

ALL YOU NEED TO KNOW ABOUT PAYE

These notes assume you have only a few employees. When PAYE deductions exceed \$100,000 per year the rules change.

Who Is An Employee?

If someone comes to you and says they are self-employed, even if they are registered for GST, you must still check to see if you should be deducting PAYE. IRD has prepared a pamphlet IR 336 Which is an excellent guide for helping you determine who is an employee and who is self-employed. If you get it wrong, IRD could take the PAYE from you on top of the full amount you have paid already.

Warning: The onus is on you to get it right. If in doubt, study the IR 336 Pamphlet and if necessary come and see us for some advice. The IR 336 can be obtained from either the internet or by ringing our office or the IRD.

The 'Employee' should also be careful. If he/she turns out not to be a self-employed person, IRD can disallow expenses claimed. The consequence is an assessment for tax, consideration of penalties.

Tax Declaration

Every employee must complete an IR 330 tax declaration certificate, which shows his or her tax code. We suggest you always get this completed as the first job on the day they start work. The certificate stays in force until the employee advises you of changed circumstances by giving you a new IR 330 form to use.

Keep the IR 330s for seven years after the employee leaves.

How to Deduct Tax

Decide on your pay period. Obtain the appropriate tax tables. If paying weekly you would take the total income each week including overtime and add any taxable allowances and look up the tables. Unless you find the exact figure in the tables, look for the income immediately below the figure you have calculated. Having located the correct figure, identify the tax to deduct.

Special Tax Codes

Some people may have tax losses or have some other reason why they ought to be taxed at a different rate from the standard tax tables. These may apply to the IRD for a special tax code and will be issued with form IR 23.

If an employee hands you an IR 23, deduct tax at the rate shown on the form instead of using tax tables. IR 23 tax certificates last for one tax year only. You must insist on the employee obtains a fresh certificate each year. If you do not receive it, switch to using the figures in the tax tables.

Withholding tax

Cleaners, Agricultural assistants, commission sales people and some others are not true employees. You must still deduct tax but these people are allowed to claim expenses against their income. Sales people, for example, are likely to incur car running costs, telephone expenditure and can claim for the use of their home.

You still have to deduct some tax on account. Obtain an IR 330 certificate and find the appropriate rate in the tax tables for the type of work being done.

Non-Business

You do not have to deduct tax for anyone working around your home. You may treat these people as self-employed.

Superannuation

There are 'specified' superannuation schemes. Employees may elect to have some of their income treated as superannuation and paid into these schemes. Tax is at 33%. It is worth making inquiries about specified superannuation schemes for those employees earning more than \$60,000 per annum as they will pay tax at 39% on salaries but only 33% on superannuation schemes.

Returns to IRD

Employers must register with the IRD. They will receive monthly green forms to fill in. Complete the gross wages paid to each employee and the amount of tax deducted. When someone joins the firm or leaves it fill in the appropriate dates. We recommend you have a way of cross-checking the accuracy of the figures you put on these forms. Taking the figures on your return forms, you can deduct the total PAYE for the month from the total gross wages. The difference will be the net amount paid to your staff (A). Total all the wage payments on your bank statements (B). A and B should be the same amount. It is quite common for people to make a payment and forget to enter it in their wage records. This check gives you a better chance of being right.

Penalties

PAYE deductions are considered to be money held in trust. The department takes a much harsher attitude to people who fail to pay PAYE deductions than they do for failure to pay income tax. The money is not yours and should not

be used to pay your creditors. Accordingly, IRD has the right not only to sue you personally for tax deductions not remitted, even if your business is a limited liability company, but also to claim from any officer of the company involved in not paying PAYE deductions. This could be your wages clerk. Late payment penalties are levied at 5% for the first month and 1% for each succeeding month the PAYE remains unpaid. There is also a use of money interest charge.

IRD can also penalise people who do not send in their returns. The fine for sending in your PAYE late is \$250.

Paying the PAYE

The due date for payment is the 20th of the month following the month you are accounting for. So if you are doing your PAYE return for the September wages paid, you must lodge the return by the 20th October.

If the 20th of the month falls on a Saturday, Sunday or public holiday, the due date for both the return and payment is the next working day.

You can remit the tax by paying it at the Westpac Bank, posting it or paying it through internet banking or telephone banking.

Student Loans

If you receive a tax code declaration with 'SL' be sure to deduct the loan deduction as well as the PAYE.

Daily or Casual Employees

Add the income in the usual way for your pay period and look up the tables. Check to ensure you have the correct code. You might have been asked to deduct tax at secondary rates.

Which Month Does the Pay Belong In?

You would normally have a 'pay day'.

Suppose you paid wages fortnightly and pay periods for the month ended September fall on the 1st, 15th, and 29th of the month.

Look at the date you actually pay the wages. If it is 2 days after the end of each pay period then the operative dates for your PAYE returns are the same as your payment date:

- 3rd September
- 17th September
- 1st October

You therefore bring into account only two lots of wages for the month of September, those paid on the 3rd and 17th September. You have probably worked out October will as a consequence, contain three lots of wages.

No Declaration

If you do not receive a tax code declaration IR 330 from an employee you will have to deduct tax at 46.2%.

Holiday Pay

These notes deal with tax matters only. Inquiries about The Holiday Act should be referred to the Labour Department telephone 0800 800 863.

Ask for industrial relations division. Alternatively, visit their website at www.nzir.dol.govt.nz. To calculate tax on holiday pay, assuming weekly wages, work on the basis of building up the income to normal weeks wages, taxing that and taking the remainder and doing the same thing. It is best explained with an example.

Assume the employee earns \$100 per week and has accumulated holiday pay at 6% totalling \$320. The person leaves having worked three day of the week and earned \$60. Also assume the average weekly earnings, including overtime, is \$105.

<i>To the time of leaving</i>	<i>\$60.00</i>
<i>Share of holiday pay</i>	<i>\$45.00</i>
<i>Total to be taxed</i>	<i>\$105.00</i>

<i>Second week is as normal</i>	<i>\$105.00</i>
<i>Third week is as normal</i>	<i>\$105.00</i>

You have now used up \$45 plus two lots of \$105= \$255 of total holiday pay. You have \$75 left to be taxed. Look up the weekly tax tables on \$75 and deduct tax on that.

Lump Sum Payments

Your employee is entitled to ask you to use a higher rate of tax deductions than the minimum listed below. For people on high incomes deducting at a

higher rate could be a significant advantage. At the time of writing these notes anyone having year-end tax to pay, known as residual income tax, of \$30,000 or more is subject to the use of money interest rules. From 1st April 2003 the threshold is to be increased to \$35,000. These people might be able to get below the threshold by having their annual bonus taxed at this top rate.

Lump sum payments are annual bonuses, back pay and similar. Work out the gross annual value of the employee's income, which includes any taxable allowances and add the lump sum to it.

If the total is less than \$38,000 deduct tax at the rate of 22.2%.

Where the total is in the range \$38,000 to \$60,000 tax at 34.2%.

Where the total exceeds \$60,000 tax at 40.2%.

Overtime

Overtime payments are not lump sum payments and must be added to the regular wages. If the overtime has been earned over more than one pay period, simply add the lot to the current wages.

Redundancy Payments and Retiring Allowances

These are lump sum payments but are more subject to ACC charges. The tax deductions are based on the grossed up annual value of the employee's income for the previous four weeks plus the amount of the payment.

Combined total payment of	
\$38,000 or less	21%
\$38,001 to \$60,000	33%
Over \$60,000	39%

See sample page 13 of 4 Weekly/ Monthly PAYE tables.

***WARNING: The information supplied here is condensed and simplified.
It is only a guide and should not be relied upon as a substitute for
professional advice.***