Revenue Services Lesotho

# GUIDE ON TAXATION OF EMPLOYMENT INCOME

25-26

TAX GUIDE ON TAXATION OF EMPLOYMENT INCOME

"Re Tjena Ka Uena"

## 1. Introduction

This guide explains the employment income and its administration. It also explains how it is taxed and the rates that are applicable to it. This is explained in relation to Income Tax Act No. 9 of 1993 as amended from time to time.

## 2. What is an employment income?

Employment income is the total earnings of an employee that arise from an employment relationship. Total earnings refer to all income received by or credited in favor of an employee arising from an employment relationship.

Employment income, under section 18(1) of Income Tax Act 1993, includes the following: wages, salaries, bonuses, allowances, overtime payments, leave payments, commission, gratuity, supplementary pay, fees, severance pay and other income of similar nature. It may even be gifts by the employer or third parties that would otherwise not be given, but for the employment relationship.

## 3. How is the employment income taxed?

Under the PAYE system, the amount of tax to be deducted from the employee's remuneration or total earnings depends on the following:

- the employee's total earnings,
- the applicable marginal tax rates,
- Allowable deductions (e.g. Contributions to an approved pension fund, retirement annuity fund.)

### 3.1 <u>Tax Rates Applicable</u>

Taxable income is taxed in accordance with a progressive two-rate structure of 20% and 30%. In determining the PAYE of each employee, the following marginal tax rates apply:

| | |
|---|---|
| The minimum marginal tax rate: | 20% |
| The maximum marginal tax rate: | 30% |

These rates apply as follows:

- Any chargeable income from M 1.00 up to M  6, 170.00 per month is taxable at 20%; and
- Any excess of M 6, 170.00 per month is taxable at 30%.

### 3.2 Tax Credit:

A tax credit is a rebate or relief granted by law to every employee who earns taxable income. A tax credit is directly deductible from the amount of tax to which an individual is liable to pay after applying the applicable tax rates to the individual's chargeable income. Individuals are granted a non-refundable tax credit of M **970.00** per month.

### 3.3 Threshold for taxable / chargeable income:

A threshold normally refers to that point in an employee's income below which the income is not taxable. Employees who earn a gross salary of **M 4,850.00** and below per month, will not pay any tax on their income, but those who earn above **M 4,850.00** will be taxed for every Loti of such amount.

**Examples of tax calculation**

**Example 1:**

Suppose an employee receives a monthly gross income of M4,850.00.

**Calculation of tax**

The tax is calculated as follows:

| | | |
|---|---|---|
| M 4,850.00 is taxable @ 20% | = M | 970.00 |
| **Less Tax Credit** | **= M** | **970.00** |
| Total Tax due/Payable | = **M** | **0.00** |

**Example 2:**

Suppose that an employee earns gross income of M 6,170.00 per month.

**Calculation of tax**

The tax is calculated as follows:

| | | |
|---|---|---|
| M 6,170.00 is taxable @ 20% | = M | 1,234.00 |
| **Less Tax Credit** | **= M** | **970.00** |
| Total Tax due/Payable | = **M** | **264.00** |

**Example 3:**

For an employee who earns gross income of M 10,000.00, it is taxable at both 20% and 30%.

**Calculation of tax**

The tax is calculated as follows:

| | |
|---|---|
| The first M 6,170 is taxable @ 20% | = M 1, 234.00 |
| The balance M 3,830.00 is taxable @ 30% | = M 1,149.00 |
| | **=** M 2,383.00 |
| **Less: Tax credit** | **= M** 970.00 |
| Total Tax due/Payable | = **M 1,413.00** |

**4. The method of collecting tax on employment income (PAYE System):**

This is the method of deducting and withholding tax from employee's total earnings in proportion to what they earn.

According to the system, the employer:

- has an obligation to calculate correctly tax payable by every employee,
- has the power to deduct and withhold the tax from the employee's earnings,
- where tax has not been withheld, the employer will be held liable but has the authority to recover such amounts from the employees,
- has the obligation to remit the tax to the Revenue Services Lesotho by the 15th of every month following the month of deduction.

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