



A Guide to Taxing Director's Fees

Director's Fees are treated as employment income and should be taxed in a similar manner.

How are Director's Fees Treated for Tax?

The Income Tax Act says that office holder's should be taxed as employees. Company Director's are considered office holders and should therefore be taxed as employees.

How do I tax Director's Fees?

Some Director's receive Director's Fees monthly, while for other's the payments are annually or irregular.

If Director's Fees are paid monthly, weekly or fortnightly they should be taxed using the normal tax tables.

If Fees are paid less regularly then the payment should be treated as if it is spread over the period it relates.

For example:

A Director receives \$3,000 every three months. To work out the tax using the tax tables you would spread the payment over the 3 months and tax it as if they were receiving \$1,000 each month.

What happens if a Director receives income from more than one Company?

If a Director receives employment income (including Director's Fees) from more than one employer at the same time, the Director needs to advise the 2nd and subsequent employers that they are the secondary employer and must calculate the tax to be deducted excluding any personal exemption. This means they can not use the tax tables, but instead must apply the appropriate tax rates to the full amount.

For example:

A Person is a Director of 2 companies. He receives Fees of \$10,000 from company A and \$8,000 from company B. Company A should deduct tax using the tax tables. Company B should calculate the tax using the rate of 11 cents (because the income falls between \$1—\$15,000) on the full amount they pay.

If my Director's Fees are Taxed do I need to File A Return?

There are 2 situations where Directors are still required to file annual returns of income:

1. If they receive more than \$10,000 per year in:
 - Director's Fees
 - Dividends
 - Interest
2. They receive income (including director's fees) from 3 or more employers at the same time

If either of these scenarios reflect your situation, or you receive income from any other source that is not taxed then a return needs to be filed by the 31st March of the year following the calendar year it relates.

The return you should complete is called an IR20. A copy can be obtained from our website or from an IRD office

If you have any further queries regarding this matter please contact our staff at Inland Revenue Division