

TECHNICAL ADVISORY

Issued By: Tax Administration Jamaica (TAJ)
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Technical Paper: *"PAYE Refunds"*

Purpose

The purpose of this document is to provide clarity on the treatment of Refunds due to employees as a result of the increase in the Income Tax Threshold as at July 1, 2016.

Legislative Reference:

- The Income Tax Act
- The Income Tax (Employment) Regulations.

The increase in the Income Tax Threshold from \$592,800 to \$1,000,272 in July 2016 will result in a number of employees falling below the effective income tax threshold of \$796,536 which is calculated as follows:

Old Income Tax Threshold: \$592,800

Number of months in the year: 12

Number of months in 2016 for which the old Income Tax Threshold applied: 6

$$(\$592,800/12)*6 = \$296,400$$

New Income Tax Threshold: \$1,000,272

Number of months in the year: 12

Number of months in 2016 for which the new Income Tax Threshold applies: 6

$$(\$1,000,272/12)*6 = \$500,136.$$

$$\text{Effective Income Tax Threshold} = \$296,400 + \$500,136 = \$796,536$$

Who will benefit from a refund?

- Employed Individuals who earned income at or below \$379,756 between January and July 2016 and will earn no more than \$19,236 per week, \$38,472 per fortnight or \$83,356 per month for the period July to December 2016

- Any Individual whose income is no more than \$796,536 for the year, –who would have paid income tax during the year

How will the refund be made?

The Income Tax (Employment) Regulations 26 (4) states that if the total of the amounts which the employer was liable to repay during any income tax month, exceeds the total of the amounts which he was liable to deduct during that month; he shall be entitled to deduct the excess from any subsequent payment which he is liable to make to the Collector during the year or to recover it from the Commissioner General.

The employer may repay the amounts to the employee and deduct the refund (the amounts to be repaid) from PAYE payments due to Tax Administration Jamaica in the current period or any subsequent period within the calendar year.

Refunds are to be computed and paid periodically by comparing the cumulative income tax payable - --- for example in period fourteen with the cumulative income tax payable in period thirteen. Where the cumulative income tax payable in period fourteen is less than the cumulative income tax payable in period thirteen, the employee must be refunded the difference.

Example 1

An employer has 10 employees, 5 of -whom will fall below the threshold and will be due a refund of \$30 and 5 - above the threshold for whom the employer will be required to deduct and pay Income tax to the Collector of Taxes of \$80. The employer, using the S01, will be required to deduct the \$30 from the \$80 and pay over \$50 to the Collector of Taxes.

Example 2

An employer has 10 employees and all -employees - statutory income as at June 2016 - were above the effective threshold of \$296,400. However, as at July the statutory income fell below the accumulated threshold of \$379,756 and therefore the employees would no longer be required to pay income tax.

In this case, the employer will have no subsequent PAYE liability for the year from which to recover the amounts to be repaid to the employees.

These employers are asked to contact Tax Administration Jamaica for a directive as to the way forward.

Rational for Employers granting refunds prior to the end of the year.

- The employer has full information on the earnings of the employee and is better able to determine the tax liability of the individual
- The regulation requires the employer to repay any amount that has been over deducted within the year.

Individuals earning in excess of \$796,536 may see a refund, depending on the amount of tax deducted in the first six months.

After December 31, the employee who was not refunded shall

- Obtain a P24 from the employer at the end of the year
- Complete the **IT05 Return** using the RAIS Platform (online) and apply to Tax Administration Jamaica for the refund.

When will the IT05 Form be required?

Employees who are entitled to a refund but has not been refunded by their employer by December 31 of the refund year, are required to file an IT05 return with Tax Administration Jamaica (TAJ) in order to claim their refund. This may be due to the fact that the employer has no subsequent PAYE payment to be made to TAJ for the rest of that calendar year or has failed to pay the refund to the employee before the December 31st year end.

The use of the P45

Employees who leave an employment within the year should be given a P45 Form. The new employer, may make adjustments to the employee's records based on the information -on the P45.

For example, an employee left an employment in June -during the six months period; the prorated threshold was \$296,400 and the taxes were appropriately applied. The new employer, in August may grant the additional threshold and adjust the taxes due for the rest of the year.

Where an employee, who was paying income tax on employment income, becomes unemployed within the year and has not gained any other employment, the employee is required to apply to Tax Administration Jamaica for any refund that may be due six weeks after the date of termination using the IT05 return, accompanied by the form P45 issued by the employer. Where the unemployment arose as a result of redundancy, the IT05 return, the current year's P45 and form P24's for the three years preceding the year of termination must be submitted.

New Employment within the Year

The accumulated threshold may be granted where the employer is able to substantiate that the person did not work or carry on any business during the calendar year.