



**crunch**

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10 USEFUL TIPS FOR  
**WAGES &  
SALARIES  
EARNERS**

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[www.icrunch.co.nz](http://www.icrunch.co.nz)

# Wages & Salaries Earners

## 10 useful tips

### 1. To file a tax return or not?

Most New Zealand wage and salary earners don't need to file an annual tax return unless you received the following types of income then you will need to file an IR3 return with the Inland Revenue Department:

- Rental property income;
- Self-employed or business income;
- Overseas income;
- Cash jobs or under the table payments;
- Royalties;
- Withholding Income (if over \$200);
- Shareholder – employee salary (no PAYE deducted); or
- PIE income taxed at zero %.

#### Other situations when you will need to file a return include:

- Where you have losses from previous years to claim;
- You have unused imputation credits from previous years;
- During the year you permanently left or arrived in New Zealand;
- You were declared bankrupt; or
- You received PIE income that was taxed at a lower rate than your personal tax rate.

### 2. How to check if you are entitled to a refund ...

If you think you may have paid too much tax there is an inexpensive way of checking. The Inland Revenue Department has a calculator on its website so you can input your details (anonymously) and check (the IRD doesn't even charge for this). You will need to go to the Inland Revenue Department's home page, click on "Work it Out" on the right hand side, then click on "Individual Income Tax" on the left hand side and finally scroll down to "Personal Tax Summary Calculation" for what ever year you wish to check.

If your calculations show you are going to get a refund then contact the IRD and request a Personal Tax Summary(PTS); however if your calculations show that you have tax to pay, DO NOTHING, if you request a PTS in this case then you will have to pay the tax.

**Note:** If your refund is more than four years old, then the IRD gets to keep it!

(Refer IRD home page, click on; Working for Families tax credits, click on the calculator on the right hand side and enter your details).  
[www.ird.govt.nz](http://www.ird.govt.nz)

### 3. Income protection insurance

There are very few expenses that a wage and salary earner can claim against their income, in fact there are only four:

- Fees paid to have your tax return prepared
- Commissions paid on Interest and dividend income
- Interest on money borrowed to buy shares or an investment ( as long as the investment results in a taxable income)
- Annual premiums paid on an Income protection policy

### 4. Donation rebates

You can now claim a donations rebate up to amount of your annual taxable income. A Qualifying donation must be \$5.00 or more and to an approved organization. To claim back this rebate you need to complete an IR526 form, these can be downloaded from the IRD's website. The rebate is calculated as 33.33 cents for every dollar donated.

**Note:** From 7 January 2010 there will be available a new way of making donations it is called Payroll giving, and means you can have donations directly deducted off your wages; and immediately receive the tax credit. You can only use this option if your employer offers the payroll giving scheme.

### 5. Childcare rebate

If you pay for childcare while you are working you can claim a tax credit, the maximum rebate available is \$310; the rebate is calculated at 30 cents for every dollar spent. Note the total of your donations and childcare rebate combined can not exceed your taxable income.

### 6. Working for Families

The Working for Families Tax credit is a government hand out for working families that have dependent children. If you have children 18 years or under, who are financially dependent on you, then you maybe entitled to a payment; to qualify as a working family, working parents must be employed at least 30 hours per week between them (20 hours for a solo parent).

The IRD have an online calculator to help you estimate your entitlement. For example: if you have three kids under 12 and your family income for the year is \$74,000; then according to the IRD calculator your entitlement would be \$100 per week (2009/2010 year).

## 7. Paid Parental Leave

If you are an expectant mother or adopting a child under six and:

- Have worked for the same employer for the last six months or last 12 months (from your expected due date or date you take over the care of the child).
- Have worked on average at least 10 hours per week.
- Have not taken paid parental leave in the last six months (from your expected due date).
- Are taking maternity leave from your employer.

Then you could be entitled to up to 14 weeks paid parental leave (paid by the Government). If you are eligible for Paid Parental Leave you may also be entitled to the Parental Tax Credit, unfortunately you cannot receive both; but you can choose the one that gives you the most money. (Refer IRD's Paid Parental Leave application IR880).

Paid Parental Leave is calculated based on your ordinary weekly wage or average weekly earnings (whichever is the larger) but is capped at \$429.74 (before tax) per week, for a maximum period of 14 weeks. The Parental Tax Credit is calculated at a maximum of \$150 per week for eight weeks; but this will be reduced based on your family income.

The Department of Labour has a good website with further details, application forms and letters ([www.dol.govt.nz](http://www.dol.govt.nz)). Note you may transfer your Paid Parental Leave to your spouse or partner.

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## 8. PIEs (Portfolio Investment Entities)

You may have heard about these types of investments or have some yourself. The advantage of these investments is that the PIE can pay tax on your investment at your tax rate rather than at the corporate rate, the trick is to advise the PIE of your correct rate.

There are three individual prescribed investor rates (PIR) to choose from 0%, 19.5% and 30%. If you are in the highest tax bracket then the most tax you would pay on your PIE would be @ 30%; but you would need to tell your PIE that your PIR is 30%.

If you have chosen at PIR rate of 30% but your actual tax rate is 19.5%, unfortunately, you can't get that overpayment back, if you choose one that is lower (0% or 19.5%) and your personal tax rate is 37% then you will have to pay tax on the PIE at 37%.

## 9. Kiwisaver

KiwiSaver is a voluntary retirement savings scheme initiated by the government to encourage New Zealanders to save for their retirement.

The benefits of joining the scheme are:

- \$1,000 kick-start, this is a one off payment the government makes into your savings scheme account and is tax free.
- The government will match your savings up to \$1,042.86 per annum and credit this into your savings scheme account.
- Compulsory Employer contributions equal to 2% of your gross salary paid into your savings scheme account.
- Ability to withdrawal savings for the purchase of your first home.
- First home deposit subsidy; after being in the scheme for three years you maybe eligible for this subsidy (note the maximum subsidy for each individual is \$5,000 and for a couple this could mean a \$10,000 subsidy!)

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## 10. Student Loans

Studying towards a tertiary qualification is a good way of up-skilling; and now you can get an interest free student loan to cover your course fees, related course costs and living costs. Student loans are only available to New Zealanders (citizens, permanent residents or refugees) you don't need to be studying full-time to get a loan (note only full time students get a loan for living costs); but it has to be an approved tertiary course.

Interest is charged on the loan (currently 6.8% p.a) but it can be immediately written off if you meet the interest free criteria; spending time overseas may mean losing your interest free status but not always, the IRD has published two very good booklets; Interest-free student loans (IR222) and Student Loans – going overseas (IR223), that explains this in more detail.

Unlike a bank loan the minimum loan repayments are based on your earnings not your loan balance (except if you are based overseas) and your income during the year has to be more than \$19,084 before you have to start making payments, you can pay more than the minimum or make an additional lump sum payment, without incurring any additional costs.



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