

## Payroll – Paying employees

Money is one of the main reasons why people work, so it's important to get it right when you pay them. There are various laws that relate to salary and wages, and you should make sure that you're familiar with them. You must know how you have to pay employees, what deductions you can, can't, and must make from their pay, and know about the minimum wage and the records you have to keep.

Note that the law can and does change quickly. The latest on pay legislation can be found on [www.ers.govt.nz](http://www.ers.govt.nz).

### How to pay

Employees have the right to be paid in cash (unless they work for the Government or a local authority) under the Wages Protection Act 1983. However, making cash payments can be time-consuming and less safe. It's fine to pay your employees by cheque, direct credit, or money order, but only with their signed agreement first.

You should cover the method and frequency of paying wages in the employment agreement, or get the employee to sign an authorisation. There is no legally required frequency for paying wages. The law requires wages to be paid 'when they fall due'. Fortnightly is common practice in New Zealand.

If payday falls on a public holiday, you should pay employees on the last working day before the public holiday. You're not required by law to give your employees a pay slip, but many employers choose to do so.

### Wage records

Under the Employment Relations Act 2000, you have to keep wages and time records for all your employees for at least 6 years (in case someone claims you underpaid them) and at least 7 years under tax law. You must include:

- The employee's name, age, address, and the type of work they usually do;
- Whether the employee has an individual or a collective employment agreement;
- For employees under a collective agreement, the title and expiry date of the agreement, and the employee's classification under the agreement;
- The daily hours the employee works and the days on which they work in each pay period, if this information is used to calculate their pay;
- The employee's wages for each pay period and how they were calculated; and
- Details of any employment relations education leave the employee has taken.

## Minimum wage

You must pay your employees at least the minimum wage or else you will be in breach of the Minimum Wage Act 1983. It doesn't make any difference whether they are full-time, part-time, casual, a homemaker, paid by commission, or on a piece rate.

You can get the current minimum wage rates from the Employment Relations Service. Website: [www.ers.govt.nz](http://www.ers.govt.nz). Tel: 0800 800 863.

## Equal pay

The Equal Pay Act covers more than just pay – it's illegal to treat someone less (or more) favourably based on their gender when deciding employment terms, work conditions, fringe benefits, training, promotion, and transfer.

## Deductions from pay

You're only allowed to make certain deductions from pay and if any are unauthorised, you may be breaching the Wages Protection Act 1983. The allowed deductions are:

- Those required by law, eg PAYE, student loans, child support, and ACC;
- Deductions covered by the employment agreement;
- For superannuation contributions, medical insurance, and social club fees, if the employee has given their written consent;
- Deductions ordered by a district court; and
- Recovery of overpayments you've made, although you have to follow certain procedures.

The ACC earner levy is paid on top of the tax rates and is automatically added to the rates in the IRD's PAYE deduction tables.

### **PAYE (Pay as you earn)**

PAYE is the system set up by the Income Tax Act for taxing the income of employees. You must deduct it from most payments you make to employees, and pay it to the IRD. It applies to all wages, salaries, and extra payments, (eg bonuses and lump sums).

Make sure that all your employees fill in an IR330 form – this will provide the information you need to correctly deduct PAYE. With your PAYE payment to IRD, you must file an employer's monthly schedule (IR348), and a remittance certificate (IR345 or IR346).

Keep deduction records. It's illegal to use PAYE deductions for anything other than paying them to the IRD. You can be fined if you don't make proper deductions, or don't account for them to the IRD.

### **Student loans**

Student loan repayments are made through PAYE. If an employee gives you a tax code ending in 'SL', you have to make deductions from their pay and lump sum payments.

Student loan deductions don't have to be made from the earnings of casual agricultural employees, election day workers, people on withholding payments (eg contractors), or those on the 'no declaration' rate.

### **Child support**

You must deduct child support from an employee's pay if the IRD tells you to. They will send a notice telling you the employee's name and IRD number, the date when deductions must start, and their frequency and amount. Child support takes priority over all other deductions except PAYE.

### **Contractors**

When paying certain contractors you have to make withholding tax deductions. The IR330 form lists the types and rates of withholding payment deductions. Also include these payments on your employer's monthly schedule.

### **Fringe benefit tax**

If you give your employees benefits like low interest loans or a company car that they can use for personal use, you must deduct fringe benefit tax (FBT). The IRD form for FBT is IR420.

### **Holiday pay**

When on paid annual leave, the employee must be paid the greater of their 'ordinary weekly pay' and 'average weekly earnings' during the year. See our fact sheet on holiday pay.

## **Final pay**

When an employee leaves, you must calculate their final pay, including bonuses, allowance, and commission.

If they've worked for you for less than a year, you must add holiday pay of 6% of their gross earnings to their final pay (this will be 8% from 1 April 2007). If you let them take annual leave on pay during the first year it will be less than that, and you will need to work out how much money they are owed.

If they've worked for over a year, include holiday pay for any untaken annual leave. The days of untaken annual leave is added to their last day, and they must be paid for any public holidays that fall within that period.

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