

Employers – Fact Sheet

From 1 April 2008 employers will need to match their employees' contributions to KiwiSaver. The contributions will be phased in over a four year period, starting at 1 per cent of an employee's gross salary and rising to 4 per cent by 1 April 2011.

The government will reimburse employers for their contributions to KiwiSaver (or a complying superannuation fund) by providing a matching tax credit up to a maximum of \$20 per week (\$1,040 per year) per employee.

Employer tax credits will be paid to employers through the PAYE system. This will ensure that the tax credit will be paid at the same time the employer contribution is made to minimise cashflow impacts and compliance costs for employers.

Employers and others will have the opportunity to comment on these proposals through the usual Select Committee consultation process.

KiwiSaver will provide employers with an extra wage bargaining tool and will improve the competitiveness of New Zealand employers in the global labour market.

How will it work?

Benefits

- ✓ Employers will be provided with an off-the-shelf superannuation scheme, which provides the efficiency of making employee and employer contributions through the PAYE system.
- ✓ Employer contributions to a KiwiSaver scheme (or a complying superannuation fund) are exempt from Specified Superannuation Contribution Withholding Tax (SSCWT), subject to a cap – the lesser of the employee's contribution or 4 per cent of the employee's gross salary.
- ✓ **NEW** All employers contributing to an employee's KiwiSaver scheme (or complying superannuation fund) will be eligible for a matching employer tax credit of up to \$20 per week (\$1,040 per year) per employee from 1 April 2008.
- ✓ **NEW** Employer tax credits will be paid to employers through the PAYE system by offsetting the credit against the employer's contribution and other PAYE liabilities to minimise cashflow impacts and compliance costs.

What employers need to do under KiwiSaver

- ✓ **NEW** From 1 July 2007, employer contributions to KiwiSaver schemes will need to be made through Inland Revenue. All other KiwiSaver requirements are unchanged.
- ✓ **NEW** From 1 April 2008, employer contributions will no longer be able to count towards the minimum contribution of the employee's 4 per cent of gross salary (transitional rules apply).
- ✓ **NEW** From 1 April 2008, employers will be required to match employee contributions to KiwiSaver (or a complying superannuation fund). Compulsory matching will be phased in as follows:

| From | Minimum employee contribution (% of gross salary) | Minimum employer contribution (% of gross salary) | Total employee and employer contributions (% of gross salary) |
|--------------|--|--|--|
| 1 April 2008 | 4 | 1 | 5 |
| 1 April 2009 | 4 | 2 | 6 |
| 1 April 2010 | 4 | 3 | 7 |
| 1 April 2011 | 4 | 4 | 8 |

- ✓ Compulsory employer contributions must vest in the employee immediately.

EMPLOYERS OFFERING AN EXISTING SUPERANNUATION SCHEME

The government recognises that non-KiwiSaver employer-sponsored schemes have been in place for some time that incorporate desirable characteristics of KiwiSaver schemes. Arrangements to accommodate these employers and schemes have been made, such as expanding the eligibility to tax credits and allowing employer contributions to count towards employers' compulsory requirement, and will apply in specific circumstances.

Eligibility for the employer tax credit

Employers will be eligible for the tax credit on contributions made to complying superannuation funds. A complying superannuation fund is a section within a registered superannuation scheme that has been approved by the Government Actuary as having met certain criteria similar to KiwiSaver, e.g., KiwiSaver lock-in rules and portability. This ensures that the employer tax credit applies in respect of contributions towards an employee's long-term retirement savings.

Compulsory employer matching contributions

To minimise the impact of compulsory matching employer contributions, the government will allow employer contributions to all non-KiwiSaver schemes¹ to count towards compulsory contributions for:

- i employers who provide access to a superannuation scheme as of 17 May 2007
- ii existing scheme members (ie. members prior to 1 April 2008), or where the employment contract of existing employees (ie. employees prior to 1 April 2008) provides access to the scheme
- iii existing employment (ie. employment as at 1 April 2008).

Contributions that count towards the compulsory amount will vest immediately in the employee.

Impact on State sector employers

- ✓ State sector employers will be treated on the same basis as private sector employers:
 - They will be eligible for the employer tax credits on contributions to KiwiSaver schemes
 - They will be required to make matching contributions to an employee's KiwiSaver scheme
 - In some circumstances (outlined in the box above), contributions they make to existing superannuation schemes will count towards the compulsory amount. However, if these contributions are not being paid to a complying fund section within that scheme, they will not be eligible for the employer tax credits.
- ✓ Over time, KiwiSaver schemes are expected to become the core saving vehicle in the State sector.

¹ Whether that scheme is a defined contribution, defined benefit, complying or non-complying scheme.

Example

ABC Company has 30 staff paid between \$35,000 and \$90,000 per annum (15 at \$35,000, 5 at \$45,000, 5 at \$60,000 and 5 at \$90,000). 60 per cent of its staff choose to join KiwiSaver from 1 July 2007 and contribute 4 per cent of their salary each. The direct costs of making these contributions are as follows:

| Tax year | Total wage bill | Matching contributions | Employer tax credit | Net cost | As % of total wage bill |
|----------|-----------------|------------------------|---------------------|----------|-------------------------|
| 2008/09 | \$1,500,000 | \$9,000 | \$9,000 | Zero | 0 |
| 2009/10 | \$1,500,000 | \$18,000 | \$15,240 | \$2,760 | 0.2 |
| 2010/11 | \$1,500,000 | \$27,000 | \$18,720 | \$8,280 | 0.6 |
| 2011/12 | \$1,500,000 | \$36,000 | \$18,720 | \$17,280 | 1.2 |

All ABC's employer contributions are also exempt from SSCWT, making it less costly for ABC to provide those of its employees who contribute to KiwiSaver with the same post tax income.

Over time, ABC will also be able to trade off its KiwiSaver contributions for slower wage growth.

Where do I go for more information?

More information is available at www.kiwisaver.govt.nz

By the end of May, you will receive copies of the KiwiSaver Employer Guide from Inland Revenue.

Questions and Answers

What are the benefits of the Budget 2007 announcements to me as an employer?

New Zealand's labour markets are tight. Businesses have to compete for high-quality labour, not only from their own domestic competitors, but also internationally. Workplace superannuation is a key feature of the salary packages being offered by many internationally competitive businesses.

The Budget 2007 announcements provide for all employers contributing to an employee's KiwiSaver scheme (or complying superannuation fund) to be eligible for a matching employer tax credit of up to \$20 per week (\$1,040 per year) per employee from 1 April 2008. In general, the employer tax credit will cover the cost to employers of the 1 per cent compulsory contribution in the first year, while allowing employers time to plan for, and negotiate with employees, the increase in employer contributions in subsequent years.

Mine is a small business - what are the benefits of the Budget 2007 announcements to me?

KiwiSaver provides all New Zealand businesses, regardless of size, with an off-the-shelf superannuation scheme, which can be efficiently administered through the existing PAYE system. KiwiSaver will assist businesses, large and small, in attracting and retaining staff.

Increased savings also increase the supply of domestic savings that can be invested in New Zealand businesses, helping local businesses grow. This can be seen in the current depth/extent of funds in Australia, which is commonly attributed to the superannuation savings/contributions of Australians.

Why is a compulsory employer contribution being introduced now?

Employees and employers alike, have a stake in lifting the savings performance of New Zealand. Increased savings helps employees enjoy a higher standard of living in retirement and also increases the supply of domestic savings that can be invested in New Zealand businesses, helping local businesses grow. The compulsory employer contribution is being phased in over time (1 per cent of an employee's salary and wages from 1 April 2008, rising to 4 per cent by 1 April 2011) to help ease the transition. The government recognises that, over time employer contributions may effectively form part of the wage negotiation process, which will be for employers and employees to mutually agree.

How can I have a say on how this policy will be designed?

Employers and other interested parties will have the opportunity to comment on the changes relating to compulsory employer matching contributions and employer tax credit through the Select Committee consultation process in coming months. Once the relevant legislation has been referred to Select Committee, the Committee will publicly call for submissions.

Employers offering an existing superannuation scheme

What are my responsibilities if I am already operating a work-based superannuation scheme?

You can continue operating your current work-based superannuation scheme. If your scheme meets certain requirements you can apply to the Government Actuary for an exemption from the KiwiSaver automatic enrolment rules. However, even if you have an exemption from automatic enrolment, you are required to enrol an employee into KiwiSaver and make deductions from the employee's pay if that employee chooses to become a KiwiSaver member.

Contributions you make to an existing scheme for existing employees will count towards the compulsory employer matching contributions (further details are outlined on page 2). However, if you wish to receive the employer tax credit you will need to redirect your contributions to a complying superannuation fund under your current superannuation scheme or to a KiwiSaver scheme.

Will I be eligible for the employer tax credit if I am contributing on behalf of my employee to a non-KiwiSaver superannuation scheme?

It depends. You will be eligible for the employer tax credit if your contributions are going to a complying superannuation fund.