



A Guide for Employers: Taxing Bonus Payments

An employer needs to deduct PAYE from bonus payments at the employees highest marginal tax rate.

What is a bonus?

A bonus is usually paid to recognize the performance or services of an employee. It is usually not paid routinely but maybe once or sometimes twice a year.

How do I work out the amount to deduct?

The way to ensure the correct amount of PAYE is deducted from a bonus payment is to identify the employees expected annual gross earnings and tax the bonus at the correct marginal rate of tax.

What are the marginal tax rates?

The marginal tax rates are:

Income level	Marginal Tax Rate
\$1 to \$15,000	11%
\$15,001 to \$30,000	23%
\$30,001 to \$60,000	35%
\$60,001 and over	40%

Example 1

If John earns \$52,280 a year and his employer decides to pay him a bonus of \$100 in December. An employer should:

- Identify John's normal gross annual income,
- Deduct the personal exemption
- Identify the highest marginal rate of tax that applies to John
- Calculate the PAYE to deduct from the bonus payment by applying highest marginal rate of tax

Gross annual income	\$52,280
Less Personal exemption	\$ 30,080
Income subject to tax	\$22,200

The income that is subject to tax is \$22,200. John will pay tax at the rate of 11% on the first \$15,000 and the balance will be taxed at 23%. This means that the bonus payment should also be taxed at 23%.

John's employer should deduct \$23 of PAYE from the \$100 bonus payment.

Example 2

An employer must take care to consider whether the bonus payment will take the income subject to tax into the next marginal tax bracket.

Henry earns \$59,080 in annual wages.

Gross annual income	\$59,080
Less Personal exemption	\$ 30,080
Income subject to tax	\$29,000

According to the marginal tax rates, the first \$15,000 is taxed at 11%. The remaining \$14,000 is taxed at 23%.

If Henry is paid a bonus of \$2000 this would mean that his taxable income would total \$31,000. With income exceeding \$30,000, Henry would cross over into the next marginal tax bracket.

This would mean that \$1,000 of the bonus would be taxed at 23% and \$1000 at 35%. A total of \$580 of PAYE should be deducted from the \$2000 bonus payment.

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