



IMPROVING THE LIFE OF SOLOMON ISLANDERS
Inland Revenue Division Solomon Islands

A Guide for Employers: **Deducting PAYE**

Employers must deduct PAYE from their employees salary and wages payments.
PAYE deductions are paid to Inland Revenue on the 15th of every month.

How does the PAYE system work?

Income tax for employees is collected by the Pay as You Earn (PAYE) system. Employers deduct PAYE from the payments they make to their employees.

In most cases, by the end of the year the total amount of PAYE tax deducted and paid to Inland Revenue should equal the amount of income tax that an employee is liable to pay.

What is my Responsibility?

If you are an employer you must register with the Inland Revenue. Employers are required to deduct PAYE from payments made to their employees.

Generally all payments to employees should be subjected to a PAYE tax deduction, including:

- Wages and salaries
- Overtime
- Leave/sick pay
- Directors fees
- Commissions
- Bonuses
- Compensation
- Allowances (such as living, subsistence, travelling and entertaining etc)

PAYE must also be deducted from the value of non cash benefits provided to employees, such as:

- Housing, board, lodging; or
- Motor vehicles

When do I deduct?

You deduct tax at the time you make the payment to the employee. Generally this is weekly, fortnightly or monthly.

How much do I deduct?

Inland Revenue will provide you with tables that tell you how much PAYE to deduct.

The tables enable easy calculation of the PAYE to deduct on either weekly, fortnightly or monthly payments to employees.

If you provide non cash benefits to your employees (such as accommodation, a motor vehicle or other benefits) you will need to account for PAYE on these benefits. Inland Revenue can help you work out how to calculate this.

Sometimes you will make a one-off payment to an employee, such as a bonus payment. To calculate the amount of PAYE to deduct refer to our fact sheet *A Guide to Taxing Bonuses*.

When do I pay?

All PAYE deducted during a month must be paid to Inland Revenue by the 15th day of the following month. For example, PAYE deducted during January must be paid to Inland Revenue by 15th February.

When you pay you must also lodge a monthly summary form (IR9).

What if I make a mistake?

If you make a mistake you can fix this up by adjusting the next pay. For example, John's employer deducts only \$20 of PAYE from John's pay for 2 fortnights before realising it should have been \$22 (a shortfall of \$4). In John's next pay, his employer makes the correction by deducting \$26 (\$22 + the shortfall of \$4). For larger amounts this amount could be spread over a couple of pays.

Where a mistake is discovered after the year has ended, you should give your employee their IR2 and advise them of the error. The employee can then lodge a tax return to correct any over or under deduction.

You must be careful as penalties can apply if you do not take out the correct amount of tax. You are liable for the tax whether or not you have deducted it from your employee – so you need to make sure that you are deducting correctly.

What forms do I complete?

- **PAYE Monthly Summary (IR9)**
Each month you must lodge a PAYE Monthly Summary form with Inland Revenue by the 15th day of the month following the month in which the deductions were made.
- **Annual Certificate (IR2)**
By 31st January each year, you must provide each employee with an annual certificate (IR2) recording the amount of PAYE that was deducted in the preceding year to 31 December. You must also lodge a copy of all IR2's with IRD by 31 January.
- **Annual Summary (IR11)**
You must also complete an Annual Summary to check that the correct amount of tax has been deducted and paid to IRD for the year.

What records should I keep?

Whenever you employ someone, you have to keep their wage records for seven years. A good way to do this is to use a wage book.

Each payday, you have to complete these details for each employee:

- total gross earnings, including taxable allowances (this is the amount before PAYE tax is deducted)
- the amount of PAYE tax deductions
- the amount of NPF deductions, and
- the net wage.

Start each tax year on a new page and give yourself space. Use a fresh page for each employee, even if they were only employed for one day. Include all wages for a full tax year in one book. Make sure you get new employees to complete their details.

What do employees need to do?

Employees need to keep their copy of the IR2. They will not need to lodge a return unless they:

- receive more than \$10 000 in dividends, directors' fees and interest income;
- have 3 or more employers at any one time during the year and earn more than \$60 000; or
- have other income (such as business income).

If the employee believes that the amount of PAYE tax deducted during the year is incorrect, the employee can lodge a form (IR18) and Inland Revenue can check the calculations.

How PAYE works for employees

An employee is entitled to an exemption of \$15080. This means that the total amount subject to tax is reduced by \$15080 and tax is only payable on the balance.

The tax tables are designed to take this exemption into account.

This exemption is reduced where the individual carries on business or is employed in Solomon Islands for only part of the year. The balance of the income is subject to tax at the following rates:

\$1 to \$15 000	11%
\$15 0001 to \$30 000	\$1650 + 23% of excess
\$30 001 to \$60 000	\$5100 + 35% of excess
\$60 000 and over	\$15600 + 40% of excess

Example

John earns \$20 000 per year. He is paid fortnightly which means he will receive \$769 every fortnight. John's employer looks up the fortnightly tax in the tax table provided.

<i>John's tax position</i>	
Total Income	\$ 20000
Less Personal Exemption	<u>\$15080</u>
Total Income chargeable to tax	\$ 4920

<i>First \$15 000 at 11%</i>	
$\$4920 \times 11\% =$	
Tax Payable	\$541.20

As John's employer has deducted \$20.80 from John's pay every fortnight and paid this to IRD, the tax paid equals $\$20.80 \times 26$ (fortnights in a year) = \$541.20.

John will receive an annual certificate (IR2) confirming the total gross income and the total tax deducted. If John receives no other income he will not need to lodge a return.