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23 July 2008

Treasury Circular 2008/10

Unrestricted Distribution

Chief Financial Officers / Directors of Finance

REPORTING KIWISAVER EMPLOYER EXPENSES AND SUBSIDIES

1. This circular outlines how Crown reporting entities, including Departments, Offices of Parliament, SOEs and Crown entities should report KiwiSaver employer expenses and subsidies from **1 July 2008** in relation to:
 - CFISnet DataLoad schedules, and
 - Appropriations (for Departments only).
2. We think that New Zealand Generally Accepted Accounting Practice (NZ GAAP) is not clear-cut on whether KiwiSaver employer subsidies should be reported as income or offset against KiwiSaver employer expenses. We think that both options are supported by the accounting standards.
3. To achieve consistency, and to ensure that full personnel costs are reported, Treasury will require **Departments** to report KiwiSaver subsidies as income in their own financial statements to align with the appropriations framework. This is consistent with the way State Sector Retirement Savings Scheme (SSRSS) reimbursements are currently disclosed in eligible Departments' financial statements. If required, adjustments to appropriations can be made in the next fiscal update in September.
4. We appreciate that other Crown reporting entities that do not report against appropriations and do not currently claim SSRSS reimbursements may choose to offset the subsidy against expenses under NZ GAAP in their own financial statements.
5. This circular is not intended to be retrospective, and is therefore effective for accounting periods beginning 1 July 2008. We expect that the KiwiSaver subsidy for the year ended 30 June 2008 will be immaterial.

BACKGROUND

6. From 1 April 2008, most employees who join KiwiSaver and make contributions to it will be entitled to receive the legislated amount of employer contribution (or compulsory employer contributions) based on the employee's salary or wages (i.e. 1% from 1 April 2008, 2% from 1 April 2009, 3% from 1 April 2010 and 4% from 1 April 2011).

7. From 1 April 2008, a significant portion of the cost of the compulsory employer contribution in its first year will for many employers be met. This is due to the Government's decision to pay a subsidy to employers in the form of employer tax credits via the IRD's PAYE system, and it will be the lesser of:
- The amount of the compulsory employer contribution; or
 - Up to \$20 per week (\$1,040 per annum).
8. Also, Cabinet has agreed that most state sector organisations¹ may qualify for and claim reimbursement from the State Services Commission (SSC) for the actual net costs of the compulsory employer contributions, subject to eligibility and "no double-dipping" rules. For eligible entities the reimbursement from SCC represents a top-up subsidy over and above the employer tax credit received from IRD. For information on eligibility criteria and how to claim SSC reimbursements, please visit the SSC website:
<http://www.ssc.govt.nz/display/document.asp?docid=6703>
9. For the purposes of this circular, KiwiSaver subsidies include both the employer tax credits from IRD and any top-up reimbursement from SSC, if applicable.

CFISNET DATALOAD

10. In our recent 30 June 2008 year-end circular we had advised entities to record employer tax credits as a negative expense in the CFISnet operating statement for 2007/08, as the amounts were not expected to be material. However from 1 July 2008 all KiwiSaver subsidies, including the employer tax credits, should be recorded in the income section of the DataLoad.
11. From **1 July 2008** please enter KiwiSaver subsidies in the income section of the operating statement in CFISnet DataLoads as follows:

KiwiSaver Subsidies	Operating Statement (1:50:0 / 1:70:0)	Cash Flow Statement (1:52:0 / 1:72:0)
Employer tax credits received from IRD	Miscellaneous Revenue line 630 Detailed Input	Miscellaneous cash receipts line 430 Detailed input
Any KiwiSaver top-up reimbursement from SSC	Miscellaneous revenue Dept line 605	Miscellaneous receipt Dept line 405

12. The KiwiSaver gross employer contributions should be expensed in the CFISnet DataLoads as follows:

KiwiSaver Expense	Operating Statement (1:50:0 / 1:70:0)	Cash Flow Statement (1:52:0 / 1:72:0)
Employer KiwiSaver contribution expense	Defined Contribution Pension (DCP) expense line 3025	Cash distributed for Personnel costs line 605

¹ State-owned enterprises and their subsidiaries, subsidiaries of Crown entities and entities funded but not owned by the Crown, such as NGOs, are not eligible for the central funding.

13. Please note that employer contributions made to any defined contribution pension plan (except the SSRSS, which has a separate expense line in the DataLoad) should be expensed to line 3025 rather than the other personnel expense line.
14. For our eliminations framework, employer tax credits and any SSC reimbursements need to be separately identified in the DataLoad schedules. Employer tax credits are eliminated against the Crown's social benefit expenses, whereas SSC reimbursements are eliminated against the Crown's personnel costs.

APPROPRIATIONS (DEPARTMENTS ONLY)

15. From **1 July 2008**, Departments may need to adjust departmental output expense appropriations to reflect expenses associated with gross employer contributions.
16. Where necessary, this should be actioned through the Baseline Update process (due in September this year as part of the Pre-Election Economic and Fiscal Update). Departments should adjust affected departmental output expense appropriations by the amount of the gross employer contributions, funded by revenue department reflecting:
 - Employer tax credits received from IRD; and
 - Any top-up reimbursement received from SSC.

For each department these changes should be fiscally neutral.

17. Table 2 (Changes to Baselines) of the submission should list the adjustments associated with the Employer tax credits subsidy and SSC top-up reimbursement separately as forecast changes against each relevant line item, as illustrated in the following example:

Explanations	2008/09 Baseline Changes \$000	2009/10 Baseline Changes \$000	2010/11 Baseline Changes \$000	2011/12 Baseline Changes \$000	2012/13 Baseline Changes \$000	Criteria
REVENUE DEPARTMENT						
Policy Advice						
KiwiSaver Employer Tax Credit	25	25	25	25	25	Forecast change
KiwiSaver SSC reimbursement	2	6	11	15	15	Forecast change
Subtotal	27	31	36	40	40	
DEPARTMENTAL OUTPUT EXPENSES (GENERAL)						
Policy Advice						
KiwiSaver Employer Tax Credit	25	25	25	25	25	Forecast change
KiwiSaver SSC reimbursement	2	6	11	15	15	Forecast change
Subtotal	27	31	36	40	40	

18. This is the same process as for adjusting departmental output expense appropriations for State Sector Retirement Savings Scheme changes. If there is a need to make subsequent changes to forecast gross employer contributions (e.g. as a result of changed propensities for new staff to join KiwiSaver), these can be actioned in subsequent Baseline Updates.

NZ GENERALLY ACCEPTED ACCOUNTING PRACTICE (NZ GAAP)

19. In our opinion the accounting standards are not absolutely clear on whether KiwiSaver employer subsidies should be reported as income or offset against the expense. We think that both options are supported by the accounting standards.
20. In forming this view we started with NZ IAS 1 *Presentation of Financial Statements* which states that income and expenses should not be offset, unless given permission to do so in another NZ IFRS standard. However, we identified two standards (NZ IAS 20 *Accounting for Government Grants and Disclosures of Government Grants* and NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) that allow an entity the option of offsetting a subsidy or reimbursement against the related expense.
21. It should be noted that public benefit entities are not permitted to apply NZ IAS 20. Therefore a number of Crown reporting entities would not be able to use this standard as support for offsetting KiwiSaver subsidies. Also, NZ IAS 37 only provides the option to offset, it is not a requirement.
22. On balance we believe that, from 1 July 2008, **Departments** should record KiwiSaver subsidies as income, because that will ensure full personnel costs are shown, and will provide consistency within the public sector and the appropriations framework. This is consistent with the way SSRSS reimbursements are currently disclosed in eligible Departments' financial statements.
23. To obtain the designed consistent approach we therefore intend to amend the **departmental** accounting policy parameters to require the reporting of KiwiSaver gross flows in the next update of Treasury Instructions.
24. We appreciate that other Crown reporting entities that are not defined as public benefit entities under NZ GAAP, can apply NZ IAS 20, and would therefore have the option to record KiwiSaver subsidies as income or offset against the KiwiSaver expense in their own financial statements.
25. If you have any queries about guidance provided in this circular please do not hesitate to contact Angela Ryan at angela.ryan@treasury.govt.nz or (04) 917 6102.

Hugh Packer
for Secretary to the Treasury