

BUSINESS SERVICES TAILORED TO **YOUR** NEEDS

NEWSFLASH

NON-TAXABLE ALLOWANCES (NTA's) UPDATE

A bit going on in this area which is worth updating clients on:

1. Recent legislation changes, effective 1 April 2015.
2. IRD audit activity.

BACKGROUND

There remains lots of confusion about what can be claimed as an NTA, and how much? While it is a potentially complicated area the following helps to simplify the issue:

- An NTA is an amount reimbursed by an employer to an employee, being an amount that the employer would otherwise have paid for work related expenses. The employer can claim the NTA as an expense, while the amount is non-taxable to the employee.
 - Common NTAs include chainsaw allowances and Personal Protective Clothing (PPC) (under clause 10 (4) of the HSE Act). A PPC allowance is **ONLY PAID** in circumstances where the employee chooses to provide their own PPC.
 - Personal Protective Equipment (PPE) **MUST** be provided by the employer, so it does not qualify as an NTA.
 - Other non-taxable allowances include meal allowances when overtime is worked and accommodation when working away from home.
 - This is not an exclusive list, the employer can reimburse an employee for **ANY** expense that otherwise might have been incurred by the employer.
- How much? There are no minimum or maximum limits, it is as much as the employer feels they can reasonably justify (if required by the IRD) as an appropriate reimbursement - it's not open slather.
Note: *employers don't need to get receipts from employees, but the reimbursement must be arguably reasonable.*

RECENT LEGISLATION

There has been recent publicity about changes to legislation arising from 1 April 2015. This includes letters from IRD to employers and commentary on IRD's website. The specific changes were around the areas of

accommodation, meals and clothing. From an "average" logging contractor perspective there are no real impacts (subject to particular circumstances).

We are aware that the wording of some of the IRD correspondence has caused contractors to question whether they are still entitled to pay any NTAs. The simple answer to that is YES, contractors can continue to pay NTAs, subject to the comments mentioned above (under the 'Background' section).

IRD ACTIVITY

Along with the changes in legislation IRD have also flagged an increase in audit activity in this area. In some parts of the country the IRD are specifically targeting logging contractors. Potential problem areas might include paying full chainsaw/PPC allowances to all employees, including machine operators and excessive NTA's when some items are also paid for by the employer. Just paying a global "NTA" without defining what it is meant to be reimbursing may also be a problem area.

While the numbers per individual and per day might not seem great, added up over a sizeable crew and over a full year they can become significant. For example if the IRD deems the employer has paid excessive amounts the employer will be subject to paying PAYE on the "excessive" NTA and likely penalties of 5% in the first month, 1% per month thereafter and also IRD interest at 9.21%. For a 10 men crew paying on average \$10 per day deemed excessive this could amount to over \$10,000 in 12 months.

Any NTA amounts deemed excessive by the IRD, may also result in consequences for the employee, if IRD look to subsequently adjust any child support commitment calculations or family assistance entitlements.

What to do:

1. Review how much you are paying. Are you happy you can justify it? If so, then no further action is required.
2. If you are paying the same NTA to all employees, consider whether that is appropriate or whether it would be more appropriate to have variable amounts for different employee roles (eg machine operators compared to log makers).
3. Do you need to be paying less NTA and more taxable wages? If so, does your costed day rate need review?
4. Call us for a free consultation on your circumstances (up to half an hour)
5. Consider our audit insurance program whereby accounting costs of challenging an audit are insured.

The above information is intended as a broad guideline and may not be appropriate in all circumstances. Specific advice should be sought about your particular situation.

If you would like further advice please call our consultants:

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