

New Zealand
Patents Act, 1953

No:

Date:

COMPLETE SPECIFICATION

METHOD FOR THE AUTOMATIC COLLECTION OF EMPLOYEE
INCOME TAX.

I, Peter Harrison hereby declare the invention, for which I pray that a patent may be granted to me, and the method by which it is to be performed, to be particularly described in and by the following statement:

(follows on page 2)

METHOD FOR THE AUTOMATIC COLLECTION OF EMPLOYEE INCOME TAX.

Background of then invention

New Zealand Income Tax laws present a substantial obligation and risk to small business employers. The obligation of filling in income tax paperwork every month, the obligation of correctly calculating the amount of tax to deduct from employee wages, the risk of penalties should those tasks not be performed correctly, and the risks that insufficient funds are set aside to cover tax payment resulting in penalties and possibly criminal sanctions.

For large companies these obligations and risks have dedicated staff to handle them. The staff are expert in the preparation of income tax information and will have automated computer systems to help with the preparation of the information. Small business owners however often lack the expertise and experience and so can get into difficulties running the very real risk of large penalties and possibly even criminal sanctions if the proper paperwork is not filed and the right amount of income tax deducted and paid. This is a discouragement to small businesses starting up.

The Government now has a system where employees need not file income tax returns every year if they earn no other income except as an employee. This has greatly simplified collection of revenue for the Government from employees, and made life much easier for the employees. This invention seeks to address the automation of the collection of income tax employers deduct from employee pay (known as PAYE in New Zealand).

Summary of the Invention

The invention is a system in which a company may elect to use a system of income tax reporting and payment which is automated. The benefits of the automated system will be the removal of monthly submission of returns to the Government stating what payments and deductions have been made and automatic handling of money going to employees meaning no possibility of tax not being paid. This in turn will eliminate the need for financial or criminal penalties, reducing the risks to a small business. The invention will typically be implemented by a bank used by a company.

According to the first aspect of the invention a bank will allow a company to set up special automatic payments for an employee, that in addition to the normal information collected for an automatic payment such as bank account number, amount to pay and pay period, the bank will also collect the IRD number of the employee, the tax code, student loan information, and other information related to the employee tax obligations.

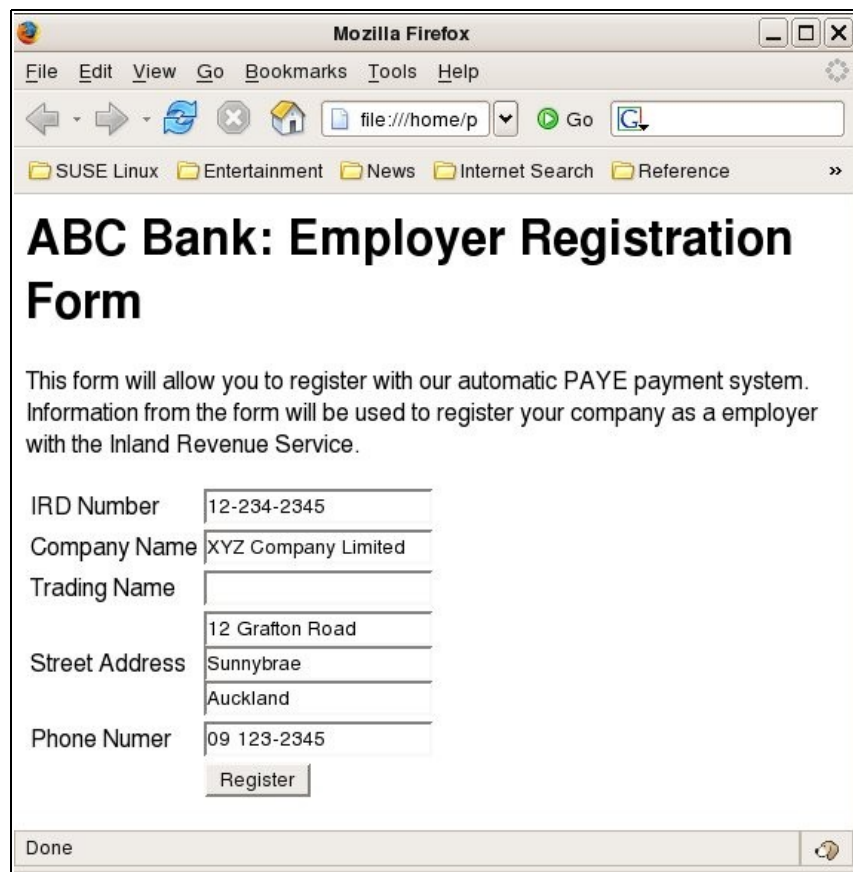
The second aspect of the invention is that the bank will deduct the gross pay from the employers account in the same way that it would for a normal automatic payment. The bank will then transfer the net pay into the employee account and deposit the tax deductions with the IRD in the name of the employer.

The third aspect of the invention is that the bank will prepare reports for the employer detailing payments to each employee in order for the company to maintain their own record of pay and to provide deduction information to employees. The bank may also provide information to the employees directly.

Example Implementation of the Invention

In this example we will look at a bank implementing the invention. This however is only an example. The invention is by no means limited to electronic or internet methods of communication.

The bank would have an internet based employer registration system that would set up a company as a employer that uses the bank to pay its employees. It would require information such as the company IRD number, which banks usually already collect. The bank may charge a fee for this service, but this aspect is not a part of the invention.

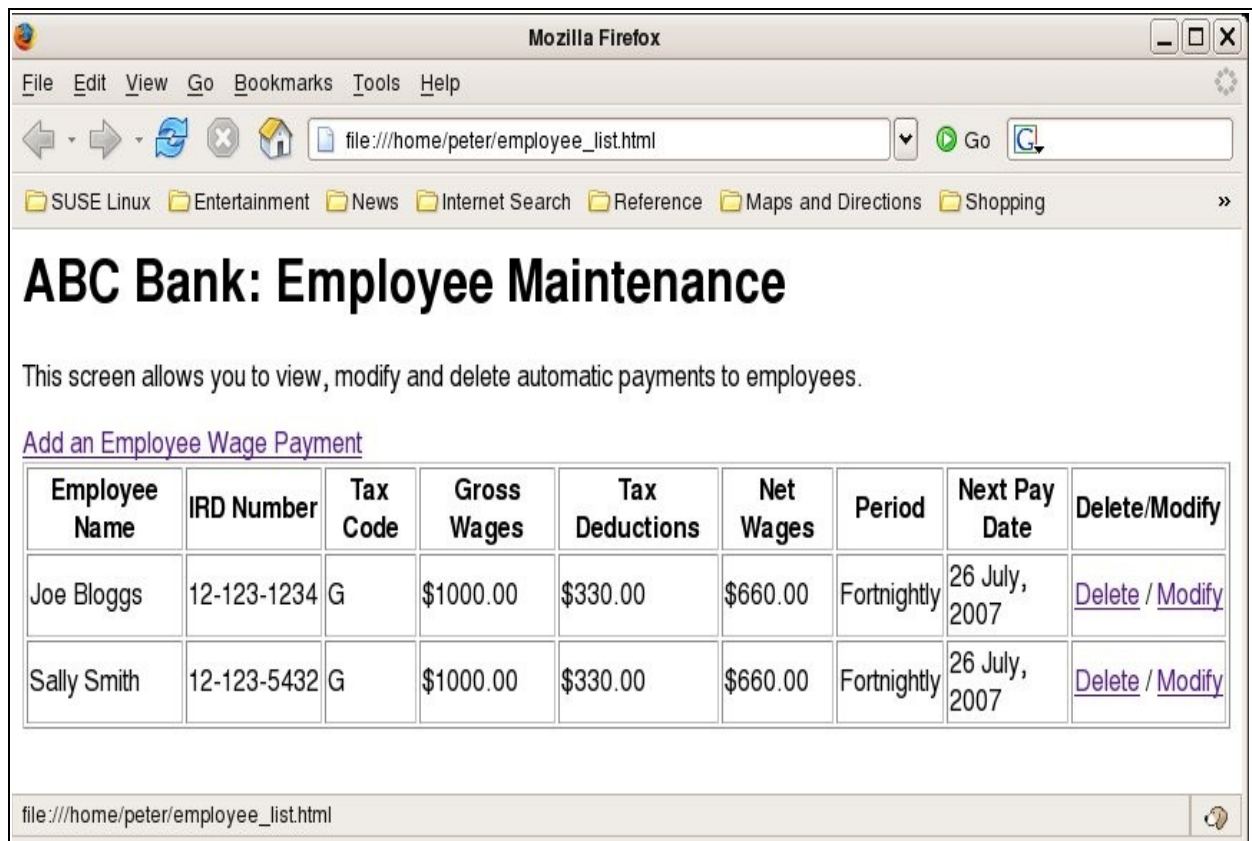


The screenshot shows a Mozilla Firefox browser window with the following content:

- Browser title: Mozilla Firefox
- Menu bar: File, Edit, View, Go, Bookmarks, Tools, Help
- Address bar: file:///home/p
- Bookmarks bar: SUSE Linux, Entertainment, News, Internet Search, Reference
- Form title: **ABC Bank: Employer Registration Form**
- Form description: This form will allow you to register with our automatic PAYE payment system. Information from the form will be used to register your company as a employer with the Inland Revenue Service.
- Form fields:
 - IRD Number: 12-234-2345
 - Company Name: XYZ Company Limited
 - Trading Name: (empty)
 - Street Address: 12 Grafton Road, Sunnybrae, Auckland
 - Phone Number: 09 123-2345
- Register button
- Status bar: Done

Example Registration Screen

The employer will then be able to access the employer functionality on the banks internet banking web site. The access to this functionality would only be permitted by authorised company officials, thus ensuring that there is a legal authorisation for any changes. This functionality will allow the employer to add special automatic payments via a internet based form.



Automatic Employee Payment Screen on Internet Banking Web Site

The special automatic payment will include details of the full name of the employee being paid, the IRD number of the employee being paid the gross amount being paid, the period of the payment, the tax code to be applied, whether student loan deductions should be made, and any other detail required to properly calculate the deductions required. The form once filled in will be confirmed by the employer to ensure it is correct.

ABC Bank: Adding Employee

Employee Name

Employee IRD Number

Gross Pay

Payment Frequency

Start Date

Tax Code

Student Loan

Other IRD Deductions

Done

Adding a new Employee to Internet Banking System

The bank will use this information to calculate the proper tax deduction to make when paying the employee. The first thing it would do would be to calculate the annual income. This would be achieved by multiplying the gross pay by the payment frequency. For example, if the payment frequency is monthly the annual income would be the gross pay multiplied by twelve.

The total gross annual income would then be used to calculate the tax deduction based on the current tax rules which would be defined by the Government and implemented by the bank. The deductions would need to be recalculated every time there is a modification to the specific employee, or if there was a change to the tax rules.

The bank will then process the automatic payment every period, according to the period of the automatic payment. The bank would deduct the gross amount of the payment from the employers bank account, and transfer to the employee the net pay after tax and student loans had been deducted based on the values that had been calculated previously. The deductions would immediately be paid to the Inland Revenue Department.

The bank would also provide information about these payments to all concerned parties, such as IRD, the employer and the employee. There will probably be different mechanisms to provide information to each party.

The IRD will probably connect to each bank by a secure data connection that is protected and encrypted. Each bank will provide the IRD with information about each transaction made through the employer system. This will include the employee IRD number, the employer IRD number, the gross pay, the deductions for PAYE, deductions for Student Loans, deductions as per IRD instructions, and the net pay. This is the information currently provided by employers directly.

The transfer of data might best be achieved with XML. The following example of a XML transmission might be used to move data between banks and the IRD:

```
<payment>
  <employer>
    <ird>1231231234</ird>
  </employer>
  <employee>
    <ird>3213211234</ird>
  </employee>
  <payment gross="1000.00" paye="330.00"
  studentloan="100.00" other="0.00"
  net="530.00"/>
</payment>
```

Employers might receive the payment information as part of the monthly bank statements on paper or they might access the information online using internet banking. Employers could perhaps also configure the system to email employees directly providing a payslip automatically.

Advantages to Parties Involved

This approach to tax payments has advantages to all involved. The company paying employee tax this way will never need to worry about filling in PAYE returns every month, as the information about deductions will be provided by the bank. They will not need to worry that they will not have enough money to pay IRD, as the payment is already taken care of automatically. Penalties are eliminated as there is no opportunity for underpayment.

This approach will also benefit the Government. It will reduce the amount of effort and funding required to police taxation in a similar way that occurred when employees no longer needed to file tax returns when only PAYE employees. It would reduce the amount of enforcement actions being taken and increase the revenue take by eliminating bad debts.

This approach would benefit banks, who would be able to charge for the new service. As it would not necessarily require modification to existing tax law a banks could implement the system as a service for small business customers. Compared to what a small business might pay in PAYE compliance a automated system could be a large saving for small business and a substantial revenue source for banks.

What I claim is:

1. A system which contains the following elements:

(a) A computing device programmed to be capable of recording information sufficient to pay an employee, that is the employees IRD number, gross pay per period, the length of the pay period, the tax code for the employee, student loan status and other employee deductions.

(b) A computing device programmed to be capable of calculating the tax deductions to be made based on the recorded information in 1(a).

(c) A computing device programmed to be capable of deducting gross pay from the employers bank account, paying the net amount to the employee bank account and the deducted amount to IRD.

2. A system of claim 1 further containing the following element

(a) A computing device programmed to be capable of sending information about the deductions, including the employee IRD number, gross pay, amounts of the deductions and the net pay and employer IRD number to the IRD.

3. A system of claim 1 further containing the following element

(a) A computing device programmed to be capable of sending information about the deductions, including the employee IRD number, gross pay, amounts of the deductions and the net pay to the employer.

4. A system of claim 1 further containing the following element

(a) A computing device programmed to be capable of sending information about the deductions including the employee IRD number, gross pay, amounts of the deductions and the net pay and employer IRD number to the employee.