

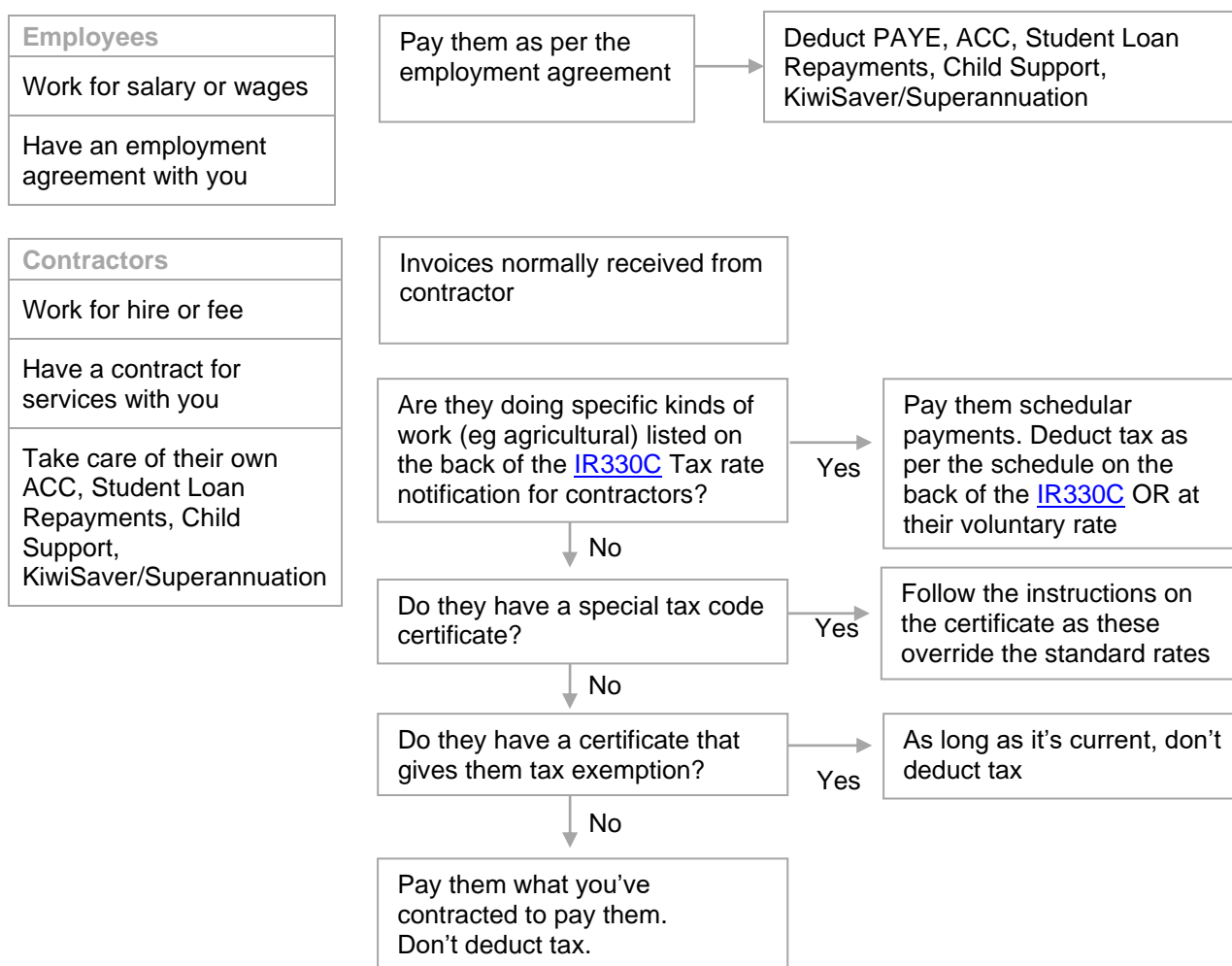
Employees and Contractors — tax treatment

It's important to distinguish between employees and contractors as they are paid — and taxed — differently. Inland Revenue takes a dim view of employers who ignore their PAYE obligations by treating their employees as contractors. They are also on the lookout for people who take a false tax position by calling themselves contractors when they're really employees.

Factors to be considered in deciding the real nature of the relationship between worker and hirer include:

- The intention of the parties (though what the parties call the relationship is not definitive).
- The control test — does the employer direct the work to be done?
- The fundamental test — is the worker in business on their own account? For example, do they provide their own equipment, hire their own staff, take some financial risk, can make a profit with good management?
- The integration test — is the worker part and parcel of the organisation?

Tax treatment for employees and contractors



Employers need to know

Regardless of their written contractual status, if you treat a true employee as self-employed to avoid deducting tax, you could be prosecuted and fined and still have to pay the PAYE you should have deducted. As an employer you need to be aware of this, keep good records and be clear on your obligations in relation to taxing the earnings of different types of workers.

Keep in mind

If you employ people, your wage records need to be detailed and clear. Keep track of whether people are employees or contractors and, if they are contractors, whether they are regular independent contractors, or you pay them schedular payments. Record the basis of payment, the amounts paid, the tax rates used and what tax is deducted.

Contact us if you have queries and would like to talk them over.

Inland Revenue has some useful guides which provide more information:

- [IR320](#) is a guide for businesses and non-profit organisations
- [IR333](#) looks at what you must do when you decide to employ workers
- [IR335](#) explains the tax responsibilities of anyone who employs staff
- [IR336](#) is a guide to help people work out their tax status. For instance, if you're sharemilking, this could be useful to you