

Employee Payslip Screen - Tax

What is Provision for Tax on Annual Bonus?



An employee is allowed to spread the PAYE on a bonus over the tax year (remaining periods of the tax year), therefore, a portion of the employee's bonus is included in his/her monthly PAYE calculation to compensate for the PAYE on the bonus when the bonus is paid. This is called 'provision for tax on annual bonus' and the employee will pay extra PAYE on a monthly/weekly portion of the bonus instead of paying all the PAYE in the bonus month/week.

Preparation

- The 'Type' of Earning on the Earning Definition (ED) Screen for the Annual Bonus line must be **Annual Bonus**.
- The 'When Taxable' field on the Earning Definition (ED) Screen for the Annual bonus line should be **Periodic**.

In the last period of the tax year (or upon termination) the system will perform a final tax calculation for each employee.

When a final tax calculation is performed the system will take the actual bonus amount paid into account and will ignore the Provision for Tax on Annual Bonus amount in the PAYE calculation to determine the final PAYE due. Incorrect provision (under or over provision) for tax on annual bonus can result in a PAYE difference when a final tax calculation is applied.

Calculation of the Provision for Tax on Bonus amount

The calculation of the Provision for Tax on Bonus amount takes into account the Bonus Amount as well as the number of periods remaining in the tax year. The month during which the employee receives or will receive the Bonus does not affect the calculation.

Provision for Tax on Bonus =
{Estimated Bonus – YTD Provision amount (if any)} ÷ Remaining periods in the tax year

For guidance on how to apply this on the payroll, click [here](#).

Note: If the employee makes provision for tax on Annual Bonus (i.e. the Provision for Tax on Annual Bonus field on the employee's Tax Screen contains an amount) then the employee will not be taxed on the full bonus amount in the month that it is paid but only on the provision portion as provided for on the Tax Screen. In other words, the system will ignore the actual bonus amount in the period that it is paid and will only take the provision amount into account in the PAYE calculation. Only when the system applies a final tax calculation upon tax year end or termination, will the actual bonus amount paid be taken into account in the PAYE calculation.