

Hiring Your First Employee, part 2

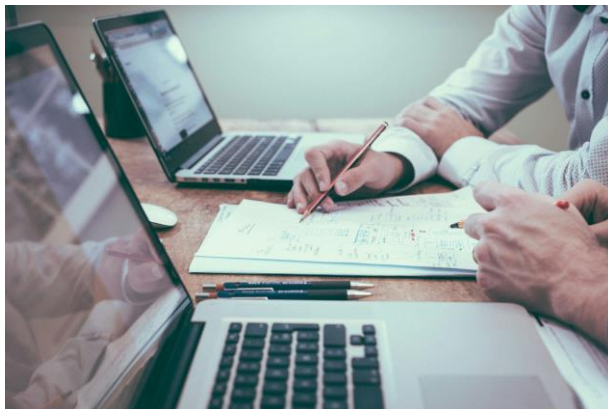
Congratulations! You have grown your business, and you are wondering if you are ready to hire an employee to assist you. What are the considerations you need to make before taking this step? In our previous blog, Part 1, we asked you to consider affordability and mindset. In Part 2, we discuss systems, procedures and payroll.

What Systems and Processes Do I Need in Place?

Employing people requires several formal structures to ensure that you are getting the best out of your employee while respecting their employment rights. We recommend that you engage an HR specialist to help you with the below items, but we have also included DIY resources for your reference.

Employment Agreement

Before they start, make sure that your new hire has a written employment agreement and are given the opportunity and time to seek advice about it. The employment agreement sets out their job description, duties and responsibilities, remuneration, benefits, rights while employed. It also sets out a disputes process and termination process. You can build your own employment agreement using the [Employment Agreement Builder](#) on business.govt.nz. The tool clearly indicates mandatory, recommended and optional clauses.



Before Day One

Have equipment, digital tools in place before your new hire starts. Update your insurance policies. Create a personnel file which includes the employment agreement, tax and payment information, personal details, training logs and performance management reviews. Register as an employer with IRD and set up payroll software.

Induction Process

The induction process should be a positive experience, as it sets up your ongoing employment relationship. Welcome them, show them where things are, show them how things work and explain how they fit into the overall purpose of the business. Make sure your new hire has access to their workplace, knows their way around and can use their tools and equipment.

Induction will need to be tailored to the experience level of your new hire. But even the most experienced employee will need to know your company policies: basic ones like start and finish times, break times, applying for leave, dress codes, prohibited substance use, social media use; and health and safety policies. [Workplace Policy Builder](#)

Induction must be adapted to the learning style of your new hire. Some people merely need a quick, verbal explanation, others need to see a demonstration, write notes for themselves or do the process before they learn. At JDW, we typically employ a variety of teaching methods. We demonstrate the first time, allowing the learner to take notes and ask questions. The learner then tries it themselves under supervision. Then the learner does it themselves and is reviewed afterwards.

Don't underestimate the time it takes to get a new hire up to speed. A person can only take in so much information at once, so allow for breaks in the training time for them to absorb what they have learned and put it into practice. This allows you a break too, to check your messages or catch up on your own projects.

Effectively Delegating

Delegating effectively involves a clear transfer of responsibilities without micromanaging. If you haven't read it before, "The One Minute Manager Meets the Monkey" by Kenneth Blanchard, William Oncken Jr. and Hal Burrows is a fantastic introduction to delegation in a readable, entertaining book.

Imagine your tasks are like monkeys on your back. You employ someone and give them some of your monkeys. Now you feel lighter! If the new hire doesn't know what to do or doesn't have the resources to take care of the monkey, then the task doesn't get completed. If you don't check in from time to time, or you don't make it easy for your new hire to ask for help, then task can fall through the cracks. Be careful not to take the monkey back though. Check the status of the task, give encouragement and guidance and let your employee take care of the monkey.

Performance Management, Dealing with Disputes and Termination

Clearly document your process of reviewing performance, dealing with disputes and termination. Schedule reviews regularly at least one a year, but more often if needed. When you are reviewing your worker's performance give specific examples of what went well, what can improve and why. Workers must be given an opportunity to improve their performance.

When disputes arise, make sure that you engage with each other respectfully and in good faith. Make a written record of discussions in case the issues arise again. If you can't resolve the dispute, you may need to invoke a mediation process.

Termination by dismissal is a last resort. You need to show that you have tried to deal with misconduct, disputes or poor performance in the proper ways before termination.ⁱ

How Do I Manage Payroll Taxes, Holiday Pay, Sick Leave and ACC?

You will need to [Register as an Employer](#) with IRD and ask your employee to complete a [tax code declaration IR330](#) (or [IR330C](#) for contractors). We recommend that you use payroll software to help you to calculate pay, taxes and leave. If this is your first time as an employer, you read IRD's [First Time Employer's Guide \(IR333\)](#) for more information.

Payroll Taxes and Payday Filing

For employees, payroll taxes are known as Pay As You Earn (PAYE). It includes income tax, ACC earner levies, student loan (if employee has a tax code ending SL), Kiwisaver employee deductions and child support. For contractors, payroll taxes are known as schedular payments and are only income tax deductions. They are not eligible for holiday pay, sick leave, Kiwisaver and ACC deductions.

As the employer, you deduct the payroll tax from gross pay and transfer the net pay to your worker either in cash or, more commonly, by direct payment into their bank account. You may pay weekly, fortnightly or monthly in line with your written agreement. The payroll taxes are transferred to IRD either once (20th of the month following) or twice a month (20th of current month and 5th of the month following).

Payday filing is sending a record of gross pay and payroll tax deductions to IRD. If you use payroll software, your Employment Information is due within 2 days of each payday. If you file by paper form, you can either file with 10 working days of each payday or 10 working days after the end of the 15th and end of the month.

Holiday Pay

Employees are entitled to a paid day off if a public holiday falls on a day they would normally be working. If they work in the public holiday, they are entitled to 1.5 times their relevant daily pay (or higher if their agreement says so) and an alternative holiday called “day in lieu”.ⁱⁱ

Employees are entitled to at least 4 weeks of paid annual leave when they have worked for 12 months. You need to keep accurate records of when leave is taken. You can allow them to take leave in advance or cash up a week a year by mutual agreement. When an employee finishes employment, you pay out their remaining annual leave plus holiday pay calculated at 8% of their pay since the last anniversary.ⁱⁱⁱ

Kiwisaver

Employees can opt into Kiwisaver if they are NZ or Australian citizens or permanent residents. You can't enrol them if they are casual workers. You must give each new employee a Kiwisaver deduction form (KS2) and a copy of [Your Introduction to Kiwisaver – Employee Information](#) (KS3). Employees can decide what rate of deduction suits them (between 3% and 10%) and you are required to pay a minimum of 3% employer contributions to their Kiwisaver account via PAYE. Part of the Kiwisaver employer contribution is paid to IRD as employee superannuation contribution tax (ESCT).

You shouldn't give your employees financial advice about the Kiwisaver options, but you can recommend they talk to an investment advisor or refer them to [Sorted](#) website.

Sick Leave, and other Entitlements

Employees are entitled to 10 days of paid sick to care for themselves, their partners, children or other dependents, when they have worked for you for 6 months. Sick leave can be carried forward and accumulated up to 20 days leave if not used (or higher by agreement).^{iv}

The 10 days entitlement applies even if the worker is part-time. The Government is proposing to change this to a prorated system based on how many hours and days a employee works.^v

Bereavement leave, after 6 months employment, allows a worker time off to grieve, between 1 and 3 days per bereavement, depending on the closeness of the connection with the deceased.^{vi}

Family violence leave grants worker up to 10 days paid leave each year if they or a child who lives with them experiences family violence. This leave doesn't carry over to accumulate in the next year. They may also ask for short-term flexible working arrangements at any time.^{vii}

Jury service leave. Workers are required to attend if called up for jury service and they are given a small attendance fee from the Ministry of Justice. Employers must grant them time off, and keep their job secure, but they are not required to top-up the worker's pay unless it is in their employment agreement. Some employers write a letter of support to ask for workers to be excused from jury service, but it requires exceptional circumstances for the court to grant the excuse.^{viii}

Time off to Vote paid leave is usually from 3pm on the polling day or for up to 2 hours during the day for general elections.^{ix}

Defence force volunteers must be allowed leave for service or training. This may be paid or unpaid depending on the employment agreement, but the job must be kept open.^x

Parental leave is up to 26 weeks' unpaid leave from employment while having a baby or adopting or similar arrangement.^{xi} They can also take unpaid special leave for antenatal appointments. As an employer you can help your worker apply for paid parental leave from IRD by supplying payroll records and showing them how to apply.^{xii} Some employers top up parental leave but this is not required, unless written in the employment agreement.

There are other forms of leave which may be in employment agreements, such as long service leave or sabbatical leave.

Accident Compensation Corporation (ACC) Levies

ACC levies cover the cost of injuries by accident. Earner levies are included in PAYE deductions, and cover the cost of accidents at home, playing sports or other everyday activities. Employer levies are invoiced annually to employers to cover the cost of accident injuries at work or work-related, and to support the activities of WorkSafe New Zealand.

Employer levies are calculated using a range of factors: the size of your payroll, the industry classification of your business and your claims history. If your business falls under more than one industry classification, you can apply for a special rate assessment.

Other Allowances and Fringe benefits

There is a wide variety of employee allowances, and they are treated differently for tax. For instance, reimbursing allowances like relocation, tools and vehicle use can be tax-free for

the employee if not excessive. Accommodation allowances are usually taxable, unless exclusions apply.^{xiii}

Some employee benefits attract Fringe Benefits Tax, such as health and medical insurance, subsidised transport, company vehicles and free or subsidised goods and services.

Where to find help?

We have only scratched the surface when it comes to employment systems, processes and payroll. We strongly encourage you to surround yourself with trusted advisors in human resources, health and safety, payroll, FBT and other taxes. Seek help and advice from professionals before you engage a new worker, when resolving problems and before terminating employment. You can save a lot of grief if you act in good faith, with a fair process, but even then you may still need the experience and knowledge of a professional on your side.

- Serena Irving

Serena Irving is a director in JDW Chartered Accountants Limited, Ellerslie, Auckland. JDW is a professional team of qualified accountants, business consultants, tax advisors, trust and business valuation specialists.

An article like this, which is general in nature, is no substitute for specific accounting and tax advice. If you want more information about the issues in this article, please contact your adviser or the author.

ⁱ <https://www.employment.govt.nz/ending-employment/dismissal>

ⁱⁱ <https://www.employment.govt.nz/leave-and-holidays/public-holidays/public-holidays-rights-for-employees>

ⁱⁱⁱ <https://www.employment.govt.nz/leave-and-holidays/annual-holidays/managing-annual-holidays>

^{iv} <https://www.employment.govt.nz/leave-and-holidays/sick-leave/taking-sick-leave>

^v <https://www.rnz.co.nz/news/national/518923/what-s-the-deal-with-sick-leave-changes>

^{vi} <https://www.employment.govt.nz/leave-and-holidays/bereavement-leave/managing-bereavement-leave>

^{vii} <https://www.employment.govt.nz/leave-and-holidays/family-violence-leave/managing-family-violence-leave>

^{viii} <https://www.employment.govt.nz/leave-and-holidays/jury-service>

^{ix} <https://www.employment.govt.nz/leave-and-holidays/time-off-to-vote>

^x <https://www.employment.govt.nz/leave-and-holidays/defence-force-volunteers>

^{xi} <https://www.employment.govt.nz/leave-and-holidays/parental-leave>

^{xii} <https://www.ird.govt.nz/paid-parental-leave/applications/apply>

^{xiii} <https://www.ird.govt.nz/employing-staff/paying-staff/allowances/accommodation-allowances>

