

PRESS RELEASE - MHK Report on Withholding Tax and GST and Director's Fees

The IRD have recently released their clarification as to if directors should charge GST on director's fees. This is in their Interpretation Statement 17/06.

Ian Malcolm, Managing Director of MHK Chartered Accountants Auckland, warns that although this may seem like a simple question, the correct tax position is different for director's fees paid in different circumstances.

Mr Malcolm clarifies: "Generally, if you pay a director's fee you are making a "schedular payment" and you are required to withhold tax from that payment and pay the tax you withhold to Inland Revenue. However, not all payments of director's' fees are schedular payments."

Generally, a director's fee paid to an individual is a "schedular payment" and the rate of tax at which you must withhold will depend on who you are paying, and the information they give you.

Some taxpayers believe they should not withhold any tax from director's' fees paid to a GST-registered director. This is incorrect, GST status of a director is irrelevant, withholding tax is almost always required to be deducted.

If you employ someone as a director, amounts you pay them for performing their directorship duties will be either "salary or wages" (regular payments), or an "extra pay" (a lump sum payment), not schedular payments. You will need to deduct PAYE from these payments, as you would for any other payments of "salary or wages" or "extra pay" made to an employee.

Director's Fees paid to non-residents are not covered by the IRD here; the withholding treatment can vary depending on whether a Double Tax Agreement applies to the particular non-resident taxpayer.

Director's Fees paid to a Shareholder/employee have no requirement to withhold tax in some circumstances, such as small companies that are not LTCs where the recipient is not on regular salary or wages.

Director's Fees paid to a non-individual such as a company in most circumstances do not require withholding tax to be deducted. However there are exceptions.

Mr Malcolm warns that "Although this may seem a simple matter, care must be taken to "get it right" first time."

MHK Chartered Accountants are fringe CBD Auckland Chartered Accountants who specialise in business structuring and legally minimising all types of taxation obligations, and welcome a no-obligation discussion free of charge. For more information please contact Ian Malcolm 09-917-2893 or 021456225, or Aaron Neels 09-917-2897. For more information on **chartered accountants Auckland, business structuring and accounting firm Auckland** please go to <https://aucklandaccountant.net.nz/> .