

Fact sheet: Contractors and schedular payments

Contractors and schedular payments

Certain types of payments received by contractors are known as 'schedular payments'. The schedular payments regime determines the rate of tax taken out of contractors' pay. The tax on schedular payments is known as withholding tax.

In 2017, changes were introduced for contractors and labour-hire firms to bring more types of contractors into the regime. There were 3 main changes:

- If you are subject to the schedular payments regime, you can now elect your own withholding tax rate instead of the one prescribed by Schedule 4 of the *Income Tax Act 2007* — a rate that better reflects your end of year tax liability
- If you are not covered by the regime you can opt into the regime with the consent of the person making the contract payments
- Payments made by labour-hire firms are now subject to withholding tax

The first two relate to ALL contractors. The last relates to labour-hire contractors.

All contractors

Contractors can choose their own withholding tax rate (within limits). As long as the paperwork is all in order, the payer will withhold tax at the rate the contractor chooses.

If you are starting a new contracting job or if you want to change your tax rate, you need to complete a Tax rate notification for contractors (IR330C) form.

If you don't choose your own tax rate, you receive schedular payments with tax deducted at the rate appropriate to the work you're doing.

You can use the IR330C form to choose your own tax rate. The minimum rate you can choose is 10% (or 15%, if you're a non-resident or on a temporary work visa).

If you're not sure what rate to select, the Inland Revenue estimation tool can help you choose your tax rate.

If you do not complete the IR330C, your payer will deduct tax at the no-notification rate, which is higher than the standard rate. The rate is 45%, except for non-resident contractor companies where it's 20%.

Are you a contractor working for a labour hire firm?

Labour hire firms must deduct withholding tax from their payments to contractors. This applies even for contractors who work through their own company.

If you do not select a tax rate, then the standard rate of 20% for labour-hire firm contractors will apply.

Are you a labour hire firm?

The term 'labour-hire firm' is widely defined and may include recruitment and on-hire companies. Here it means an entity that has arranging labour-hire as one of its main activities. That is, the business of arranging for a person to perform work or services directly for its clients. This can include all sorts of contractors e.g. IT contractors, consulting and advisory services.

If you're a labour hire firm, you must deduct tax from all payments made to contractors and include the details of the payment(s) and tax deduction(s) with the employment information submitted with payday filing.

What about Certificates of Exemption and special tax rates?

Some contractors can apply for a certificate of exemption and pay all their tax at the end of the tax year

instead of having the tax deducted from each schedular payment.

New Zealand contractors working for labour-hire firms can no longer obtain certificates of exemption.

If the withholding tax rate is not appropriate for your business, you are able to apply for a special tax rate. That includes being able to apply for a 0% rate. To do this, complete a Special tax code application (IR23BS).

Where contractors apply for a special tax code and also work for a labour hire firm, the labour hire firm must record details of payments in the employment information submitted with payday filing, even if the withholding rate is 0% and no tax is deducted.

What about non-resident contractors?

Non-resident contractors who work for labour-hire firms may apply for certificates of exemption. Otherwise, the minimum withholding rate for non-resident contractors and contractors with temporary work visas is 15%.

Note that the minimum withholding rate of 15% applies for all non-resident contractors and not just labour-hire contractors.

What about people on wages or salaries employed by labour hire companies?

Employees receiving salary or wages come under different rules. Just the same as employees working for any other business, the correct form for their tax code declaration is still the IR330.

Voluntary withholding agreements

Up until 31 March 2017, contractors not covered by the schedular payment rules were not able to have tax withheld at source and had to account for their own tax, for example, through the provisional tax system.

Now, contractors may choose to pay tax through the schedular payment rules and opt into a voluntary withholding agreement. If you and your payer agree to treat your pay as a voluntary schedular payment, and document your agreement, you become subject to the schedular payment rules and your payer is required to withhold tax from you at the rate you select (by completing an IR330C). A voluntary withholding agreement can be a memo, email, letter or formal contract as long as there is sufficient evidence that there is an agreement between both parties to deduct withholding tax.

Note that fringe benefit tax does not apply when fringe benefits are provided to contractors under voluntary withholding agreements, as payments covered by voluntary withholding agreements are excluded from the definition of employer and employee for the purpose of the FBT rules.

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