

# **PAY AS YOU EARN (PAYE)**

## **A BRIEF GUIDE FOR EMPLOYEES**

### 1. What is Pay As You Earn (PAYE)?

This is a method of deducting tax from employees' emoluments in proportion to what they earn. Under this system, the employer is empowered to:

- a) calculate tax payable by every employee
- b) deduct tax due from the emoluments, and
- c) remit tax deducted to ZRA

### 2. What are emoluments?

The term "emoluments" means total earnings of an employee from employment. These include wages, salaries, overtime, leave pay, commissions, fees, bonuses, gratuities and any other payments from employment or office. (Section 2 of IT Act).

### 3. How is tax calculated?

Under the PAYE system, the amount of tax which the employer deducts from any pay depends on:

- a) the employee's total gross pay
- b) the applicable tax rates; and
- c) statutory deductions (contributions to an allowable Pension Scheme, e.g. NAPSA) up to K155, 000 or the actual 15% of the gross salary, whichever is lower.

#### Example:

An employee with a gross pay of K8,000,000 / month in April 2011, which is month 1 under the Tax Tables, the tax will be calculated as follows;

a) <b>Calculation of Taxable Pay</b>	<b>K</b>
Gross pay	8,000,000
Less: Maxi. Allowable Pension Cont.	155,000
<b>Taxable pay</b>	<b>7,845,000</b>
b) <b>Calculation of tax</b>	
First K 1, 000,000 @ 0%	0
Next K 735,000 @ 25%	183,750
Next K 2, 465,000 @ 30%	739,500
Bal. K 3, 645,000 @ 35%	1,275,750
<b>Total Tax due</b>	<b>2,199,000</b>
<b>Total Payable</b>	<b>2,199,000</b>
c) <b>Calculation of Net Pay</b>	
Gross Pay	8,000,000
Less tax	2,199,000
<b>Net Pay to employee</b>	<b>5,801,000</b>

### 4. What should I do if I leave employment?

When you leave your current employment, obtain a form showing all pay-roll details (ITF/ P13 (2)) from your immediate former employer. This enables your

new employer to deduct the correct tax when you are re-employed. If the ITF/P13 (2) is not provided to your new employer, the tax deductions could be higher than you should suffer.

If you are not re-employed, you may be entitled to a tax refund as explained below.

**5. How does a tax refund arise?**

A tax refund may arise in the following situations:

a) **Errors:**

Pay-roll errors, for example;

- use of wrong tax bands and rates
- arithmetical errors in calculating tax
- complete or partial omission of statutory deductions

b) **Unemployment Repayments:**

If employment ceased at any time, but before the end of the charge year, unemployment repayment may arise due to incorrect use or non-use of tax tables.

This repayment is part of the tax that you may have paid during the tax year in which the employment is terminated.

**6) How can I make a claim?**

You will be required to complete an Income Tax Return for Individuals (ITF/1A) which is available at the Customer Care Centre in Lusaka or Kitwe, and from any ZRA office in the provinces, and attach the following documents:

- letter of termination of employment
- last pay-slip
- particulars of employee leaving (form ITF/P13 (1)); and
- any other payment vouchers. This will enable the tax office to calculate the refund of tax due. A notice of advice (assessment ITF302) will then be raised and posted to you. Upon receipt of notice of assessment, the claimant should complete a Refund Claim form (ITF/ CF56). This should be attached to the notice of assessment to enable the office process the payment of the refund.

**7) Where should I collect the tax refund cheque from?**

Refund cheques may be collected from Revenue House, or where the claimant lives outside Lusaka, the cheque will be posted to the postal address given by the claimant or the nearest ZRA office.

**8) What if the tax deducted is wrong?**

If there is an over-deduction of tax, a refund will be made to the employees by the employer and only in the same charge year.

If there is an under-deduction of tax, the employer will pay the difference to the Revenue Authority.

**9) What if the tax deducted by the employer is not remitted on time to ZRA?**

If tax is not remitted on time by the employer, a penalty of 5% will be charged on the amount due, and interest @ 2% above the BOZ discount rate.

**10) Are allowances received together with the salary taxable?**

All cash benefits paid in the form of allowances such as education, housing, transport, utility and settling etc are taxable.

**11) Are utility bills, school fees and school association fees taxable under PAYE?**

Where an employer discharges the liability of an employee by paying his/her rent, electricity, telephone, water bills, school fees or professional association fees, club membership fees and similar payments, the employer is required to add such payments to the employees emoluments and deduct tax under PAYE.

**12) Are there any benefits that are not subjected to Paye?**

The following benefits are not subjected to Paye:

- Labour day Awards
- Ex-gratia payments
- Medical expenses
- Funeral expenses
- Sitting allowances for councilors
- Benefits that cannot be converted into cash such as free residential housing provided by the employer, canteen expenses and personal to holder cars.

**13) Are payments for casual workers and daily paid workers supposed to be taxed?**

Yes. They are taxed using tax tables for casual workers and daily paid workers.

**14) Are persons who are employed by foreign missions and international organizations which are exempted from remitting tax under the Diplomatic and Immunities Act supposed to be taxed?**

In such cases the employee is treated as his own employer and tax is collected directly from such an employee.

