Index	Page

Introduction

We've written this booklet to help employers fulfil their tax obligations.

If you have anyone working for you, you are responsible for making deductions from payments you make to them, as well as giving information to Revenue Management. This booklet explains what you are required to do, and tells you what Revenue Management does if you do not comply.

The booklet is divided into five parts, to help you find information easily.

If you have not yet registered as an employer, complete the Employer registration form (RM102).

If you need help with any of your tax obligations, or you have questions about anything in this booklet, contact the Revenue Management Division (RMD).

How to use this guide

Part One - Your obligations as an employer

Part One deals with employers' day to day obligations. It explains who is an employee, and the types of deductions you may have to make from your employees' wages.

Part Two - Paperwork

This part tells you what records you need to keep, how often to pay deductions to Revenue Management, and what forms you need to complete when you pay the deductions. It also tells you what to do if you stop employing.

Part Three - Other payments

Employers may make payments other than normal wages to their workers. This part explains the tax treatment of these other types of payments.

Part Four - End of year procedures

This part explains the employers end of year responsibilities.

Part Five - Revenue Management and you

Explains the Small Business Advisory Service available from Revenue Management.

Part one - Your obligations as an employer

As an employer, you must make deductions from payments you make to people who work for you. You must pay the deductions to Revenue Management. There are penalties for not fulfilling these obligations.

There are certain records that you need to keep. Refer to page 5 for more about this.

Any employees who start working for you during the year must fill in an RM101, tax deduction certificate when they start working for you. You then keep both copies of all the certificates until the end of the financial year, when you complete a reconciliation form. Each pay day you need to record wage details for each employee. Part Two has more details about this.

This part of the guide explains what your day to day obligations as an employer are.

The PAYE deduction rates used in the examples in this guide are correct at 1 July 1997.

Who is an Employee?

It is very important you are sure about whether the people who work for you are employees or whether they are self employed. This is because tax laws treat the two groups of people differently and you are responsible for your employees' tax deductions. It is illegal to treat a true employee as self-employed to avoid deducting tax. If you do this you may be prosecuted and fined, as well as having to pay the amount of PAYE that you should have deducted.

In most cases it will be quite clear whether or not someone is an employee. Generally, if you control how and when the person's work is done, the person is your employee.

If you answer, "yes" to all or most of the following questions, the worker is probably your employee.

- Does the person have to do the work, rather than being able to hire someone to help?
- Can you tell the worker what to do on the job, and when and how to do it?
- Do you pay the worker at a set rate (such as hourly, weekly, monthly or by unit of production)?
- Can the worker get overtime or get penal rates?
- Does the person work set hours, or a given number or hours each week or month?
- Does the person work at your premises, or at a place you specify?
- Do you set standards for the amount and quality of the person's work?

Note: A person can be self employed in one line of work and still work for someone else as an employee.

Types of Deductions

PAYE is the basic "Pay As You Earn" tax which you take out of your employees' wages whenever you pay them.

Deducting PAYE

When you start employing we will send you a booklet of PAYE deduction tables containing the current tax rates so that you now how much to deduct from each employee's pay.

- **Primary employment**

Most employees have one regular job which is their main or only source of income, called primary employment.

An employee can use only one primary tax code "P" at any one time. This tax code is based on the personal income tax rates for this annual income.

Once you have the employee's tax code, use the PAYE tables to work out how much PAYE to deduct from each pay.

- **Secondary employment**

If an employee is already using a primary employment tax code (ie has a regular job) and decides to take another job, that other job is called secondary employment.

The employee must complete another RM101 for secondary employment, using the "S" tax code.

If an employee does different work for you outside normal working hours, use the secondary tax rate only if the payment for the different work covers a different period from the normal pay period. The employee must fill in a separate RM101 if the secondary rate is used.

Unlike the primary tax code, an employee can use the "S" tax code on more than one RM101 at the same time

Example

Teina has one regular job and three part-time jobs. She uses the primary tax code "P" on her regular job and the "S" tax code on her three other jobs.

In other cases, add the payment for different work to the normal pay and calculate the PAYE on the total payment.

Deducting employees' arrears

You may receive a notice from Revenue Management requiring you to deduct tax or arrears from an employee's wages. Pay the arrears to Revenue Management within 14 days of the deduction. Do not use the monthly PAYE Return (RM205). Ask Revenue Management to send you a pay in slip (RM10).

If an employee has a special tax code certificate

Some employees or other workers may have circumstances which mean you may have to deduct tax at a special rate, or deduct no tax at all. The person will have a certificate which tells you the rate of deductions to make. If you do not see such a certificate, you must deduct the normal rate of tax.

People who receive wages may apply to Revenue Management for a special tax code. It replaces the tax code declaration part of the RM101. This certificate authorises you to:

- make PAYE deductions using a specified code, or
- deduct tax at a certain rate.

Do not use the PAYE tables for employees who have a special tax code certificate. Instead calculate the tax manually by multiplying the employee's gross pay by the special rate of tax shown on the special tax code certificate.

Penalties

Employers are responsible for making PAYE deductions from their employees' gross wages. These are held in trust for the Crown. Revenue Management takes a serious view if any employer does not properly deduct or pay in employees' PAYE. Employers face penalties if they do not meet their obligations for deductions.

- **Late payment penalties**

A payment is late if it is post marked or delivered to Revenue Management after the due date. Due dates are explained on page 7.

Late payment penalties are:

- 5% of the outstanding PAYE deductions, and
- a further 1% charged on the balance outstanding (including penalties) after every month

Example

An employers PAYE is due on 20 August 1997 for the PAYE deducted for the month of July 1997. The employer pays the PAYE on the 21 August 1997.

This payment is late and a 5% penalty is charged. If any mount was still unpaid 1 month later, a further 1% penalty would apply. This second penalty is charged on the total unpaid PAYE and the 5% first penalty.

If a payment is late but the penalty is not paid, we will send a statement of account showing the penalty charged.

If the due date falls on a weekend or public holiday, there will be no penalties if you make the payment on the next working day after the due date.

Example

20 July 1997 is a Sunday. There is no penalty if the PAYE payment is made on Monday 21 July 1997.

- **Failing to make deductions**

Employers must deduct PAYE from any payments made to employees. Failure to do this is a serious offence and can result in the employer being prosecuted.

- **Failing to pay in PAYE deductions**

Employers must pay PAYE deductions to Revenue Management by each due date. The money deducted does not at any stage belong to employers. Employers must never think that those funds are available for their own use. Revenue Management will help employers who try to meet their obligations but will take action against employers who do not comply with the tax laws.

Failing to pay in PAYE deductions to Revenue Management is a serious offence and can result in the employer being prosecuted.

Part Two - Paperwork

Records you need to keep

Keep all wage records for at least seven years, including all pay sheets and PAYE deduction payment receipts. Your records must be in English or Maori. However you can write to Revenue Management for approval to use another language for your records.
You must keep full and accurate wage records. Cheque butts are not sufficient. You can get specially designed wage books from stationery shops.

You may find these hints useful:

- Start a fresh page in your wage book as soon as an employee starts work with you, or at the beginning of each tax year. Make sure your employee gives you the personal details you need.
- Keep a separate page for each employee, even if the employee was only employed for one day.
  Complete all the wage details each pay day. Show:
  - Total gross earnings, including taxable allowances (this is the amount before PAYE is deducted).
  - the amount of PAYE deducted.
  - the value of tax free reimbursing allowances.
  - the net wage paid to the employee.

- Summarise the details for each employee at the end of each month.
- Keep a summary sheet which shows, for each deduction period, the total:
  - Gross wages
  - PAYE deductions
  - Net pay to employee

The information in your wage book will help you fill in each RM205, the combined monthly VAT/PAYE return. (see pages 7 to 8)

Paying deductions to Revenue Management

You must pay the PAYE deductions you make from your employees' wages to Revenue Management regularly.

If the PAYE deduction due date for payment falls on a Saturday, Sunday, or public holiday, then you make your payment on the next working day after the due date.

Example

20 September 1997 is a Saturday, therefore, the due date for payment is Monday 22 September 1997.

Revenue Management sends you an RM205, combined monthly VAT/PAYE return before the due date for each payment. Fill in these forms with the details for the month, and send then in with your payment. See page 7 onwards for more information about the RM205.

Due dates for payment

You must pay PAYE deductions to Revenue Management monthly. PAYE deducted in one month is due for payment on the 20th of the following month.

Example

An employer pays wages fortnightly on Wednesdays.

Period PAYE deducted	Due Date
September 1997 (two paydays) 10 Sept and 24 Sept 1997	20 October 1997

Any payments not received by the due date are liable for a late payment penalty (see page 4) Failing to account for PAYE by the due date can result in penal taxes or fines if prosecuted (see page 3).

The payment form (RM205)

You will have an RM205 form before you have to make payments. This is for you to record the deduction details and send then with your payment.

Fill in the details on the RM205, and bring or sent it to Revenue Management with your payment. If you do not receive RM205 in time, you must still make your payment. Send a note with your payment which shows the RM205 details as well as your name and RMD number. If you ever need an RM205, ask Revenue Management to send you one.

Completing the RM205

Enter the following details for the period covered by the RM205. Their are two copies of the return, complete both copies and forward top copy to Revenue Management. The bottom copy is **your** copy. This monthly return is for **both** VAT and PAYE details. (boxes 5-16 of the return relate to VAT only)

See the next page for an example of the VAT/PAYE monthly return (RM205).

Gross earnings (Box 19)

Write the total gross earnings paid to all your employees during the period. Include bonuses, back pay, taxable allowances.

PAYE deductions (Box 20)

Print the PAYE deducted from your employees' gross earnings during the period.

Nil RM205

If you do not pay salary or wages in any period, send in a **Nil** monthly return (RM205). If you don't sent one in, Revenue Management will ask you to explain why you haven't made payment.

Complete RM205 showing no PAYE has been deducted and fill in the word "Nil". Sign it and sent it to Revenue Management.

How to pay your PAYE deductions

You can pay your PAYE deductions by:

Posting a cheque to Revenue Management with the top copy of the RM205. Make all cheques payable to the "Revenue Management Division". Mark them "Not Transferable" or "Account Payee" .You send cash by post, or a cheque without the words "Not Transferable" or "Account Payee", at your own risk. Do not add the bank clearance fee. Date the cheque no later than the last day for payment. Please do not fold the cheque.

Paying at the Revenue Management office personally

If you do this please bring in both parts of the return form. We stamp the bottom copy of the form and give it back to you as a receipt.

If you permanently stop paying wages

If you have stopped paying wages permanently, let Revenue Management know even if your business is still gong.

- When you have worked out your employee's final wages, fill in the employment details on each employee's RM101, tax deduction certificate.

Give each employee the bottom copy of the completed tax deduction certificate. You must do this within seven days of ceasing to employ.

- You must also complete an RM106 - PAYE Reconciliation Statement. This will cover the period from 1 January to the date you stopped employing.

Send the completed RM106 in with the original (top) copies of all the RM101 certificates to Revenue Management. The due date for these is 15 February.

Note: A company must file an RM106 which covers all wages paid, including shareholder-employee salaries with tax deducted.

Ceasing your business activities

If you have ceased or are about to cease business, contact Revenue Management.

- When you have worked out your employees' final wages, complete the employment details on each employee's RM101, tax deduction certificate.

Give the bottom copies to your employees.

You must do this within seven days of when you stop employing.

- We will send you an RM106, PAYE reconciliation to complete. This will cover the period from 1 January up to the date you ceased your business activities.
- Send the completed RM106 with the original (top) copies of the RM101 certificates to Revenue Management by the 15th of the second month after the month in which you cease business.

Example

Mere Plane's travel agency ceased business on 14 June 1997. She has to send in the annual PAYE reconciliation (RM106) form by 15 August 1997 and the monthly VAT/PAYE return (RM205) by 20 July 1997.

Part Three - Other Payments

Besides normal wages, you may make other payments to, or on behalf of, your workers. This part covers the most common of these, and explains the tax treatment of each.
The PAYE deduction rates used in the examples in this guide are correct at 1 July 1997.

Allowances

Allowances are usually paid as a result of:

- An agreement made between the employer and employees. This is commonly known as an in-house agreement or
- An industrial collective or agreement.

You do not need to apply for our approval to pay tax-free allowances to your employees. You can decide for yourself, (using our guidelines) whether the allowance you want to pay will be tax-free on not. To help you work this out we have set out the three types of allowances commonly paid. They are:

1. Benefit allowances
2. Reimbursing allowances
3. Travelling allowances

We explain which allowances are taxable and under what circumstances an allowance may be tax free.

Taxable allowances must have PAYE deducted, along with the employee's wages. If you do not do this, you could then be liable for the PAYE that should have been deducted, as well as penalties. Include the total taxable allowances with your employees' gross wages amount in your RM106 reconciliation. Add each individual's total allowances to gross wages, and show the total on the RM101.

Add the amount of tax-free allowances to your employees' net wages (wages after PAYE) when you pay them.

Benefit allowances
Benefit allowances are payments made in addition to salary or wages, which benefit the employee. A benefit allowance is taxed with the employee's wages in the pay period it is paid.

Food or accommodation provided to employees may also be a benefit allowance. The taxable benefit is the difference between the market value of the benefit provided, and any amount the employee pays.

Add the taxable value of the benefit to the employee's wages each pay period, and deduct PAYE from the total.

Example
Accommodation is supplied by employer to the employee.

Market value of accommodation	$150 per week
Less rent paid	$ 90 per week
Value to be added to wages and taxed	**$ 60 per week**

If the employee paid no rent, the value to be taxed would be $150 per week.

Any allowance which you pay to an employee instead of providing them with accommodation is fully taxable.

Reimbursing allowances
Reimbursing allowances are payments made to employees to compensate them for expenses they have had while doing their job - such as meal allowances, mileage allowances or tool money.

Reimbursing allowances are not taxable. However, if the payment is more than the employment related expenses, the excess is taxable.

Travelling allowances
A cash allowance paid to an employee for travel between home and work may be tax free. It is tax free if the amount paid reimburses an employee's additional transport costs when one or more of the following special circumstances exist:

- The employee is working outside the normal hours of work (for example, overtime, shift or weekend work).
- The employee needs to transport work-related tools and equipment - for

example, the employee normally takes the bus to work but has to use some other type of transport in order to carry work related gear.

- There is a temporary change in workplace.
- The employee is travelling to fulfil an obligation for the employer.
- There is some other condition of the employee's job.

For all the special circumstances above, the tax free amount is the actual cost of travelling between home and work, less the employee's usual transport costs.

Deduct PAYE from any excess amount along with the employee's salary or wages.

If a group of employees have a travelling arrangement, such as sharing one employee's car, you must calculate the non-taxable amount. The non-taxable amount will be based on either the average expenses of each individual, or the average expenses of that group of employees.

Any allowance paid that covers an employee's usual travel costs between work and home is taxable. Deduct tax with the salary or wages you pay them.

VAT on allowances

You can claim a credit for reimbursement of an employee's actual expenses if you are registered for VAT. You must hold a correct VAT tax invoice to claim the credit.

If the allowance or benefit is a general one, and does not cover the employee's actual expenses, you cannot claim a VAT credit.

Holiday pay

If you pay holiday pay in a lump sum, rather than paying the employee for each pay period, calculate the PAYE as follows:

1. Break down the amount into weekly amounts, based on the normal weekly wage.
2. Calculate the PAYE using the weekly PAYE tax tables.

Example	**$**
Employees' normal weekly wages	400.00
Three weeks holiday pay	1200.00
To calculate the PAYE on this holiday pay, Divide by 3 to get the weekly amount.	400.00
PAYE on $400 using a "P" tax code	67.31
Multiply the weekly PAYE by 3 to get the total PAYE on holiday pay	201.93
Net holiday pay	**$ 998.07**

Bonuses - Annual or Special

Bonus payments which you make irregularly, such as Christmas bonuses, are taxed at the "extra emolument" rate which is currently 25%.

Example

Sam's gross bonus is $640. The PAYE at 15 cents in the dollar is $96.

The net bonus paid to Sam is:

Gross bonus	$640
Less PAYE	$160
Net bonus	**$480**

Include the bonus and PAYE in the employee's earnings for the year in which the bonus is paid out.

- **Paying a net bonus**

If you want to pay an employee a net bonus, you must calculate the gross amount to include in your wage records. The PAYE calculated on the bonus must be paid in with other deductions for that pay period. The method for working out the gross bonus is as follows:

Example

The employee is to be paid a net bonus of $60. Here is how the gross bonus is worked out:

1.	Deduct the extra emolument PAYE rate from $1 ($1 - 25 cents)	75 cents
2.	Multiply the net payment by 100/75 cents ($60 x 100/75) =	80.00
3.	**The gross bonus is**	**$80.00**

To calculate the PAYE deductions, multiply the gross bonus by the extra emolument tax rate:

Gross bonus	$80.00
less PAYE deductions (at 15 cents)	$20.00
Net bonus	**$60.00**

Bonuses - Regular

Regular incentive or production bonuses

Add these bonuses to wages for the pay periods in which they were earned. Use the PAYE tables to work out the PAYE.

Lump Sums

Lump sum payments which are paid as annual or special bonuses, gratuities, or back pay are "extra emolument" payments.

For extra emolument payments, deduct PAYE at the extra emolument rate of 25%. Pay this PAYE with the other PAYE for the period in which the lump sum was paid.

Any lump sums paid regularly or any lump sums for overtime are not extra emoluments. The lump sum amount is added to the employee's gross wages, and PAYE is deducted from the total using the PAYE tables.

Retiring and Redundancy Payments

- **Retiring allowances**

A retiring allowance is payment made to an employee on retirement. The employment must have been fully terminated. The employment may have been terminated because of:

- The employee's decision
- The length of service of the employee, or
- The employer's policy
- The age of the employee

If the retiring allowance is paid in a lump sum, only 5% of the gross payment is taxable at the extra emolument rate of 25%.

Example

Jo Brown retires on 31 July 1997 and is paid a lump sum retiring allowance of $20,000.

	$
Gross retirement allowance	$20000.00
5% of $20,000 (gross payment)	$ 1000.00
Tax at 25% extra emolument rate)	$ 250.00
Net retiring allowance	**$19750.00**

If the retiring allowance is not paid in a lump sum, it is fully taxable. The PAYE is calculated using the normal rates of PAYE from the PAYE tax tables.

- **Redundancy payments**

A redundancy payment is different from a retiring allowance. The decision to terminate employment is the employer's. Redundancy payments may be made:

- to an employee whose position is no longer needed, or
- to a seasonal worker whose usual seasonal position is no longer needed. (the employee works for you each year for a continuous

period of less than 12 months at a regular time each year.)

The following are **not** redundancy payments,

- Any payment made to employee solely because of a seasonal layoff.
- Any payment made at the end of a fixed term contract or a contract for a predetermined amount of work.
- Any payment made instead of giving an employee notice.
- Any payment of deferred wages made to an employee when finishing work (such as holiday pay, accrued sick leave, bonuses and commissions).

Redundancy payments are fully taxable at the extra emolument rate of 25%.

A **severance payment** may be a redundancy payment for tax purposes. A lump sum severance payment made to a permanent employee when a specific job or project is finished is a redundancy payment if the position of the employee has been fully terminated, and the position is no longer required by the employer.

- **End of Year procedure**

Include any retirement or redundancy payments on the RM101, tax deduction certificate, including the PAYE deducted. The RM101 would also include any wages paid, holiday pay etc, paid up to the final date of service. For lump sum retirement allowances, only show the taxable portion (5% of the gross) in the gross earnings box on the RM101.

Payments to Non Residents

Generally, a person who comes to the Cook Islands, but the Cook Islands is not their home, is a non resident for tax purposes.

A non-resident is liable for Cook Islands tax on income for personal services performed in the Cook Islands, and other income from Cook Islands sources.

Non resident employees
Employers must deduct PAYE from wages paid to non-resident employees in the same way as for resident employees.

Part Four - End of Year Procedure

Tax Deduction Certificates (RM101's)

At the end of the financial year, 31 December, complete your employee's tax deduction certificates (RM101's). For each employee, use the wage book to complete the total gross earnings and PAYE deducted for the year.

Make sure you deliver the bottom copy of the RM101 tax deduction certificates to your employees no later than the 20 January.

Annual PAYE Reconciliation Statement

Complete the annual PAYE reconciliation statement (RM106) using the tax deduction certificates (RM101's) and the monthly PAYE returns (RM205's). Instructions for completion are included on the reconciliation form.

This is due to be filed by 15 February along with any short payment of PAYE. Send the top copies of the tax deduction certificates (RM101's) with the reconciliation.

Part Five - Revenue Management and you

Small Business Advisory Service
Revenue Management offers a tax information service for small businesses. The service aims to provide support and tax education for new small businesses. The service covers things like:

- what records to keep
- how to complete VAT and PAYE returns
- when to file returns and make payments

A Revenue Management officer can visit your business to offer advice about your tax obligations as a VAT registered person or as an employer (or both).

Further Assistance/Information

If you require further assistance in administering PAYE as part of your organisation, the Revenue Management Division will be pleased to help you.