

Steps To Understanding KiwiSaver

KiwiSaver in a nutshell

KiwiSaver is a voluntary, work-based savings initiative to help you with your long-term saving for retirement. It's designed to be hassle-free so it's easy to maintain a regular savings pattern.

There are a range of membership benefits to encourage you to get saving. They include regular contributions from the employer and an annual member tax credit paid by the Government. Some people may also be eligible for help with the deposit on their first home.

KiwiSaver schemes are managed by private sector companies called KiwiSaver providers. You can choose which KiwiSaver provider to invest your money with. KiwiSaver is not guaranteed by the Government. This means you make your investment choices in a KiwiSaver scheme at your own risk.

How you make contributions

For many people, KiwiSaver will be work-based. This means you'll receive information about KiwiSaver from your employer, and your KiwiSaver contributions will come straight out of your pay.

If you choose to join, contributions are deducted from your pay at the rate of either 3%, 4% or 8% (you choose the rate) and invested for you in a KiwiSaver scheme. Employers contribute a minimum of 3% contribution rate from 1 April 2013, but employers can make additional voluntary contributions if they wish.

When you can get your money

Your KiwiSaver savings will generally be locked in until:

- » you're eligible for NZ Super (currently 65), or
- » you've been a member for at least 5 years (if you joined over the age of 60).

You may be able to make an early withdrawal of part (or all) of your savings if you're:

- » buying your first home
- » moving overseas permanently
- » suffering significant financial hardship
- » seriously ill

How does KiwiSaver work?

Your KiwiSaver savings are made up of contributions to your account, plus or minus investment returns, minus any withdrawals, fees and taxes.



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Member tax credit

To help you save, the Government will make an annual contribution towards your KiwiSaver account as long as you are a contributing member aged 18 or over.

Who gets the member tax credit

The member tax credit will be paid each year (around July/August) to members of a KiwiSaver scheme or a complying fund until you're eligible to withdraw your savings, provided:

- » you're 18 or over, and
- » you mainly reside in New Zealand

How much member tax credit you can get

The maximum annual member tax credit you are entitled to is:

- » **\$521.43** from 1 July 2011 onwards.

To get the full member tax credit automatically you have to contribute at least \$1,042.86 a year.

From 1 July 2011 the Government will pay 50 cents for every dollar of member contribution annually up to a maximum payment of \$521.43. This means that you must contribute \$1,042.86 annually to qualify for the maximum payment of \$521.43.

If you contribute less than \$1,042.86 from your pay, you can make voluntary contributions to ensure you receive the full member tax credit payment from the Government.

Self-employed

If you're self-employed or not working, you agree with your KiwiSaver provider how much you want to contribute, and make payments directly to them.

KiwiSaver is very flexible if you're self-employed. You're not required to contribute a set percentage of your pay. Instead you can agree your contribution level with your KiwiSaver provider. Some providers may have minimum contribution requirements. You can either:

- » make lump sum payments when you choose, or
- » set up regular payments.

You can make voluntary contributions (or lump sum payments) at any time, either directly to your KiwiSaver provider or through Inland Revenue.

Once you've made a lump sum payment it's "locked in" until you're eligible to withdraw your savings. You can make payments directly to your KiwiSaver provider.

Benefits for self-employed people

If you're self-employed you can enjoy all the benefits of KiwiSaver except the employer contributions. When you join:

- If you're eligible, the Government will pay an annual member tax credit.
- you'll be able to take advantage of the first home buyer's benefits if you're eligible.

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Employers

Compulsory employer contributions

For most people, KiwiSaver is a work-based savings plan, so employers play an important role.

Employers:

- » give new employees and other staff who are interested an *Employee information pack (KS3)*
- » pass their employees' details to Inland Revenue to enable them to be automatically enrolled (if they're not already a KiwiSaver member)
- » can choose a KiwiSaver scheme for employees who don't want to select their own
- » deduct KiwiSaver contributions from employees' before-tax pay
- » pay a compulsory contribution to their employees' KiwiSaver account or complying fund
- » act on a new employee's request if they choose to opt out within the 2 to 8 week opt-out timeframe
- » stop payments if their employee begins a contributions holiday, and restart them again once the holiday expires
- » stop payments if Inland Revenue or their employee gives them the required notice
- » keep certain KiwiSaver records required by law.

If you're eligible, the **employer will also contribute** to your KiwiSaver savings. If you're a KiwiSaver member making contributions from your pay, your employer also has to put money in. This is equal to a minimum of 3% of your pay.

Your employer does not have to make compulsory employer contributions to your KiwiSaver scheme if:

- » they are already paying into another eligible registered superannuation scheme for you (if your existing scheme meets certain criteria)
- » you are under 18 years of age
- » you are over 65 years of age (and you have been a member for more than 5 years)
- » you are not contributing (for example, on a contributions holiday or on leave without pay).

Your employer may choose to make **voluntary contributions** to your KiwiSaver account. Voluntary employer contributions include any contributions over and above the compulsory employer contribution rate to employees:

- » aged under 18 or over 65 years (and who have been a member for more than 5 years)
- » on a contribution holiday, or
- » who are on leave without pay.

Calculating employer contributions

Here's the formula to use if you're not currently contributing to your employees' superannuation:

Payment of gross salary or wages x compulsory rate = minimum gross employer contribution

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Example

If your employee earns \$2,600 a month and is a member of, and is contributing to a KiwiSaver scheme, or complying fund, from the first whole pay period after 1 April 2013, the minimum gross compulsory employer contribution will be:

$$\$2,600 \times 3\% = \$78.00$$

You only need to pay the compulsory employer contribution if your employee is a member of and is contributing to a KiwiSaver scheme or complying fund. Employer contributions must be made through IRD and be accompanied by an Employer deductions (IR345) form. You must also include payment details on your Employer monthly schedule (IR348).

Calculating ESCT

Employer superannuation contribution tax (ESCT) is a tax deducted from the employer superannuation cash contributions you pay into the employee's KiwiSaver or superannuation account.

Example

Daniel's gross weekly earnings of \$1,250, gross employer contribution (3%) of \$37.50 and an ESCT rate of 30%.

ESCT is applied to the whole dollar amount, which is \$37.00

\$37.00 multiplied by 30% = \$11.10 ESCT

Deduct the ESCT from the gross employer contribution

\$37.50 minus \$11.10 = \$26.40 net employer contribution

Enter the net KiwiSaver employer contributions of \$26.40 in Box 7 on both the *Employer monthly schedule (IR348)* and *Employer deductions (IR345)* form, and ESCT of \$11.10 in Box 8 on the *Employer deductions (IR345)* form.

Example#2 of ESCT rates calculated under the PAYE rules

Example#2

Joanne is employed by Salon Jennie Ltd. Her employment agreement includes a weekly contribution of \$15 (3%) from the salon to her KiwiSaver account, in addition to her normal weekly salary of \$500.

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All employees: Total PAYE to withhold

Total gross income (salary / wages)		\$500.00
Total PAYE (including earners' levy)	minus	\$75.90
Total Child Support deductions	minus	\$0.00
Total student loan deductions	minus	\$0.00
Total KiwiSaver employee deductions	minus	\$15.00
Total tax credit for payroll donations	plus	\$0.00
Total net payment	equals	\$409.10
Total payroll giving donation amount	minus	\$0.00
Total net payment less payroll giving donation	equals	\$409.10

All employees: Employer contributions

KiwiSaver		
Total KiwiSaver employer contribution value (Gross)		\$15.00
Total KiwiSaver net employer contribution (Payable to IR)		\$10.50
Complying funds		
Total complying fund employer contribution value (Gross)		\$0.00
Total complying fund net employer contribution (Payable to provider)		\$0.00
Total employer ESCT		\$4.50

Coding of the Employer Contribution –

The Gross Employer Kiwi Saver Contribution is \$15.00	Debit Expense in P&L
The ESCT amount is \$4.50	Credit Liability Clearing a/c in B/S
Nett amount is \$10.50	Credit Liability Clearing a/c in B/S

Example –

Gross Employee Monthly Wage	\$ 3,000	Debit Expense in P&L (# 477)
PAYE on Wage	(\$ 486)	Credit Liability PAYE Clearing a/c in B/S (# 825)

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Nett Amount due to employee	\$ 2,514	
Employee Contributes Kiwisaver	(\$ 90)	Credit KS Liability Clearing a/c in B/S (# 826)
Amount Employee Receives	\$ 2,423	Bank
Employers KS Liability -		
Gross Employer KS Contribution	\$ 90	Debit Expense in P&L (# 478)
ESCT (17.5%)	(\$ 15)	Credit Liability Clearing a/c in B/S (# 828)
Nett Employer Contribution (KS amount that the employee gets)	\$ 75	Credit Liability Clearing a/c in B/S (# 827)

When payment gets made to IRD it should be coded to the corresponding Clearing Accounts

NZD New Zealand Dollar								Amounts are No Tax		
Item	Description	Qty	Unit Price	Account	Tax Rate	Fee Split	Amount NZD			
	Gross Wages	1.00	3,000.00	477 - Salaries and W...	No GST		3,000.00	×		
	PAYE on Wages	1.00	-486.80	825 - PAYE Payable	No GST		-486.80	×		
	Employee KS Contribution	1.00	-90.00	826 - Employee Kiwi...	No GST		-90.00	×		
	Gross Employer KS Contributi...	1.00	90.00	478 - KiwiSaver Emp...	No GST		90.00	×		
	Nett Employer KS Clearing	1.00	-74.25	827 - KiwiSaver Emp...	No GST		-74.25	×		
	Employer ESCT Clearing	1.00	-15.75	828 - Kiwisaver ESCT	No GST		-15.75	×		
							Subtotal	2,423.20		
							TOTAL	2,423.20		

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Summary -

Government

Under the KiwiSaver initiative the Government:

- » pays an annual member tax credit to eligible members
- » funds the first home deposit subsidy through Housing New Zealand for people who meet the criteria.

The maximum annual member tax credit you are entitled to is **\$ 521.43** from 1 July 2011 onwards.

To get the full member tax credit automatically you have to contribute at least \$1,042.86 a year (\$20 pw)

From 1 July 2011 the Government will pay 50 cents for every dollar of member contribution annually up to a maximum payment of \$521.43. This means that you must contribute \$1,042.86 annually to qualify for the maximum payment of \$521.43.

If you contribute less than \$1,042.86 from your pay, you can make voluntary contributions to ensure you receive the full member tax credit payment from the Government.

KiwiSaver is **not guaranteed** by the Government

Inland Revenue

Inland Revenue administers members' contributions mainly through the "pay as you earn" (PAYE) tax system. Inland Revenue's main responsibilities under KiwiSaver are to:

- » provide employers with information packs to pass on to employees
- » receive member and employer contributions
- » transfer contributions to the right KiwiSaver scheme provider for investment
- » allocate people who don't make a choice to default schemes
- » administer requests for opt-outs and contributions holidays
- » provide information to the public and help build awareness of the KiwiSaver savings initiative.

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