FORMULA FOR COMPUTER CALCULATION

OF SALARY OR WAGES TAX

APPLICABLE FROM 1 JANUARY 2019

Table of Contents

1. NON-RESIDENT TAX RATES.................................................................2

2. RESIDENT TAX RATES.................................................................3
   2.1 Non-lodged declaration of dependents........................................3
   2.1 Lodged declaration of dependents..............................................3

3. EXAMPLES.........................................................................................4

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.

<table>
<thead>
<tr>
<th>when “n” exceeds</th>
<th>&amp; when “N” does not exceed</th>
<th>Gross tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>20,000</td>
<td>N x 0.22</td>
</tr>
<tr>
<td>20,001</td>
<td>33,000</td>
<td>N x 0.30 -1,600</td>
</tr>
<tr>
<td>33,001</td>
<td>70,000</td>
<td>N x 0.35 – 3,250</td>
</tr>
<tr>
<td>70,001</td>
<td>250,000</td>
<td>N x 0.40 – 6,750</td>
</tr>
<tr>
<td>250,001</td>
<td>and over</td>
<td>N x 0.42 – 11,750</td>
</tr>
</tbody>
</table>

**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:

\[ N = (500 \times 26) - 200 \]
\[ = 12,800.00 \]

Step 2:

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

<table>
<thead>
<tr>
<th>Rate Table 1: Non-resident tax rates (effective 1st January, 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>when “n” exceeds &amp; when “N” does not exceed</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>12,501</td>
</tr>
<tr>
<td>20,001</td>
</tr>
<tr>
<td>33,001</td>
</tr>
<tr>
<td>70,001</td>
</tr>
<tr>
<td>250,001 and over</td>
</tr>
</tbody>
</table>

Step 3:

Calculation of Net Tax after Dependents Rebate:

a) If no dependants claimed:

Go straight to Step 4.

b) When there is 1 dependent:
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 – Dependant 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 - Dependents 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
EXAMPLE 2

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

Step 1:

"N" = (490 × 26) − 200
   = 12,540

Step 2:

Gross Tax = (12,540 × 0.22) − 2,750
           = 8.8

Step 3:

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

Dependants Rebate = max(105 or min(35%×8.8 or K1050)
                   = max(105 or 3.08)
                   = 105

Net Tax = 8.8 − 105 (subject to 0 minimum tax)
         = 0

EXAMPLE 3

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

Step 1

"N" = (870 × 26) − 200
   = 22,420

Step 2

Gross Tax = (22,420 × 0.3) − 4,350
           = 2,376

Step 3

Income "N" is between K20,000 and K33,000 therefore
Dependants Rebate = max(75 or min(25%*2,376 or K750)
= max(75 or 594)
= 594

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

Note: See attached spreadsheet for further calculation.