

User Guide

Bonus and Commission Payments

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BONUS AND COMMISSION PAYMENTS

Bonus and commission payments are sums of money paid to employees to acknowledge the completion of a task or performance achievement. These payments are taxed differently depending on two specific scenarios:

- Payments for work related on a specific pay period → taxed using the standard withholding tax tables
- Payments for achievements over a period of time → taxed using a specific tax formula

Example of Tax calculation applicable to Performance bonus/Commission Payments

A company pays an employee a yearly performance payment of \$520. Their weekly gross wage is \$750. As the payment is one-off and does not relate to a particular pay period, the tax calculation can be spread over a 52-week period.

STEP	INSTRUCTIONS	AMOUNT
1	Determine the gross earnings for the relevant pay period	\$750
2	Use the Tax Table to work out the withholding on the standard gross wage (\$750)	\$164
3	Enter the gross bonus amount	\$520
4	Divide the bonus payment by the total related period (year) $\$520/52$ (<i>disregard any cents</i>)	\$10
5	Add this result to the standard gross weekly wage (\$750)	\$760
6	Use the Tax Table to work out the withholding on this new amount (\$760)	\$167
7	Calculate the difference between Step 4 and 1 ($\$167 - \164)	\$3
8	Multiply this amount by the number of pay periods (52 weeks) $\$3 \times 52$	\$156
9	Total the tax withheld for the weekly wage + the tax withheld for the bonus ($\$164 + \156)	\$320



Important Information – Staff paid on Commissions only

Most employees cannot be paid on commissions based only. Employers who pay their employees exclusively on commissions must meet a number of conditions in order to do so. Seek Legal Advice or contact Fairwork before offering employees any performance based salary package.



Security Policies

- Bonus/Commissions Pay Items can only be set up by users with Payroll Admin Access
- Bonus/Commissions Payments can only be processed by users with Payroll Admin Access



Frequently Asked Questions

Can the bonus/commission special tax calculation be applied to one off allowance payments too?

Yes, the ATO includes these types of payments (defined as *Other Similar Payments*) in this calculation.

Is Superannuation calculated on Bonus and Commission payments?

Yes, unless the extra payment relates to work performed as Overtime

How to set up a bonus/commission pay item

1. Go to Settings → Payroll Settings
2. Select the [Pay Items] → [Earnings] Tab
3. Click on [Add] → Ordinary Time Earnings
 - *The Ordinary Time Earnings Pay Item screen opens*
4. Select/Enter the following details:
 - Earnings Name → Enter: **Bonus or Commission**
 - Display Name → Enter: **Bonus or Commission**
 - Rate Type → Select: **Fixed Amount**
 - Amount → Leave blank
 - Expense Account → Select: **Bonus/Commission**
 - Exempt from PAYG → Leave blank
 - Exempt from Super → Leave blank
 - Reportable as W1 → Select this option
5. Click on [Add]

Ordinary Time Earnings

Earnings Name

Display Name (optional)

Rate Type

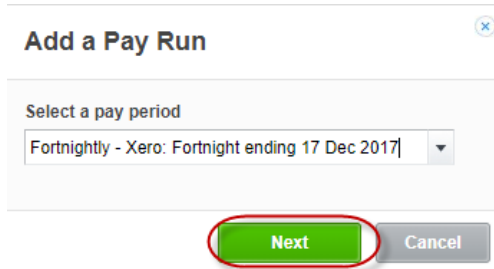
Amount (optional)

Expense Account

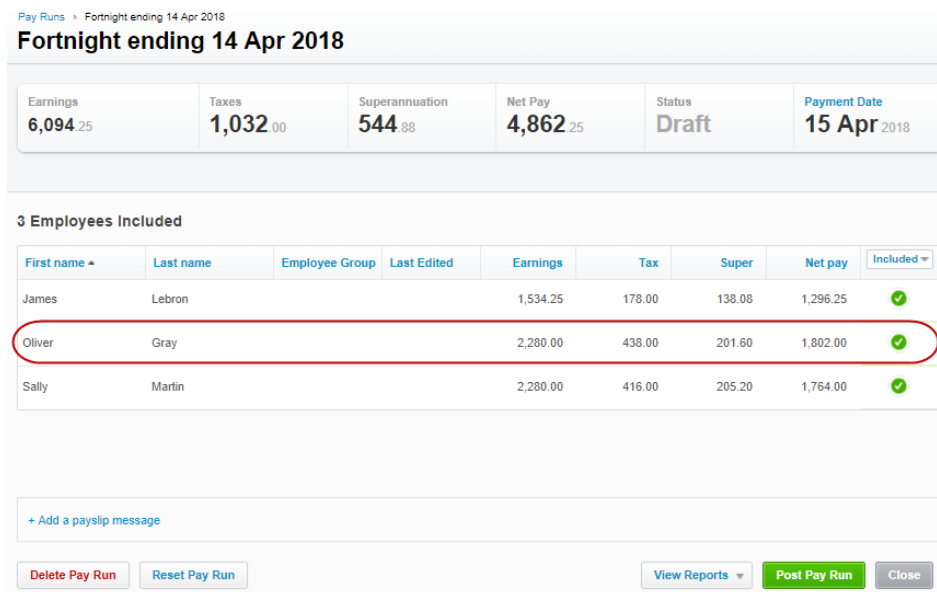
Exempt from PAYG Withholding
 Exempt from Superannuation Guarantee Contribution
 Reportable as W1 on Activity Statement

How to record a bonus payment (single period)

1. Go to Payroll → Pay Runs
 - The Pay Runs screen opens showing all approved Pay Runs
2. Click on [Add Pay Run]
 - The Add a Pay Run pop up opens



3. Select the correct calendar and period from the list and click on [Next]
 - The Draft Pay Run is created showing all active employees

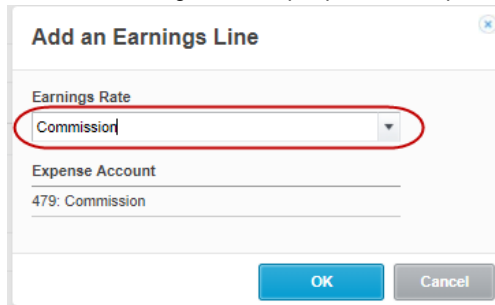


Earnings	Taxes	Superannuation	Net Pay	Status	Payment Date
6,094.25	1,032.00	544.88	4,862.25	Draft	15 Apr 2018

First name	Last name	Employee Group	Last Edited	Earnings	Tax	Super	Net pay	Included
James	Lebron			1,534.25	178.00	138.08	1,296.25	✓
Oliver	Gray			2,280.00	438.00	201.60	1,802.00	✓
Sally	Marlin			2,280.00	416.00	205.20	1,764.00	✓

4. Open the employee's pay entitled to the commission/bonus payment
5. Click on [Add Earnings Line]

➔ *The Add Earnings Line Pop Up window opens*



6. From the Earnings Rate list select: **Bonus or Commission**

7. Click on **[OK]**

➔ *The Commission/Bonus Earning Rate line is added to the employee Pay*

Earnings Rate	Hours	Rate	Total
Ordinary Hours	76.0000	30.000000	2,280.00
Commission			250.00
			2,530.00

8. Enter the commission/bonus amount

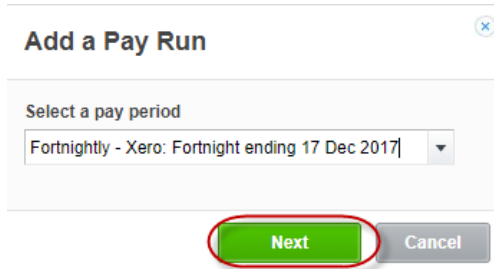
➔ *The Tax line adjusts based on the new gross wage amount*

9. Click on **[Save]**

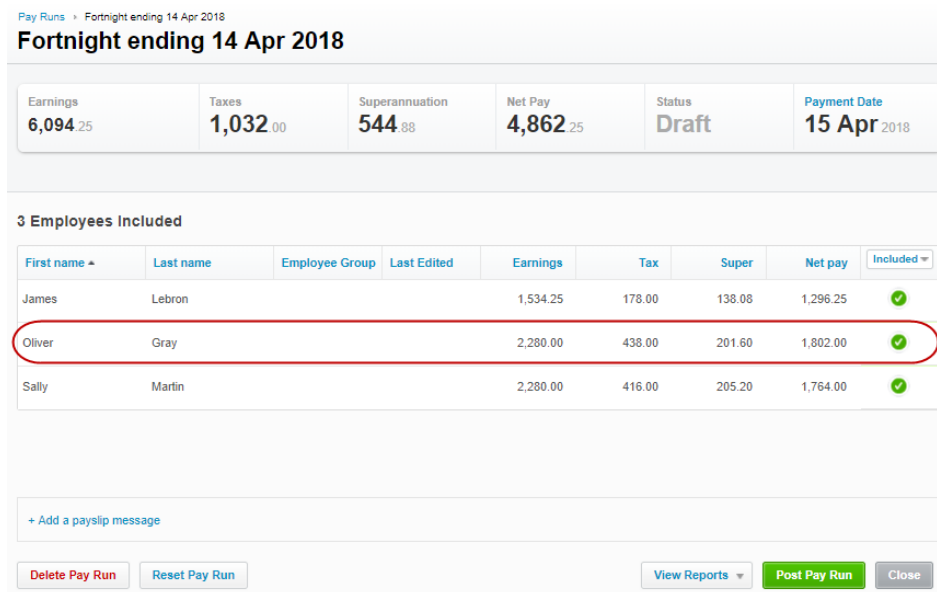
10. Post the Pay Run

How to record a bonus payment (performance achieved over a period of time)

1. Go to Payroll → Pay Runs
 - The Pay Runs screen opens showing all approved Pay Runs
2. Click on [\[Add Pay Run\]](#)
 - The Add a Pay Run pop up opens



3. Select the correct calendar and period from the list and click on [\[Next\]](#)
 - The Draft Pay Run is created showing all active employees



Pay Runs > Fortnight ending 14 Apr 2018

Fortnight ending 14 Apr 2018

Earnings	Taxes	Superannuation	Net Pay	Status	Payment Date
6,094.25	1,032.00	544.88	4,862.25	Draft	15 Apr 2018

3 Employees Included

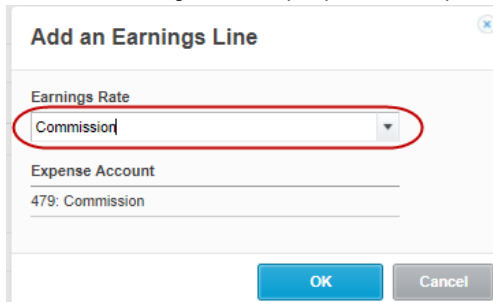
First name	Last name	Employee Group	Last Edited	Earnings	Tax	Super	Net pay	Included
James	Lebron			1,534.25	178.00	138.08	1,296.25	✓
Oliver	Gray			2,280.00	438.00	201.60	1,802.00	✓
Sally	Marlin			2,280.00	416.00	205.20	1,764.00	✓

+ Add a payslip message

[Delete Pay Run](#)
[Reset Pay Run](#)
[View Reports](#)
[Post Pay Run](#)
[Close](#)

4. Open the employee's pay entitled to the commission/bonus payment
5. Click on [\[Add Earnings Line\]](#)

➔ The Add Earnings Line Pop Up window opens



6. From the Earnings Rate list select: **Bonus or Commission**

7. Click on [OK]

➔ The Commission/Bonus Earning Rate line is added to the employee Pay

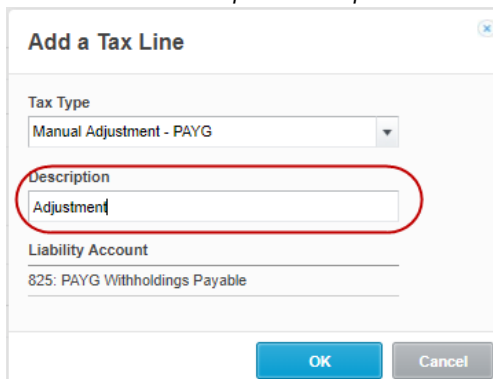
Earnings Rate	Hours	Rate	Total
Ordinary Hours	76.0000	30.000000	2,280.00
Earnings Rate		Fixed Amount	
Commission		2,000.00	
			4,280.00

8. Enter the commission/bonus amount

➔ The Tax line adjusts based on the new gross wage amount

9. Click on [Add Tax Line]

➔ The Add Tax Line Pop window opens



10. In the Description type: **adjustment** and click on [OK]

➔ The Tax Adjustment line is added to the employee Pay

Tax Type	Amount
PAYG Tax - With tax-free threshold, no leave loading	1,180.00
Tax Type	Amount
Manual Adjustment - PAYG - Adjustment	-4.00
1,176.00	

11. Adjust the tax withheld according to the Bonus/Commission Tax formula

12. Click on [Save]

13. Post the Pay Run