

KiwiSaver Changes – 1 April 2009

From 1 April 2009 there will be changes to the current KiwiSaver scheme. Changes will affect both employers and employees. The change will be effective from the first full pay after the 1st of April 2009.

For Employers:

- The minimum employee contribution rate will reduce to 2% of a member's gross pay.
- The compulsory employer contribution (CEC) will increase to 2% and won't increase further in future years.
- The employer superannuation contribution tax exemption (ESCT) will be capped at the (CEC) rate of 2% from 1 April 2009. (That is equivalent to 2% of the employee's gross salary or wages and is subject to KiwiSaver contributions being made by your employee.)
- The employer tax credit (ETC) will be removed.
- The KiwiSaver Act has been amended and the Employment Relations Act amendment relating to KiwiSaver has been repealed so KiwiSaver employer contributions must be paid in addition to an employee's gross salary and wages, unless through good faith bargaining employers and employees agree otherwise. This change was effective from 15 December 2008.

You will need to increase your employer contribution rate to 2% from 1 April 2009, but won't be required to contribute more than this amount in future years unless you want to. You will need to increase your (CEC) through your payroll provider or through your payroll system.

You may need to reduce the contribution rates for existing KiwiSaver employees if they notify you that they would like to change their contribution rate to 2%. You will need to do this through your payroll provider or through your payroll system. You should ask your staff for written confirmation of their intention to reduce their contribution rate - ask them to complete a new KiwiSaver deduction form (KS2) or to write to you.

New employees who join your company and are automatically enrolled after 1 April 2009 and, who don't tell you how much they want deducted from their pay, will have a default rate of 2% deducted from their gross pay.

If you choose to contribute more than 2% into the KiwiSaver accounts of your employees (that is more than the amount exempt from employer superannuation contribution tax), you'll have to pay employer superannuation contribution tax (ESCT) on the contributions above 2%.

ESCT can be taxed in one of the following ways:

1. At a flat rate of 33 cents in the dollar;
2. An optional ESCT rate based either on the annual salary or wages paid to the employee in the previous standard tax year (where the employee was employed for all of that year), or an estimate of the total amount of salary or wages that the employee will earn in the year ahead (where the employee was not employed for all of the previous tax year). This option is offered at the discretion of the employer.
3. Treat the employer contribution as salary or wages, for which you'll need the agreement of your employee.

For Members:

- The minimum employee contribution will reduce to 2% of their gross pay.
- The compulsory employer contribution (CEC) will increase to 2% and won't increase further in future years.
- The fee subsidy will be removed. (This was a \$20 subsidy paid twice yearly to members to help cover the cost of the fees charged by the scheme provider).
- The KiwiSaver Act has been amended and the Employment Relations Act amendment relating to KiwiSaver has been repealed so KiwiSaver employer contributions must be paid in addition to an employee's gross salary and wages, unless through good faith bargaining employers and employees agree otherwise. This change was effective from 15 December 2008.

If employees are already a member of KiwiSaver they will be able to reduce the amount they contribute from their pay to 2% from 1 April 2009. Employees will need to let the employer know in writing by either completing a new KiwiSaver deduction form (KS2) or by writing to their employer.

Examples of various scenarios can be found at www.kiwisaver.govt.nz.

What if I (as the employer) have chosen to contribute more than the compulsory 2%?

If you have already chosen to contribute more than 2% into your KiwiSaver employees' accounts and would like to reduce that contribution back to the new compulsory employer contribution rate of 2%, you'll need to re-negotiate contractual arrangements with your employees.

The employer tax credit (ETC) you've been receiving from the government will be removed from 1 April 2009. You'll continue receiving the employer tax credit up until that time.

The ETC square-up wasn't legislated before parliament dissolved for the 2008 General Election. The Bill has been reinstated by the new parliament at the select committee stage. IRD will be able to tell you more about the ETC square-up once the Finance and Expenditure Committee has considered and reported the bill back to parliament.

Any new employees that are automatically enrolled, or any existing employees who want to join between now and 1 April 2009 will receive the existing KiwiSaver benefits and incentives until 31 March 2009, and the changed benefits and incentives from 1 April 2009.

In-Sync Business Consulting
Fiona Standing
M: 021 864 610
E: fiona.standing@isbc.co.nz

