



Global Reward Update

New Zealand – Employee Share Scheme Reporting

Key Points to Know

- New Zealand Inland Revenue have changed the way they would like employee share scheme ("ESS") benefits to be reported, effective April 1st, 2018.
- Uncertainty exists with respect to payroll systems and the harmonization with prior ESS reporting procedures.
- Reporting deadlines are dependent on whether the employer has opted for payday reporting.

Background

Last year, the Inland Revenue introduced mandatory reporting and voluntary Pay As You Earn ("PAYE") withholding of ESS benefits through the employer monthly schedule. Employers were required to disclose the ESS benefit value as "gross earnings" and disclose this as "earnings not liable for ACC" on the employer monthly schedule.

Main Changes

Effective April 1st, 2018, the Inland Revenue have changed the way they would like ESS benefits to be reported and have introduced a new ESS tax code.

The Inland Revenue now require ESS income to be reported on a separate line detailing:

- The employees' name;
- Their IRD number;
- The tax code (of "ESS"); and
- The taxable value of the ESS benefit as "earnings and/or schedular payments not liable for ACC earners' levy".

Deducting PAYE on the benefit remains optional and there are no changes to the Commissioners Statement issued in April 2017 (*CS 17/01 - valuation of employee share schemes*) that provides guidance on how employers can value employee share benefits. As a reminder, ESS benefits are not subject to KiwiSaver or ACC earners levy. However, if an employer opts to deduct PAYE on an ESS benefit it will be necessary to account for other deductions such as student loan and child support deductions.

It is not entirely clear whether payroll systems will allow employers to report employee data for the same employee on a separate line. Uncertainty also exists as to whether this will overcome an Inland Revenue system limitation that required employers who do not account for PAYE on ESS benefits to submit a list of employees receiving ESS benefits prior to filing the employer monthly schedule to reduce the number of errors. More details are expected to follow.

When to Report?

Employers who have opted for payday reporting

Employers who have opted for payday reporting from April 1st, 2018 will report the ESS benefit based on a "20-day rule". There are two options as follows:

Option 1

- If the 20th day after receiving the ESS benefit falls between the 1st and 15th of a month, the information must be reported as if the 15th was the payday.
- If the 20th day after receiving the ESS benefit falls between the 16th and the end of a month the information must be reported as if the last day of the month is the payday.

Option 2

Alternatively, an employer can choose to treat the 20th day after receiving the ESS benefit as the payday. The following Inland Revenue example illustrates how the two options apply:

"Sam's employer provides him with an ESS benefit on 13 December 2018. The 20th day after Sam receives the benefit falls between the 1st and 15th of January 2019.

Under Option 1, Sam's employer can report the taxable value of the ESS benefit within 2 working days of 15 January 2019.

Under Option 2, Sam's employer can choose to report the value of the ESS benefit as part of employment information which is due 2 working days from the 2nd of January 2019"

Employers who have not opted for payday reporting

There is no change to the timing of reporting for employers who have not opted for payday reporting (noting this will be mandatory from April 1st, 2019). As a reminder, for large employers (that have annual withholding obligations under the PAYE system of \$500,000 or more) the ESS benefit is reported as follows:

- ESS benefits received by the employee in the first half of the month (1st to the 15th) is shifted to the second half of the month. This is reported by the employer in the employers' monthly schedule for that month;
- ESS benefits received by the employee in the second half of the month (16th to end of the month) is shifted to the first half of the following month. This is reported in the employers' monthly schedule for that following month

This is best illustrated by way of example:

If the ESS benefit vests on 25 March 2018, the employer will record the benefit in the employer monthly schedule for April, which is due on 5 May 2018. Tax on the benefit (if the employer opts to deduct PAYE) is paid in the PAYE payment period due 20 April (as the ESS benefit is shifted to the period 1 April 2018 to 15 April 2018)

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Deloitte's view

The changes further illustrate the enhanced disclosure requirements associated with ESS benefits and the need for accurate and timely reporting, even if the relaxation to account for PAYE continues to exist.

Employers should familiarize themselves with the new requirements and determine the appropriate reporting deadline based on the company's payday reporting structure.



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