

FROM THE IRD:

Deducting ESCT from employer superannuation cash contributions

ESCT (employer superannuation contribution tax) must be paid on any employer cash contributions you or your employer clients make to employees' KiwiSaver schemes, complying funds or other superannuation funds.

The employment agreement will determine if you or your client needs to deduct ESCT from, or pay it on top of, the employer cash contributions. In most cases ESCT will be deducted from the gross employer cash contributions. But where the employment agreement states the employer contribution is a net amount, ESCT will need to be calculated and paid on top of the net contribution.

Remember, ESCT needs to be calculated using the ESCT tax rate unless the employee has asked, and the employer has agreed to include the employer cash contributions as part of the employee's salary or wages. In this case PAYE is deducted from the total as usual.

The rate of ESCT is based on the combined employer cash contributions and the employee's salary or wage for the previous year (1 April to 31 March). If the employee wasn't employed for the whole of the previous tax year the ESCT can be based on an estimate of the total for the current year. The ESCT rate set for an employee must stay the same for the full tax year. Changes can only be made at the start of a new tax year.

The ESCT tax rates are given below.

Income range	ESCT rate
\$0-\$16,800	10.5%
\$16,801-\$57,600	17.5%
\$57,601-\$84,600	30%
\$84,601 and over	33%

To calculate the net or gross salary or wages use our [PAYE / KiwiSaver deductions calculator](#).

Calculating ESCT from the gross employer cash contribution

To calculate ESCT from the gross amount you need to:

1. calculate the KiwiSaver, complying fund or superannuation scheme employer cash contribution
2. deduct ESCT from that employer cash contribution.

Remember to round down the employer cash contribution to the nearest whole dollar.

Example of ESCT rate calculated on the whole dollar

Terina is an employee of Red Bottle Ltd and is a KiwiSaver member. Her employment agreement includes Red Bottle Ltd making a gross 3% employer cash contribution to her KiwiSaver. Terina is paid \$660 a week. She uses the M tax code and doesn't have a student loan or pay child support.

Terina's yearly income is \$34,320. This is between \$16,801 and \$57,600 so her ESCT rate is 17.5%.

Terina's wage details

Gross KiwiSaver employer cash contribution (3% of \$660)	\$19.80
Less ESCT 17.5% (\$19 x 17.5%)	\$3.32 - see "Note 1" below
Net KiwiSaver employer cash contribution	\$16.48 - see "Note 2" below

Note 1

This is added to the total ESCT for all employees for the month and goes on the IR345.

Note 2

This goes on the IR348 with Terina's other wage details for the month.

Calculating ESCT on top of the employer cash contribution

If the employer wants the total employer cash contribution paid into the employee's KiwiSaver scheme they need to gross-up the employer cash contribution to calculate the ESCT amount payable.

To calculate ESCT from the net employer cash contribution:

1. work out the employer cash contribution and the ESCT rate for the employee
2. calculate ESCT using the formula:

$$\text{ESCT} = a \div (1 - a) \times b$$

where a = ESCT rate and b = employer contribution.

Remember to round down the employer cash contribution to the nearest whole dollar.

Example of ESCT paid on top of the employer contribution

If Terina's employment agreement included a net employer cash contribution of 3% per pay to her KiwiSaver scheme, Red Bottle Ltd would need to calculate how much ESCT to pay on top of its employer cash contribution.

Terina's wage details

Gross KiwiSaver employer cash contribution (3% of \$660)	\$19.80 - see "Note 1" below
ESCT 17.5% $ESCT = 0.175 \div (1 - 0.175) \times \$19 = 0.175 \div 0.825 \times 19$	\$4.03 - see "Note 2" below
Net KiwiSaver employer cash contribution	\$23.83

Note 1

This goes on the IR348 with Terina's other wage details for the month.

Note 2

This is added to the total ESCT for all employees for the month and goes on the IR345.

KiwiSaver cash contributions are recorded on the *Employer monthly schedule (IR348/EMS)*. ESCT is only recorded on the *Employer deductions (IR345/EDF)* form.

In the first example above, if Terina was the only employee, the IR345/EDF would show KSR in box 7 under net KiwiSaver employer deductions as \$16.48 and in box 8 under ESCT deductions as \$3.32. On the IR348/EMS the figure of \$3.32 does not appear and in box 7 under KiwiSaver employer contributions the figure returned is \$16.48 not \$19.80.

Under section 174AA of the Tax Administration Act 1994, the Commissioner may write off amounts up to \$20.00. This discretion no longer applies to ESCT deductions. All ESCT liable or late payment penalties or use-of-money interest (UOMI) on ESCT must be paid in full.

If you or your clients need to make an adjustment to KiwiSaver contributions, a corresponding adjustment needs to be made to the ESCT. You can do this using the [ESCT amendment form - IR348 \(IR679G\)](#) (for your EMS adjustment) and the [ESCT amendment form - IR345 \(IR679N\)](#) (for your EDF adjustment).

If there's an underpayment of ESCT, the correcting payment needs the code SSC not DED on the form so the payment can be correctly allocated.

Please see our "Employer superannuation contribution tax (ESCT) video" for more help.

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