



Navigating Through the Red Tape Jungle

An essential guide for first time Payroll Managers in New Zealand

This document is written for new business owners and managers who are unsure of the steps that need to be followed to run an efficient and compliant payroll system. It was put together by the team here at KeyLink – a business that has over 60 years experience in managing payrolls from 2 to 500 staff.

First up we cover the three main government departments you will need to communicate with as well as listing those who may contact you from time to time. Then we dig into some more detail about the three – just so you know which one is responsible for which part of your payroll needs. After this we overview the pros and cons of the different methods and systems you can apply to help you manage all this detail. We wrap up with an offer of a benchmarking service for those already paying their staff and a planning service for those yet to start. Both are complimentary and are provided free of any obligation to use our services.

As you will soon see there's a lot to learn for first time payroll managers. We hope these few words go some way to make the task of navigating through the red tape ahead a bit easier and therefore less stressful.

All the best,

The Team at Keylink

0800 4 Payroll

Your Payroll System and the New Zealand Government

While the New Zealand Government is trying to make it simpler for people to setup and operate companies here, there are still many issues to consider, regulations to be aware of, records to keep and forms to submit with respect to employing and paying staff.

There are many Government agencies that you may need to deal with, however the three you **will** need to deal with are:

The Inland Revenue Department (IRD) collects most of the revenue that government needs to fund its programmes. They also administer a number of social support programmes. Employers have a number of responsibilities to the IRD which we detail below.

The Department of Labour (DOL) has a number of responsibilities, the ones that relates to this document are “supporting the operation of employment relations legislation and enforcing employment standards.” We discuss these responsibilities below.

The Accident Compensation Corporation (ACC) provides comprehensive, no-fault personal injury cover for all New Zealand residents and visitors to New Zealand. To fund this cover, they collect Employee and Employer Levies.

In addition you may need to deal with requests from:

- Department of Justice
- Work and Income New Zealand
- Housing New Zealand
- Ministry of Social Development

Generally these are requests for information, but can be followed by a request to deduct amounts from payments to your employees.

You will need an account with a New Zealand bank, or the ability to make payments to your staff, the IRD, ACC and other Government agencies.

More on the Top Three

IRD

To employ staff in New Zealand you will need to register with the IRD as an employer. You will then need to calculate, deduct and pay:

- PAYE, for all employees, but not contractors
- Schedular Payments (Withholding Tax), for some, but not all contractors
- ACC Earner's levy, all employees
- Student loan repayments (deducted from employee payments)
- Child support (deducted from employee payments)
- KiwiSaver, employee (deducted from employee payments) and employer contributions
- Payroll giving, (optional for employers and employees)
- Superannuation fund contributions (optional)
- Employer Superannuation Contribution Tax (ESCT) (as required, this will be mandatory for KiwiSaver employer contributions from 1 April 2012)

Depending on the size of your payroll you will be required to file PAYE returns once or twice a month, and to make payments once or twice a month.

DOL

The Department of Labour are responsible for minimum rights and obligations that apply by law to employers and employees. These include:

- Annual Holidays including cashing up of Annual Leave
- Bereavement Leave
- Break Entitlements
- Employment Agreements
- Employment relationship problems
- Equal pay and equal rights
- Fixed-term employees
- Flexible working arrangements
- Health and safety
- Minimum pay
- Public holidays
- Sick Leave
- Parental Leave

- Other Leave
- Right to Work in NZ
- Trial Periods

You will need to know the minimum employment rights of your employees track their leave entitlements and know how to pay their leave correctly.

ACC

As described above ACC collect Employee Levies to cover non-work related accidents through the PAYE process. ACC use PAYE filing information and your industry classification to calculate and invoice Employer Levies. The Employer Levies cover work related accidents.

In the event of a workplace accident you need to pay the injured employee at least 80% of their normal earnings for the first week. ACC start paying from the second week onwards. In the event of a non-work related accident, you don't need to pay your employee.

In both cases, the employee can choose to use Sick Leave to cover any loss of income.

So...

You can see that there are lots of things you need to know to successfully process your payroll in New Zealand.

Your Payroll Processing Options

Running a Manual System

You can run a paper or spreadsheet based payroll system. There are example templates on the IRD web site.

Advantages:

- Low setup cost

Disadvantages:

- The time taken to process payroll

- Calculation of Leave Rates can be tedious and error prone, especially for staff paid weekly
- You need to know the regulations when you setup your procedures and processes
- You need to keep your procedures and processes up to date when regulations change – which they are prone to do on a reasonably frequent basis.
- Support can be hard to come by

Using Payroll Software Installed at Your Office

There are a large number of applications available for NZ payroll processing that you can load on your PC. Pricing and functionality varies widely.

Advantages:

- Reduction of time taken to process payroll
- Control over all your data
- Your implementation partner should set up the software to meet your requirements and current regulations
- Help available from supplier

Disadvantages:

- You need to manage and update your software
- Not all suppliers provide remote support
- You will need to make sure that your software continues to meet your requirements and current regulations when:
 - Your software is updated
 - Regulations change
 - Your requirements change
- You need to enter all your data and run the processing yourself

Using Web Based Payroll Software e.g. Software as a Service or Cloud Based Application

There are an increasing number of Payroll applications available online. These range from very basic systems included with some online accounting packages, to very sophisticated systems that include rostering and time and attendance systems.

Advantages:

- Low up-front cost

- Your implementation partner should set up the software to meet your requirements and current regulations
- Help available from supplier
- Your accountant and advisors can login and look at your data
- Data availability is managed by the supplier
- Software is managed by the supplier
- You can access your data anywhere you have Internet access

Disadvantages:

- Higher on-going costs
- If you don't have access to the Internet, you don't have access to your data
- You need to enter all your data and run the processing yourself

Outsourced Payroll Service

There a number of Outsourced Payroll services available. These range from your local bookkeeper and accountant to large off-shore organisations. Their quality and price vary markedly. You will want to understand whether processing NZ payroll is their core business, or is it just a sideline.

Advantages:

- Easy access to specialised payroll knowledge
- Easy access to the person who processes your payroll
- Your input data will be reviewed for sanity
- Software is managed by the supplier
- Data availability is managed by the supplier
- Supplier will work with you to manage the impact of regulatory changes
- Access to advanced processing services e.g. Time and Attendance, Job Costing, Cost Centre processing.

Disadvantages:

- Higher direct on-going costs
- You need to contact your supplier to access to your data (some suppliers offer online access)

While using an outsourced payroll service may appear to have higher costs, you don't need to have payroll skills in-house, and payroll processing will take less time.

Typical wage costs for experienced payroll staff is \$10,000 per annum higher than a typical accounts person. When you add the costs for software and time running payroll, the direct costs of outsourcing your payroll can be significantly less than running payroll in-house.

So where to from here?

KeyLink offers two complimentary no obligation “next steps” for readers of this report.

For payroll managers who are already running a payroll system we offer a complimentary no obligation assessment of their payroll system. During this process the existing payroll process will be checked for both accuracy and regulatory compliance with a “performance scorecard” being supplied that compares the current system against payroll best practices. This is followed by a series of personalised recommendations to bridge any gaps found and if appropriate a quote for their service.

For payroll managers who have yet to start paying staff we offer a review where we work to plan out the best payroll processing solution to suit the needs of the start up business.

To request either option just call one of our team on 0800 4 Payroll or 09 28000328, or by emailing sales@keylink.co.nz letting us know in the subject line which service you would like.

References

IRD

www.ird.govt.nz

First Time Employer’s Guide

<http://www.ird.govt.nz/forms-guides/number/forms-300-399/ir333-guide-first-time-emp.html>

Employer’s Guide

<http://www.ird.govt.nz/forms-guides/number/forms-300-399/ir335-guide-employers-guide.html>

Department of Labour

www.dol.govt.nz/er/

Minimum employment rights and obligations

<http://www.dol.govt.nz/er/minimumrights/MinimumEmploymentRights.pdf>

ACC

www.acc.co.nz