

# NOTES FOR GUIDANCE OF EMPLOYERS

## 1. SCOPE OF TABLES

The tables have been designed to cover most categories of income. Where any payment is proposed which does not fall within the prescribed tables advice should be sought from the Income Tax Office before making payment.

## 2. DEFINITIONS AND EXPLANATIONS OF TERMS FOR PURPOSES OF THE TABLES

“Tax Year” means the year of assessment ending on 30<sup>th</sup> June.

“EMOLUMENTS” (“Gross Pay”) means emoluments without any deductions.

“EMOLUMENTS” (“Gross Pay”) embraces salary, wages, fees, overtime pay, bonus, commission, pension and includes every payment in cash including a gratuity and every allowance, perquisite or benefit given in kind.

## 3. CODES

Employees obtain from the Income Tax Office a “PAYE” Allowance and Social Insurance Contributions Class” certificate (form P3) which is in two parts. Part II of the certificate showing the employee’s income tax “code” and social insurance contributions “class” is handed to the employer and this certificate is the employer’s authority to deduct tax and social insurance from all payments made in accordance with the tax table applicable to that particular “CODE”.

Where an employee fails to produce Part II of his “PAYE Allowance and Social Insurance Contributions Class” certificate to his employer, the employer is required to deduct tax according to “Code X” (Table E) and social insurance under the Earnings Related Class.

## 4. HOW TO APPLY THE TABLES

- (a) Use the monthly, weekly, daily or annual tables if the employee is paid monthly, weekly, daily, or annually respectively.

For example – an employee’s emoluments are calculated at £30 per day but he is paid weekly. In this case the weekly table must be used. Another employee’s wages are calculated at the rate of £30 per day in respect of each day. In this case, the daily table must be used.

- (b) Also use the daily table – where a weekly or monthly paid employee works for only part of a week or month. For example – after working 3 days, a weekly-paid employee leaves your employ and is paid £90.00 for the three days.

The daily equivalent is  $\frac{£90.00}{3} = £30.00$

(Read to nearest £1). The tax must be read off in the daily table (Table C) against the income block of £30.00 and if he is “Code 52” the tax thereon will be £0.21 the tax on £90.00 will therefore be 3 x 21p = £0.63.

The same applies in the case of a monthly-paid employee who resigns or is appointed during a month. The emoluments payable to him for the portion of the month is divided by the number of days worked during the month to date of resignation or from date of appointment and the result is used to read off from the daily table the tax applicable to one day. The amount thus determined is multiplied by the number of days worked.

Example – a monthly-paid employee leaves your employ on the 15<sup>th</sup> of the month and is paid £450 for the portion of the month.

The daily equivalent is  $\frac{£450}{15} = £30$

Read off on the daily table the tax on £30 and multiply by 15 to arrive at the tax deduction on £450.

## 5. FORTNIGHTLY, FOUR-WEEKLY, QUARTERLY, HALF YEARLY, AND YEARLY PAY.

**Fortnightly Pay** - Use the weekly table. Example – assume an employee is paid £400 at two weekly intervals: -

- (a) Divide by 2 -  $\frac{£400}{2} = £200$
- (b) Read off weekly tables tax due on £200 and,
- (c) Multiply the result by 2 to arrive at the tax to be deducted.

**Four-weekly Pay** - Use the weekly tables.

The calculation is similar to that above except you divide and multiply by 4.

**Quarterly Pay** – Use the monthly tables.

The calculation is similar to that above except you divide and multiply by 3.

**Half-Yearly Pay** - Use the monthly tables

The calculation is similar to that above except you divide and multiply by 6.

**Yearly Pay** - For employees paid once a year, the “Annual Remuneration Table” must be used irrespective of the date in the Income Tax year on which the payment is actually made.

## 6. LUMP SUM PAYMENTS ON CESSATION OF EMPLOYMENT

Before any ‘Lump Sum’ payment is made to an employee on cessation of employment, the employer must obtain a directive from the Income Tax Office as to the amount of Tax to be deducted from the proposed payment. In applying for a directive from the Income Tax Office, the employer should supply the information outlined under paragraph 40 of the “Employer’s Guide”. Examples of such payments are:

- Compensation for loss of office.
- Ex-Gratia payments.
- Payments in Commutation of pension.
- Payments in lieu of notice.

## 7. STUDENTS

Students who are employed during periods of vacation are exempt from paying income tax and social insurance contributions. **This exemption only applies to students who, at the end of the relevant period, will be returning to their school, college or university to continue their studies.** At the start of the employment, the employer should write to the Contributions Unit providing the name and period of employment of the student, so that they are covered in the event of any employment injury. Details of all payments should be recorded in Form P8 at the end of the tax year.

## 8. PART-TIME EMPLOYEES

“Part Time Employees” – means persons who are not full-time in your employ and who are not paid as full-time employees for any services rendered. “Part-time” pay includes: -

- (a) Casual payments for irregular services rendered.
- (b) Fees paid to part-time lecturers.
- (c) Honoraria paid to office-bearers of clubs, societies, etc.
- (d) Payments for occasional services rendered.
- (e) Any payment that cannot be regarded as full-time pay.

### Examples

1. Mr A works for firm B during the day and acts as cashier for firm C for a few hours in the evening. He is regarded as a part-time employee of firm C.

2. Mr Z is a clerk at an insurance company and receives a fixed monthly salary. In his spare-time he canvasses business for his company and is paid separately from his wages, for such work. The commission he receives for his

spare-time work is regarded as “part-time” pay and tax should be deducted there from according to the “Part-time” rate – Table “E”. If the commission is paid with his regular monthly salary, it forms part of his monthly pay and should be deducted according to the applicable code on the monthly Table “A”.

Where there is any doubt as to whether a payment should be regarded as part of full-time pay, the Income Tax Office should be consulted.

## PART 1 – ALLOWANCES BASED SYSTEM

### 9. HOW TO READ THE TABLES

- (i) The first column: monthly, weekly, daily or annual emoluments means the basic wage plus overtime pay, monthly or weekly bonuses, commission, gratuities etc.

The first and last amounts shown in this column are both included in the respective income blocks. In the case of monthly, or annual emoluments, any pence appearing in the case of the daily table the amount of the emoluments must be taken to the nearest £1.

- (ii) The second and third columns in the monthly, weekly and annual tables, represent the social insurance contributions in respect of “ER” (earnings related) class. Other classes of social insurance contributions should be deducted according to the amount shown in the “PAYE Allowance and Social Insurance Contributions Class” certificate issued to your employee. (Please see table on page 4).

- (iii) The other columns represent the tax deductions according to the deduction codes applicable to employees who have opted to pay tax under the “PAYE Allowances” system.

- (iv) Examples of how deductions should be made from weekly table “B”: -

(a) Gross pay £343.95 – read off line	£343 - 344
(b) Gross pay £351.20 – read off line	£351 - 352
(c) Gross pay Exactly £355 – read off line	£355 - 356

- (v) Example – to determine the monthly tax deduction and social insurance contribution for an employee with tax code “55” and social insurance contribution class “ER”, whose monthly emoluments are £1523.50: -

#### Read off from Table “A” for the Allowances Based System:

Monthly Emoluments	Social Insurance		Tax Deductions		
	Employee	Employer	54	55	56
1522 – 1523	109.03	142.87	150.90	147.90	144.90
1523 – 1524	109.03	142.87	151.14	148.14	145.14
1524 – 1525	109.03	142.87	151.38	148.38	145.38

The amount shown in the block opposite the monthly emoluments for £1523 - 1524 is the amount that has to be deducted.

### 10. HOW TO CALCULATE TAX DEDUCTIONS ON ANNUAL BONUSES AND PERIODIC PAYMENTS:

#### Example 1

Annual bonus – An employee code “49” receives a monthly salary of £1000.00 and an annual bonus of £250.

(i)	Multiply £1000.00 X12	£12,000.00
(ii)	Add the annual bonus	<u>£ 250.00</u>
		<u>£12,250.00</u>
(iii)	Read off on annual table “D” first	
	The tax on £12,250 (a)	£546.00
	And then the tax on £12,000 (b)	<u>£498.00</u>
	∴ Tax on bonus is (a) – (b)	<u>£ 48.00</u>

**Example 2**

Monthly production bonus paid to weekly paid employee (a) employee code “55” received the following weekly wage and monthly bonus: -

WEEK	WAGE	BONUS	
14	£240	-	
15	£240	-	(Earned during the previous month
16	£240	-	but paid during following month)
17	£240	-	
18	£240	£200	

- (i) Read off the tax deductions of the wages for weeks 14, 15, 16, 17 and 18 from Table “B”  
(ii) Divide the monthly bonus by the number of weeks during which it was earned, in this case 4 weeks.

$$\frac{\underline{\pounds 200}}{4} = \pounds 50$$

- (iii) Add the amount thus arrived at £50 to the average wage of the 4 weeks £240 + £50 = £290.

- (iv) Read off from Table “B”: -

Tax on £290	£19.53
Less Tax on £240	<u>£ 7.53</u>
Difference	<u>£12.00</u>

- (v) Multiply the difference by number of weeks (4) during which the bonus was earned.

$$\therefore \text{Tax deduction from bonus } 4 \times \pounds 12.00 = \pounds 48.00$$

- (vi) In week 18 the following tax deduction should be made: -

Tax on wage of £290	£ 19.53
Tax on bonus	<u>£ 48.00</u>
	<u>£ 67.53</u>

### 11. OVERTIME OR BONUS EARNED IN ONE MONTH BY MONTHLY-PAID EMPLOYEES, BUT ONLY PAID OUT DURING FOLLOWING MONTH

An employee coded “55” earns salary of £950 in April and is paid an amount of £100 overtime pay on the 15<sup>th</sup> May, for overtime worked in April.

- (i) Add the overtime to the salary earned during April: -  
£950 + £100 = £1050

Tax on £1050 (Table “A”)	£34.62
Less Tax on £950 (Table “A”)	<u>£16.01</u>
∴ Tax to be deducted from £100	<u>£18.61</u>

**Example 3**

Monthly salary plus quarterly commission. An employee coded “56” receives a monthly salary of £950 and depending on results, is paid commission every three months. Assume for purposes of this example that the commission amounts to £330

- (i) Divide the commission by the number of months in respect of which it is paid:

$$\frac{\underline{\pounds 330}}{3} = \pounds 110$$

- (ii) Add the amount thus arrived at to the salary of £950 = £950 + £110 = £1060

- (iii) Read off from Table “A”: -

Tax on £1060	£34.02
Less: Tax On £950	<u>£14.14</u>
Difference	<u>£19.88</u>

- (iv) Multiply the difference by the number of months (3)  
 $\therefore$  Tax on commission of £330 = 3 x £19.88 = £59.64  
 In this month the following must therefore be deducted
- |                   |                |
|-------------------|----------------|
| Tax on salary     | £ 14.14        |
| Tax on commission | <u>£ 59.64</u> |
|                   | <u>£ 73.78</u> |

## 12. EXCEPTIONAL PAYMENTS

If any difficulty is experienced in the method of deducting Tax from exceptional payments, the Income Tax Office should be approached for advice. The most common type of exceptional payments is where an employee is due a lump sum in respect of arrears of wages and to establish the amount of Tax to be deducted from the lump sum payment the following procedure must be adopted: -

### Example

Mr A is paid a salary of £1,000 per month for the months of July to December. In December an increase of £50 per month, retrospective from 1<sup>st</sup> July is paid to him.

At the end of December he receives salary for	
December	£ 1,050.00
Arrears increase for the months of July to November	<u>£ 250.00</u>
	<u>£ 1,300.00</u>
Read off from Table 'A' the Tax on £1,050 ("56" code)	£ 31.62
Read off from Table 'A' the Tax on £1,000 ("56" code)	<u>£ 21.64</u>
Difference due to increased salary	<u>£ 9.98</u>
Amount to be deducted at the end of December: -	
From £1,050 current salary	£ 31.62
From £250 arrears increases in salary (5 x 9.98)	<u>£ 49.90</u>
Total =	<u>£ 81.52</u>

## PART 2 – GROSS INCOME BASED SYSTEM

### 13. HOW TO READ THE TABLES

- (i) The first column: monthly, weekly, daily or annual emoluments means the basic wage plus overtime pay, monthly or weekly bonuses, commission, gratuities etc.

The first and last amounts shown in this column are both included in the respective income blocks. In the case of monthly, or annual emoluments, any pence appearing in the case of the daily table the amount of the emoluments must be taken to the nearest £1.

- (ii) The second and third columns in the monthly, weekly and annual tables represent the social insurance contributions in respect of "ER" (earnings related) class. Other classes of social insurance contributions should be deducted according to the amount shown in the "PAYE Allowance and Social Insurance Contributions Class" certificate issued to your employee. (Please see table on page 4).

(iii) The fourth column represents the tax deduction applicable to employees who have opted to pay tax under the "Gross Income Based" system.

- (iv) Examples of how deductions should be made from weekly table "G": -

(a) Gross pay £343.95 – read off line	£343 - 344
(b) Gross pay £351.20 – read off line	£351 - 352
(c) Gross pay Exactly £355 – read off line	£355 - 356

- (v) Example – to determine the monthly tax deduction and social insurance contribution for an employee whose monthly emoluments are £1523.50: --

**Read off from Table “F” for Gross Income Based system:**

Monthly Emoluments	Social Insurance		Tax Deduction
	Employee	Employer	
1522 – 1523	109.03	142.87	196.30
1523 – 1524	109.03	142.87	196.58
1524 – 1525	109.03	142.87	196.86

The amount shown in the block opposite the monthly emoluments for £1523 - 1524 is the amount that has to be deducted.

**INCOME TAX CALENDAR**

WEEKS							
Week No	Period Covered (Both Dates Inclusive)		Week No	Period Covered			
				(Both Dates Inclusive)			
1	Jul	1 - 7	27	Dec	30 - 05-Jan		
2	"	8 - 14	28	Jan	6 - 12		
3	"	15 - 21	29	"	13 - 19		
4	"	22 - 28	30	"	20 - 26		
5	"	29 - 4 Aug	31	"	27 - 02-Feb		
6	Aug	5 - 11	32	Feb	3 - 9		
7	"	12 - 18	33	"	10 - 16		
8	"	19 - 25	34	"	17 - 23		
9	"	26 - 1 Sept		Leap Year		Other Years	
10	Sept	2 - 8	35	Feb	24 - 02-Mar	Feb 24 - 02-Mar	
11	"	9 - 15	36	Mar	2 - 8	Mar 3 - 9	
12	"	16 - 22	37	"	9 - 15	" 10 - 16	
13	"	23 - 29	38	"	16 - 22	" 17 - 23	
14	"	30 - 6 Oct	39	"	23 - 29	" 24 - 30	
15	Oct	7 - 13	40	"	30 - 05-Apr	" 31 - 06-Apr	
16	"	14 - 20	41	Apr	6 - 12	Apr 7 - 13	
17	"	21 - 27	42	"	13 - 19	" 14 - 20	
18	"	28 - 3 Nov	43	"	20 - 26	" 21 - 27	
19	Nov	4 - 10	44	"	27 - 03-May	" 28 - 04-May	
20	"	11 - 17	45	May	4 - 10	May 5 - 11	
21	"	18 - 24	46	"	11 - 17	" 12 - 18	
22	"	25 - 1 Dec	47	"	18 - 24	" 19 - 25	
23	Dec	2 - 8	48	"	25 - 31	" 26 - 01-Jun	
24	"	9 - 15	49	Jun	1 - 7	Jun 2 - 8	
25	"	16 - 22	50	"	8 - 14	" 9 - 15	
26	"	23 - 29	51	"	15 - 21	" 16 - 22	
			52	"	22 - 28	" 23 - 29	
			53	"	29 - 30	" 30	
MONTHS							
Month No	Period Covered			Month No	Period Covered		
	(Both Dates Inclusive)				(Both Dates Inclusive)		
1	July	1 - July	31	7	Jan	1 - Jan	31
2	Aug	1 - Aug	31	8	Feb	1 - Feb	28/29
3	Sept	1 - Sept	30	9	Mar	1 - Mar	31
4	Oct	1 - Oct	31	10	Apr	1 - Apr	30
5	Nov	1 - Nov	30	11	May	1 - May	31
6	Dec	1 - Dec	31	12	June	1 - June	30

# SOCIAL INSURANCE

## 14. CALCULATION OF SOCIAL INSURANCE CONTRIBUTIONS

The first contribution week in a contribution year always starts on the day of the week on which 1<sup>st</sup> July falls. The last contribution week of the year contains 8 days (9 days in a leap year) and will cover the period 23 June (22 June in a leap year) to 30 June.

If two paydays fall in the last week of the year, the two payments must be added together to determine the amount of contribution payable. The contribution payable is subject to the minimum and maximum rate payable (as shown in table on page 4).

### Example

Gross wages and contributions due are as follows:

Week No. 52

Pay Day	Gross Earnings	Employee Contribution	Employer Contribution
23 June	£150	£15 (£150 x 10%)	£30 (£150 x 20%)
30 June	£150	£15 (£150 x 10%)	£30 (£150 x 20%)

It is clear at this point that the total contributions due would exceed the maximum weekly contribution rate. Therefore, the contributions due on the second payday are calculated by subtracting the deductions made on 23 June from the maximum weekly contribution rate as follows:

	Employee	Employer
Maximum contribution rate	£25.16	£32.97
Less deducted on 23 June	£15.00	£30.00
Balance due on 30 June	£10.16	£ 2.97

If a monthly paid employee works only part of a month, the minimum and maximum contribution is based on the weekly contribution payable for the number of weeks or part thereof actually worked during the month.

### Example

An employee who commenced employment on 22 January and whose gross earnings for that month was £90.00.

- (a) Employee contribution: -
- Gross earnings - £90 over 2 weeks (£45 per week)
  - Contribution - (£90 x 10% = £9.00) minimum £10.00 (£5 per week)
- (b) Employer monthly contribution: -
- Gross earnings - £90 over 2 weeks (£45 per week)
  - Contribution - (£90 x 20% = £18.00) minimum £30.00 (£15 per week)

### Example

An employee who commenced employment on 10 December and whose gross earnings for that month was £550.00.

- (c) Employee contribution: -
- Gross earnings - £550 over 4 weeks (£137.50 per week)
  - Contribution - (£550 x 10%) = £55.00 (£13.75 per week)
- (d) Employer monthly contribution: -
- Gross earnings - £550 over 4 weeks (£137.50 per week)
  - Contribution - (£550 x 20%) = £110.00 (£27.50 per week)

### Example

An employee who commenced employment on 17 March and whose gross earnings for that month was £1,500.00.

- (e) Employee contribution: -
- Gross earnings - £1,500 over 3 weeks (£500 per week)

Contribution - (£1,500 x 10%=£150.00) maximum £75.48 (£25.16 per week)

(f) Employer monthly contribution: -

Gross earnings - £1,500 over 3 weeks (£500 per week)

Contribution - (£1,500 x 20%=£300.00) maximum £98.91 (£32.97 per week)

### **15. When contributions need not be paid**

Contributors are not required to pay contributions for any week in which they are:

- a) not in receipt of earnings; or
- b) absent from work in exercise of their right to maternity leave.

### **16. Employees with more than one employer**

An employee who works for more than one employer is liable to pay contributions in respect of each and every employment unless the Income Tax Office has issued an exemption certificate.

**This exemption does not apply to the employer's contributions.**



**SOCIAL INSURANCE CONTRIBUTIONS CALENDAR**

**TABLE 1 - CONTRIBUTION YEAR WHICH IS NOT A LEAP YEAR**

Week No.	Contribution Weeks	Contribution Month	No. of Contributions	Week No.	Contribution Weeks	Contribution Month	No. of Contributions
1	Jul 1 - 7	July	5	28	Jan 6 - 12	January	4
2	" 8 - 14			29	" 13 - 19		
3	" 15 - 21			30	" 20 - 26		
4	" 22 - 28			31	" 27 - 2-Feb		
5	" 29 - 4-Aug			32	Feb 3 - 9	February	4
6	Aug 5 - 11	August	4	33	" 10 - 16		
7	" 12 - 18			34	" 17 - 23		
8	" 19 - 25			35	" 24 - 2-Mar		
9	" 26 - 1-Sep			36	Mar 3 - 9	March	5
10	Sep 2 - 8	September	5	37	" 10 - 16		
11	" 9 - 15			38	" 17 - 23		
12	" 16 - 22			39	" 24 - 30		
13	" 23 - 29			40	" 31 - 6-Apr		
14	" 30 - 6-Oct			41	Apr 7 - 13	April	4
15	Oct 7 - 13	October	4	42	" 14 - 20		
16	" 14 - 20			43	" 21 - 27		
17	" 21 - 27			44	" 28 - 4-May		
18	" 28 - 3-Nov			45	May 5 - 11	May	4
19	Nov 4 - 10	November	4	46	" 12 - 18		
20	" 11 - 17			47	" 19 - 25		
21	" 18 - 24			48	" 26 - 1-Jun		
22	" 25 - 1-Dec			49	June 2 - 8	June	4
23	Dec 2 - 8	December	5	50	" 9 - 15		
24	" 9 - 15			51	" 16 - 22		
25	" 16 - 22			52	" 23 - 30		
26	" 23 - 29						
27	" 30 - 5-Jan						

**TABLE 2 - CONTRIBUTION YEAR WHICH IS A LEAP YEAR**

Week No.	Contribution Weeks	Contribution Month	No. of Contributions	Week No.	Contribution Weeks	Contribution Month	No. of Contributions
1	Jul 1 - 7	July	5	28	Jan 6 - 12	January	4
2	" 8 - 14			29	" 13 - 19		
3	" 15 - 21			30	" 20 - 26		
4	" 22 - 28			31	" 27 - 2-Feb		
5	" 29 - 4-Aug			32	Feb 3 - 9	February	4
6	Aug 5 - 11	August	4	33	" 10 - 16		
7	" 12 - 18			34	" 17 - 23		
8	" 19 - 25			35	" 24 - 1-Mar		
9	" 26 - 1-Sep			36	Mar 2 - 8	March	5
10	Sep 2 - 8	September	5	37	" 9 - 15		
11	" 9 - 15			38	" 16 - 22		
12	" 16 - 22			39	" 23 - 29		
13	" 23 - 29			40	" 30 - 5-Apr		
14	" 30 - 6-Oct			41	Apr 6 - 12	April	4
15	Oct 7 - 13	October	4	42	" 13 - 19		
16	" 14 - 20			43	" 20 - 26		
17	" 21 - 27			44	" 27 - 3-May		
18	" 28 - 3-Nov			45	May 4 - 10	May	4
19	Nov 4 - 10	November	4	46	" 11 - 17		
20	" 11 - 17			47	" 18 - 24		
21	" 18 - 24			48	" 25 - 31		
22	" 25 - 1-Dec			49	June 1 - 7	June	4
23	Dec 2 - 8	December	5	50	" 8 - 14		
24	" 9 - 15			51	" 15 - 21		
25	" 16 - 22			52	" 22 - 30		
26	" 23 - 29						
27	" 30 - 5-Jan						