

3 October 2007

## **KiwiSaver**

### **KiwiSaver for Self Employed / Employers**

While there has been much published to assist the employee this letter has been written for you as a self-employed person or as an employer.

#### **Self Employed**

Self-employed clients can join the KiwiSaver Superannuation Scheme if they want. You simply contact one of the scheme providers (a current list is enclosed) and advise them which fund you want to invest in e.g. conservative, balanced and the amount you wish to contribute either periodically or annually.

A self-employed client can obtain all the benefits of being in the KiwiSaver Superannuation Scheme i.e. \$1,000 government kick-start and government tax credit of up to \$1,040 p.a. However, being self-employed you will not receive an employer contribution.

#### **Partnership**

The typical husband and wife partnership, where the husband does the physical work while the wife does the accounts, could be re-organised to make even more savings under KiwiSaver.

If this applies to you consideration could be given to paying the wife a salary (under PAYE). Under this arrangement the husband could join KiwiSaver as a self-employed individual while the wife could join as an employee and contribute 4% of her wages. Additional benefits can be obtained if the partnership pays a 4% employer contribution. This employer contribution is tax deductible to the partnership. The business, as an employer will also receive the governments employers tax rebate of up to \$1,040 p.a. from 1 April 2008.

This way may also have benefits in additional ACC cover for the principal income earner.

#### **Shareholder / Employee**

If you operate through a company structure and pay shareholder employee remuneration without deducting PAYE you cannot join KiwiSaver.

However this can be easily fixed by paying part of your remuneration through the PAYE system. For instance if you typically received shareholder employee remuneration of say \$50,000 you could pay \$26,000 under PAYE and the balance as a year end bonus once your actual profit for the year is known. You will receive the government's kick-start of \$1,000 and the tax credit of \$1,040. The company could also pay an employer contribution which is tax deductible and from 1 April 2008 will receive the government employers tax rebate of up to \$1,040.

## Employers

If you pay yourself all your remuneration through the PAYE scheme you can increase your contribution to KiwiSaver by paying up to 4% extra as an employer contribution. As mentioned before this 4% extra is tax deductible.

The negative side for Employers is the compulsory employer contributions starting from 1 April 2008 at 1% of the employee's gross wages. There is however a government tax rebate available to Employers of up to \$1,040 p.a. For example if an employee earns \$35,000 the Employer must contribute 1% of the employees' wages (assuming the employee is a member of KiwiSaver). This amounts to \$350 and is fully rebateable back by the government. However the employer contribution rises by 1% p.a. to a maximum of 4% by 1 April 2012 and in this example that would mean the employer would contribute \$1,400 to KiwiSaver would rebate back and the government \$1,040 which is a net cost to the employer of \$360. Of course the effect would be far greater the higher the employee's salary was and the more employees.

What is going to be difficult for employers is where some employees are members of KiwiSaver and some are not. As an employer you will already be assessing where each employee's worth falls within your organisation and will remunerate that person by way of cash wages, vehicle, superannuation contribution, subscriptions, telephone etc. Since the government is making you pay compulsory employer contributions to those that join KiwiSaver, an unfair playing field is created. For those of your employees who don't join KiwiSaver do you give an extra weeks holiday to compensate or do you pay them as a supplement to their wages or some other benefit in kind?

## Summary

We consider that all employees should join KiwiSaver (assuming they are under 65 years), as the benefits are too good to ignore.

The maximum benefits, are gained by a person receiving a salary of \$26,000, as 4% of their wage is \$1,040, which just happens to be the maximum government tax credit. For the 2007 year such an employee would be receive a 100% return (without any income from the fund provider). This will increase to 125% for the 2008 year, 150% for the 2009 year and 200% for the 2010 year onwards. For those on more than \$26,000 p.a. their return would be less. Therefore to coin a popular phrase when considering whether or not to join KiwiSaver it should be a "NO BRAINER".

If you have any queries or would like assistance in choosing the right scheme for you, please give me a call.

Yours sincerely

SIMPSONS

*Chartered Accountants Limited*



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