

MacBusiness Payroll changes for 1 April 2012

Inland Revenue have made significant changes to Student Loan deductions and KiwiSaver this year. As a result a software update is required.

The update is available for \$99 + GST, and can be installed at any time. It can be purchased directly via website using a credit card, or by emailing or phoning us your order.

This update will also adjust the ACC rate, set to 1.7% for this financial year.

Changes to Student Loan Deductions

There are two new tax codes for employees with student loans, two new options for taking additional student loan deductions, and a new way to clarify whether an STC tax code is for primary or secondary employment.

1. New Tax codes ML SL and SB SL

Tax codes SB and ML now have Student Loan equivalents. Employees on tax codes SB or ML who have a student loan should now use these new codes to ensure student loan deductions are made.

2. Additional student loan deduction rates

There are two new additional student loan deduction rates:

- IRD Additional Student Loan Rate
- Borrower Additional Student Loan Rate

The first new rate should be used when Inland Revenue wants an additional deduction on top of the standard rate, e.g. for paying back student loan arrears. Inland Revenue will send you a letter when this is required.

The second new rate should be used when the employee wishes to make additional student loan repayments, over and above the normal rate. The employee can request this at any time.

It is possible an employee could have up to three student loan deduction rates at the same time!

Note that the two new rates are in addition to the existing Special Student Loan rate, which should only be used when Inland Revenue advise you to do so by letter. Typically this will be a Special Tax Certificate (IR23), but may not necessarily be so if there is no associated tax rate change.

On payslips, and on most reports in Payroll the (up to) three student loan rates will be accumulated and the resulting total deduction displayed as a single figure.

However, on the EMS (IR348) report, and in ir-File, the additional student loan deductions appear as SEPARATE LINES for each employee, identified by special tax codes SLCIR, and SLBOR. This means an employee could be listed up to three times in the EMS.

3. STC tax code

In the past there has been no indication as to whether a Special Tax Certificate (STC) is for primary or secondary employment. This has a bearing on student loan deductions because the threshold for commencing deductions, currently \$367 per week, does not apply to secondary employment.

STC letters from Inland Revenue (IR23) will now clarify whether the special student loan rate is for primary or secondary employment by specifying whether the rate applies to "every dollar of earnings".

A new checkbox on the Employee's details screen has been added for this purpose.

Changes to KiwiSaver

At present the first 2% of the employer contribution to KiwiSaver is tax free. From 1 April all of the employer contribution will be taxed. This is called Employer Superannuation Contribution Tax (ESCT).

From 1 April the employer contribution to an employee's KiwiSaver account will be net of ESCT.

A new figure, ESCT Deductions, will appear on your EDF remittance advice (IR345) report for Inland Revenue and be included in the total amount to pay.

If you export transactions to your accounting program, ESCT will appear as two new line items, coded to the accounts you have nominated for KiwiSaver employer contributions and PAYE respectively.

The ESCT rate for an individual employee is set once per year, based on the employee's annual income for the previous financial year plus KiwiSaver employer contributions, or an estimate of expected annual income in the case of new employees plus expected contributions. This is called the ESCT Rate Threshold.

The ESCT rates are the same as for PAYE, but the thresholds/tax breaks are 20% higher to avoid employers/ees being overtaxed as a consequence of wrong estimates for annual income.

The Payroll update will automatically calculate the ESCT Rate Threshold for all existing employees and set the ESCT rate for the coming year. It will repeat the process automatically at the start of each financial year.

1. Changes to Employee Details

When adding a new employee, or adjusting KiwiSaver rates, or opting in an existing employee to KiwiSaver, there is a new field called Estimated Annual Income. This is a required field.

Payroll will use this figure to calculate the ESCT Rate Threshold and set the ESCT rate for the employee.

To edit this figure, for example, if your estimate for annual income for a new employee was incorrect, click on the ESCT Rate Threshold figure and the Edit KiwiSaver screen will appear. Notice that the KiwiSaver employer contribution rate is now editable as there is no longer any need to cap this rate.

NOTE: please check for blank ESCT Rate Threshold figures after the update. This may occur if you added a new employee before the update, but did not pay them. Payroll is unable to calculate an estimate for annual income in these cases. You will need to manually enter an estimate, as described in the previous paragraph.

2. ESCT reporting

On the majority of Payroll reports ESCT appears as a new column, and KiwiSaver Employer Contributions will appear net of ESCT. Both these figures have been moved right of the Net Pay figure to avoid the implication they are deducted from gross pay.

Total ESCT Deductions appears on the EDF (IR345) Employer Deductions report and is included in the amount to pay.

ESCT is not reported on the EMS (IR348) report, or in ir-File. KiwiSaver employer contributions are now reported net of ESCT.

Do I need the update?

Everyone should apply this update.