Employer Superannuation Contribution Tax (ESCT), formerly SSCWT, is the tax deducted from any *contribution* to a Superannuation Fund that an Employer makes for an Employee's benefit.

A Superannuation Fund is a Scheme that has been registered under the Superannuation Schemes Act 1989.

SmoothPay provides support for ESCT as follows:

- Aggregates Employer *contributions*, and calculates the ESCT on those amounts
- Aggregates the Employee's *contributions* (if any)
- Provides for specified ESCT rates per Employee to override the prevailing rate
- Provides for detailed Reports in *Standard Reports*, as well as *Allowance and Deduction* history and *Superannuation Contributions* reporting
- Generates consolidated or individual Direct Credit transactions for the *Superannuation contributions* for payment to the Superannuation Fund, per pay period (added to the Direct Credit file).

The Superannuation Subsidy Options

The IRD Employers Guide (IR 335) discusses the various options available:

- Treating the Employer's contribution as taxable income for the Employee (this is NOT subject to ESCT), and
- Treating the Employer's contribution as ESCT – this in turn can be taxed at a standard 33% rate, or at a varying rate at the discretion of the Employer, based on the Employee's annual income.

This Factsheet briefly covers how you could establish the "taxable income" method, but deals specifically with the recommended ESCT method.

Calculating ESCT

Section (RD 67) states that the amount of tax for an Employer's *Superannuation cash contribution* is:

(a)   The amount determined under Schedule 1, Part D, Clause 1 (Basic tax rates: Income Tax, ESCT, RSCT, RWT, and attributed Fringe Benefits); or

(b)   33% of the Employer's Superannuation Cash Contribution, if the Employer chooses 33% and the contribution is to a defined benefit fund.

Table 1

Row	ESCT rate threshold amount	Tax rate
1	$0 - $16,800	0.105
2	$16,801 - $57,600	0.175
3	$57.601 - $84,000	0.300
4	$84,000 upwards	0.330

ESCT Rate Threshold Amount

If the Employee is Employed by the Employer for all of the tax year immediately before the tax year in which the Superannuation Contribution is paid, the total amount of:

- Salary and wages derived from the Employer in that previous tax year; and Superannuation contribution (being the Gross amount of the contribution before ESCT is deducted) that the Employer pays on behalf of the Employee in that previous year; or
- If Section (a) RD 67 does not apply, the total amount of Salary and wages that the Employer estimates will be derived by the Employee in the tax year in which the Superannuation Contribution is paid; and Superannuation contribution (being the Gross amount of the contribution before ESCT is deducted) that the Employer estimates they will make on behalf of the Employee in the tax year in which the Superannuation is paid.

Taxing Contributions at the Employee's Personal Tax Rate (not subject to ESCT)

This method can only be by agreement of the Employee and is **NOT RECOMMENDED**.

This is because:

- this inflates the Employee's Gross Taxable Earnings,
- the PAYE is deducted as per any other type of *Allowance*,
- and, last but not least, because it affects the Employee's Gross Earnings, it is subject to means testing should the Employee require the Dole or Family Support payments.
  It also causes the Employee's Child Support Deductions (if any) to be calculated on the inflated Gross pay.

Note: this method is *not recommended*, however, you can easily implement this method in **SmoothPay** as follows:

- Create a *Superannuation Group Scheme*
- Add an *Allowance* for the Employer's subsidy to the Employee's *Pay Input*, linked to the *Superannuation Group Scheme*
- Add an "Employer Calculation" *Deduction* using the same calculation rules as the *Subsidy Allowance*, linked to the *Superannuation Group Scheme*
- Add an optional Employee *Contribution Deduction*, also linked to the *Superannuation Group Scheme*

As long as there is a valid *Bank Account Number* in the *Group Scheme* record, a *Direct Credit* entry for the total Employer and Employee *Deductions* will be created in the *Direct Credit output file* when you *Finish The Pay*.

Doing it the RECOMMENDED ESCT way

Effectively, the ESCT is all accomplished outside of the Payroll, however it wouldn't be the most convenient way, so **SmoothPay** provides special options and processes to cater for the job.

The next section explains in detail how to establish an ESCT processing system.

Setting up ESCT processing

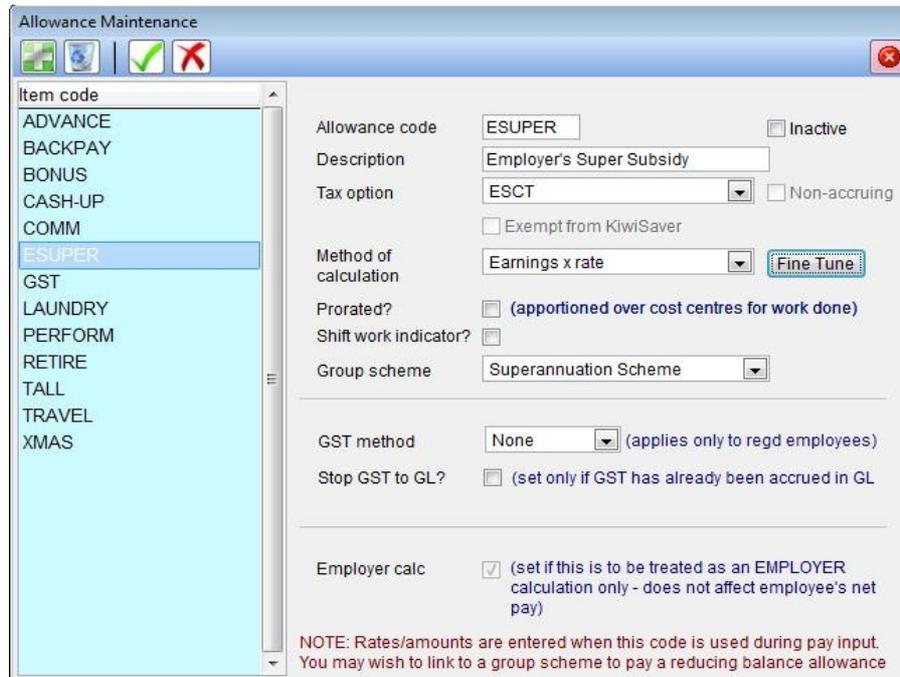- Create a *Group Scheme* for your Superannuation Scheme.

- Create an *Employer Superannuation Subsidy* ALLOWANCE, in this example it's calculated as Earnings x Rate.
- Use *Fine Tuning* to tailor which earnings are included in the calculation.
- Link it to the *Superannuation Group Scheme*.
- Make sure the *Tax Option* is set to ESCT. This will automatically set the *Employer Calc* flag – you cannot change it.
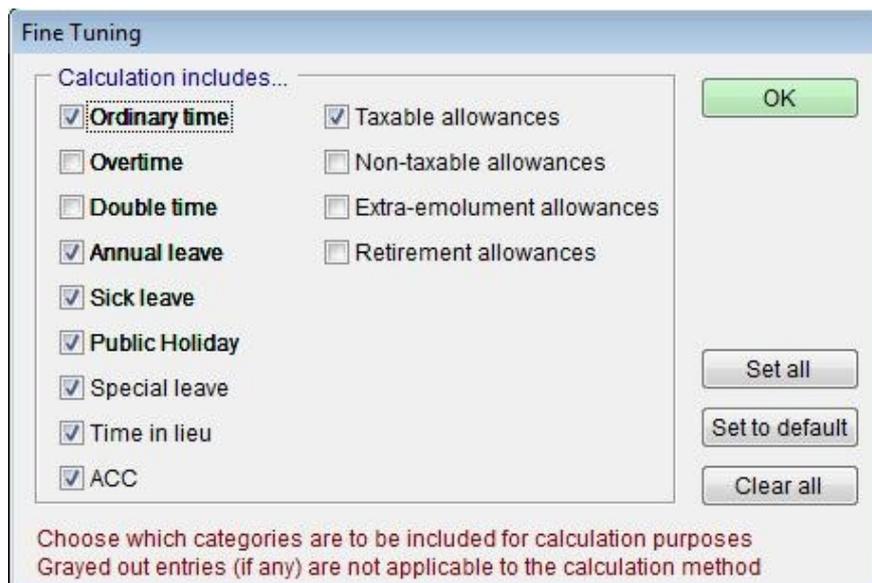

- The *Subsidy* amount will automatically adjust based on the Employee's earnings.
- The following screen shows *suggested settings* for *Fine Tuning* exactly which earnings are eligible for Subsidy:

- Now, add a *Deduction* to be used for the Employee's Contribution:

Choose an appropriate *Calculation Method* – it too could be based on a *percentage of contributing earnings*, or an *amount per period* (as shown) etc.

If you need to, you can override the prevailing rate of ESCT tax calculated on the Employer's Contribution for any Employee by using *Edit Employee...More Tax settings*:

Note: The rate used here takes effect for ALL prior ESCT *Deductions* as well. The ESCT rate used at the time the Contributions was made is not stored in transaction history. So if you are changing rates, make sure it applies for the entire period.

Making it all Work

Making it all work is pretty easy too:

● Add the ESUPER *Allowance* and the SUPER *Deduction* to qualifying Employee's Standard Pay Input, and they'll then automatically receive a calculated subsidy. Because it's an Employer Calc, it *will not* affect their Gross pay:

● and a suitable *Deduction* as their own Contribution, which *does* affect their Net Pay:

- The ESCT rate is set per Employee in the *Edit Employee...More Tax Settings* screen.
- The *Employer Schedules* can (and should) be produced during *Standard Reports*, and will list each Employee and their *Gross Subsidy, ESCT and Net Subsidy amounts.*
- The *Allowance/Deduction Schedules* (also produced in *Standard Reports*), will list every Employee's own contribution.
- These *Reports* can be reproduced at any time, for any period range, from the *Reports Menu* list (*Employee Reports...Allowance Deduction History*), so providing you with a means of collecting/proving the ESCT totals and contributions for any period range.
- The additional *Superannuation Contributions Report* provides a listing of all Employee contributions, Employer subsidy, ESCT rate and Deductions and Net contributions to each Superannuation Scheme. The Report can be produced for all pay days in any selected month and is available from *Reports... IRD Schedules*.
- If you have an Bank Account Number set up in the Superannuation Group Scheme, and you're using **SmoothPay** to generate your *Direct Credit file*, then the Direct Credit file will INCLUDE Employer calculated ESCT Allowances (the net amount after deduction of the ESCT), as well as the Employee contributions.
- The monthly (or twice-monthly) IR348/IR349 will show the ESCT calculated from the Employer's contributions.

Feel free to contact our **HelpDesk** if you have any questions or suggestions for improving this Factsheet.

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