

WITHHOLDING TAX DEDUCTIONS

In some industries, the IRD require employers to deduct and pay to the IRD withholding tax on behalf of their independent contractors. The tax rate is generally 15% or 20% but if the contractor refuses to supply an IRD number the rate vary from 25.5% to 48% depending on the industry.

The contractor must supply the employer a IRD form "IR330" which details his name, IRD number, WT tax code and the rate of tax to be deducted. Page 4 of the IR330 shows the rates for various industries. The employer is required to forward the WHT to the IRD each month as part of their employer return. The tax code that a contractor must use is "WT".

Using WT tax code means that the employer does not pay ACC levies on behalf of the contractor, the contractor pays these himself.

When a contractor who has WHT deducted issues an invoice to the employer it must show the WHT to be deducted and the GST if the contractor is GST Registered.

Both the GST and WHT must be calculated on the gross amount. The example below shows the steps required to complete an invoice correctly.

- Step 1 Calculate Gross Value Of Goods Or Services
- Step 2 Calculate The GST & WHT On Gross Value
 $\$400 * 15\% \text{ GST} = \60.00 (If GST Registered)
 $\$400 * 20\% \text{ WHT} = \80.00 (Check % Applicable)
- Step 3 Deduct WHT From Gross Amount
- Step 4 Show Sub Total
- Step 5 Add GST (If GST Registered)
- Step 6 Show Total

Sample Invoice Where Withholding Tax (WHT) Is Deducted.	
10hrs @ \$40.00	400.00
Less WHT	-80.00
Sub - Total	320.00
GST	60.00
Total	380.00

Continued

In the above example the employer would pay \$380 to the contractor and \$80 to the IRD as WHT. The contractor would pay \$80 to the IRD as GST and when his Income Tax is calculated at the end of the year there will be a \$80 credit at the IRD towards his taxes.

° ‡ \k) \7#° yu@V We have found instances where the employer has been required to pay WHT to the IRD as their industry has to deduct it and our client (the contractor) has deducted WHT from their invoice but the employer has not passed it to the IRD believing they don't have to. This has left the contractor effectively underpaid by the employer by the amount of WHT and at the end of the year they have to pay tax on the full amount.

When starting work for a new employer, the contractor should ascertain that the employer is registered with the IRD as an employer and returns the WHT to the IRD. A necessary step here for the contractor is to ensure he gives the employer a completed copy of the IR330 form.

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