

From January 2014, the income tax threshold will be lowered from \$60,000 to \$36,000 per annum or \$3,000 per month.

There will be three rates:

\$0 - \$3,000 per month = 0%

\$3,000- \$5,000 =15% (on the amount over \$3,000)

Over \$5,000 per month = 30% (on the amount over \$5,000)

Some Examples:

Monthly Salary
Income Tax

\$1-3,000
\$0.00

\$3,100
\$15.00 ($\$3,100 - \$3,000 = \$100 \times 15\%$)

\$3,500
\$75.00 ($\$3,500 - \$3,000 = \$500 \times 15\%$)

\$4,000
\$150.00 ($\$4,000 - \$3,000 = \$1,000 \times 15\%$)

\$4,500
\$225.00 ($\$4,500 - \$3,000 = \$1,500 \times 15\%$)

\$5,000
\$300.00 ($\$5,000 - \$3,000 = \$2,000 \times 15\%$)

\$5,500
\$450.00 ($\$5,000 - \$3,000 = \$2,000 \times 15\% + \$500 \times 30\%$)

\$6,000
\$600.00 ($\$5,000 - \$3,000 = \$2,000 \times 15\% + \$1,000 \times 30\%$)

\$6,500
\$750.00 ($\$5,000 - \$3,000 = \$2,000 \times 15\% + \$1,500 \times 30\%$)

\$7,000
\$900.00 ($\$5,000 - \$3,000 = 2,000 \times 15\% + \$2,000 \times 30\%$)

\$7,500
\$1,050.00 ($\$5,000 - \$3,000 = \$2,000 \times 15\% + \$2,500 \times 30\%$)

\$8,000

$\$1,200.00 (\$5,000 - \$3,000) = \$2,000 \times 15\% + \$3,000 \times 30\%$

Most Frequently Asked Questions

1. If I am earning less than \$3,000 per month will I be paying 15% of my salary in income tax?

No. You will not be paying any income tax.

2. Will there be allowances for mortgages, insurance and children before I pay income tax?

No. However, you will not pay any income tax on up to \$3,000 of your monthly salary. This means you have been given an allowance of up to \$3,000 per month.

3. If I am already above \$5,000 per month and paying income tax, how much more will I pay?

You will pay \$300 more per month.

4. If I am earning more than \$5,000 per month, will I be paying 45% of my salary in income tax?

No. You will be paying 0% on your first \$3,000 per month, 15% of your salary above \$3,000 and up to \$5,000; and 30% on your salary above \$5,000.

Before the lowering of the threshold, the effective income tax rate for a person earning \$6,000 per month was 5%. With the new threshold, the same person will now pay an effective tax rate of 10% not 45%.

Note:

45% = \$2,700

10% = \$600

5. What is meant by effective tax rate?

It means your income tax divided by your total salary?

Consider examples of effective tax rate for persons earning the following monthly salaries:

\$3,500 = 2% (\$75/\$3,500)

\$4,000 = 3.75% (\$150/\$4,000)

\$4,100 = 4.0% (\$165/\$4,100)

\$4,500 = 5.0% (\$225/\$4,500)

\$5,000 = 6.0% (\$300/\$5,000)

\$6,000 = 10.0% (\$600/\$6,000)

\$7,000 = 12.9% (\$900/\$7,000)

\$8,000 = 15.0% (\$1,200/\$8,000)

6. Why are the persons who are already paying income tax required to pay two rates?

To avoid, situations where persons who earn less \$5,000 per month pay more income tax than persons who earn more than \$5,000 per month.

Consider the following example:

If a person who earns \$5,000 per month pays 15% on her salary over \$3,000 and up to \$5,000, she will

pay \$300 per month.

If a person who earns \$5,500 per month pays only 30% on his or her salary, he or she will pay \$150.00 per month. This is not fair.

Under the new system, a person who earns \$5,500 per month will pay 15% on salary over \$3,000 and up to \$5,000 which is \$300 plus 30% on salary over \$5,000 which is \$150. This means total income tax will be \$450 per month.

In sum, under the new system, the person who earns \$5,000 per month will pay income tax of \$300 per month while the person who earns \$5,500 per month will pay \$450 per month.

7. Will I have to pay income tax on my severance pay if I am laid off?

No. Government has decided that no income tax will be deducted from the severance pay of any worker with immediate effect and retroactive from January 2013.