

## Member tax credits (MTCs) under KiwiSaver

June 2015

Under KiwiSaver, most savers receive an annual government-paid subsidy in respect of their savings. The government refers to this as a MTC or “member tax credit” but it is a “subsidy” and not a tax credit in the normal sense. The MTC (i.e. government subsidy) is in addition to the contributions made by your employer.

### Who gets it?

With a few exceptions, the MTC applies to everyone in KiwiSaver aged 18 or older, living in New Zealand, who have not become eligible for a KiwiSaver retirement benefit. It does not apply to those under 18 and those who have become entitled to receive a benefit at their “KiwiSaver Retirement Age”.

	Eligibility to receive “member tax credit”		
	Under age 18	18 to Retirement Age	Above Retirement Age
Employees	✗	✓	✗
Self-employed	✗	✓	✗
ACC-recipients	✗	✓	✗
Paid parental leave recipients	✗	✓	✗
Beneficiaries	✗	✓	✗
Home makers	✗	✓	✗
Government employees living overseas	✗	✓	✗
“Token-paid” NZ charity workers overseas	✗	✓	✗
Other members based overseas	✗	✗	✗

Your KiwiSaver Retirement Age is the later of 5 years after you join and the age eligibility for New Zealand Superannuation (currently age 65).

- ★ Member tax credits apply to those 18 or older.
- ★ MTCs provide a further government paid subsidy.
- ★ The MTC is \$1 for each \$2 you save, up to \$521.43 a year.
  - you save \$500, the government pays \$250.
  - you save \$1,043, the government pays \$521.
  - you save \$2,000, the government pays \$521.
- ★ A proportionate payment is made in your first and last years.
- ★ MTCs are not paid for periods when you are not in NZ.

### Who pays it? When is it paid?

The MTC is paid each year by the IRD on behalf of the government. It is paid after the end of the financial year, i.e. after 1 July, for the 12 months ending 30 June. You do not have to apply for it - your KiwiSaver provider will ask for it on your behalf.

#### The legal stuff

*This is not an investment statement for the purpose of the Securities Act 1978. An investment statement is available from SuperLife free of charge. Before making a decision to join KiwiSaver, you should consider whether you need to seek financial advice. If you wish to have personalised financial advice, you should talk to an appropriately experienced Authorised Financial Adviser.*

### How much is the member tax credit?

The MTC is equal to half the amount you have saved to your KiwiSaver Account that year, with a maximum of \$521.43<sup>1</sup> (about \$10 a week). The government will subsidise the employee's savings at \$1 for \$2 up to the maximum. It is tax-free.

For employees saving the standard 3% savings level, the maximum will apply if they earn \$34,762 or more each year.

Employees on incomes below \$34,762 will not get the \$521 maximum, unless they save more than the minimum. That's because 3% of their income is below \$1,043. Lower paid employees, may choose to make voluntary savings on top of the minimum to maximise the MTC they receive or to save at the higher 4% or 8% levels. For employees saving 4% of their income, the maximum applies if they earn \$26,072 or more.

Weekly pay	Your 3% contributions	MTC	Annual pay	Your 3% contribution	MTC
\$	\$	\$	\$	\$	\$
100	3	1.50	5,200	156	78
200	6	3.00	10,400	312	156
300	9	4.50	15,600	468	234
400	12	6.00	20,800	624	312
500	15	7.50	26,000	780	390
1,000	30	10.00 (max)	52,000	1,560	521 (max)
1,500	45	10.00 (max)	78,000	2,340	521 (max)

### Where does the MTC go?

The MTC is paid into your KiwiSaver Account and invested along with your other savings.

### Can I withdraw the member tax credits to help buy my first home?

Yes. The MTCs can be withdrawn to help buy your first home. The only amount that you can't withdraw is \$1,000.

### What happens to my MTCs if I permanently emigrate?

If you permanently emigrate, you can apply for a benefit before your KiwiSaver Retirement Age. In this case, if you emigrate to a country other than Australia, your KiwiSaver Account is paid out less the tax credits. The tax credits are refunded to the government. The investment earnings on the tax credits are however paid out as part of your benefit. If you defer payment until your Retirement Age, the tax-credits are paid out

to you as part of your retirement benefit.

If you permanently emigrate to Australia, the cash option is not available. Instead you can transfer your KiwiSaver balance to an Australian scheme and the MTCs will also be transferred.

### What is my KiwiSaver Retirement Age?

For most KiwiSavers, the KiwiSaver Retirement Age is the age they are eligible for NZ Superannuation. This is currently age 65. However, if you first joined KiwiSaver (or a complying superannuation fund) after age 60, it is the date 5 years after you join.

### Principal place of residence

When a KiwiSaver benefit is paid, you must declare that your “principal place of residence” has been in New Zealand for the whole of your membership. If not, the part of the member tax credits that relate to when you were overseas are repaid to the government.

### Do MTCs apply on any savings diverted to my mortgage?

No. If you had applied for mortgage diversion prior to 1 June 2009, you can continue with your mortgage diversion. However, no new mortgage diversions can be started. If mortgage diversion applies to you (i.e. you choose that part of your KiwiSaver savings diverted to help pay off your mortgage), as they do not stay in your KiwiSaver Account, the MTC does not apply on the part diverted. It is still paid on the savings that stay in KiwiSaver. Eligible members should consider diverting savings only above the \$1,043 level so that the maximum tax credit is preserved.

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<sup>1</sup> A proportionate amount is paid in the first and last years.