

FORMULA FOR COMPUTER CALCULATION

OF SALARY OR WAGES TAX

APPLICABLE FROM 1 JANUARY 2019

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NOTE: The formulas set out in this document calculate fortnightly Salary or Wages Tax exactly. They will therefore not always correspond exactly to the Schedule "RATES OF FORTNIGHTLY SALARY OR WAGES TAX DEDUCTIONS" issued by the Internal Revenue Commission, which shows this tax only for 1 and 2 Kina fortnightly income intervals. The small differences, which consequently occur, are acceptable to this Office.

1. NON RESIDENT TAX RATES

Steps 1:

Calculation of Income "N": Multiply weekly or fortnightly income by a factor of 52 or 26 as appropriate, to arrive at an annual income equivalent income "N".

Example: if fortnightly income is K1,000 then: "N" = (1,000 x 26) = 26,000

Step 2:

Calculation of Gross Tax: Using "N" derived in Step 1 above; calculate the gross tax from Rate Table 1 below.

Rate Table 1: Non-resident tax rates (effective 1st January, 2019)		
when "n" exceeds	& when "N" does not exceed	Gross tax
0	20,000	N x 0.22
20,001	33,000	N x 0.30 - 1,600
33,001	70,000	N x 0.35 - 3,250
70,001	250,000	N x 0.40 - 6,750
250,001	and over	N x 0.42 - 11,750

Step 3:

Calculation of Tax to be deducted: Divide the result of Step 2 by the same factor used in step 1. i.e. 52 or 26 as appropriate, to give the tax to be deducted from that week's or fortnight's salary.

2. RESIDENT TAX RATES

2.1 CALCULATION ROUTINE WHERE THE EMPLOYEE HAS NOT LODGED A DEPENDANTS DECLARATION

Second Job Salary or Wages Tax Calculation: Where no dependant declaration is lodged it is assumed that this is the employee's second job. As a result the highest rate of tax applies. The employee is taxed at 42% on all of his or her earnings. To arrive at the tax to be deducted simply multiply the income earned in the period by 0.42.

2.2 CALCULATION ROUTINE WHERE THE EMPLOYEE HAS LODGED A DEPENDANTS DECLARATION

Step 1:

Calculation of Income "N": Multiply weekly or fortnightly income by a factor of 52 or 26 as appropriate, to arrive at an annual income equivalent and deduct 200 to arrive at income "N".

Example: If fortnightly income is K500, then:

$$\begin{aligned} \text{"N"} &= (500 \times 26) - 200 \\ &= 12,800.00 \end{aligned}$$

Step 2:

Calculation of Gross Tax: Using "N" derived in Step 1 above; calculate the gross tax from Rate Table 2 below.

Rate Table 1: Non-resident tax rates (effective 1st January, 2019)		
when "n" exceeds	& when "N" does not exceed	Gross tax
0	12,500	N x 0
12,501	20,000	N x 0.22 - 2,750
20,001	33,000	N x 0.30 - 4,350
33,001	70,000	N x 0.35 - 6,000
70,001	250,000	N x 0.40 - 9,500
250,001	and over	N x 0.42 - 14,500

Step 3:

Calculation of Net Tax after Dependants Rebate:

a) If no dependants claimed:

Go straight to Step 4.

b) When there is 1 dependent :

Computer Calculation: Salary or Wage Tax 2019

When annual income "N" as calculated in Step 1 and there is 1 dependent, then

Dependants Rebate = Max of (K45 or Min of (15%*Gross Tax or 450)

Net tax = Gross Tax – Dependent Rebate

c) When there are 2 dependents :

When annual income "N" as calculated in Step 1 and there are 2 dependent, then

Dependants Rebate = Max of (K75 or Min of (25%*Gross Tax or 750)

Net tax = Gross Tax – Dependent Rebate

d) When there are 3 or more dependents :

When annual income "N" as calculated in Step 1 and there are 3 or more dependents, then

Dependants Rebate = Max of (K105 or Min of (35%*Gross Tax or 1050)

Net tax = Gross Tax – Dependent Rebate

Note: Dependent rebates can be claimed for upto 3 dependents at the maximum.

Step 4:

Calculation of Tax to be deducted : Divide the result of Step 3 (Gross Tax - Dependants Rebate) by the same factor used in step 1, i.e. 52 or 26 as appropriate, to give the tax to be deducted from that week's or fortnight's salary.

3. EXAMPLES

EXAMPLE 1

Taxpayer's fortnightly wages was K400 and he claimed 8 dependants. The tax is calculated as follows. Only 3 of these dependants are allowable in the calculation.

Step 1:

"N" = (400 x 26) - 200
= 10,400 - 200
= 10,200

Step 2:

As "N" lies under 12,500

Computer Calculation: Salary or Wage Tax 2019

$$\text{Gross Tax} = 0$$

EXAMPLE 2

Taxpayer's fortnightly salary is K490 and he claims 3 dependants.

Step 1:

$$\begin{aligned} \text{"N"} &= (490 \times 26) - 200 \\ &= 12,540 \end{aligned}$$

Step 2:

$$\begin{aligned} \text{Gross Tax} &= (12,540 \times 0.22) - 2,750 \\ &= 8.8 \end{aligned}$$

Step 3:

Income "N" is between K12,500 and K20,000 therefore Step 4.b) ii) applies

$$\begin{aligned} \text{Dependants Rebate} &= \max(105 \text{ or } \min(35\% \times 8.8 \text{ or } K1050)) \\ &= \max(105 \text{ or } 3.08) \\ &= 105 \end{aligned}$$

$$\begin{aligned} \text{Net Tax} &= 8.8 - 105 \text{ (subject to 0 minimum tax)} \\ &= 0 \end{aligned}$$

EXAMPLE 3

Taxpayer's fortnightly salary is K870 and he claims 2 dependants.

Step 1

$$\begin{aligned} \text{"N"} &= (870 \times 26) - 200 \\ &= 22,420 \end{aligned}$$

Step 2

$$\begin{aligned} \text{Gross Tax} &= (22,420 \times 0.3) - 4,350 \\ &= 2,376 \end{aligned}$$

Step 3

Income "N" is between K20,000 and K33,000 therefore

Computer Calculation: Salary or Wage Tax 2019

Dependants Rebate = $\max(75 \text{ or } \min(25\% * 2,376 \text{ or } K750))$
= $\max(75 \text{ or } 594)$
= 594

Net Tax = $2,376 - 594$ (subject to 0 minimum tax)
= 1,782

Note: See attached spread sheet for further calculation.