loan deduction rate is shown on the certificate, use this rate to calculate the student loan deduction.

As they have a special deduction rate for their student loan, you don't need to use the student loan repayment column in the PAYE tables.

Deduct PAYE using the M, ME, SB, S, SH or ST rates shown in the tax tables or the rate shown on the special tax code certificate, then add the student loan deduction rate.

Example

An employee's certificate shows the following:

PAYE deducted under tax code S SL.

Student loan repayments at the rate of five cents in each dollar of gross income.

Fortnightly gross earnings are \$1,000.

Student loan to be deducted is \$50 ($1,000 \times 0.05$).

PAYE deducted \$189.50 (using tables from 1 April 2014).

What tax code goes on the *Employer monthly schedule (IR 348)*?

- If the certificate shows a special rate for PAYE, show "STC" in the tax code box on your *Employer monthly schedule (IR 348)*.
- If the certificate shows a special deduction rate for student loans, use the tax code shown on the certificate on your IR 348.
- If the certificate shows a special rate for PAYE and a rate for student loans, show "STC" in the tax code box on your IR 348.
- If the certificate shows a special tax rate for schedular payments, show "WT" on your IR 348.

Note

If you pay a bonus to an employee who has a special tax code you need to deduct tax at the rate shown on the certificate.

Schedular payments

Schedular payments are payments made to people who are not employees but who are employed on a contract-for-service basis—see page 5 for information to help you work out who is an employee. These activities are taxed at a flat rate.

The main activities and the tax rate for each are listed on the back of the IR 330. If you're paying someone to do one of the types of work listed you must deduct tax from the payments.

Tax is deducted even if the worker is registered for GST. The only exception is if they provide you with a *Certificate of exemption (IR 331)*—see page 11.

Some types of schedular payments—such as commissions, directors' fees and payments to non-resident contractors—are covered in more detail in Part 5.

If the type of work you've hired your contractor to do isn't listed on the back of the IR 330 you don't need to ask them to complete an IR 330 or deduct tax from payments you make to them.

Note

Don't deduct earners' levy, KiwiSaver deductions or student loan repayments from schedular payments. In these circumstances this is the worker's responsibility, not yours.

Don't deduct tax from schedular payments made:

- to a company, except a company that is:
 - a non-resident contractor
 - a non-resident entertainer
 - involved in agriculture, horticulture or viticulture whose work or services are provided under a contract or arrangement for the supply of labour, or substantially for the supply of labour, on land in connection with fruit crops, orchards, vegetables or vineyards.

This does not include:

- post-harvest facilities for work or services provided
- a management entity under a formal management agreement under which the entity is responsible for payment for the work or services provided.
- to a non-resident contractor who is eligible for total relief from tax through a double tax agreement, and is present in New Zealand for a total of 92 days or less in any 12-month period
- to or for the contract activities of a non-resident contractor who has been paid \$15,000 or less in total from all payers in any 12-month period
- for work or services completed by a public, local or Māori authority
- to a holder of a current certificate of exemption.

A worker who is GST-registered will charge GST on goods and services supplied. This means the worker's gross earnings will increase by the GST charged.

If the worker gives you a tax invoice, work out and deduct tax on the amount, excluding GST.

Example

You receive a tax invoice showing:

Cost of labour	\$ 500.00
Plus GST (15% of \$500)	<u>\$ 75.00</u>
	\$ 575.00

Calculate tax on GST-exclusive amount:

GST-exclusive amount	\$ 500.00
Less tax (20% of \$500)	<u>\$ 100.00</u>
	\$ 400.00

Plus GST from tax invoice	<u>\$ 75.00</u>
Net payment	\$ 475.00

You would deduct tax from the \$500. Show the \$500 as the gross payment and \$100 at box 3 on the *Employer monthly schedule (IR 348)*.

Show a WT tax code when completing the IR 348 for a schedular payment recipient.

If a worker has a *Certificate of exemption (IR 331)*

People who are in business for themselves, and who receive a schedular payment can apply for a certificate of exemption from PAYE.

A certificate of exemption may also be held by a non-resident contractor undertaking contract activity in New Zealand. See page 54 for further information.

If a worker has a certificate of exemption, you can make payments without deducting tax. It cannot be used to exempt an employee's salary or wages from deducting PAYE.

Checking the IR 331

When someone shows you a certificate of exemption, you must check it is valid and current.

If the certificate is valid and current, don't deduct tax from payments you make to them.

If the certificate is neither valid nor current, the worker must complete an IR 330 tax code declaration. You must deduct tax from payments you make.

You don't need to include tax-exempt payments on your *Employer monthly schedule (IR 348)*. However, you must keep a record of these payments.

It's a good idea to keep a record of the certificate number, in case we review your records.

ACC earners' levy

All employees must pay an ACC earners' levy to cover the cost of non work-related injuries. We collect this on behalf of the ACC.

For employees, this levy has been built into the PAYE tables and is deducted along with the tax. This means you don't need to do any extra calculations for it in each pay period.

Almost all earnings subject to PAYE are liable for the levy. They include:

- wages and salaries
- overtime pay
- backpay and holiday pay
- long-service leave pay

- bonuses or gratuities
- taxable allowances
- shareholder-employee salaries that have PAYE deducted
- salaries to partners in a partnership
- salaries to working owners of a look-through company.

The main exceptions are schedular payments, retirement payments, redundancy payments, jury fees, witness fees, taxable and non-taxable pensions, and tax-free allowances.

ACC will invoice close company employers for earners' levy on shareholder-employee remuneration that doesn't have PAYE deducted. The levy will be based on the shareholder-employee remuneration declared in the company's IR 4 income tax return.

KiwiSaver

You must make KiwiSaver available to all employees.

As an employer you're required to:

- check whether new employees are eligible to join KiwiSaver
- check whether new employees should be automatically enrolled
- give the *KiwiSaver employee information pack (KS 3)* to:
 - new employees who qualify for automatic enrolment, and
 - existing employees who want to opt in
- give us information about:
 - all new employees who qualify for automatic enrolment, and
 - eligible employees who want to opt in to KiwiSaver
- give new employees a written statement and investment statement if you have an employer-chosen scheme
- contribute to your employee's KiwiSaver scheme or complying fund (some exceptions apply).

Note

For more information please read our *KiwiSaver employer guide (KS 4)*.

Student loan deductions

As well as deducting PAYE, you may need to make deductions for student loans.

If your employee has a student loan they'll use a tax code with the "SL" student loan repayment code (M SL, ME SL, SB SL, S SL, SH SL or ST SL) on their *Tax code declaration (IR 330)*.

The PAYE deduction tables show the amount of PAYE and student loan repayments to be made.

Employers then have to deduct the loan repayments from the wages of the student loan borrower and pay the repayments to us with the PAYE deducted.

If your employee tells you part-way through the year that they should have been using one of the tax codes with "SL", deduct the repayments only from the time you get the new code.

It's important your employees are using the correct tax and/or student loan repayment code. Using the correct code can help your employee avoid a tax bill or underpayment of their student loan repayment obligation—see page 6 for more details.

Student loan special deduction rates

Sometimes the tax code your employee has to use will mean they pay more than they need to for their student loan. For example, if your employee's tax code is SB SL or S SL, the 12% standard student loan deduction rate for their secondary earnings may be too high. Your employee may give you a student loan special deduction rate certificate to lower the amount of student loan deductions required from their earnings. The certificate will tell what rate to deduct student loan repayments at, and the length of time it's valid for.

Only the employer named on the certificate is authorised to make the student loan deductions at the special deduction rate shown.

The certificate may authorise you to do one of the following:

- deduct no student loan repayments at all or
- deduct student loan repayments at a rate lower than standard rate.

Student loan repayment deduction exemptions

Employees who study full-time and expect to earn under the annual repayment threshold (\$19,084 for the 2014 tax year) may be exempt from having student loan repayments deducted from their salary or wages.

You don't have to make student loan deductions for an employee who gives you a student loan repayment deduction exemption certificate. The certificate specifies the period covered by the exemption. You don't use an "SL" repayment code when you calculate their pay during this period.

As soon as the exemption period ends:

- add the "SL" repayment code back into your employee's tax code, and
- start making student loan deductions from their pay

otherwise, they will have significant under-deductions.

Student loan extra deductions

Your employees may ask you to make extra deductions to pay off their loan faster or we may ask you to make compulsory extra deductions to catch up on an underpayment. These deductions are in **addition** to the amount you normally deduct using the student loan repayment code they've given you.

You must show extra deductions separately on your *Employer monthly schedule (IR 348)*. Use one of the following student loan repayment codes to identify the extra deductions:

1. SLBOR – employee requests voluntary extra deductions
2. SLCIR – we request you to make compulsory extra deductions.

You'll need to keep separate records of PAYE and student loan repayments.

By law, you cannot discriminate in any way against any employee because of their student loan responsibilities—see page 49 for more details.

Note

Don't deduct student loan repayments from schedular payments—see page 10.

Child support deductions

Inland Revenue Child Support assesses and collects child support from parents who don't live with their children.

The payments we collect are paid directly to the parent who has care of the child, if that parent is not a beneficiary. If they are a beneficiary, the payments are passed on to the government.

Employees can choose how they want to pay their child support. It may be a private arrangement that doesn't involve the employer. However, if we ask you to deduct child support from any employee's wages, you're required to do this by law.

We work out how much child support a paying parent should pay from each pay. If the parent is your employee, we may contact you for some information. This will usually be details about how often you pay wages, the next regular payday or pay period for that employee, and whether you want an employee reference on the notice we send you.

Child support deduction notice

When we have all the information, we'll send you a child support deduction notice. This tells you to deduct child support payments from your employee's pay.

The notice shows:

- your employee's name and IRD number
- the payday or pay period when you must start deducting child support
- the amount to deduct from each pay
- employee reference, if provided.

Don't make any deductions before the start date on the notice.

If a payday is specified on the notice and it's different from your actual payday, you need to contact us so we can change our records. Similarly, if a pay period is specified that is different from your actual pay period please contact us.

It's important the deductions shown on your *Employer monthly schedule (IR 348)* match the amount we expect to receive from the employee. If the payday or pay period on the notice is incorrect, these amounts may not match and your employee may be charged unnecessary late payment penalties.

If the deductible amount changes during the year, we'll send you another child support deduction notice. This will show the new amount of child support and when you must start deducting it.

Child support has priority over any other deductions from an employee's net pay. This means after you have deducted PAYE, you must deduct child support before you deduct anything else (such as student loan repayments, insurances, KiwiSaver and other superannuation deductions, or union fees).

We might ask you to deduct child support from payments to someone who is not your employee—eg, a contractor or a commission agent. The notice we send you explains how to make and pay the deductions.

Where possible, all child support notices issued for the same pay will be in one envelope. We will issue an individual notice for each employee you make deductions for. However, you may wish to receive notices in the form of:

- a consolidated deduction notice—a notice in schedule form showing all additions and changes to child support payments for multiple employees, or
- both individual deduction notices and a consolidated deduction notice.

Please call us on our number for child support employers if you would like to use either of the above options. You can call 0800 220 222 between 8 am and 5 pm Monday to Friday.

Protected net earnings

All employees must be allowed to keep 60% of their net pay, after PAYE (but not the earners' levy) and child support is deducted. This is the employee's "protected net earnings", to cover their living expenses.

Example

Gross pay \$1,250.

Tax code M

PAYE (from the tax tables, including ACC earners' levy) \$258.89.

ACC earners' levy ($\$1,250 \times 1.45\%$) \$18.12.

Protected net earnings $\$1,250 - \$258.89 + \$18.12 = \$1,009.23$.

Maximum child support that could be deducted is 40% of $\$1,009.23 = \403.69 .

Protected net earnings apply to child support only. So you must still make other deductions such as student loan repayments, KiwiSaver deductions, insurances, superannuation and union fees from the protected net earnings.

Protected earnings are usually only affected if your employee receives less pay than usual for some reason. If you're asked to deduct more than 40% of your employee's net pay, you must not deduct the full amount of child support. If you don't deduct the full amount of child support, don't make up the difference from future pays. We'll make arrangements with the employee to pay the balance owing.

Example 1 – Full wages paid

John is liable for payments of \$70 child support each week.

John's weekly wage	\$ 420.00
PAYE deducted (M tax code)	\$ 60.74
ACC earners' levy	\$ 6.09
Protected net earnings	\$ 365.35
40% of \$365.35 is	\$ 146.14

Because \$70 is less than 40% of John's net pay (\$146.14) the full amount of child support can be deducted.

Example 2 – Less than full wages

John has had three days leave without pay in a week.

John's reduced wage	\$ 168.00
PAYE deducted (M tax code)	\$ 20.07
ACC earners' levy	\$ 2.44
Protected net earnings	\$ 150.37
40% of \$150.37 is	\$ 60.15

Because \$70 is more than 40% of John's net pay (\$60.15) the full amount of child support cannot be deducted, otherwise John would be left with less than 60% of his net pay. Any other deductions, eg, student loan deductions, would still have to be taken out of John's remaining pay.

Paying child support deductions

Child support deducted in one month is due by the 20th of the following month.

Show the total child support deducted for the period on the *Employer deductions (IR 345)*

form. You also need to show the amount deducted on the *Employer monthly schedule (IR 348)*. See pages 24 to 29 for instructions on completing these forms. You must keep records of child support deducted along with your normal wage records.

Employers who pay PAYE twice-monthly have the option of paying child support once a month on the 20th, or twice-monthly on the 5th and the 20th along with other tax deductions.

It's important the IR 348 shows all deductions made in the month, no matter whether you pay it to us monthly or twice-monthly.

Employee privacy and prejudice

The law requires you to protect the privacy of your employees who pay child support. You can't give out information about their child support responsibilities (with two exceptions—see page 49).

By law, you cannot discriminate in any way against any employee because of their child support obligations. It's very important you read the full statements about privacy, prejudice and penalties on pages 47 to 50.

Deducting employees' arrears

Sometimes, we're unsuccessful in our attempts to obtain payment from your employee(s) and may need your assistance. We may send you a notice requiring you to deduct tax or student loan arrears from an employee's wages. You must deduct any child support payments before tax or student loan arrears. Pay the arrears to us by the end of each calendar month, separately from PAYE.

Don't use an *Employer deductions (IR 345)* form to pay the arrears. Instead, attach a copy of the deduction notice with your payment.

Payroll giving

Payroll giving is a voluntary scheme where employees can make donations from their pay to support approved donee organisations.

Employers can choose if they offer payroll giving and how it will run. You pass your employee's donations on to the chosen donee organisation and reduce their PAYE with a tax credit for payroll donations.

You'll need to be filing your *Employer monthly schedule (IR 348)* and *Employer deductions (IR 345/EDF)* form electronically using ir-File.

Employer's role

If you offer payroll giving as an employer you're required to:

- deduct the requested donation amount from your employee's salary or wages
- calculate the correct tax credits for each payroll donation made
- record the tax credits for payroll donations on your employer monthly schedule
- keep records of all tax credits for payroll donations, donation amounts, donee organisations and payment dates
- pass the donation on to the chosen donee organisation within the specified timeframe
- advise the donee organisation that the donations are made through payroll giving.

For more information please read our *Payroll giving (IR 617)* guide.

Employer's superannuation cash contribution (employer contribution)

An employer's contribution is a monetary amount paid made to a superannuation fund, by an employer, for the benefit of their employees. All employer contributions paid to a superannuation fund, including KiwiSaver schemes and complying funds, are liable for ESCT (employer superannuation contribution tax). The exception to this is if the employee and employer have agreed to treat some or all of the employer contribution as salary or wages under the PAYE rules.

A superannuation fund is a scheme registered under the Superannuation Schemes Act 1989.

If your employees ask you to make deductions from their wages and pay them to a superannuation scheme, these are not employer contributions.

There are two options for calculating and withholding tax on employer contributions:

- If the employer and employee agree, the amount of employer contribution can be treated as the employee's salary or wages and PAYE must be withheld.
- In all other cases, ESCT must be withheld. ESCT is calculated at a rate based on the employee's total annual salary or wages plus gross employer contributions for the previous tax year (1 April to 31 March). When employees haven't worked for the employer for the full previous tax year, the rate is based on the employer's estimate of the employee's total salary or wages plus gross employer contributions they will receive in the tax year for which the ESCT is being calculated.

Note

Employers paying into a defined benefit fund can choose to apply ESCT at the flat rate of 33 cents in the dollar.

See pages 16 to 19 for examples on how to calculate and withhold tax on employer contributions.

ESCT

If the employer is not treating the employer contributions as part of the employee's salary or wages, the employer must withhold ESCT at the time of making any employer contributions. If an employer doesn't do this, the ESCT is worked out on the grossed-up amount of the employer's superannuation contribution. Calculate the tax using this formula:

$$\text{ESCT} = \frac{a}{1 - a} \times b$$

Where: a is the rate of ESCT, and
 b is the actual amount paid to the fund.

The grossed-up contribution is the:

- actual amount paid to the fund, plus
- amount of ESCT worked out using the formula.

Example

An employer made a contribution of \$1,000 to a superannuation fund. Using the formula, the amount of ESCT to be paid is:

$$\text{ESCT} = \frac{0.30}{0.70} \times \$1,000 = \$428.57$$

The gross superannuation contribution is:

The amount received by the superannuation fund	\$1,000.00
Plus the tax on that amount	\$ 428.57
Grossed-up contribution	\$1,428.57

Tax on \$1,428.57 at 30 cents in the dollar is \$428.57. The ESCT is deducted from the grossed-up contribution.

Note

The above formula and example assumes that no ESCT has already been paid for the contribution.

ESCT rate based on 17.5 cents in the dollar**Example**

Joe is a KiwiSaver member and employed by A & B Limited. Joe is contributing 3% of his salary and his employer has agreed to match the employee contributions dollar for dollar. This means that A & B Limited is also contributing 3% as employer contributions.

For the purposes of calculating ESCT:

Joe's four-weekly salary is	\$3,200.00
KiwiSaver deduction	\$ 96.00
Employer contribution	\$ 96.00
ESCT rate (0.175) × \$ 96.00 =	\$ 16.80

A & B Limited would return the following information on the *Employer monthly schedule (IR 348)*:

KiwiSaver deduction (Box 6)	\$ 96.00
Net KiwiSaver employer contribution (Box 7)	\$ 79.20

The employer contribution is made up of \$96.00 less ESCT of \$16.80.

A & B Limited would also account for the \$16.80 ESCT in Box 8 on their *Employer deductions (IR 345)* form.

Note

Read pages 24 to 30 on how to complete your Employer monthly schedule (IR 348) and Employer deductions (IR 345) forms.

In some cases an employer may be “locked-in” to an employment agreement where they contribute a set percentage of their employee’s salary. In these cases it may be necessary to gross up the employer contribution so the employee receives their full entitlement. If this applied to A & B Limited’s employment agreement with Joe the result would be:

Example

KiwiSaver deduction	\$ 96.00
Employer contribution	\$ 96.00

A & B Limited would then gross up their contribution to account for ESCT while ensuring Joe received the full 3% employer contribution using the following formula.

$$\frac{\text{ESCT rate (0.175)}}{1 - \text{ESCT rate (0.175)}} \times \$96.00 = \$ 20.36$$

A & B Limited would return the information on the *Employer monthly schedule (IR 348)* as this:

KiwiSaver deduction (Box 6)	\$ 96.00
Net KiwiSaver employer contributions (Box 7)	\$ 96.00

A & B Limited would also account for the \$20.36 ESCT in Box 8 on their *Employer deductions (IR 345)* form.

Note

If Joe’s superannuation scheme was not a KiwiSaver scheme, the employer contribution would not be shown on the IR 348, but ESCT must still be shown on the IR 345.

ESCT rate based on employee salary or wages

The ESCT rate is based on the employee’s salary or wages plus gross superannuation employer contributions received in the previous tax year, ie, 1 April to 31 March. The tax rate is used for all employer superannuation contributions made in the current tax year.

From 1 April 2013

Employee’s salary or wage income for year ended 31 March 2013*	ESCT from 1 April 2013
\$0 – \$16,800	0.105
\$16,801 – \$57,600	0.175
\$57,601 – \$84,000	0.300
\$84,001 upwards	0.330

* This includes gross superannuation employer contributions.

ESCT is calculated on the whole dollar and is deducted from the gross employer contribution.

Example

Regan’s Trucks Ltd employs John and makes employer’s contributions on his behalf. John is not a KiwiSaver or complying fund member. He worked at Regan’s Trucks Ltd for the full year 1 April 2012 to 31 March 2013, receiving a salary of \$36,400 and employer contributions of \$1,820.

For the 2014 tax year, Regan’s Trucks Ltd elected to tax the employer’s contributions using a rate based on John’s previous year’s salary and employer contributions. Because his salary plus gross employer contributions was between \$16,801 and \$57,600, the ESCT rate is 17.5 cents in the dollar.

John’s salary is now \$39,000, or \$750 per week. Regan’s Trucks Ltd’s contribution to John’s superannuation is \$37.50 (5%) of his salary a week. The amount paid to John’s superannuation is not shown on the IR 348.

If the superannuation contribution amount includes ESCT, the ESCT calculation is:

$$0.175 \times \$37.00 = \$6.47$$

The amount passed to John’s superannuation scheme is \$31.03 (\$37.50 – \$6.47) and ESCT of \$6.47 is shown on the IR 345.

If the superannuation contribution amount excludes ESCT, the ESCT calculation is:

$$\frac{0.175 \times \$37.50}{0.825} = \$7.95$$

The amount passed on to John’s superannuation is \$37.50 and the ESCT amount of \$7.95 is shown on the IR 345.

Where the employee didn’t work for the employer for all of the previous standard tax year, the employer must estimate the amount of salary or wages and gross superannuation employer contributions that will be earned by the employee in the current year, and base the ESCT rate on the estimate.

Example

Regan’s Trucks Ltd employs Matt on 1 October 2013. Matt’s contract says he will receive a salary of \$30,000 and employer contributions of \$1,500 a year. The company will estimate Matt’s ESCT rate based on the amount of salary or wages plus gross employer contributions he will earn in the remainder of this tax year (1 October 2013 to 31 March 2014)*.

Salary	\$30,000
Employer contributions	\$ 1,500
Total	\$31,500
\$31,500 ÷ 12 months	\$ 2,625
\$ 2,625 × 6 months	\$15,750

Because the estimate of \$15,750 is between \$0 and \$16,800, the ESCT rate is 10.5%.

* There are only six months left in the tax year. If an employee was only to be employed for three months the employer would estimate how much the employee would earn in those three months and base the ESCT rate on that estimation.

Note

As the employee started part-way through the current tax year, the employer must make a second estimation of the employee’s earnings as the basis for the ESCT rate at the beginning of the following tax year (1 April 2014 to 31 March 2015).

There is no requirement to adjust the rate during an income year if an employee's salary or wages increases or decreases. If they do change during the year, affecting the applicable rate, a new rate will be set the following year based on this change.

Paying ESCT

Pay any ESCT deducted with your PAYE by the due date.

Enter the total amount of ESCT deducted from employer contributions for any employees for the period in Box 8 on the IR 345.

Taxing contributions at the employee's personal tax rate

If employers agree, employees can choose to have all or part of the value of the employer's contribution included in their gross salary and wages and taxed under the PAYE rules. Employees must understand that classifying this amount as salary and wages will affect their Working for Families Tax Credits, independent earner tax credit entitlements, the amount of child support they pay and their student loan repayments. However, they can change back at any time.

The actual employer contribution is paid into the superannuation fund—the employee doesn't receive the contribution in the hand. The value of the employer contribution will be added to the employee's gross wages for the pay period and taxed at the appropriate rate using the PAYE tables. The rate will depend on the employee's tax code.

Contributions treated as salary and wages are subject to earners' levy (included in the PAYE tables).

There are two ways of paying the employer contribution to the superannuation fund:

- the gross amount is paid to the superannuation fund and the employee's net salary or wage is reduced by the amount of PAYE, or
- the net amount is paid to the superannuation fund after deducting the income tax component of the PAYE.

Example

Rachel is employed by Red Bottle Ltd. She belongs to KiwiSaver. Her employment agreement includes Red Bottle Ltd contributing \$50 (10%) a week to her KiwiSaver scheme, in addition to her normal weekly salary of \$500.

Rachel chooses to have these contributions included as part of her salary and her employer agrees. This means Red Bottle Ltd uses the total of her salary and the employer contributions of \$550 to calculate her PAYE.

1. If the superannuation contribution is paid as a gross amount, the calculation is:

Weekly gross	\$ 500.00
plus employer contribution	\$ 50.00
Total gross	\$ 550.00
PAYE on \$550.00	\$ 85.37
Weekly gross	\$ 550.00
less PAYE	\$ 85.37
less employer contribution	\$ 50.00
Net amount	\$ 414.63

Red Bottle Ltd shows this on the *Employer monthly schedule (IR 348)* as:

Gross earnings	\$ 550.00
Net KiwiSaver employer contribution (Box 7)	\$ 50.00

Example

2. If the superannuation contribution is paid as a net* amount, the calculation is:

Weekly gross	\$ 500.00
PAYE on \$500.00	\$ 75.90
Weekly gross	\$ 500.00
plus employer contribution	\$ 50.00
Total gross	\$ 550.00
PAYE on \$550.00	\$ 85.37
less PAYE on \$500.00	\$ 75.90
PAYE on employer contribution	\$ 9.47

Identify earner

premium $\$50.00 \times 1.45\% = \0.72

Deduct the earner premium
from the PAYE on the employer

contribution $\$9.47 - \$0.72 = \$8.75$

Subtract tax on employer contribution
from gross employer contribution

$\$50.00 - \$8.75 = \$41.25$

Weekly gross	\$ 550.00
less PAYE	\$ 84.65
less net employer contribution	\$ 41.25
Net amount	\$ 424.10

Red Bottle Ltd enters the information on the *Employer monthly schedule (IR 348)* as:

Gross earnings	\$ 550.00
Net KiwiSaver employer contribution (Box 7)	\$ 41.25

* "Net" refers to tax, not PAYE. The earners' premium must be removed before the tax is deducted from the gross employer contribution.

Part 2 – Record keeping and making payments

Records you need to keep

You must keep all wage records for at least seven years, including all paysheets and PAYE payment receipts. Your records must be in English, unless you've asked us for approval to use another language.

To help with your record keeping, you can get specially designed wagebooks or computer payroll packages.

If you have a computer payroll system you must keep the same records as for a manual one. You may keep your records stored electronically, but you must be able to print them out if we ask you to.

PAYE intermediaries

Employers can hire a PAYE intermediary to complete their payroll requirements. If a PAYE intermediary is used, both the employer and the intermediary must meet the following requirements.

Employers need to:

- provide information requested by the intermediary within the time agreed by the employer and intermediary
- pay employees' gross salary or wages (and compulsory employer contributions for employees' KiwiSaver schemes) for the pay period into a trust account established by the PAYE intermediary by the date specified by the intermediary
- keep records of the gross salary or wages paid for the period.

The government subsidises or partly subsidises the cost of using a payroll intermediary. The subsidy is available to employers whose gross annual PAYE is less than \$500,000 and for up to five employees per month. To get the subsidy you must use a listed PAYE intermediary. The listed PAYE intermediary will receive the subsidy provided certain conditions are met.

PAYE intermediaries:

- calculate the employer's respective payroll information
- pay the employer's respective employees, including payment of any third party deductions
- pay the employer's respective tax deductions (including student loans, KiwiSaver, child support, ESCT and additional employee-related deductions) to us
- meet all the employer record keeping and return filing requirements.

Providing an employer has supplied the intermediary with all their relevant payroll information and gross payments, the responsibility for applying the PAYE rules correctly will rest with the intermediary and not the employer.

Manual record keeping

- Start a new page in your wagebook as soon as an employee starts work with you or at the beginning of each tax year. Make sure they give you the personal details you need.
- Keep a separate page for each employee, even if they were only employed for one day.
- Complete all these wage details each payday:
 - total gross earnings, including taxable allowances (the amount before PAYE is deducted)
 - the amount of PAYE deducted
 - any child support deductions
 - any KiwiSaver deductions
 - any KiwiSaver employer contributions (gross)
 - any net KiwiSaver employer contributions
 - any student loan repayments
 - any student loan extra deductions
 - any ESCT (see page 15)
 - any tax credits for payroll donations (see page 14)
 - the value of tax-free reimbursing allowances.

- Summarise the details for each employee at the end of each deduction payment period. This will be either twice-monthly or monthly—see page 21.
- Keep a summary that shows the following totals for each deduction period:
 - gross wages
 - PAYE deducted
 - child support deductions
 - student loan repayments
 - student loan extra deductions
 - KiwiSaver deductions
 - net KiwiSaver employer contributions
 - ESCT
 - any tax credits for payroll donations.

The information in your wagebook will help you complete the *Employer deductions (IR 345)* form—see page 24, and complete the *Employer monthly schedule (IR 348)*—see page 26.



Note
When completing the *Employer monthly schedule (IR 348)* it doesn't matter when a pay period starts or ends. Only include those deductions from gross earnings actually paid or credited to employees during the period covered by the schedule.

Start a new page for each employee

Your employee gives you this code on the *Tax code declaration (IR 330)*

Wagebook

(a) Name: Joe Bloggs Employee's IRD number: 122-222-222

(b) Address: 10 KiwiSaver Way, Wellington Employee's tax code: M SL Date applied: 01/04/2013

(c) Occupation: Designer KiwiSaver member: Yes No Finish date: _____

(d) Date started: 1 November 2011 KiwiSaver deduction rate: 3.00% ESCT rate: 17.50%

Week Ending	Gross pay		PAYE calculated		Child support deductions		Student loans deductions		Student loans Extra deductions (SLBOR)		Student loans Extra deductions (SLCIR)		KiwiSaver deductions		Total deductions	Net after Tax & Deductions	Non taxable Allowances	Net Pay to worker	KiwiSaver Employer Gross CEC		ESCT		KiwiSaver Employer Net CEC		
	For Week	For Month	For Week	For Month	For Week	For Month	For Week	For Month	For Week	For Month	For Week	For Month	For Week	For Month					For Week	For Month	For Week	For Month	For Week	For Month	For Week
5/04/2013	800.00		134.75				57.96		25.00				24.00		235.71	564.29	5.00	569.29	24.00			4.20			79.80
12/04/2013	800.00		134.75				57.96		25.00				24.00		235.71	564.29	5.00	569.29	24.00			4.20			79.80
19/04/2013	800.00		134.75				57.96		25.00				24.00		235.71	564.29	5.00	569.29	24.00			4.20			79.80
26/04/2013	800.00		134.75				57.96		25.00				24.00		235.71	564.29	5.00	569.29	24.00			4.20			79.80
April 2013		3,200.00		539.00			207.84		100.00				96.00		942.84	2,257.16	20.00	2,277.16	96.00			16.80			79.20

Monthly summary of wages and tax deductions

Employees' Name	Gross pay	PAYE calculated	Child support deductions	Student loans deductions	Student loan extra deductions (SLBOR)	Student loan extra deductions (SLCIR)	KiwiSaver deductions	Total deductions	Net after Tax & Deductions	Non taxable Allowances	Net Pay to worker	KiwiSaver Employer	ESCT
Ross Davies (012-723-142)	3,000.00	500.60						500.60	2,499.40		2,394.40		
Joe Bloggs (122-222-222)	3,200.00	539.00		207.84	100.00		96.00	942.84	2,257.16	20.00	2,277.16	79.20	16.80
Stacey Rawlins (12-111-222)	192.00	38.40						38.40	153.60		153.60		

Paying PAYE to Inland Revenue

If the PAYE due date for payment falls on a Saturday, Sunday, or public holiday, you can make your payment on the next working day without penalty.

Whether you pay your PAYE to us monthly or twice-monthly depends on your gross annual PAYE deducted. Gross annual PAYE is the total PAYE, including any ESCT, but excluding earners' levy, student loan repayments, KiwiSaver deductions and child support.

You can file your *Employer deductions (IR 345/EDF)* form electronically using ir-File. If you don't file electronically we'll send your IR 345 form before the due date for each payment. See page 24 for more information about these forms. Your payment can be made electronically—see page 32.

Employers who file manual returns will also receive an *Employer monthly schedule (IR 348)* each month—see page 26 for more information.

Note

If the gross annual PAYE and ESCT deductions are \$100,000 or more, you must file your EDF/IR 345 electronically using ir-File.

Paying once a month

If your gross annual PAYE (including ESCT) is less than \$500,000 you must pay PAYE monthly. PAYE is due by the 20th of the following month.

Example

An employer pays wages fortnightly on Wednesdays.

Period PAYE deducted	Due date
October 2012 (two paydays)	
10 and 24 October 2012	20 November 2012

Paying twice a month

If your gross annual PAYE (including ESCT) is \$500,000 or more in the previous year ended 31 March, you're required to pay PAYE:

- from wages paid between the 1st and 15th of the month by the 20th of the same month
- from wages paid between the 16th and the end of the month by the 5th of the following month, except for the second period of December, which is due on 15 January.

Period PAYE deducted	Due date
1 to 15 October 2012	20 October 2012
16 to 31 October 2012	5 November 2012
1 to 15 November 2012	20 November 2012
16 to 30 November 2012	5 December 2012

If your payment is made late, you'll be charged interest and may also be charged late payment penalties and non-payment penalties—see page 47.

Note

In deciding whether you're required to pay twice-monthly, we treat the following as one employer:

- any companies in a group that have 66% or more common ownership
- all partners in a partnership
- all persons who have control of the same property, such as
 - a deceased person's estate, or
 - a company in liquidation.

Are you a new employer?

If your gross annual PAYE is \$500,000 or more, you must file an *Employer monthly schedule (IR 348)* once a month and file *Employer deductions (IR 345/EDF)* forms and make payments to us twice a month. You'll also need to register for electronic filing (ir-File)—see page 32 for more information.

Employers with other pay periods

In all the following situations, the due dates are:

- the 20th of the month in which PAYE was deducted (for PAYE deducted between the 1st and the 15th of the month)
- the 5th of the month following the one in which PAYE was deducted (for PAYE deducted between the 16th and the end of the month), except for the second period of December, which is due on 15 January.

Remember, if you don't pay wages in any period, you must still file a nil *Employer deductions (IR 345)* form and *Employer monthly schedule (IR 348)*—see page 24.

Salary and wages paid once a month on the same day each month

On request, you can complete only one *Employer deductions (IR 345)* form per month. The due date depends on the date of deduction.

Salary and wages paid every four weeks

Generally, amounts deducted have to be paid once a month. However, there may be occasions when deductions are paid twice a month. This is because the payday falls on a different day each month.

Example

Date wages paid	PAYE period ending	Due date
10 September 2012	15 September 2012	20 September 2012
8 October 2012	15 October 2012	20 October 2012
5 November 2012	15 November 2012	20 November 2012

Salary and wages paid every three weeks

Amounts deducted may have to be paid once or twice a month, depending on which day in the month the payday falls.

Salary and wages paid irregularly

The due date for paying the amounts deducted depends on the date you pay wages.

Example

Date wages paid	PAYE period ending	Due date
3 September 2012	15 September 2012	20 September 2012
24 September 2012	30 September 2012	5 October 2012
15 October 2012	15 October 2012	20 October 2012
5 November 2012	15 November 2012	20 November 2012



Employer deductions (IR 345) form

You can file your *Employer deductions (IR 345/EDF)* form online using ir-File.

If you do not file online, fill in the IR 345 details and send back the form to us with your payment.

Completing the IR 345 (see page 25)

Enter the following details for the period covered by the IR 345.

PAYE and tax on schedular payments (Box 3)

Print the total PAYE deducted from your employees' gross earnings during the period.

Also include tax on schedular payments deductions in this box.

Child support deductions (Box 4)

Total the child support deductions made for all employees for the period and enter the figure in Box 4.

Student loan deductions (Box 5)

Total the student loan deductions made for all employees for the period and enter the figure in Box 5.

KiwiSaver deductions (Box 6)

Total the KiwiSaver deductions made for all employees for the period and enter this figure in Box 6.

Net KiwiSaver employer contributions (Box 7)

Total the net KiwiSaver employer contributions (net of ESCT) you've made to your employees' KiwiSaver schemes for the period and enter this figure in Box 7.

ESCT deductions (Box 8)

Total the ESCT deductions you've made and enter this figure in Box 8.

“Nil” IR 345

If you don't pay salary or wages in any period, file a nil IR 345. If you don't file one, we'll ask you to explain why you haven't made a payment. You'll also need to file your IR 348 schedule.

Complete the IR 345 showing the period no PAYE was deducted and enter 0.00 in Boxes 9 and 10.

If you have ceased employing please see page 33.

Note

Remember, if you've made deductions for employees' arrears, don't show these on your *Employer deductions (IR 345)* form—attach a copy of the deduction notice instead.

If the gross annual PAYE and ESCT deductions are \$100,000 or more, you must file your IR 345/EDF electronically using ir-File.



Inland Revenue
Te Tari Taake

Employer deductions

IR 345

November 2012

Please see notes on the back to help you complete this form and the EMS schedule.

For more information:
website www.ird.govt.nz
telephone 0800 377 772
INFOexpress 0800 257 773

IRD number **1** 98 765 432
Period ended **2** 30/04/2013

These will be preprinted

If your postal address is different from that printed above, please enter your new address below.

Street or PO Box

Suburb

Town or city

OFFICE USE ONLY

Operator code Corresp. indicator
 Payment attached Return cat.

Declaration I declare that the information given in this return is true and correct.

Signature *K Munro* 20/05/2013
Date

PAYE (incl. tax on schedular payments) **3** \$ 1 078 00

Child support deductions **4** \$

Student loan deductions **5** \$ 307 84

KiwiSaver deductions **6** \$ 96 00

Net KiwiSaver employer contributions **7** \$ 79 20

ESCT deductions **8** \$ 16 80

Add Boxes 3, 4, 5, 6, 7 and 8. This is the amount you need to pay **9** \$ 1 577 84

Totals from employer monthly schedule

Inland Revenue copy

Please make a copy for your own records

Has payment been made electronically? (Tick one) Yes No



Inland Revenue
Te Tari Taake

Payment slip

DED

IRD number 98 765 432

Period ended 30/04/2013

Amount of payment **10** \$ 1 577.84

This return and any payment are due

Copy your total from Box 9 and include any late payment penalties and interest, for this period only.

This is the amount to pay to Inland Revenue



Completing the *Employer monthly schedule (IR 348)*

Once a month you must complete an *Employer monthly schedule (IR 348)*, which has details of your employees' gross wages and deductions made.

Employers with gross annual PAYE of less than \$500,000 will file their *Employer monthly schedule (IR 348)* at the same time as their *Employer deductions (IR 345)*. This is due on the 20th of the month following the month of deduction—see page 22.

Employers with gross annual PAYE of \$500,000 or more will file their *Employer monthly schedule (IR 348)* once a month on the 5th of the following month, which is at the same time as the payment for the period from the 16th to the end of the month. The IR 348 will include details of wages paid and deductions made for the whole month.

Employers with gross annual PAYE of \$100,000 or more must file their *Employer monthly schedule (IR 348)* electronically. See page 32 for more information on electronic filing.

On your first IR 348 you'll need to enter each employee's name, IRD number, tax code and start date. After that, we'll preprint this information on the IR 348, and you'll only need to enter details of any new employees. The employer monthly schedule (EMS) is preprinted on both sides.

If any of the preprinted information is incorrect, cross it out and note the correct details on the form.

Note

For employees who have used both a PAYE tax code and schedular payment tax code (WT) during the month, please show the respective details for each tax code on separate lines when completing your IR 348.

Fill in the following monthly details for each employee:

Full name

Surname, then first name, for example, "Davies, Ross". Complete this if the employee has started working for you and their name does not appear elsewhere on the IR 348.

IRD number

Complete this if the employee has started working for you and their details don't appear elsewhere on the IR 348.

Use the IRD number the employee has given you on the *Tax code declaration (IR 330)*.

Tax code

Complete this if the employee has begun working for you during the month and their details don't appear elsewhere on the IR 348. Use the tax code the employee has given you on the *Tax code declaration (IR 330)* (or the tax code shown on the *Special tax code or student loan special deduction rate certificate*—see page 8).

If an existing employee tells you during the month they have changed their tax code, don't forget when completing your IR 348, to cross out the old preprinted one and write in the new one.

Employment start and/or finish date

If the employee has started or finished working for you during the month, show the relevant start and/or finish date.

The start date is the actual date the employee starts working for you. The finish date is the earlier of the date when the employee actually stops working for you or the date they receive their final pay.

If you cease employing, your final IR 348 schedule must show finish dates for all employees.

Gross earnings and/or schedular payments

Write the total gross earnings paid to each employee during the month. Include bonuses, backpay, taxable allowances and schedular payments (except where no tax has been deducted because the employee has a certificate of exemption—see page 11). Show whole dollars only.

Earnings and/or schedular payments not liable for ACC earners' levy

For each employee, write the amount of any earnings not liable for earners' levy. The following payments are not liable for earners' levy:

- schedular payments
- redundancy payments
- retiring allowances
- pensions from schemes not registered under the Superannuation Schemes Act 1989.

The maximum earnings on which the earners' levy deduction is payable is \$120,070 for the 2016 year. If an employee earns over the maximum liable earnings threshold set for that year, the excess amount doesn't go in this column of your EMS.

Lump sums (extra pays) taxed at the lowest rate

Tick the circle if a lump sum was paid and taxed at the lowest rate. Lump sum payments, such as annual or special bonuses, gratuities, or backpay, can be taxed at four different rates. See page 39 for more information on the lump sum rates.

PAYE

Write the total PAYE deducted from each employee's gross earnings for the month. Also include tax on schedular payments in this box.

Child support

Write the total child support deductions made from each employee's earnings during the previous month. Your child support deduction notice tells you whether to use paydays or pay periods to calculate the total.

You may also need to fill in the child support (CS) code. See "Child support codes" below for an explanation.

Student loan

Write the total student loan repayment deductions made from each employee's gross earnings for the month. This would be the amount deducted based on the PAYE tables or the amount set out in a special tax code certificate, a student loan special deduction rate certificate or a student loan repayment deduction exemption certificate.

Student loan extra deductions (SLBOR/SLCIR)

Add a separate entry to your *Employer monthly schedule (IR 348)* showing the employees name, IRD number, the SLBOR or SLCIR repayment codes, and the extra amount deducted in the students loan deductions box. Don't enter any start or finish dates, gross, PAYE, child support, KiwiSaver, employee or employer contributions or other student loan deductions on this line. See the example on page 28.

KiwiSaver deductions

Write the total KiwiSaver deductions made from each employee's gross earnings for the month.

Net KiwiSaver employer contributions

Write the total net KiwiSaver employer contributions (net of ESCT) you've made to each employee's KiwiSaver scheme for the month.

Totals

At the bottom of each page, add up each column and put the total in the boxes. If there is more than one page of the IR 348, you can either total each page, or do one total on the last page.

Check the preprinted contact phone and name details and make any necessary changes. Sign and date the IR 348.



Inland Revenue
Te Tari Taake

Employer monthly schedule

For help, refer to notes on employer deductions form.

A & B Limited

This schedule is due *20/05/2013*

Employer's IRD number **1** *98 765 432*
Period ended **2** *30/04/2013*

Gross earnings and/or scheduling payments	Earnings and/or scheduling payments not liable for ACC earners' levy	3 PAYE and/or schedular tax deductions	4 Child support deductions	5 Student loan deductions	6 KiwiSaver deductions	7 Net KiwiSaver employer contributions
Employee name and IRD number Surname <i>Blaggs</i> First name(s) <i>Joe</i> IRD number <i>122222222</i> Tax code <i>MSL</i>						
\$ <i>3 200 00</i>	\$ <i>00 00</i>	\$ <i>539 00</i>	\$ <i>00 00</i>	\$ <i>207 84</i>	\$ <i>96 00</i>	\$ <i>79 20</i>
Employment start and/or finish date Start Day Month Year Finish Day Month Year						
Tax if lump sum payment made and taxed at lowest rate <input type="checkbox"/> CS code						
Employee name and IRD number Surname <i>Blaggs</i> First name(s) <i>Joe</i> IRD number <i>122222222</i> Tax code <i>SLBOR</i>						
\$ <i>000 00</i>	\$ <i>000 00</i>	\$ <i>000 00</i>	\$ <i>100 00</i>	\$ <i>000 00</i>	\$ <i>000 00</i>	\$ <i>000 00</i>
Employment start and/or finish date Start Day Month Year Finish Day Month Year						
Tax if lump sum payment made and taxed at lowest rate <input type="checkbox"/> CS code						
Employee name and IRD number Surname <i>Davies</i> First name(s) <i>Ross</i> IRD number <i>012723142</i> Tax code <i>M</i>						
\$ <i>3 000 00</i>	\$ <i>000 00</i>	\$ <i>500 60</i>	\$ <i>000 00</i>	\$ <i>000 00</i>	\$ <i>000 00</i>	\$ <i>000 00</i>
Employment start and/or finish date Start Day Month Year Finish Day Month Year						
Tax if lump sum payment made and taxed at lowest rate <input type="checkbox"/> CS code						
Employee name and IRD number Surname <i>Rawlins</i> First name(s) <i>Stacey</i> IRD number <i>121122222</i> Tax code <i>WT</i>						
\$ <i>192 00</i>	\$ <i>192 00</i>	\$ <i>38 40</i>	\$ <i>000 00</i>	\$ <i>000 00</i>	\$ <i>000 00</i>	\$ <i>000 00</i>
Employment start and/or finish date Start Day Month Year Finish Day Month Year						
Tax if lump sum payment made and taxed at lowest rate <input type="checkbox"/> CS code						
Total gross earnings and/or scheduling payments	Total earnings not liable for ACC earners' levy	Total PAYE and/or schedular tax	Total child support	Total student loan	Total KiwiSaver deductions	Total Net KiwiSaver employer contributions
\$ <i>6 392 00</i>	\$ <i>192 00</i>	\$ <i>1 078 00</i>	\$ <i>00 00</i>	\$ <i>307 84</i>	\$ <i>96 00</i>	\$ <i>79 20</i>

If your correct daytime phone number is not shown below, print in the box

()

If your correct contact person's name is not shown below, print in the box

Declaration
 I declare that the information given in this return is true and correct.
 Signature *R. Munn* Date *20/05/2013*

OFFICE USE ONLY
 Operator code
 Corresponding indicator
 Payment attached
 Return cat.

Child support codes

It's important you complete the child support code on the IR 348, if the amount you deduct is different to the amount on the child support deduction notice—see page 13. This is because we keep a record of the amount we expect from each employee for a month.

Use one of these codes:

A – Payment in advance

Sometimes you may pay an employee in advance, eg, when they'll be on holiday on the next payday. In this case, deduct the same amount of child support as you would if you were paying the employee on the usual payday. You must include the child support with the deductions for the period when the employee was given the advance pay. Your child support will be more than usual for that period, so enter "A" as the variation code.

C – Ceased employment

If an employee stops working for you, deduct child support only from the last full pay you gave them, and from any holiday pay owed. Enter "C" as the variation code, so we can remove the employee from your records. If an employee stops then restarts working for you within the same month, don't use this variation code.

D – Previously deducted

Sometimes the full amount of child support requested from an employee's wages may not have been deducted because you previously made an advance payment. Your child support will be less than usual for that period, so enter "D" as the variation code.

P – Protected earnings

If you're unable to deduct the full amount of child support requested from an employee's wages due to net protected earnings, enter "P" as the variation code.

S – Short-term absences

If an employee is off work on unpaid leave for a short period of time and you're unable to deduct any or all of the amount of child support requested, enter "S" as the variation code.

O – Other

If none of the other variation codes can be used to explain why the amount of child support deducted doesn't equal what was expected, enter "O" as the variation code.

For more help

If you have any questions about filling in the child support part of the IR 348, call us on 0800 220 222.

Correcting your IR 348 after it's been filed

Electronic filing amendments

If you file your IR 348 electronically you can amend your EMS in the ir-File workspace.

If you want to amend your EMS after the cut-off time you can do this by calling us on 0800 377 772 or you can file an *Employer monthly schedule amendments (IR 344)* form.

You cannot file this form electronically.

Completing the IR 344

If you've filed an IR 348 and then want to amend some information on it, you can complete an *Employer monthly schedule amendments (IR 344)* form and send it to us.

If there are a small number of adjustments you can call us on 0800 377 772 to have them updated over the phone.

Enter your business name, IRD number and the period you're changing, on the top of the IR 344.

To amend an employee's pay details, write the employee's name and IRD number on the form, the figures you originally sent in, and what these should be changed to. We need this information so we can match your details. You can amend up to three employees' details per form.

Example

After checking your wage records, you see you transposed an employee's PAYE amount. Enter the employee's full name, IRD number and PAYE amount on the "original details sent" line. Below, in the "changed to" line, you only need to enter the amended PAYE amount.

If an employee's details were missed off your IR 348, complete the "changed to" line only.

Note

The IR 344 form can only be used for amendments to one month's PAYE details. If changes cover more than one month, you should use a separate form for each month.

Making KiwiSaver adjustments

All contributions made to a KiwiSaver scheme are passed to the scheme provider. If you make adjustments to your employee's KiwiSaver deductions and/or contributions we'll pass this information to the scheme provider as well.

For more information about making amendments to KiwiSaver please see our *KiwiSaver employer guide (KS 4)*.

Making ESCT (employer superannuation contribution tax) adjustments

You can also use the IR 344 to advise us of changes to ESCT deductions on your *Employer deductions (IR 345)* form.

If you need to amend your ESCT because of an under/overpayment, or an employee has opted out or is closing their KiwiSaver account, complete the ESCT amendment field in the bottom left-hand corner of the IR 344 form. Write the figures you originally filed for ESCT and what these need be changed to.



Inland Revenue
Te Tari Taake

Employer monthly schedule amendments

IR 344
November 2012

IRD number
(8 digit numbers start in the second box.)

For the period ending

Staple cheque here

Employer's name
Please read the notes on the back of this form. If details for more than three employees need amending for this period, attach additional amendment forms and show the period ending date on each form. Use a separate form for each period that needs amendment.

Employee details

(Amounts advised must be for the whole month)

	Gross earnings and/or scheduling payments	Earnings and/or scheduling payments not liable for ACC employers' levy	PAYE (incl. tax on scheduling payments)	Child support deductions	Student loan deductions	KiwiSaver deductions	Net KiwiSaver employer contributions
Original details sent	Full name <i>Davis, Robyn</i>	IRD number <i>12345678</i>	Tax code <i>MSL</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Employment start and/or finish date	Start <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/> Finish <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Changed to	Full name	IRD number	Tax code	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Employment start and/or finish date	Start <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/> Finish <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Original details sent	Full name <i>Graban, Paul William</i>	IRD number	Tax code	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Employment start and/or finish date	Start <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/> Finish <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Changed to	Full name	IRD number	Tax code	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Employment start and/or finish date	Start <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/> Finish <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Original details sent	Full name	IRD number	Tax code	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Employment start and/or finish date	Start <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/> Finish <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Changed to	Full name	IRD number	Tax code	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Employment start and/or finish date	Start <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/> Finish <input type="text"/> Day <input type="text"/> Month <input type="text"/> Year <input type="text"/>	Tick if lump sum payment made and taxed at lowest rate <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ESCT (employer superannuation contribution tax)

KiwiSaver Opt out/invalid enrolment adjustment Under/Over payment adjustments

Original details sent \$

Changed to \$

(Please provide explanation of changes on back)

Underpayment or overpayment (see notes on back)

Underpayment (please send payment)

Cheque attached Paid electronically

Overpayment

Transfer to PAYE period ending

Refund

Daytime phone number

Contact person's name (please print) *Kathryn Munro*

Signature *KMunro*

Declaration / declare that the information given is true and correct.



Electronic filing (ir-File)

All employers can file their *Employer monthly schedule (IR 348/EMS)* and *Employer deductions (IR 345/EDF)* form electronically. This service enables employers to send their monthly payroll details to us over a secure internet connection. It's fast and efficient.

To file your EMS electronically you have two options:

- onscreen form, or
- file transfer.

If you're using a computerised payroll system, file transfer is probably the best method to use. Payroll software developers have our specifications and can help you buy a suitable package or upgrade any existing software.

If you keep a manual wagebook, the onscreen form option may suit you. This is an onscreen version of the paper form you can send us through the internet.

Before you can file electronically, you'll need:

- a computer that can connect to the internet
- an internet browser, either Internet Explorer 6 or higher, or Mozilla Firefox v:02 or higher
- an internet connection
- an email address.

Once you're registered, you'll have a user ID and password to log in to the service.

To register, go to www.ird.govt.nz "Secure online services".

If the PAYE amount deducted is \$100,000 or more, you must file electronically. We'll write to you telling you what to do when this happens.

When using ir-File you'll need to file both your IR 348/EMS and the IR 345/EDF form electronically.

Note

An interactive demonstration of ir-File is available at www.ird.govt.nz "Demonstrations".

How to pay your deductions

You can make payments:

- electronically
- by credit or debit card (1.42% convenience fee applies for each transaction)
- by posting a cheque
- by using the drop box at Inland Revenue offices.

Electronic payments are automatic payment, direct credit and online banking. Major banks offer an online tax payment service on their website which ensures sufficient payment reference details are included with your payment. If your bank does not offer this service you can pay using their standard online service but you need to ensure we have all the details to credit your payment to your account.

If you're paying PAYE you need to select the DED tax type. DED refers to "employer deductions" and applies to PAYE or any combination of PAYE, child support, student loan, KiwiSaver and ESCT.

Please tell us on the IR 345/EDF form if you're paying electronically.

You can post us a cheque for payment, please:

- make your cheque payable to "Inland Revenue"
- cross it "Not transferable", and
- post it with the payment slip.

For full details on payment options go to www.ird.govt.nz (search keywords: making payments) or read our *Making payments to Inland Revenue (IR 584)* factsheet.

When an employee stops working for you

You must show each employee's finish date on the IR 348.

Employee rehired in the same year

If an employee stops working for you and is rehired in the same year ended 31 March, you must get another *Tax code declaration (IR 330)*. You'll also need to show the employee's start date on your IR 348.

Employee on transfer

If an employee transfers from one branch of a company to another and is paid by the new branch office on a separate payroll:

- the old branch treats the transfer as if the employee has stopped work
- the new branch must get the employee to fill in another *Tax code declaration (IR 330)* and will show the employee's start date on their IR 348.

If the employee is paid from a central or head office, that office continues deducting PAYE from the employee's earnings. The employee doesn't need to complete a new IR 330.

If you've ceased or are about to cease providing fringe benefits

If you've ceased or are about to cease providing fringe benefits, call 0800 377 772 and let us know. For more information, see our *Fringe benefit tax guide (IR 409)*.

If you stop paying wages permanently

If you've stopped paying wages permanently, call 0800 377 772 and let us know, even if your business is still going.

A company has not stopped paying wages permanently until all its wages, including shareholder-employee salaries, have been finally calculated.

Shareholder-employee salaries with no tax deducted are included in the company's IR 4 tax return.

If you've ceased or are about to cease business

If you've ceased or are about to cease business, call 0800 377 772 and let us know—or complete a *Business cessation (IR 315)* form and send it to us.

Note

If you've ceased or are about to cease business or stopped paying wages, you'll need to file an IR 348 for the month that you ceased. You'll also need to record a finish date for each employee. After receiving this schedule, we'll stop sending you IR 345s and IR 348s.

Running totals

Running totals are your gross earnings and the PAYE amounts deducted since 1 April. The totals given are as at a certain date, and may not include all PAYE payments you have sent in, if the details from your last IR 348 were not recorded when you phoned.

Student loan deductions and child support deductions are not included.

If you need more information or would like to query the totals, call us on 0800 377 772.

Part 3 – Other payments

Besides normal salaries and wages, you may make other payments to, or on behalf of, your workers. This part covers the most common of these and explains the tax treatment for each.

Allowances

Allowances can be taxable or tax-free, and are usually paid as a result of:

- an industrial collective agreement, or
- an agreement made between the employer and employees—commonly known as an inhouse agreement.

Taxable allowances are added to an employee's gross earnings and PAYE is deducted from this total. If you don't do this, you could be liable for the PAYE that should have been deducted, as well as penalties. Include the total taxable allowances with your employees' gross wages on your *Employer monthly schedule (IR 348)*.

Tax-free allowances should be added to your employees' net wages (wages after PAYE) when you pay them. Show the total amount of tax-free allowances paid in your wagebook.

You don't need to apply for our approval to pay tax-free allowances to your employees. You can decide for yourself (using our guidelines) whether the allowance you want to pay will be tax-free or not. The five types of allowances commonly paid are:

- accommodation allowances
- meal and clothing allowances
- benefit allowances
- reimbursing allowances
- travelling allowances.

We can also issue binding rulings on which allowances may be paid tax free.

Accommodation allowances

Generally, when an employer provides accommodation or pays an accommodation allowance to an employee it is a benefit allowance for the employee, and is taxable.

“Accommodation” includes board or lodging provided by or paid for by an employer, as well as the use of a house or living premises, whether permanent or temporary.

However, certain accommodation or accommodation payments may be tax exempt, if provided:

- in specific locations, for out-of-town secondments or capital projects
- in connection with Canterbury earthquake reconstruction projects
- when an employee is required to work in multiple locations on an ongoing basis
- when required to stay overnight to attend a meeting, training course or conference.

An employer might choose to provide accommodation (or pay an accommodation allowance) when an employee needs to continuously work at a distant work location that is not within reasonable daily travelling distance of their home.

This accommodation may be exempt from tax, provided one of the following conditions are met:

- There is a reasonable expectation that the employee's secondment will be for a period of no more than two years, in which case the maximum exemption is two years.
- The employee is sent to work on a capital project at a distant work location for no more than three years, in which case the maximum exemption period is three years.

Note

A capital project is a project of limited duration whose principal purpose is the creation, enhancement or demolition of a capital asset, which involves work for a client not related to the employer.

However, if the accommodation or accommodation allowance is being provided under a salary trade-off arrangement, it will not be tax exempt under these rules, and will be treated as a taxable benefit allowance.

Example

Adam is an accountant in Auckland. His employer sends him to New Plymouth for three months to audit a client before returning to the Auckland office. Adam's employer reimburses his hotel costs in New Plymouth. Because Adam's employer expects him to work in New Plymouth for less than two years, the payment Adam receives as reimbursement for his accommodation costs in New Plymouth is exempt income.

Example

Bill lives in Wellington. His job is moved permanently to Auckland but he chooses not to move his family and commutes on a weekly basis. Bill's employer pays him an allowance towards his Auckland accommodation costs. Bill and his employer expect him to work at the Auckland workplace for more than two years. The accommodation allowance is not tax exempt under the two-year rule.

The exemption will end when any of the following occur:

- The employer pays the employee's costs associated with buying a house in or near the distant work location, as a reimbursing relocation expense.
- There's a change in the expectation that the employee will be at the distant work location for longer than the maximum period of two years or three years, as applicable.
- The employee's involvement in the secondment or project comes to an end before the maximum time is up.

When an employer has a firm expectation that the secondment or role on the project will last a certain time period and that expectation changes, they'll need to keep accurate and clear records including when the secondment began and when the expectation changed. Evidence of the original expectation and any subsequent change may take the form of:

- a modification in the employee's terms of employment
- board minutes
- planning documents

- correspondence with the third party the employer is carrying out the capital project for.

There are a number of circumstances in which an employee has to work at more than one workplace on an ongoing basis. These may be because of the nature of their duties or because the additional workplaces are beyond reasonable daily travelling distance from their home. This could be the case, for example, for senior managers of large organisations.

In these circumstances there is an exemption for employer-provided accommodation and accommodation payments, without an upper time limit, given that there will be genuine ongoing additional costs in such cases.

Example

Andrew manages two offices, one in Dunedin where he lives and one in Christchurch. He works in Dunedin for three days a week and in Christchurch for two. When he works in Christchurch, it's unreasonable for him to travel back to Dunedin on a daily basis.

The Christchurch accommodation is exempt under the multiple workplace rule. The Dunedin accommodation is not tax exempt.

There is no time limit on tax-exempt accommodation or accommodation payments for an employee who attends a work-related meeting, conference or training course that requires an overnight (or longer) stay.

The exemption also applies to locally-held courses that may require employees to stay overnight for reasons like networking and team-building.

When an employer provides accommodation or pays an accommodation allowance that is taxable, it becomes a benefit allowance. To tax the accommodation as a benefit allowance employers must first determine its taxable value.

If an employer pays for accommodation on behalf of an employee, or pays an accommodation allowance to an employee, the taxable value is the amount paid:

- less any rent or other contributions from the employee
- after any adjustments for business/work use of the premises.

When an employer provides an employee with accommodation, the taxable value is the market rental value of the accommodation:

- less any rent paid by the employee
- after any adjustments for business/work use of the premises
- after any adjustments for when employees share accommodation.

There is a specific transitional rule for Canterbury earthquake reconstruction projects where the employee receives employer-provided accommodation, paid accommodation or an accommodation allowance because they're required to work at a location not within reasonable daily travelling distance of their home.

When the employee's duties require them to work in Christchurch on a project for the rebuild or recovery work arising from the Canterbury earthquakes, there are time limits as to how long the accommodation is tax exempt. The time limits for a capital project (see page 34) are replaced by the following:

- employee arrives in Christchurch between 4 September 2010 to 31 March 2015, five years tax exempt
- employee arrives in Christchurch between 1 April 2015 to 31 March 2016, four years tax exempt
- employee arrives in Christchurch between 1 April 2016 to 31 March 2019, three years tax exempt.

The normal three-year rule will apply to Canterbury rebuild and recovery work from 1 April 2019.

Specific rules also determine the taxable value of accommodation for:

- employees working overseas
- ministers of religion
- New Zealand defence force personnel.

For more information on the tax treatment of accommodation allowances and how to determine the taxable value for accommodation go to www.ird.govt.nz (search keywords: employee allowances).

Meal and clothing allowances

Employers will often pay for an employee's meals linked to work-related duties, because these meals may be more expensive for the employee than normal meal costs at home.

There are two specific exemptions for meals and meal allowances paid to employees:

- An exemption of up to three months applies to meals if the employee is required to work away from their normal workplace because they are travelling on business. This may be for a specific short-term, work-related journey or for a longer period, eg, a secondment to a distant work location.
- Payments to cover working meals and light refreshments when working off the employer's premises are exempt without any time limit.

The full amount of any meal payment will be exempt in both situations, when the exemption applies. The exemption includes meal allowances and reimbursement of meal expenses, as well as the employer paying for the employee's meal.

However, a meal allowance provided under a salary trade-off arrangement will not be tax exempt, and will be treated as a taxable benefit allowance.

Clothing payments will be tax exempt if the clothing is provided to:

- cover the cost of distinctive work clothing, eg, uniforms
- meet the costs of plain-clothes allowances paid to members of a uniformed service (eg, undercover police officers), if they meet certain conditions.

Note

Uniformed service workers, ie, police officers that meet specific conditions, may be entitled to an exemption for plain clothes allowances that were in place on 1 July 2013.

Note

These rules don't affect the existing exemptions that apply to overtime meal payments, sustenance allowances and when an employer provides distinctive work clothing to an employee. The rules also don't apply in the case where FBT (fringe benefit tax) is payable on meals directly provided by the employer such as a discount in the work canteen. The rules that limit employers' deductions of entertainment expenses also continue to apply.

Benefit allowances

Benefit allowances are payments made in addition to salary or wages, which benefit the employee. A taxable benefit allowance is included with the employee's wages and taxed in the pay period it's paid in.

Food or accommodation provided to employees may also be a benefit allowance. The taxable value of the benefit is the difference between the market value of the benefit provided, and any amount the employee pays.

Add the taxable value of the benefit to the employee's wages each pay period and deduct PAYE from the total.

Example

Market value of accommodation	\$ 250 a week
Less rent paid	<u>\$ 100 a week</u>
Value to be added to wages and taxed	\$ 150 a week

If the employee paid no rent, the value to be taxed would be \$250 per week.

Reimbursing allowances

Reimbursing allowances are payments made to employees to compensate them for expenses they've incurred while doing their job eg, mileage allowances, clothing allowances, tool money, meal allowances or overtime meal allowances.

Reimbursing allowances are not taxable. However, if the payment is more than the employment related expenses, the excess is taxable.

Work-related relocation payments made to your employees are tax-free, provided they meet all of the following conditions:

- Your employee's relocation is required as the result of:
 - taking up new employment with a new employer, or
 - taking up new duties for you at a new location, or
 - continuing in their current position but at a new location.
- Your employee's existing home is not within reasonable travelling distance of their new workplace (unless accommodation is provided as part of the job).
- The expense is on the list of eligible relocation expenses, go to www.ird.govt.nz (search keywords: eligible relocation expenses).
- The payment reflects actual expenditure incurred.
- The expenditure is incurred before the end of the tax year following the tax year in which the employee relocates.

Travelling allowances

Employers need to decide how to tax a travelling allowance paid to an employee. An allowance paid for an employee's usual travel costs between home and work is taxable. A travel allowance is tax free to the extent that the amount paid reimburses an employee's additional transport costs, is for the employer's benefit, and one or more of the following special circumstances exists:

- the employee is working outside the normal hours of work (eg, overtime, shift or weekend work)
- the employee needs to transport work-related tools, equipment or materials (eg, the employee normally takes the bus to work but has to use some other type of transport to carry work-related gear)
- there's a temporary change in workplace
- the employee is travelling to fulfil a statutory obligation for the employer
- there's some other condition of the employee's job, eg, if an employee usually uses a company car during the day for work related duties, but the car is in the workshop and the employer asks them to use their private vehicle

- there is no adequate public transport system serving the workplace.

For all the special circumstances given, except the lack of adequate public transport, the tax-free amount is the actual cost of travelling between home and work, less the employee's usual travel costs.

Example

You change the roster, requiring some of your employees to work the night shift.

If your employee's usual travel from home to work is by:

- bus during the day and bus to do the new night shift, or
- private car during the day and private car to do the new night shift

there are no additional transport costs.

Any travelling allowance paid is taxable.

But, if your employee's usual travel from home to work is by bus, costing \$6 during the day, and they have to travel 22 km by private car to do the new night shift because there is no late bus, part of the travel is tax-free.

Actual cost: 22 km @ 77 cents for each km*	\$16.94
Less usual travel costs	\$ 6.00
Additional transport costs (tax-free amount)	\$ 10.94

So:

- if the travelling allowance paid is \$16.94, \$10.94 is tax-free and \$6.00 is taxable
- if the travelling allowance paid is \$12.00, \$10.94 is tax-free and \$1.06 is taxable.

* The Inland Revenue mileage rate is currently 77 cents per km. For more information go to www.ird.govt.nz (search keywords: mileage rates).

Add the taxable amount to your employee's gross income and work out PAYE on the total.

If there's no adequate public transport, the usual cost of travel between the employee's home and place of work is set at \$5 a day.

For a combination of any of the special circumstances set out above and there's no adequate public transport, use the calculation method that gives the greatest benefit to the employee.

Example – no public transport

There's no public transport so an employee travels 22 km by private car between their home and work, for their employer's benefit.

Actual cost: 22 km @ 77 cents for each km*	\$16.94
Less \$5.00 per day	\$ 5.00
Additional transport costs (tax-free amount)	\$11.94
\$11.94 is payable tax-free.	

Example – no usual transport costs

A paramedic works during the day at a medical centre. They're called out at night to a car accident, travelling 57 km return in their private car.

Actual cost: 57 km @ 77 cents for each km*	\$43.89
Less usual travel costs (nil cost, because this is additional to the usual travel from home to work)	\$ 0.00
Additional transport costs (tax-free amount)	\$43.89

* The Inland Revenue mileage rate is currently 77 cents per km. For more information go to www.ird.govt.nz (search keywords: mileage rates).

You may make a reasonable estimate of the likely costs for an employee or a group of employees and you may use an average. You don't have to calculate the costs for each employee in each pay period.

If your employee travels more than 70 km a day you must contact us to advise why this travel is necessary for the purposes of the additional transport cost calculation.

If a group of employees has a travelling arrangement, for example, sharing one employee's car, you must calculate the non-taxable amount. This amount will be based on either the average expenses of each individual or the average expenses of that group of employees.

GST on allowances

You can claim a GST credit for reimbursement of an employee's actual expenses if the employee incurs the expenditure in the course of your business and you're registered for GST. You must hold a correct GST tax invoice to claim the credit, except for amounts under \$50. However, we suggest you keep records such as vouchers or receipts for these purchases.

You can't claim a GST credit if the allowance is a general one that doesn't reimburse the employee's actual expenses incurred on your behalf, or if it's paid to meet the employee's private expenses.

Lump sums (extra pays)

Lump sum payments include annual or special bonuses, retiring or redundancy payments, payments for accepting restrictive covenants, exit inducement payments, gratuities, or back pay. These are also called "extra pays".

Overtime or any regular payments are not lump sum payments.

There are four tax rates for lump sums, which are shown in the current PAYE deduction tables. Earners' levy is added to these rates, except for:

- retiring or redundancy payments, or
- where the combined earnings of the employee, including the lump sum, exceeds or is likely to exceed the earners' levy maximum.

If your employee's annual salary or wages plus the lump sum will be more than \$14,000, you must deduct tax at one of the higher rates. This means your employee will be less likely to have a large tax bill at the end of the year from an under-taxed lump sum payment.

Your employees can also elect to have any lump sums taxed at a higher rate. They may choose to do this if, for example, they have another job or other untaxed income, such as rent. They will tell you if they want to use a higher rate.

The PAYE deducted is paid with the other PAYE for the period the lump sum was paid in.

If the lump sum is taxed using the lowest rate, tick the box on the IR 348 to show this.

Note

If the employee uses an M SL, ME SL, SB SL, S SL, SH SL or ST SL code, you'll also have to deduct student loan repayments from lump sum payments.

Lump sum payments from primary employment

The calculation for the amount of tax on an extra pay for employees using a primary tax code (M, ME, M SL or ME SL) is:

1. the amount of the extra pay
2. plus annualised income*
3. equals the annual income estimate.

The whole lump sum is then taxed at a flat rate based on the appropriate income range from table 1.

* Annualised income is calculated by adding up the PAYE income payments for the four weeks ending on the date of the extra payment, whether this is the normal pay cycle or not, and multiplying by 13. The amount of the extra pay is not included in this total.

Table 1: Income range and tax rates from 1 April 2015

Annual income estimate	Tax rate	ACC rate
\$0 – \$14,000	10.5%	1.45%
\$14,001 – \$48,000	17.5%	1.45%
\$48,001 – \$70,000	30%	1.45%
Over \$70,000	33%	1.45%*

* The ACC earners' levy is only added to the tax rate up to the maximum threshold of \$120,070 (for the 2016 tax year). Amounts above this level only have 33% deducted.

Note

- ACC earners' levy and residual earners' levy do not apply to retiring or redundancy payments. These should have PAYE applied at 10.5%, 17.5%, 30% or 33%, according to annualised income.
- If the lump sum has tax applied using the lowest rate (10.5%), tick the box on the IR 348 to show this.

Example

You're going to pay one of your employees a bonus payment of \$400. The employee's gross earnings for the last four weeks was \$2,500. The calculation will look like this:

Annualised income (13 × \$2,500)	\$ 32,500
Add the bonus payment	\$ 400
Total	\$ 32,900

In this example, the income level is less than \$48,000, so the PAYE rate (tax rate plus earners' levy) applied to the bonus payment is 18.95% (18.95 cents in the dollar).

\$400 (bonus) × 18.95% (tax + earners' levy) = \$75.80 (PAYE).

If the employee uses a student loan tax code (M SL, ME SL, SB SL, S SL, SH SL or ST SL) you'll also have to deduct student loan repayments. In addition, if the employee is a KiwiSaver member, you'll need to deduct contributions from lump sum payments.

Lump sum payments from secondary employment

The calculation for working out the amount of PAYE to apply to a lump sum takes into account the minimum level of income the employee expects to receive from their primary employment, and the secondary tax code they have selected.

The calculation for the amount of PAYE on an extra pay for employees using a secondary tax code is:

1. the amount of the extra pay
2. plus annualised income*
3. plus the low threshold amount, (based on the secondary tax code in table 2 —see next page)
4. equals the annual income estimate.

* Annualised income is calculated by adding up the PAYE income payments for the four weeks ending on the date of the extra payment, whether this is the normal pay cycle or not, and multiplying by 13. The amount of the extra pay is not included in this total.

The whole lump sum is then taxed at a flat rate based on the appropriate income range from table 3 —see next page.

Table 2: Low threshold amounts

Tax code	Low threshold amount
SB	\$0
S or S SL	\$14,001
SH or SH SL	\$48,001
ST or ST SL	\$70,001

Table 3: Income range and PAYE rates from 1 April 2015

Annual income estimate	PAYE rate (including 1.45% ACC earners' levy)	Student loan
\$0 – \$14,000	11.95%	+ 12%
\$14,001 – \$48,000	18.95%	+ 12%
\$48,001 – \$70,000	31.45%	+ 12%
\$70,001 – \$120,070	34.45%	+ 12%

If the annual income estimate is less than \$120,070 (the maximum income on which an earners' levy is payable for the year ending 31 March 2016), the amount of PAYE on the full extra pay should be calculated using the rate from table 3.

If the annualised income plus the low threshold amount is greater than \$120,070, none of the extra pay is liable for the earners' levy and the PAYE rate is 33%.

If the annualised income plus the low threshold amount is lower than \$120,070, but the total exceeds \$120,070 when the extra pay is added, the PAYE on the portion below the threshold is calculated at the rate from table 3. The portion of extra pay above the threshold is taxed at 33%, as the earners' levy does not apply.

Example

Jane has a second job and uses the ST tax code. Jane's secondary employer wants to pay her a one-off bonus of \$20,000. In the last four weeks Jane has earned \$2,695 from her second job.

The annualised income (\$2,695 × 13)	\$35,035
Plus the low threshold amount (based on ST, Jane's secondary code from table 2)	\$ 70,001
	<u>\$105,036</u>
Plus the extra pay	\$ 20,000
Annual income amount	\$125,036

The annualised income plus the low threshold amount is lower than \$120,070. But when the extra pay is added the total exceeds \$120,070, so the earners' levy should only be applied to earnings below the threshold.

In the calculation below, tax and earners' levy have been calculated on the full extra pay, and the extra earners' levy has been deducted.

Example

$\$20,000 \times 34.45\% = \$6,890$
 Annual income estimate less earners' levy threshold equals extra pay not liable for earners' levy
 $\$125,036 - \$120,070 = \$4,966$
 $\$4,966 \times 1.45\% = \72.00
 $\$6,890 - \$72.00 = \$6,818.00$
 Amount of PAYE applied to the extra pay equals \$6,818.

Paying a net bonus

If you want to pay an employee a net bonus, you must calculate the gross amount to include in your wage records. The PAYE and any student loan repayment calculated on the bonus must be paid with other deductions for that pay period. The method for working out the gross bonus depends on the employee's tax code.

Example – non-student loan

The employee is to be paid a net bonus of \$60. Here is how the gross bonus is worked out:

1. Deduct the lump sum PAYE rate from \$1 (1 – 0.1895 cents is 0.8105 cents)
2. Divide the net payment by 0.8105 cents (\$60 ÷ 0.8105) \$74.03
3. The gross bonus is \$74.03

To calculate the PAYE, multiply the gross bonus by the lump sum rate:

Gross bonus	\$74.03
Less PAYE deducted (at 18.95 cents)	\$14.03
Net bonus	\$60.00

Example – with a student loan

The employee's net bonus is \$60.

1. Add the student loan rate (12 cents in the dollar) to the lump sum rate (18.95 cents in the dollar) 30.95%
2. Deduct this combined rate from \$1 (1 – 0.3095 cents) 0.6905%
3. Divide the net payment by 0.6905 cents (\$60 ÷ 0.6905) \$86.89
4. The gross bonus is \$86.89

To calculate the tax deducted, multiply the gross bonus by the lump sum and student loan repayment rates:

Gross bonus	\$86.89
Less PAYE deducted (at 18.95 cents)	\$16.46
Student loan repayments (at 12 cents in every dollar)	\$10.43
Net bonus	\$60.00

Restrictive covenant and exit inducement payments

These payments are taxable as follows:

Restrictive covenant payments

These are payments made in return for a person agreeing to restrict their ability to perform services. This includes payments made to an employee when their employment is terminated and they agree not to carry on business in competition with their former employer. It also includes payments made when an employee enters into a restrictive covenant with a wholly owned company and then sells the shares in that company to their employer. These types of payments are classed as source deduction payments, so PAYE must be deducted.

Exit inducement payments

Exit inducement payments are made by a prospective employer or contractor to a person to give up a particular status or position. These include payments to employees whose job status changes, even if they don't have a career change. These types of payments are also defined as source deduction payments, so PAYE must be deducted.

Both restrictive covenant and exit inducement payments are taxed at the lump sum rate. See the PAYE deduction tables for the current lump sum rates.



Retiring and redundancy payments

Retiring allowances

A retiring allowance is a payment made to an employee on retirement. The employment must have been fully terminated because of:

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

It's not based on the age of the employee.

Retiring allowances are taxable in full, but are not liable for earners' levy. See pages 39 to 41 for information on how to calculate the correct tax.

Example

Retiring payment	\$ 10,200.50
PAYE (on whole dollars) at 30 cents in the dollar is*	\$ 3,060.00

* This example assumes that the employee's gross annual income is between \$48,001 and \$70,000.

Redundancy payments

A redundancy payment is different from a retiring allowance. The decision to terminate 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).

The following are not redundancy payments, and are liable for earners' levy:

- any payment made to an employee solely because of a seasonal lay-off
- any payment made at the end of a fixed-term contract or a contract for a predetermined amount of work
- any payment made instead of giving an employee notice
- any payment of deferred wages made to an employee when finishing work (such as holiday pay, accrued bonuses and commissions)
- any payment by a company under its articles of association to any of its directors.

A severance payment may be a redundancy payment for tax purposes. A lump sum severance payment made to a permanent employee when a specific job or project is finished is a redundancy payment if the position of the employee has been fully terminated, and the position is no longer required by the employer.

If the employee stays with the same employer on another job or project, any payment is liable for earners' levy.

If the employee uses an M SL, ME SL, SB SL, S SL, SH SL or ST SL code, you'll also have to deduct student loan repayments from retiring and redundancy payments.

Redundancy tax credit

Employees who derive a redundancy payment before 1 October 2011 may be able to claim a 6% redundancy tax credit, up to a maximum of \$3,600. To claim the tax credit they'll need to complete the *Redundancy tax credit (IR 524)* form.

Note

The tax credit must be claimed within four years of receiving the redundancy payment.

Termination of employment

To treat any payment as a retiring allowance or redundancy payment, the person's employment must have been terminated. If employment is not terminated, the payment is liable for earners' levy.

Employment is not terminated if the employee:

- is still employed by a company that is at least 50% owned by the same shareholders, or under the control of the same persons
- is still employed by the same employer, even if the employer's business has changed
- is still with the same business, even if the ownership of the business has changed
- has remained in substantially the same employment. This means if the employee continues to work under a contract of employment with substantially the same employer.

The following two types of payment are not retiring allowances or redundancy payments, and are liable for earners' levy.

- Payments for accumulated annual leave, long-service leave and sick leave. These are payments that don't relate to retirement or redundancy.
- Payments made as a result of a merger, takeover, amalgamation or reconstruction between two parties if:
 - the employee is rehired by any party to the transaction within six months of termination of employment, and
 - the employee's new job is substantially the same kind of employment they had before.

“Substantially the same kind of employment” means doing the same type of work. This is based on such things as similarity of duties, similar conditions of employment and a similar job description.

For example, if you rehire an employee to do most of the old duties but with slightly different salary and leave arrangements, the employment is substantially the same kind. However, if you rehire the employee in a different area that needs new skills, it's not substantially the same.

Completing the IR 348

Because retirement or redundancy payments aren't liable for earners' levy, the IR 348 should be completed like this:

- The “Gross earnings and/or schedular payments” box should include all taxable earnings including the retirement or redundancy payment.
- The “Earnings and/or schedular payments not liable for ACC earners' levy” box should show the retirement or redundancy payment.

Regular bonuses

Regular incentive or production bonuses

Add these bonuses to wages for the pay periods in which they were earned. Use the PAYE tables to work out the amount of PAYE to deduct. Remember, if the employee uses an M SL, ME SL, SB SL, S SL, SH SL or ST SL code you must also deduct student loan repayments from the bonus. Use the student loan columns in the PAYE tables. The following notes refer only to PAYE, but the same method applies for employees with student loans.

Bonuses for one pay period

For bonuses relating to one pay period, add the bonus to other wages for the pay period the bonus was earned in. Deduct the PAYE from the total earnings.

<i>Example</i>	
Ordinary wages for pay period	\$ 270
Bonus for same pay period	<u>\$ 54</u>
Total earnings	\$ 324

Monthly bonuses – more than one pay

If you pay a monthly bonus relating to more than one pay period:

1. Add up the gross wages paid in the month.
2. Add on the bonus and work out the PAYE (using the monthly tables) on the total.
3. Work out the PAYE on the gross wages (excluding the bonus) for the month, and subtract this from the PAYE on the total calculated at step 2 above. This gives you the PAYE on the bonus.

<i>Example</i>	
Margaret is paid weekly. She is also given a monthly production bonus.	
1. Add together the gross wages paid in that month:	
\$222 + \$240 + \$274 + \$264	\$1,000.00
2. Add bonus	<u>\$ 300.00</u>
Total	\$1,300.00
3. Using monthly tables, calculate the PAYE on \$1,300	\$ 164.66
4. Deduct PAYE on \$1,000 (M code)	<u>\$ 119.47</u>
The PAYE to be deducted from the bonus is	\$ 45.19



Use the same method if a bonus is paid fortnightly or four-weekly. Use the fortnightly or four-weekly PAYE deduction tables to work out how much PAYE to deduct.

Include the PAYE on the bonus with the PAYE on the wages for the period in which the bonus was actually paid.

Bonuses covering more than one month

For a bonus that covers more than one month:

1. Divide the bonus by the number of months it covers. This gives you the monthly bonus amount.
2. Add the monthly bonus to the normal pay for the month, and use the monthly PAYE tables to calculate the PAYE.
3. Calculate the PAYE on the normal monthly pay and subtract this amount from the PAYE calculated at step 2. This gives you the PAYE on the monthly bonus.
4. Multiply this by the number of months the bonus covers to get the total PAYE to be deducted from the bonus.

Example

Patrick gets a monthly salary of \$1,120. He's paid a three-monthly incentive bonus of \$720.

- | | |
|--|-------------------|
| 1. Monthly bonus is
$\frac{1}{3}$ of \$720 | \$ 240.00 |
| 2. Add normal monthly pay | <u>\$1,120.00</u> |
| Total | \$1,360.00 |
| Using monthly tables,
the PAYE on \$1,360 is | \$ 176.02 |
| 3. Deduct PAYE on \$1,120
using the monthly PAYE
tables | <u>\$ 133.81</u> |
| The difference is the
PAYE payable on the bonus
for one month | \$ 42.21 |
| 4. Multiply the one month's
PAYE by three to get the
PAYE on the bonus for three
months (3 × \$42.21) | \$ 126.63 |
| Deduct this amount from \$720. | |

Include the PAYE on the bonus with the PAYE on the wages for the period in which the bonus was actually paid.

Bonuses for a broken period

If a bonus covers a broken period, such as when an employee leaves, treat the bonus as being for the whole of the pay period. Add the bonus to wages in that pay period.

Holiday pay

Include holiday pay and pay for statutory holidays as earnings in the period you actually pay them. To calculate tax on your employee's holiday pay you can use our holiday pay online calculator at www.ird.govt.nz (search keywords: holiday calculator). You can also view or print our *PAYE tables (IR 340 or IR 341)* go to www.ird.govt.nz (search keywords: IR340 or IR341). Before calculating your employees' holiday pay, please check your obligations under the Holidays Act 2003.

For more help

The Ministry of Business, Innovation and Employment's pamphlet *Holidays and leave*, explains the rules for holiday pay. Call the Ministry of Business, Innovation and Employment on 0800 20 90 20 for more information about holiday pay, or go to their website www.mbie.govt.nz

Loss of earnings compensation

Loss of earnings compensation paid by ACC to your employees is liable for PAYE. ACC will deduct PAYE using the employee's tax code.

Similarly, if an injury occurs at work and you pay an employee for the period up until the time compensation is payable, you must deduct PAYE using the employee's tax code.

If you subsidise an employee who's receiving compensation, deduct PAYE on the extra payment you make using the secondary tax rates.

If you pay the employee salary or wages and ACC then reimburses you, deduct PAYE using the employee's tax code.

Honoraria

Sometimes payments are made for a service where the usual custom is that a price is not set. These payments are called honoraria.

Generally these payments are made to volunteers and are schedular payments, and subject to tax at a flat rate. The rate payable is listed in the *Tax code declaration (IR 330)*. However, if honoraria are paid to employees, they should be treated as wages and taxed using the PAYE tables.

Note

Where both honoraria and reimbursements for actual expenses are paid to a person for volunteer activities, and provided records are kept to show how much of the payment relates to each, the reimbursement expenses will be tax free.

Payments to school trustees

The following amounts made to school trustees for attending board meetings are considered to be reimbursements.

- Chairperson—the first \$75 per board meeting (up to a maximum of \$825 a year) can be seen as expenditure and not subject to tax.
- Board member—the first \$55 per board meeting (up to a maximum of \$605 a year) can be seen as expenditure and not subject to tax.

However, if the chairperson or a board member receives more than the amounts above, the exemption is reduced by the amount of the additional reimbursement.

Example

If a board member received \$70, made up of a payment of \$50 and reimbursement for travel expenses of \$20, the first \$55 is reduced by the amount of the reimbursement for travel.

Amount exempt for board members	\$55
Less reimbursement for travel expenses	\$20
Exempt amount	\$35
Payment received	\$50
Less exempt amount	\$35
Balance	\$15

Tax on schedular payments applies to balance amount of \$15.

Life insurance and personal accident premiums

Policies payable on maturity or surrender

Examples of these policies are endowment or whole-of-life policies. If you pay the whole premium of the policy and all the proceeds of that policy will go to the employee, the premiums you pay are treated as salary or wages.

Include the gross premium with wages for the period in which the premium was paid to the insurance company.

If the proceeds of the policy are payable to the employer, the premiums are not taxable to the employee. Don't deduct PAYE.

Policies payable on accident or death only

There are various accident, temporary or term life insurance policies available on the market, and these can have different tax implications.

The premium the employer pays is not income to the employee, even if the benefits of the policy are payable to the employee. If the premium is for cover of work accidents, there's no PAYE or FBT (fringe benefit tax) liability. However, if the employer pays a premium for cover of non-work accidents the premium is not liable for PAYE, but is subject to FBT.

If an employee (or their family member) takes out their own insurance and the employer pays the premium, the payments are treated as salary or wages. The employer doesn't pay FBT on these contributions.

Prize money paid at sporting events and competitions

There's a legal requirement to deduct tax on prize money at any sporting event or competition, not just professional events.

A prize money threshold of \$500 has been set, before 20% tax has to be deducted from the amount exceeding this threshold. This applies to each separate participant, for each separate event the participant enters at the competition or sporting event.

Example 1

A doubles pairing in a tennis tournament win their division. First prize is \$900. The prize money is shared equally—\$450 each. Although the total prize money exceeds \$500, the amount per person is under the \$500 threshold so the payer doesn't have to deduct tax.

Example 2

One of the tennis players from the doubles pairing also wins the singles title in her division. First prize is \$700. The prize money is over the \$500 threshold so tax must be deducted, but only from the portion that exceeds the threshold.

The total amount of tax to be deducted is $\$200 \times 20 \text{ cents} = \40 .

The player has won total prize money of \$1,150. However, the threshold applies to each separate participant for each separate event.

You'll need to get a *Tax code declaration (IR 330)* from the recipient of the prize money. They'll use a WT tax code. If you don't receive a completed IR 330 or it isn't fully completed, deduct tax at the no-notification rate—see page 7.

Include the gross amount and the tax on your *Employer monthly schedule (IR 348)* and show a WT tax code for the prize recipient.

Part 4 – Penalties

As an employer you're responsible for making various deductions, such as PAYE, KiwiSaver, ESCT (employers' superannuation contribution tax), student loans and child support, from your employees' gross wages. It's a serious matter if any employer doesn't properly deduct or pay employees' PAYE or other deductions. You face penalties if you don't meet your responsibilities.

If you believe you'll be unable to file or pay by the due date, please contact us as soon as possible. By contacting us before the due date, you may be able to reduce the amount of penalties that will be charged.

The information on pages 47 to 50 applies to all these employer deductions:

- PAYE (including ACC earners' levy)
- child support
- student loan
- KiwiSaver deductions
- KiwiSaver compulsory employer contributions
- ESCT.

For more help

If you would like more information about penalties, see our guide *Penalties and interest (IR 240)*.

Late filing penalty

By law you must file your tax returns on time. If you don't file your *Employer monthly schedule (IR 348)* by the due date, you may have to pay a late filing penalty.

A late filing penalty of \$250 is imposed for each late IR 348. We'll send you a statement advising you of the late filing penalty and the due date for paying it.

Late payment penalties and interest are also charged on late filing penalties which aren't paid by the due date.

Interest

These rules apply when you either overpay or underpay the amount due.

If you overpay the amount due, we'll generally pay you interest from the day after the original due date (within certain rules).

If you underpay the amount due, we'll charge interest on the unpaid amount from the day after the original due date.

We won't charge interest on unpaid amounts less than \$100.

We won't charge interest on any overdue KiwiSaver employer contributions.

The interest rates are set by government and are based on market rates, so will vary from time to time. You can check the current rates at www.ird.govt.nz or by calling us on 0800 377 774.

Late payment penalties

A payment is late if it's posted or delivered to us after the due date. See page 23 for information about due dates. Penalties are not charged on unpaid amounts less than \$100.

We'll charge you interest if you don't make your tax payment by the due date. We'll also charge you a late payment penalty if you miss a payment, but if you have a good payment history with us we may contact you before we do this.

Otherwise, we'll charge an initial 1% late payment penalty on the day after the due date. We'll charge a further 4% penalty if there is still an amount of unpaid tax (including penalties) seven days after the due date.

Every month the amount owing remains unpaid after the due date, a further 1% incremental penalty will be charged.

Penalty notice

If a payment is late, and the penalty isn't paid, we'll send a separate notice showing the penalty charged. This notice isn't an *Employer deductions (IR 345)* form, so don't use it for your normal PAYE payment. Only use this notice as a payment slip to pay the penalty.

Note

If the due date for a payment falls on a Saturday, Sunday or public holiday, you can make your payment on the next working day without penalty.

Non-electronic filing penalty

Employers who must file their *Employer monthly schedule (IR 348/EMS)* and the *Employer deductions (IR 345/EDF)* form electronically and fail to do so in the required format (see page 33) may be charged a non-electronic filing penalty.

The penalty is the greater of \$250 or \$1 for each person employed at any time during the month the schedule relates to.

For example, if there are 500 employees listed on the schedule each month, the penalty will be \$500 each month. This penalty is payable by the 5th of the following month and will attract late payment penalties and interest if unpaid.

Employers who have an exemption from filing the schedule in the prescribed format and voluntary electronic filers won't be charged a non-electronic filing penalty.

Shortfall penalties

Shortfall penalties apply to certain offences, including failing to deduct PAYE or failing to pay PAYE to Inland Revenue.

We charge shortfall penalties on top of any normal tax. The shortfall penalty is a percentage of the tax shortfall (deficit or understatement of tax), which results from certain actions by the employer. There are five types of penalties:

- not taking reasonable care 20%
- unacceptable tax position 20%
- gross carelessness 40%
- abusive tax position 100%
- evasion 150%.

The rate of shortfall penalty may be reduced for previous good behaviour.

In addition to these penalties you could be fined and/or imprisoned for up to five years.

Disputing shortfall penalties

You may dispute a shortfall penalty if you feel it is wrongly imposed. See page 50 for further information about disputes.

Employer monthly schedule non-payment penalty

If you file your *Employer monthly schedule (IR 348/EMS)* and the amount owing isn't paid by the due date we'll send you a reminder letter. If the overdue amount isn't paid or an instalment arrangement agreed to, we'll charge you a 10% non-payment penalty (NPP).

Every month an amount remains outstanding a further 10% NPP will be charged. If, after we've imposed the penalty, you pay in full or enter into an instalment arrangement, the last NPP is reduced to 5%.

NPPs are not charged on outstanding amounts of \$100 or less or if you meet the requirements of your instalment arrangement.

The total amount of NPP will not exceed 150% of the amount of overdue PAYE and other deductions for that period.

If you do not file your IR 348 and do not pay, you may be subject to shortfall penalties of up to 150%.

Late payment penalties and interest still apply.

Example

Tom's IR 348 and payment for the period ended 30 June 2012 are both due on 20 July 2012. Tom files his employer monthly schedule on 20 July but doesn't make the payment.

A month later, Tom receives a reminder letter asking him to make full payment or enter into an instalment arrangement within one month to avoid becoming liable to pay non-payment penalties.

If Tom takes no action, after one month he will be liable for a non-payment penalty.

The amount of the penalty is 10%, unless full payment is received or an instalment arrangement is entered into within the following month, in which case the penalty is reduced to 5%.

Failing to make deductions

Employers must deduct PAYE, KiwiSaver deductions, ESCT, student loan repayments or child support when required, from any payments made to employees. Failure to do this is a serious offence and can result in penalties and fines being imposed.

Anyone who knowingly fails to make deductions can be fined up to \$25,000 for a first offence and \$50,000 for subsequent offences. Shortfall penalties may also be charged.

Note

If you can't make the student loan, child support, KiwiSaver and/or PAYE deductions, contact us straightaway. You must still file your IR 348 and IR 345 by the due date.

Failing to pay deductions

Employers must pay deductions to us by each due date.

The money deducted doesn't, at any stage, belong to employers. Under no circumstances should the deductions be used for any other purpose than for payment to us. We'll help employers who try to meet their responsibilities but will take action against employers who don't comply with the tax laws.

Failing to pay deductions to us is a serious offence and can result in prosecution. An employer who is convicted may be:

- fined up to \$50,000 and/or
- sent to prison for up to five years.

The name of anyone convicted will also appear in the *New Zealand Gazette*.

Note

The imprisonment penalty doesn't apply to ESCT offences.

Evasion

Anyone convicted of knowingly attempting to evade their responsibilities can be fined up to \$50,000 and/or be imprisoned for up to five years. It's also illegal for an employer to aid or assist another person to commit an offence.

Additional student loan penalties

Employers must give us details about their employees who have student loans, such as IRD number, name and amounts deducted. Failing to provide the correct information is an offence and may result in the employer being prosecuted.

If convicted, an employer can be fined up to \$25,000 for the first offence and \$50,000 for subsequent offences. Shortfall penalties may also be charged.

Additional child support penalties

Employee privacy

The law requires you to protect your employees' privacy by not giving out any information about their child support responsibilities.

There are only two exceptions when:

1. Inland Revenue Child Support asks you for information.
2. You have to give the information as part of running your business, for example, when you have to show your records to our investigators.

An employer who is convicted of violating this law can be fined up to \$15,000.

Prejudice

It's an offence for employers to discriminate against an employee or potential employee because of student loan and/or child support responsibilities. An employer may not:

- refuse to employ the person, or refuse to pay wages
- dismiss or threaten to dismiss the employee
- stop or threaten to stop paying wages
- show or threaten prejudice against the employee
- intimidate, coerce, penalise, or discipline the employee because of student loan and/or child support responsibilities.

An employer convicted of prejudice may be ordered to pay compensation to the employee and to take action to remedy or reduce the loss suffered. An employer convicted of prejudice in relation to student loan responsibilities may also be fined up to \$2,000.

Employee start and finish information penalties

Employers must provide us with their employees' start and finish dates.

Failing to provide the correct details is a serious offence and can result in the employer being prosecuted and penalised.

Audit procedures

Every employer can expect to be audited by us from time to time. This will involve checking your PAYE records against the returns filed to make sure the returns are correctly completed.

Remember, you must keep all financial records of your taxable activity for seven years. We may ask you to keep your records for an additional three years when auditing or investigating you. Failure to keep adequate records is a very serious matter and can result in a fine.

If you want to know more about audit procedures, read our guide *Inland Revenue audits (IR 297)*.

Voluntary disclosure

If there's any omission or error in your PAYE affairs, you should tell us about it. We may still charge shortfall penalties but, if you tell us before we notify you of an audit or investigation, we may reduce these by up to 100%.

For more help

If you'd like to know more about this process, read our guide *Putting your tax returns right (IR 280)*.

If you disagree

We make every effort to apply the tax laws fairly and correctly, but sometimes you may disagree with how we've assessed your tax. In most cases we can correct the assessment before you need to make a formal complaint. If we can't agree, there is a formal process to follow, so your rights are protected in case the matter goes to court.

For more information, read our factsheet *If you disagree with an assessment (IR 778)*.

Part 5 – Special types of workers

This part explains what you need to do for the following types of workers:

- casual agricultural workers
- commission agents
- directors
- drovers and musterers
- election-day-workers
- fishers
- IR 56 taxpayers
- jockeys and trotting drivers
- musicians, dance bands and orchestras
- non-residents
- partners in a partnership
- piece-workers and outworkers
- recognised seasonal workers
- screen production industry workers
- shareholder-employees in close companies
- shearers, shedhands and shearing contractors
- spouses or partner
- subsidised workers
- workers engaged in “activity in the community” projects
- workers under labour-only contracts in the building industry.
- working owners of a look-through company.

For the tax rates, see the current PAYE tables (IR 340 or IR 341).

Casual agricultural workers

Casual agricultural workers are employees who do casual seasonal agricultural work on a day-to-day basis, for up to three months. Use the tax code CAE on the *Tax code declaration (IR 330)*. These workers are taxed through the PAYE system at a flat rate listed in the PAYE tables under casual agricultural workers.

Note

Agricultural contractors are independent contractors, not employees, and are subject to tax on schedular payments.

Commission agents

For agents who receive commission only, tax the gross commission as a schedular payment—see page 10.

Some agents get a salary or other fixed remuneration plus commission from the same employer.

If an agent is an employee, add the gross commission to the fixed remuneration for the period it was paid in. Calculate PAYE using the current PAYE tables.

Whether you deduct PAYE using the tax tables or schedular payment rates listed on page 4 of the IR 330 depends on whether the agent is an employee or is self-employed. For more information on employment status, see “Who is an employee?” on page 5 of this guide.

Directors

Fees paid to directors are generally schedular payments. Tax the fees paid using the correct rate of tax on schedular payments. Some directors who are shareholder-employees of the company may pay provisional tax.

Drovers and musterers

For employees doing occasional droving and mustering work, calculate PAYE using the current PAYE tables.

If they supply their own dogs, horses or saddlery and receive allowances, deduct the amount of allowances paid (up to the maximum in the table below) before calculating the PAYE.

Type of reimbursing allowance	Maximum deduction per week
Dog	\$1 for each dog, to a maximum of 4 dogs
Horse and saddlery	\$1.50
Horse only	\$1.00
Saddlery	\$0.50

Deduct tax from the gross payments made to a droving contractor (see page 4 of the IR 330).

Election-day workers

Election-day workers are people employed on a casual basis immediately before, on, or after polling day. Election-day workers are taxed through the PAYE system at a flat rate and use the tax code EDW on the IR 330.

Fishers

Fishers may be employees or self-employed contractors depending on the terms of their contracts. If you're unsure whether a fisher is an employee or self-employed, read page 5 of this guide.

For fishers that are employees, deduct PAYE from their wages using the current PAYE tables.

Payments to fishers who are not employees are taxed as schedular payments—see page 4 of the IR 330.

Foreign fishing workers

Foreign crew working on a fishing vessel are non-residents for New Zealand tax purposes, but have to pay New Zealand tax on their New Zealand income (income paid to a worker while fishing in New Zealand waters).

If they hold a work visa as foreign crew of a vessel fishing New Zealand waters, they are taxed through the PAYE system at a flat rate and use the tax code NSW (non-resident seasonal worker) on their IR 330.

Use the NSW tax code for any foreign fishing workers on your *Employer monthly schedule (IR 348)*. Student loan repayments are not deducted but, if required, you can make deductions for child support payments. Because they are non-residents, they won't be eligible to join KiwiSaver.

IR 56 taxpayers

IR 56 taxpayers are workers whose employer isn't required to deduct PAYE from their earnings. They're responsible for paying their own PAYE, but they're not classified as self-employed. Examples of IR 56 taxpayers are:

- part-time private domestic workers, such as home helpers, attendant caregivers, nannies, gardeners and domestic odd-jobbers
- embassy staff
- New Zealand-based representatives of overseas companies
- United States Antarctic program personnel.

IR 56 taxpayers have to complete and send in IR 345 and IR 348 forms with their payments each month. For further help see our guide *IR 56 taxpayer's handbook (IR 356)*.

Jockeys and trotting drivers

Wages paid to apprentice jockeys or probationary drivers are liable for PAYE. Deduct tax from any riding or driving fees that aren't wages.

The schedular payments tax rates are listed in the PAYE tables and on page 4 of the IR 330.

See page 10 of this guide for more information on schedular payments.

Musicians, dance bands and orchestras

If bands or other entertainers are actual employees, you must deduct PAYE from payments made to them. Each performer in a band must fill in an IR 330.

Musicians hired on a casual basis are usually paid schedular payments. Every performer in a group must fill in an IR 330 using a WT tax code.

In the case of larger bands where the leader is in business and files income tax returns for that business, a *Certificate of exemption (IR 331)* may be used—see page 11 of this guide for more information. The leader must make deductions of PAYE or tax (as the case may be) from payments made to musicians involved in the band.

If the band is registered with us as a partnership, show the IRD number of the partnership on the IR 330 (use the WT tax code).

Door charges

Where a band member collecting door charges is accompanied by a hotel employee and the employee performs the licensing responsibilities of the licensee or manager (eg, allows or restricts entry), don't deduct tax from the door charges.

Where the band member isn't accompanied by a hotel employee, tax must be deducted from the charges made.

Non-residents

Generally, someone who comes to New Zealand, stays less than 183 days in any 12-month period, and who doesn't have an "enduring relationship" with New Zealand, is taxed as a non-resident.

A non-resident is liable for New Zealand tax on income for personal services performed in New Zealand, and other income from New Zealand sources.

For more help

If you want more information about tax residency, see our guide *New Zealand tax residence (IR 292)*.

Non-resident employees

Employers must deduct PAYE from wages paid to non-resident employees in the same way as for resident employees (see page 5 of this guide for a definition of an employee). However, a non-resident may be entitled to an exemption from New Zealand tax, either under a double tax agreement, or under the 92-day rule.

In general, the 92-day rule applies if all the following criteria are met:

- the visit is less than 92 days
- the person's income is being taxed in another country
- the employer is also a non-resident.

If you need more information about the 92-day rule call us on 0800 377 772.

Whether or not a non-resident qualifies for the exemption may not be obvious when the person arrives, or may not be established for some time. This means that if PAYE is deducted, it may have to be refunded at a later date. Also, if a foreign tax administration requires tax payments, employers may have to make double deductions.

The law gives employers the option of providing a bond or other form of security to Inland Revenue. Please contact Large Enterprises Non-resident Contractors Team (details below) for a copy of the standard bond agreement. We must approve any other form of security offered. Providing a bond or security means we can recover the PAYE if the employee becomes liable and payment is not made.

To apply for an exemption, contact Large Enterprises. If we agree, you may lodge a bond or security. If we accept the bond or security, you can stop deducting PAYE until the employee clearly becomes liable for tax in New Zealand. Please note, you must deduct PAYE until we accept the bond.

If it turns out the employee is not entitled to an exemption, you'll have to pay the PAYE on past wages paid. We'll tell you when the payment is due. If the person is employed over more than one income year, you must apportion the PAYE to the years the income was actually earned.

Once the PAYE is paid, we'll release you from the bond. However, if an employer doesn't pay the PAYE owing on the non-resident's wages, we'll exercise our rights under the bond.

If it becomes clear the employee is exempt from New Zealand tax, we'll release you from the bond.

Send bond applications to:

Team Leader
Non-resident Contractors Team
Inland Revenue Large Enterprises
PO Box 2198
Wellington 6140

Phone 04 890 3056
Fax 04 890 4502
Email nr.contractors@ird.govt.nz

Contact Large Enterprises if you would like more information about these bonds.

Non-resident contractors

Payments to non-resident contractors must have tax deducted, unless they hold a valid certificate of exemption or are present in New Zealand for 92 days or less in any 12-month period. This means you won't be required to deduct any tax.

However, the non-resident contractor must have come from a country New Zealand has a double tax agreement with, and the activity or service carried out is exempt under the double taxation agreement.

Payments for contract work amounting to \$15,000 or less in a 12-month period will be exempt from non-resident tax. The non-resident contractors themselves will be responsible for paying any New Zealand tax owing at the end of the year.

Specified contract activities or services are:

- work carried on in New Zealand for construction, installation, assembly and similar projects, or consultancy, advisory and other professional or technical services for these projects
- the hire of personnel or equipment to be used in New Zealand.

For more help

If you have any questions about how to treat non-resident contractors, contact the Non-resident Contractors Team (see page 52).

Non-resident entertainers

Deduct tax from payments to non-resident entertainers, except from payments for a performance:

- that is part of a New Zealand or foreign government sponsored cultural programme, or
- that forms part of a programme of an overseas non-profit organisation, or
- in relation to a game or sport, where the participants are the official representatives of the organisation that administers the game or sport in an overseas country.

If you have any questions about non-resident entertainers, call Inland Revenue Large Enterprises, Auckland, on 09 984 4329.

Interest, dividends or royalties

Any interest, dividend or royalty payments to a non-resident are liable for non-resident withholding tax. Details of the rates of tax and method of payment are in the *Non-resident withholding tax payer's guide (IR 291)*.

For more help

If you have any questions about taxing non-residents and visitors to New Zealand, other than non-resident contractors and non-resident entertainers, contact the:

Non-resident Centre
Inland Revenue
Private Bag 1932
Dunedin 9054
Phone 03 951 2020
Fax 03 951 2216

Partners in a partnership

A partnership (except an investment partnership) may make payments to a working partner for services personally performed. These payments are treated as salary or wages if all of the following apply:

- the partner is employed under a binding written contract of service, signed by all the partners
- the contract states the amount payable to the working partner for the services
- the working partner personally and actively performs the services for the partnership.

These services may be of any kind needed for the partnership's business.

The payments are treated as salary and wages for the period between the date the contract became binding and the date the contract is terminated. The partnership must deduct PAYE and pay it to Inland Revenue.

Piece-workers and outworkers

If the payment is for piece-work or is based on output, and is solely for personal services, deduct PAYE as usual.

If you don't pay salary or wages regularly, average the taxable earnings over the number of weeks in the working period. Treat any odd days as an extra week. Calculate the PAYE for each week separately and add up the PAYE to arrive at the total amount to deduct.

Payments to a labour-only contractor in the building industry are liable for tax. To work out whether a worker is an employee or a contractor, see page 5 of this guide.

Recognised seasonal workers

Recognised seasonal workers must be employed by a registered employer from the Recognised Seasonal Employer (RSE) scheme and are generally employed in the horticulture and viticulture industries.

They're non-resident for New Zealand tax purposes, but have to pay New Zealand tax on their New Zealand income. Recognised seasonal workers are taxed at a flat rate through the PAYE system and use the tax code NSW (non-resident seasonal worker) on their IR 330.

Use the NSW tax code for any recognised seasonal workers on your *Employer monthly schedule (IR 348)*. You may have to make deductions for child support payments. However recognised seasonal workers won't have student loan deductions or be eligible to join KiwiSaver.

The RSE scheme is administered by the Ministry of Business, Innovation and Employment. To find out more information go to www.dol.govt.nz

Screen production industry workers

All resident contractors working in the screen production industry (generally, contractors who work behind the camera, including television, video and film) must have tax deducted at 20 cents in the dollar. If they don't provide a tax code declaration, use the no-notification rate of 35 cents in the dollar. Any contractors who'd like a higher or lower rate of deduction can still apply to us for a special tax rate or a certificate of exemption.

Taxing daily allowances

Daily allowances paid to resident and non-resident contractors and entertainers working in the screen production industry in New Zealand form part of their gross income and are subject to tax.

However, if you pay a contractor or entertainer a daily allowance in relation to services provided to a screen production, where the contractor or entertainer is working away from their town of normal residence, \$60 each day will be considered as expenditure, and you don't need to deduct tax from this amount.

If the daily allowance exceeds \$60, deduct tax from the portion that exceeds \$60.

Example

You pay a contractor a \$45 daily allowance as they're required to work away from their town of normal residence. You don't have to deduct tax because the total payment is less than \$60.

However, if the contractor or entertainer is also provided with the goods or services for which the allowance is paid, either by the payer or another party acting on the payer's behalf, the amount regarded as expenditure is reduced on a pro-rata basis. This is because the recipient of the allowance hasn't actually incurred the expenditure.

Example

You pay a contractor a \$60 daily allowance. The contractor is also provided with all meals while working, either on the set or at another location. The recipient has not incurred the expense so you must deduct tax from the allowance.

Shareholder-employees in close companies

Deduct PAYE from:

- regular salaries paid to shareholder-employees for pay periods of one month or less
- other payments made to shareholder-employees we consider to be liable for PAYE.

Don't deduct PAYE from irregular salary payments made to a shareholder-employee.

Include in the IR 4 company tax return all shareholder-employee salaries where PAYE has not been deducted.

Shearers, shedhands and shearing contractors

Shearers and shearing shedhands have PAYE deducted at a flat rate and use the tax code CAE.

Combined farming and shearing

When a shearer does ordinary farm work because shearing is impossible, include any wages for this work with shearing wages.

If a farm worker employed for normal farm work also does shearing work at shearers' rates of pay, treat the shearing wages as part of the normal pay for the pay period. Calculate the PAYE using the current PAYE tables. Don't use the special rate for shearers and shedhands.

If a farmer does part-time shearing for another farmer, an IR 330 declaration should be completed and PAYE deducted using the CAE tax code.

Shearing contractors

Here are some of the situations you may come across if you have shearing contractors and shearing gangs working for you:

- The contractors pay their own shearers and show you a current *Certificate of exemption (IR 331)*—see page 11.

In this case don't deduct tax—pay the full contract price to the contractor.

- The contractors pay their own shearers and don't show you a current IR 331.

You must get an IR 330 from the contractor, who'll use a WT tax code. Alternatively, the contractor may have a *Special tax code or deduction rate (IR 23)* certificate—see page 8). If you don't get an IR 23 or IR 330, or the IR 330 is not fully completed, deduct tax at the no-notification rate. The contractor must deduct PAYE from wages paid to employees.

- You pay the wages of the contractor's employees.

In this case treat them as if you were employing them direct:

- Get a fully completed IR 330 from each employee. If an IR 330 isn't given to you or isn't fully filled in, deduct PAYE at the no-notification rate.
- Deduct PAYE for shearers and shearing shedhands using the CAE tax code.
- If the contractor has a current *Certificate of exemption (IR 331)*, pay the contractor the contract price less the wages you've paid to the employees.
- If the contractor doesn't have a current *Certificate of exemption (IR 331)*, you must get an IR 330 from them and deduct tax from the contract payment or, if they have a *Special tax code or deduction rate (IR 23)* certificate, you can deduct tax at the rate shown. If you don't get an IR 23 or IR 330, or the IR 330 is not fully completed, deduct tax at the no-notification rate.

- Farmers who employ open-shed shearers or shearing shedhands must follow these steps:
 - Get a fully completed IR 330 from each employee. If the IR 330 is not completed, deduct PAYE at the no-notification rate.
 - Deduct PAYE for shearers and shearing shedhands at the current rates using the CAE tax code.

Contractors who pay shearers

If you're a contractor and employ shearers and shearing shedhands, you must deduct PAYE from any payments you make.

Allowances

Travelling allowances and hand-piece allowances are non-taxable.

All other types of allowances, including the value of free meals and board, are taxable. Add the value of these allowances to wages. Show any tax-free allowances paid in your wagebook.

Spouses or partners

The term spouse or partner means a husband or wife, or a civil union or de facto partner you're living with. It doesn't mean a person you're separated from.

If you employ your spouse or partner in your business (unless your business is a company) you must get approval from us to pay wages. If you don't have approval you can't claim a deduction for the wages in your business accounts.

We give approval if:

- the payment is solely for services given in the course of carrying on the business, and
- the payment is not excessive. The rates must be the same as those you would pay to an unrelated employee for doing similar work.

Write to us giving the following details:

- The type of business which your spouse or partner is employed in.
- Full details of the work done by your spouse or partner.
- The average number of hours your spouse or partner works each week, and the number of weeks worked during the year.

- Details of any other workers you employ and the total amount paid as wages, not including the wages paid to your spouse or partner.
- How payment of wages is made, such as cash at regular intervals, periodically, or crediting to an account.
- The amount of wages paid to your spouse or partner.

You should apply for approval before you start paying your spouse wages. You need to make another application if you increase the wages as a result of:

- an increase in the duties performed by your spouse, or
- an increase in pay that isn't a general wage increase.

Subsidised workers

If you employ someone who has been unemployed for a certain time, Work and Income may subsidise their wages.

Deduct PAYE from the employee's wages using the current PAYE tables. Tax deductions should be made from the gross wage, not the gross wage less the subsidy.

You must keep a record of the grants or subsidies received and how you've used them.

There are GST obligations for these grants. If you're registered for GST, the wages subsidy received will be GST-inclusive and the GST component will need to be returned in your GST return. You can't claim GST on wages paid out.

Workers engaged in “activity in the community” projects

Under current benefit laws, people may choose to participate in a recognised community activity. The sponsor is the organisation that provides the recognised community activity. As an employer, you may be a sponsor.

Participants of “activity in the community” projects still receive income support. Those who choose to participate in a recognised community activity receive an allowance in addition to their income support. The sponsor is responsible for paying this allowance and can claim it back from Work and Income every four weeks.

The sponsor is not an employer of any community work participants—they are acting as an agent of Work and Income in paying the allowance to the participant. This means the allowance isn't subject to GST or income tax in the hands of the sponsor. You're not required to make any deductions from this allowance.

Workers under labour-only contracts in the building industry

Payments made under labour-only contracts for the following activities in the building industry are liable for tax:

- erecting, extending, protecting, decorating, repairing or renewing buildings, other constructions, prefabricated or precut buildings
- carpenters under a building contract (excluding employees—their earnings are liable for PAYE)
- laying concrete, bricks, blocks, tiles, slabs or stones of any description
- fixing roofs or fences
- hanging wallpaper, other decorative wall-coverings or furnishings
- painting, decorating and plastering
- installing any fibrous plaster, wallboard, insulating material, interior tiles, carpets, linoleum or other floor coverings.

Working owners of a look-through company

A look-through company may make payments to a working owner for services personally performed. These payments are treated as salary or wages if employed under a contract of employment.

A contract of employment is an agreement that:

- sets out the terms and conditions of the services to be carried out by the working owner
- sets out the amount payable to the working owner for the services
- is in writing.

Part 6 – Services you may need

Tool for business

This online, interactive tool lets you find out what you need to know for your business. Go to www.ird.govt.nz (search keywords: tool, business)

Need to talk to us?

You can call us on these numbers:

General tax, tax credits and refunds	0800 227 774
Employer enquiries	0800 377 772
General business tax	0800 377 774
Overdue returns and payments	0800 377 771

We're here to take your call between 8 am and 8 pm Monday to Friday, and Saturday between 9 am and 1 pm. Some services are available outside these hours if you're enrolled with voice ID. Have your IRD number with you when you call.

For more information go to www.ird.govt.nz/contact-us/

0800 self-service numbers

This service is available to callers seven days a week (but please note we're closed between 5 am and 6 am each day). Have your IRD number with you when you call.

For access to individuals' personal information, you'll need to be enrolled for voice ID or have a personal identification number (PIN). Enrol for voice ID by calling 0800 257 843 and reset an existing PIN by calling 0800 257 777.

Order publications and taxpacks	0800 257 773
Request a summary of earnings	0800 257 778
Request a personal tax summary	0800 257 444
Confirm a personal tax summary	0800 257 771
All other services	0800 257 777

When you call our self-service numbers, we'll ask you to say why you're calling. We'll then direct you to a self-service line where you can get the information you want. If you need to talk to us, we'll direct your call to an advisor who has the specific information to help you.

Customer service quality monitoring

As part of our commitment to providing you with a quality service, we may record phone calls to and from our contact centres. Find out more about this policy or how to access your recorded information at www.ird.govt.nz (search keywords: call recording).

How to get our child support forms and guides

You can view copies of all our forms and guides mentioned in this guide by going to www.ird.govt.nz/childsupport/ and selecting "Forms and guides". You can also order copies by calling us on 0800 257 773.

Voice ID

Voice ID is the standard for verifying identity at Inland Revenue. It identifies you through your unique voiceprint when you call us, making your calls faster and simpler, and your account more secure. You can access many of our services, eg, resetting your myIR password, 24 hours a day, seven days a week.

Enrol for voice ID by calling 0800 257 843. Remember to have your IRD number with you. Go to www.ird.govt.nz/contact-us/ for more information.

Ministry of Business, Innovation and Employment (MBIE)

For advice and information on minimum employment rights, please go to www.dol.govt.nz/minimumrights or call MBIE on 0800 20 90 20.

For any questions on VisaView, phone 09 969 1458 from within the Auckland toll-free calling area, 04 910 9916 from Wellington or 0508 WORK NZ (967 569) from the rest of New Zealand.

For general visa enquiries phone 0508 558 855.

Supporting businesses in our community

Our Community Compliance teams offer a free tax education service to businesses and not-for-profit organisations to help them meet their tax obligations. The service is available to individuals (one-on-one meetings) and groups (workshops or seminars).

Use this service to find out more about:

- the records you need to keep
- the taxes you need to know about
- how to best use our online services
- completing your tax returns (eg, GST, employer returns)
- filing returns and making payments
- your KiwiSaver obligations.

Our kaitakawaenga Māori are available to advise Māori organisations and individuals.

Have a look at our short videos at www.ird.govt.nz/introbizvids then go to 0www.ird.govt.nz (search keywords: seminar, advisory) or call us on 0800 377 774.

Business Tax Update

Get all your business tax news in one newsletter. Our *Business Tax Update*, available online only, gives you tax updates on payroll, GST, FBT and other relevant tax issues. Subscribe through the newsletter page at www.ird.govt.nz/subscribe and we'll send you an email when each issue is published.

Tax Information Bulletin (TIB)

The TIB is our monthly publication containing detailed technical information about all tax changes. You can find it on www.ird.govt.nz under "Newsletters and bulletins" and subscribe to receive an email when each issue is published on our website.

Privacy

Meeting your tax obligations means giving us accurate information so we can assess your liabilities or your entitlements under the Acts we administer. We may charge penalties if you don't.

We may also exchange information about you with:

- some government agencies
- another country, if we have an information supply agreement with them
- Statistics New Zealand (for statistical purposes only).

If you ask to see the personal information we hold about you, we'll show you and correct any errors, unless we have a lawful reason not to. Call us on 0800 377 774 for more information. For full details of our privacy policy go to www.ird.govt.nz (search keyword: privacy).

If you have a complaint about our service

We're committed to providing you with a quality service. If there's a problem, we'd like to know about it and have the chance to fix it. You can call the staff member you've been dealing with or, if you're not satisfied, ask to speak with their team leader/manager. If your complaint is still unresolved you can contact our Complaints Management Service. For more information go to www.ird.govt.nz (search keyword: complaints) or call us on 0800 274 138 between 8 am and 5 pm weekdays.

If you disagree with how we've assessed your tax, you may need to follow a formal disputes process. For more information, read our factsheet, *If you disagree with an assessment (IR 778)*.

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