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# 1.11

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## Using Skill for Business

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## Interpreting a Wage Slip

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## Learning Outcome Notes

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LO 1.11 - Interpret a wage slip and calculate personal tax liability arising from employment.

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## QUESTIONS

By the end of this learning outcome, you should be able to

1. Define and understand the different terms associated with calculating wages?
2. Calculate PAYE, PRSI and USC?
3. Apply a tax credit?
4. Calculate gross pay?
5. Calculate Net Pay?

## WHAT ARE TAXES

**Tax** <sup>Def</sup> Taxes are a compulsory charge imposed by the government on individuals, businesses, and other organisations. The purpose of taxes is to generate revenue for the government to fund public goods and services, such as education, healthcare and infrastructure.

## WHY PAY TAXES

People pay taxes to the government for a variety of reasons.

1. To finance essential public goods and services

These goods and services include things like, education, health and public safety. Without taxes, the government would not be able to fund these essential services that benefit the entire society.

2. To distribute wealth within a economy

Another reason people pay taxes is to support government programs that provide assistance to those in need, such as welfare, unemployment benefits, and social security. Taxes are also used to fund various environmental and public health initiatives, research and development projects, and other programs that benefit society as a whole.

3. To promote fairness and equality in society

In addition to financing public goods and services, taxes are also used to promote fairness and equality in society. The tax system is often used to redistribute wealth from the wealthy to the less fortunate, through programs like progressive income tax rates and social welfare programs.

#### 4. Legal Requirements

Finally, people pay taxes because it is a legal requirement. Governments have the power to collect taxes from their citizens, and failure to pay taxes can result in fines, penalties, or even legal action. By paying their taxes, individuals and businesses fulfil their legal obligation to the government and avoid any negative consequences that may result from non-compliance.

Regenerate response

#### 5. Discourage certain activities.

The government uses the tax to promote or discourage certain activities. For example, lower tax to increase consumer spending and job creation but if they higher tax on cigarettes people may not smoke.

If the Government want to increase the level or range of service, they may need to increase the tax that is already there or introduce a new tax. High tax means that people have less money to spend. The level of taxation will depend on the money the government available. What they think is important and how willing the people to pay.

**Tax Liability** <sup>Def</sup> This means that a certain amount of money must be paid to the Government. It is the responsibility of each person to make sure that they pay the correct tax.

Without this income Government will not be able to fund public service. This will have impact on people who have a low income. As you get older your income and expenditure will change so too will the amount of tax that you pay. This will affect your future financial planning.

**Tax Avoidance** <sup>Def</sup> This is a legal way of reducing the amount of tax that you must pay. For example, you can claim tax credits which will reduce your tax bill

**Tax Evasion** <sup>Def</sup> This is illegal and usually happens when people fail to declare some or all their tax. Those found guilty will pay interest and penalties or may go to jail.

**GETTING STARTED WITH INCOME TAX**

1. When you start a new job, the employer will need you PPSN to send to Revenue to inform them that you as starting employment with them.
2. Once you have you PPSN you will have to register with revenue to make sure you are paying the correct tax
3. Once your registration is completed Revenue will see you a certificate of tax credit and standard rate cut off point.
4. If you don't register with revenue, you will pay emergency tax on your income which in about 50%

**Tax Rate** <sup>Def</sup> This is a percentage of tax that is levied on your income. There are 2 rates -  
1. Standard rate of 20% and a higher rate of 40%. These rates are set during the budget each year

**Standard Rate Cut Off Point** <sup>Def</sup> This is also known as SRCOP. This is a document that is sent by revenue that shows how much will be taxed at the standard rate cut off point and how much will be taxed at the higher rate cut off point and the relevant tax credit for an employee.

**Tax Credit** <sup>Def</sup> tax credits are deductions that can be applied to employee income tax liability, reducing the amount of tax they are required to pay. Tax credits are available to employees based on certain criteria.

Here are a few examples of tax credits that an employee may be able to claim:

1. **Personal Tax Credit:** This credit is available to all employees and is intended to provide a basic amount of tax relief. For the tax year 2022, the personal tax credit is €1,650.
2. **PAYE Tax Credit:** This credit is available to employees who are subject to Pay As You Earn (PAYE) tax. For the tax year 2022, the PAYE tax credit is €1,650.
3. **Home Carer Tax Credit:** This credit is available to employees who provide full-time care for a dependent person, such as a child or elderly relative, in their own home. For the tax year 2022, the Home Carer Tax Credit is €1,650.

4. **Single Person Child Carer Credit:** This credit is available to employees who are the primary carer of one or more children. For the tax year 2022, the Single Person Child Carer Credit is €1,650.

**Gross Pay**      *Def* This is the amount of pay before any deductions. And includes basic pay + overtime + bonus.

**Net Pay**      *Def* This is Gross Pay less any Deductions. It is also known as Take home pay.

**Deductions**      *Def* These are payments that are taken away from gross pay. It includes Statutory Deduction - these must be paid and are sent to Revenue (PAYE, PRSI and USC) and Voluntary Deduction - these are deduction that the employee chooses (VHI, Savings, Pension)

### Calculate PAYE, PRSI and USC.

#### Remember

The tax is calculated on the gross pay. Gross pay includes regular pay, overtime pay, bonuses, and commissions.

#### PAYE example

Calculate the tax paid if Michael earns €50,000 his SRCOP is €33,800 and the rate of tax is standard rate 20% and higher rate is 41%

$$\begin{aligned}
 20\% \times \text{€}33,800 &= \text{€}6,760 \\
 40\% \times \text{€}16,200 &= \text{€}6,480 \text{ (€}50,000 - 33,800\text{)} \\
 \text{Gross Tax} &= \text{€}13,240
 \end{aligned}$$

#### Remember

To take tax credits away from €13,240 to find how much is paid in PAYE

#### PRSI example

Michael's PRSI is 4% (use the information from the PAYE example to calculate his PRSI)

$$\text{€}50,000 \times 4\% = \text{€}2,000$$

**USC Example**

The USC rates are as follows -

0.5% on the first €12,012 on income

2% on the next €7,862

4% on the next €50,000

8% on the balance

Use all relevant information from the PAYE example -

0.5% x €12,012	=	€60.06	
2% x €7,862	=	€157.24	
4% x €30,126	=	<u>€1,205.04</u>	(€50,000 - €12,012 - €7,862)
		€1,422.34	

**Apply a tax credit.**

**Remember**

To take tax credits away from gross tax to find how much is paid in PAYE.

Using the figure calculate as part of PAYE calculation apply the tax credits of €3,900.

Gross Tax	€13,240
Tax Credits	<u>€3,900</u>
	€9,340

**Calculate gross pay and Net pay.**

**Remember**

**Gross Pay**      <sup>Def</sup> This is the amount of pay before any deductions. And includes basic pay + overtime + bonus.

**Net Pay**        <sup>Def</sup> This is Gross Pay less any Deductions. It is also known as Take home pay.

John's position with Facebook earns him a monthly wage of €9,000 and he earned overtime of €900 in June. He pays PAYE at the rate of 40% and has a monthly tax credit of €325. He pays PRSI at 5% and USC at 6.5%

Using the details above, complete Mary's payslip for 30/06/2022

Payslip			
<b>Employee's Name</b>	<b>John Smith</b>	<b>Date</b>	
<b>Earnings</b>		<b>Deductions</b>	
Basis wage		PAYE	
Overtime		PRSI	
		USC	
<b>Gross Pay</b>		<b>Total Deductions</b>	
<b>Nett Pay</b>			

PAYE workings box.       
PRSI working box.       
USC working box.       

John's position with Facebook earns him a monthly wage of €9,000 and he earned overtime of €900 in June. He pays PAYE at the rate of 40% and has a monthly tax credit of €325. He pays PRSI at 5% and USC at 6.5%

Using the details above, complete Mary's payslip for 30/06/2022

Payslip			
Employee's Name	John Smith	Date	
<b>Earnings</b>		<b>Deductions</b>	
Basis wage	9,000	PAYE	3,635
Overtime	9,00	PRSI	495
		USC	643.50
<b>Gross Pay</b>	<b>9,900</b>	<b>Total Deductions</b>	<b>4,733.50</b>
	<b>Nett Pay</b>		<b>5,126.50</b>

PAYE workings box.

$$9,900 \times 40\%$$

$$= \text{€}3,960$$

$$= \text{€}3,960 - \text{€}325$$

$$= \text{€}3,635$$

PRSI working box.

$$\text{€}9,900 \times 5\%$$

$$= \text{€}495$$

USC working box.

$$\text{€}9,900 \times 6.5\%$$

$$= \text{€}643.50$$



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## Using Skill for Business

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## Interpreting a Wage Slip

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## Past Exam Questions and Answers

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### **NOTE - Very Important**

It is very important when answering exams question that you use the following steps -

1. That you know the information for the learning outcome
2. That you understand the information form the learning outcome
3. That you can apply the information form the learning outcome to the question
4. Be able to give at least two full sentences for your answer (Fill up the space)

Questions are changing from rote learning to applying the knowledge to the Question

<b>QUESTIONS</b>
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**2019 - Paper - Question 18 - Part B**

- (b) Mary's position with Ryanair earns her a monthly wage of €7,000 and she earned overtime of €600 in May. She pays PAYE at the rate of 40% and has a monthly tax credit of €275. She pays PRSI at 4% and USC at 5.5%

Using the details above, complete Mary's payslip for 31/05/2019

Payslip			
<b>Employee's Name</b>	Mary Brennan	<b>Date</b>	
<b>Earnings</b>		<b>Deductions</b>	
Basis wage		PAYE	
Overtime		PRSI	
		USC	
<b>Gross Pay</b>		<b>Total Deductions</b>	
<b>Nett Pay</b>			

PAYE workings box.

PRSI working box.

USC working box.

**2019 - Sample Paper - Question 13**

Employee No. 15	<b>Graine Dwyer</b>	Week 20	Date	19 May 2018
<b>Pay</b>	<b>€</b>	<b>Deductions</b>	<b>€</b>	<b>T and M Motor Ltd</b>
Basic	544.00	PAYE	77.07	
Overtime	168.00	PRSI	28.48	
		USC	22.71	
		Cycle to Work Scheme	15.00	Net Pay
Gross Pay		Total Deductions		

<b>SUGGESTED SOLUTIONS</b>
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**2019 - Paper - Question 18 - Part B**

- (b) Mary's position with Ryanair earns her a monthly wage of €7,000 and she earned overtime of €600 in May. She pays PAYE at the rate of 40% and has a monthly tax credit of €275. She pays PRSI at 4% and USC at 5.5%

Using the details above, complete Mary's payslip for 31/05/2019

Payslip			
<b>Employee's Name</b>	Mary Brennan	<b>Date</b>	
<b>Earnings</b>		<b>Deductions</b>	
Basis wage	7,000	PAYE	2,765
Overtime	600	PRSI	304
		USC	418
<b>Gross Pay</b>	<b>7,600</b>	<b>Total Deductions</b>	<b>3,487</b>
	<b>Nett Pay</b>		<b>4,113</b>

PAYE workings box.

$$€7,600 \times 40\% = €3,040$$

$$€3,400 - €275 = €2,765$$

PRSI working box.

$$€7,600 \times 4\% = €304$$

USC working box.

$$€7,600 \times 5.5\% = €418$$

**2019 - Sample Paper - Question 13**

Employee No. 15	<b>Graine Dwyer</b>	Week 20	Date	19 May 2018
<b>Pay</b>	<b>€</b>	<b>Deductions</b>	<b>€</b>	<b>T and M Motor Ltd</b>
Basic	544.00	PAYE	77.07	
Overtime	168.00	PRSI	28.48	
		USC	22.71	
		Cycle to Work Scheme	15.00	Net Pay
<b>Gross Pay</b>	<b>712.00</b>	<b>Total Deductions</b>	<b>143.26</b>	<b>568.74</b>

<b>Pay</b>		<b>Deductions</b>		<b>Net Pay</b>	
Basic	544.00	PAYE	77.07	Gross Pay	712.00
Overtime	<u>168.00</u>	PRSI	28.48	Deductions	<u>(143.26)</u>
	712.00	USC	22.71	Net Pay	568.74
		Cycle	<u>15.00</u>		
			143.26		