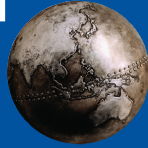


INTOUCH



with Martin Jarvie PKF

PKF

Accountants &
Business Advisers

KIWI SAVER UPDATE

MAY 2007

• WHAT IS KIWISAVER?

KiwiSaver is a voluntary, long-term, work-based savings initiative, introduced by the Government and commencing on 1 July 2007. Saving with KiwiSaver is designed to be easy with savings regularly deducted from salary and wages. Personal savings are invested in private savings schemes, which are run according to the KiwiSaver rules and are generally locked in until the age of 65 or for at least 5 year's membership, whichever is the latter.

• WHO ARE THE KEY PLAYERS IN KIWISAVER?

Clearly the Government is the initial key player in the establishment of KiwiSaver, legislating for the scheme and the associated protocols and requirements.

One could be forgiven for assuming that this savings initiative is therefore a Government scheme, but this is not the case. The Government plays a relatively minor administrative role on an ongoing basis.

The key players on an ongoing basis are:

- The Employee
- The Employer
- The Scheme Provider

• THE EMPLOYEE

It is for the employee to decide whether they will contribute to KiwiSaver, how much they will contribute and who they will use as their 'scheme provider'. They may also need to decide at some later time whether to take advantage of various concessions within the scheme.

Opt in or Opt out

The employee has the absolute right to contribute or not.

At any time, an employee may elect to contribute to KiwiSaver and confirm this to their employer.

New employees from 1 July 2007 are automatically enrolled in KiwiSaver, or must take the initiative to opt out of the scheme. A new employee must advise their employer within two to eight weeks of commencement of their employment if they wish to opt out of the scheme.

Contributions

KiwiSaver requires contributions of either 4% or 8% of an employee's gross salary and wages. It should be noted that gross salaries and wages include all overtime and/or bonus payments, not simply the regular 'base' salary.

The percentage contributed can be a mix of employee and employer contributions.

Who to choose as the provider

Employees have the absolute right to choose a 'Scheme Provider' of their choice.

If a choice is not made, the 'ordering' rules dictate that the contributions are made to the 'Employer's Preferred Scheme' and if there is not a preferred

choice then to the 'Default Providers'.

Six Default Providers have been selected by the Government. The investment activities of the default schemes are restricted to relatively safe 'low risk' investments, with only 25% able to be invested in 'growth' assets, thereby having the potential to limit returns over the longer term.

Benefits

A range of additional benefits are available to contributors to KiwiSaver, including:

- A one-off \$1,000 Government contribution to the employee's account on joining a KiwiSaver scheme.
- Contribution holidays, available after one year of membership, for up to five years at a time. Contribution holidays in cases of financial hardship are available at any time.
- Up to half of the employee's contribution can be diverted to mortgage repayments on their main home.
- A first home subsidy of up to \$1,000 per year of contributions up to a maximum of \$5,000.
- Employer contributions equal to the employee contribution that are effectively tax free.

• THE EMPLOYER

The employer role is one of 'agent' and every employer will be affected.

Employers have a list of things they must do:

- For every employee commencing employment on or after 1 July 2007, the employer must provide them with the IRD KiwiSaver information pack within seven days of commencing employment.
- If the employer has a preferred KiwiSaver scheme, a copy of the Investment Statement must be provided in the same timeframe.
- Deduct contributions from an employee's salary or wages at the default rate of 4%, unless the employee nominates the 8% rate from the outset.
- Provide the IRD with relevant details of the employees.
- Pay the contributions to the IRD.
- Action opt-in notices, opt-out notices and contribution holiday notices.

Whilst the list seems long and onerous, KiwiSaver has been set up to dovetail into the PAYE system. If you run a computerised payroll package the calculations and reporting to the IRD should be fairly simple, with minimal additional time required. If your payroll system is manual then there may be a bit more time required in the preparation and reporting of the payroll.

Issues for an Employer

- All employers will be involved in KiwiSaver to some extent.
- KiwiSaver deductions are held in trust for the employee until they are paid across to the IRD.
- Timelines are set for the provision of information to new employees and actioning various notices.
- Deductions must be made from the employee's first pay day at the rate of 4% unless the employee has already nominated a rate of 8%.
- A penalty regime applies for non-compliance.
- Provision of financial advice – whilst the Act provides for exemption from the Investment Advisers (Disclosure) Act, care must be taken that financial advice or recommendations are not given to employees.

Contact us

Partners:

Graham Langridge
Robert Elms

graham.langridge@mjkpf.co.nz
robert.elms@mjkpf.co.nz

Directors

Lyn Aimers
Avril Hillind
David Hulston
Paolo Ryan

lyn.aimers@mjkpf.co.nz
avril.hillind@mjkpf.co.nz
david.hulston@mjkpf.co.nz
paolo.ryan@mjkpf.co.nz

3rd Floor, 85 The Terrace, PO Box 1208, Wellington
Phone: 04 472 7919 Fax: 04 473 4720
Email: info@mjkpf.co.nz
Website: www.martinjarviepkf.co.nz

• THE SCHEME PROVIDER

The key points to note in respect to the Scheme Providers is that:

- They must be registered with the Government Actuary.
- They will be able to offer a range of products/investment profiles from conservative risk to growth funds.
- Default providers are limited, by Act, to a conservative investment offering.

Contributors must remember that returns from KiwiSaver are not guaranteed and the return on investments may be variable depending on the scheme chosen and the investment markets over time.

• ISSUES AND OPPORTUNITIES

Employers can contribute to their employees' KiwiSaver schemes and/or employees can sacrifice some of their salary and wages to gain a tax advantage.

The opportunity is to maximise after tax earnings assuming, of course, the capacity to contribute to savings that are locked in for the long term.

Employer Contributions:

Employers must decide, perhaps in terms of pay structures, if they are going to contribute to their employees' KiwiSaver fund, remembering that there is no compulsion on an employer to contribute. The decision would therefore be based on issues such as the competitiveness of the labour force, staff retention, rewards for long service, or just contributing on the basis of social responsibility.

There is no limit to an employer contribution and all is a tax deductible expense to the employer, but only up to 4% of the salary/wage can be tax free to the employee.

Salary Sacrifice:

Employees can opt to increase their contributions by way of salary sacrifice of up to 4% of their salaries. This means that the salary sacrifice becomes a tax free amount to the employee, continuing to be tax deductible to the employer and can increase the contributions on this basis to a maximum of 8% (ie employee contribution out of wages – 4%, plus salary sacrifice of 4% - tax free).

As the minimum contribution to KiwiSaver is 4% this can also be funded by 2% from the employee and 2% salary sacrifice. This entry level approach has the least impact on take home pay, whilst ensuring a savings programme is commenced and some tax savings received.

Salary sacrifice therefore has some real benefits long term for anyone with the ability to save.

Shareholder Employees and Self-Employed

As KiwiSaver is only available to those on PAYE salaries/wages, the self employed will need to restructure if they also wish to take advantage of the benefits.

For those operating as a sole trader or partnership it will be necessary to incorporate a company so that a PAYE salary can be paid. If already operating the business in a company structure, the first hurdle has been crossed and there is simply the need to implement a salary payment. Working shareholders need to be on the payroll with a regular, at least monthly, salary being paid and subject to PAYE. There are, however, other matters to be mindful of, including:

- Level of PAYE salary compared to any further shareholder salary (not subject to PAYE);
- Forecasted sufficient income to support the PAYE salary;
- Attribution rules for personal services.



• PREFERRED PROVIDER

Under the legislation an employer may nominate a preferred KiwiSaver provider. If they do and an employee does not nominate a KiwiSaver scheme, the employee will be enrolled in the employer's Preferred Scheme.

Nominating a Preferred Scheme does not impose any onerous conditions on the employer and the employer is not responsible for the performance of the scheme nor liable for any losses.

It is expected that nominating a preferred provider will provide the employer with support from that provider by way of enabling staff to seek advice from a direct point of contact. From the point of view of marketing or image, one further step could be taken with a tailored KiwiSaver fund, specifically branded for the company or business.

• IS IT WORTHWHILE ?

KiwiSaver will not be ideal for everyone – different circumstances and needs will ensure that.

Where an individual has the ability to save a proportion of their income for the long term, there may be advantages in considering KiwiSaver. Committing to a savings scheme during your working life has to be a good thing – particularly if complimented with some tax advantage.

But each individual needs to assess their own circumstances and seek advice wherever possible.

• STOP PRESS – 17 MAY 2007

Dr Cullen's eighth Budget delivered some changes to KiwiSaver. The major points included:

- Employee and self-employed earner contributions to KiwiSaver will qualify for a tax credit of up to \$20 per week for their contributions, effective from 1 July this year. This takes the form of a dollar-for-dollar credit of up to a maximum of \$20 per week for individual contributions. The credit will be paid annually into a person's KiwiSaver account after the end of each tax year.
- From 1 April 2008, a compulsory employer contribution will be phased in (starting at 1% of gross income and rising to 4% by 2011). Employers will not be required to match the higher contribution rate of 8%.
- Employer contributions will qualify for a tax credit of up to \$20 per week per employee. This will not be paid into a KiwiSaver account but will be available directly to the employer to partially offset the cost of contributions.

Martin Jarvie PKF has established a team to assist clients in evaluating the impact of KiwiSaver. For more information please contact Robert Elms or Mike Ruffell.