Tax Tattler

A common HelpDesk enquiry regards the Tax Tattler on employee's Earnings Certificates.

This document explains:

a) why the Tax tattler is useful
b) why the tax amount might be under or over
c) how you can turn the Tax Tattler off

What is the Tax Tattler?

The Tax Tattler recalculates the employee's tax payment based on their total income, and compares it against their total tax deductions. Any difference is reported using the Tax Tattler section on employee Earnings Certificates.

Why is the Tax Tattler useful?

SmoothPay is designed to give both the employer and employee accurate information concerning payroll data.

To this end, SmoothPay automatically includes the Tax Tattler on employee's Earnings Certificates so they are made aware of any under or overpayment.

This allows the employee to claim any overpayment, or to be aware of any underpayment that they may be liable for. This is especially important if the employee is considering claiming tax rebates etc.

If you prefer not to give this advice to your employees then you can easily turn off the Tax Tattler so that it doesn't show on the Earnings Certificates, however we believe that it's better for your employee to know the real situation than it is to not tell them.

Why is the tax amount under or over?

The New Zealand tax system treats each pay as being the basis for 12 months earnings (it's not a good basis, especially for variable earners, but it is what we have to work with), and tax is calculated on this “per pay period” basis.

The tax calculation method used in SmoothPay is as specified by the Inland Revenue Department, and is based on a sliding scale based on 12 months income.

An example using “M” tax rates for 2004/2005:

- a part-timer earns one weekly pay of $180 (before tax) which is multiplied by 52 to make an annualised total of $9360.
    1. Tax is calculated on the following portions of the gross annual income at the following rates:
        1. The first portion of $9500 @ 15%
        2. $9500-38000 @ 21%
        3. $38000-60000 @ 33%
        4. $60000+ @ 39%
    2. This would produce annual PAYE (ignoring ACC earner premiums) of $1404, which when divided by 52 produces $27 PAYE for the week.
- If the employee works a full week (or extra hours or earns overtime or receives a large allowance etc) the next week, and their gross increases to $865, then their PAYE would be $186.79 for the week.
- Over the two weeks, the employee has earned a gross income of $1045, and has been taxed $213.79. A tax calculation on 2 weeks earnings of $1045 comes to $197.52

    The difference (in this case an overpayment) in only 2 weeks is $16.27.
- If the same 2 pays repeated over the next 2 weeks, the gross earnings would be $2090, PAYE deducted of $427.58. A tax calculation on 4 weeks earnings of $2090 comes to $395.05, a difference of $32.53.

    The overpayment for one year would be around $423.

In the example cited above, the annual income and tax calculation is effectively lowered by the lower earnings (the higher earnings have been taxed at a higher than necessary rate). Tax underpayments are of concern, because they can occur simply by an employer's generosity in paying a bonus which may take the employee into the next tax bracket, which affects their entire income, not just the current pay. They can also occur because of allowance payments and varying income.

So, you can see how easily additional payments and irregular earnings amounts can escalate into quite large under or over payments. This is especially true where the employee receives extra emolument bonuses that may be taxed at a rate that doesn't equate with their earnings level.

The main problem with this type of taxation system is that it doesn't take into account earnings history (deviations from the employee's normal earnings), nor can it take into account future bonuses, overtime, pay increases etc that may result in the employee's annual income figure taking them over threshold steps, resulting in under or overpayments.

You might think a solution would be to examine their earnings history, say for the last 12 months, to determine an appropriate tax rate, however that fails if the employee changes jobs or has additional income sources.

The only real solution is to implement a flat-rate tax system, but until that happens employee's who earn variable amounts of income will continue to be under or overpaying their tax.

We think they should know.

How can the Tax Tattler be turned off?

The Earnings Certificate report options screen provides for turning the Tax Tattler off. If producing a single Earnings certificate from Employee History, a prompt will ask if you want to turn the Tax Tattler off.

Feel free to contact our HelpDesk if you have any questions.

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