Law change: Tax and contractors

Pick your own tax rate. Get your tax paid directly by your recruiter. Choose if tax is deducted by your payer. Interest charges for provisional tax. Tax law is changing from 1 April.

A must-read guide to what’s new for all contractors and those who hire them.

From 1 April 2017, the way contractors pay their taxes will change, giving greater choice and making it easier to get tax right.

This is an expansion of existing rules called schedular payments. These rules previously applied to workers in certain industries, eg forestry and real estate, who were taxed at a flat rate.

The expanded rules are compulsory for all contractors hired by a recruiter — or other labour hire business — and those previously under schedular payment rules.

Other contractors can opt in if their payer agrees to deduct tax on their behalf.

Contractors already under schedular payment rules

You must complete the new tax rate notification form (IR330C) when you start any new job on or after 1 April 2017.


On this form, you pick the rate you would like tax to be deducted at. New Zealand tax residents can pick any rate from 10% up to 100%. If you want to change your current tax rate, complete this form and give it to your payer so they can make the changes.

Use Inland Revenue’s new estimation tool to decide your tax rate.

This will help you avoid getting a tax bill at the end of the year.
Contractors hired and paid through recruiters

The new rules apply to those contractors who find work through an employment agency or recruiter (also known as labour hire businesses).

Labour hire businesses must deduct tax on your behalf from payments they make to you. This is the same whether you are self-employed, a sole trader or a company.

Tax must be deducted from payments made to you on or after 1 April, even if the work was completed or the contract was entered into before this date.

You will need to complete the new tax rate notification form (IR330C) — ask your labour hire business for a copy, or download it here:


On this form, you pick the rate you would like tax to be deducted at. New Zealand tax residents can pick any rate from 10% up to 100%.

The benefit of choosing the right rate means you are less likely to have a tax bill at the end of the tax year. Use Inland Revenue’s new tool to work out what the best rate is for you and your circumstances.


If you complete the form but don’t pick a tax rate, the labour hire business will deduct tax at 20%. If you don’t complete the IR330C, the no-notification rate of 45% will be deducted.

New Zealand tax residents can't apply for a certificate of exemption for these payments, but you may be able to apply for a 0% special tax rate instead. This includes companies.

Self-employed contractors

If you work directly for any business and are not required to have tax deducted by the hirer, the new rules allow you to choose to have tax deducted from your payments.

Both you and your payer must agree to this approach. If you both agree, complete the
new tax rate notification form (IR330C). On this form, you pick the rate you would like tax to be deducted at. New Zealand tax residents can pick any rate from 10% up to 100%.


Keep a written record of the agreement. If you work for multiple businesses, each must agree to your request to have tax deducted. You’ll also need to give a completed IR330C form to each business.

If a payer doesn’t agree, you must continue to pay tax for that work as you were previously.

**Interest charges for underpaying provisional tax are also changing.**

Use-of-money interest is charged if your end-of-year earnings are higher than projected in your provisional tax bill. From the 2018 tax year, new rules on when this is charged mean fewer people will have to pay it.

[How interest rules apply (external link)](http://www.ird.govt.nz/how-to/debt/penalties/interest/interest-on-tax/interest-on-tax.html) — Inland Revenue

**Paying contractors**

If you hire contractors, whether you are a labour hire business or a business that hires them directly, you need to follow the following steps when paying them:

1. Check your accounting software includes the option to choose variable tax rates.
2. Brief your payroll team as the contractor will need to be included on the employer monthly schedule (EMS).
3. Download the new tax rate notification form (IR330C) and give it to your contractors to complete.
4. Add the contractor to your EMS and complete as you would for any other person receiving schedular payments — ignore additional deductions, eg ACC, child support, KiwiSaver or student loan.
5. If you employ contractors directly, you must record the agreement in a document.


[Understanding schedular payments (external link)](http://www.ird.govt.nz/contractors/about/understanding-schedular-payments-contractors.html) — Inland Revenue
Tax rate estimation tool for contractors (external link)  
(http://www.ird.govt.nz/calculators/tool-name/tools-t/tax-rate-estimation-tool-contractors.html) — Inland Revenue

Payroll deductions (tax-and-accounting/tax-when-you-have-employees/payroll-deductions/)

For more detail about these tax law changes, see the Inland Revenue website.

Budget tax changes (external link) (http://www.ird.govt.nz/news-updates/contractor-changes.html?id=homepage) — Inland Revenue

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If your business needs extra help, you could consider getting a contractor or unpaid intern/volunteer.

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