

MEMBER ADVISORY

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1 April 2012 Tax Changes: Overview For Employers

All Federated Farmers members

The Inland Revenue Department (IRD) has asked Federated Farmers to inform its members of a number of impending tax changes to employer superannuation contribution tax (ESCT) and student loans. These changes will take effect from April 2012 but we think it worthwhile for members to have plenty of notice so they can make appropriate arrangements.

ESCT

- All employers' superannuation contributions – including KiwiSaver and Complying Funds – paid to defined benefit funds for employees will be liable for employer superannuation contribution tax (ESCT) from 1 April 2012.
- The ESCT will need to be calculated:
 - at the employee's marginal rate, or
 - you can treat your employer contribution as salary or wages (with the agreement of your employee).
- IRD will be updating its online PAYE calculator to reflect this.
- This was announced as part of Budget 2011. More information about other changes can be found on <http://www.ird.govt.nz/changes/kiwisaver/budget-kiwisaver.html> or call 0800 377 772

Student loans

If you have an employee with a student loan, some of the changes below will be variations to current processes, while others will be new rules you'll need to be familiar with. Your employee will have to apply for the repayment deduction exemption and the special deduction rate if they want these to apply to their first pay period from 1 April 2012.

- Your employee must use a 'SL' repayment code regardless of their income, unless they're exempt.
- The student loan deductions you make on their salary or wage every pay period will be treated as their repayment obligation, unless there's significant over- or under-

deduction. Make sure your deductions are correct and identified properly on the EMS.

- IRD may contact you and your employee and require you to make additional deductions if there's a shortfall in your employee's student loan deductions – you should use the 'SLCIR' repayment code on the EMS for this.
- Your employee may provide you with a repayment deduction exemption certificate which authorises you to not make student loan deductions on your employee's salary or wage.
- Your employee may provide you with a special deduction certificate if you are their secondary employer - you should use the special (reduced) deduction rate for your employee's student loan deduction.
- Your employee may ask you to make extra student loan deductions on top of their compulsory repayment deduction – make sure you use the 'SLBOR' repayment code on the EMS for this.
- If you use payroll software – your payroll provider will be providing updated software to enable these changes.
- More information about the student loan changes can be found on www.ird.govt.nz/studentloans or call 0800 377 772

In both cases, you need to upgrade your software by 1 April 2012 if you use a payroll package.

IRD will provide more information on how these specific changes impact you as an employer. IRD will also be working with software developer companies to amend their payroll and related products to enable these changes.

If you have any questions please contact IRD or your tax advisor.