

MYOB Exo Employer Services

2019 Changes to Extra Pay Calculations

Introduction

The 2019.05 release of MYOB Exo Payroll included a calculation change for Extra Pays: In accordance with new IRD specifications, when calculating Extra Pay taxation any previously paid Extra Pay amounts are no longer included in the calculation.

What Does This Mean?

Allowances of tax type Extra Pay are used for Lump Sum Payments such as commissions, bonuses, terminations and forward projected leave. This taxation method is designed to look back at the past four weeks' pay history, gross this up to an annual amount and determine which PAYE tax bracket to tax the gross payment with. Generally, these allowances are set up with a minimum tax rate of 10.5%, and Exo Payroll will automatically tax at a higher tax bracket if the grossed-up amount indicates that the employee should be taxed at a higher rate.

For information on when you would use lump sum payments/extra pay calculation, check out "[Lump Sum Payments](#)" on the IRD website.

With the new change, if you have an employee who is getting regular Extra Pay payments such as monthly commission or incentive allowances, and this allowance is set to 10.5% as a base tax rate, you will need to be careful how this is taxed, based on the impact of their pay frequency.

Effects on Monthly Employees

Monthly-paid employees receiving a monthly paid commission or incentive do not need to have this allowance taxed as Extra Pay, if the allowance is being paid in the same monthly pay as the base salary. If it is taxed as Extra Pay and the tax rate has been set at 10.5%, there is a high chance that the employee will be undertaxed, as the new calculation method will only pick up base salary/wages and will exclude any regular Extra Pay allowances, e.g. last month's commission payment.

As they are receiving a regular payment in line with their regular pay frequency, this allowance can be taxed as type "Normal". If they are receiving the allowance in a separate One-Off Pay, the tax type can stay as "Extra Pay".

Effects on Weekly and Fortnightly Employees

If you have employees paid weekly or fortnightly who receive a monthly-paid commission or incentive, there are three ways to tax this.

- **Tax as type “Extra Pay” with lowest tax rate set:** If the rate in the allowance is set to 10.5% this option will gross up their last 4 weeks of pay EXCLUDING any other Extra Pay payments made in this time and will select a tax bracket based on estimated annual income. For anyone who is on a base salary paid largely on commission this may result in under taxing.
- **Tax as type “Extra Pay” and select the appropriate tax rate.** This will mean estimating yourself the employee’s annual income and setting the extra pay allowance to the correct tax rate i.e. this could be 30% or 33%. If you select this the system will use this rate as a base rate and never tax any lower. You can find information on the Extra Pay tax rates on the IRD website: [“PAYE on Lump Sum Payments”](#).
- **Tax as type “Normal”.** This will simply include the whole payment as part of the gross for whatever pay frequency is being paid (i.e. weekly or fortnightly) and tax on the graduated PAYE scale. This may result in overtaxing if the employee is getting a large lump sum payment in a weekly pay period.

Note: Any quarterly or annual lump sum payments or leave paid in advance can still be taxed as Extra Pay as per usual.

If you are unsure whether your payment is best taxed as Extra Pay or Normal Tax calculations, it is best to contact IRD.

Examples

Example 1

Sam is a salesman and is paid a monthly salary payment on the 15th of every month. In the same pay period, Sam receives a monthly Commission payment based on all sales made in the previous month.

Sam’s commission is paid as an allowance, with the tax type “Normal”.

Example 2

Monique works in retail and is paid fortnightly. On top of this, Monique is also paid a monthly incentive bonus based on sales in her store for the previous month.

Monique's incentive payment is paid as an allowance, with the type “Extra Pay” and is paid in a One-Off Pay on the 20th of each month.

Because the incentives are only a small portion of her remuneration, Monique's employer has chosen to set the allowance as tax rate 10.5%.

This means that Exo Payroll will look at all gross payments in the past four weeks, gross this up to an annual amount, and tax the incentive allowance based on Monique’s annual remuneration.