

Employing labour – the cost and tax issues

Teagasc Labour Workshops
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The Irish Agriculture and Food Development Authority

Outline

- Defining Pay
- Taxes on employment
- Legal requirements relating to paying staff
- Looking at labour costings – eProfit Monitor & example
- Wage Incentive Plans

Pay Definitions

- **Gross Pay for Tax** is the employee's pay of any kind before any deductions are made by the employer.
- **Net pay for tax purposes** is the amount of an employee's gross pay less any ordinary contributions made by the employee to a pension
- **Net Pay AFTER tax** – is the “take home” pay of the employee

Gross Pay or Net Pay?

- **Always agree a gross pay with your employees rather than a net “take home” pay**
- By agreeing a net pay with an employee then in effect the employer is agreeing to pay the employee’s PAYE/PRSI for them.

This also means that if the income tax rates rise (eg on USC introduction) or an employee’s tax credits or standard rate cut-off point change the employer will have to pay any additional tax arising.

Example Pay Ranges

	Wage Range (Gross €)		
	Annual	Per Week	* Per “Working Week”
Farm Manager	€40,000	€770	€870
Farm Labourer	€20,300	€390	€441

* With allowance for 20 days holidays plus 9 public holidays

Minimum Wage

	Minimum hourly rate of pay
Experienced adult worker	€8.65
Aged under 18	€6.06
First year from date of first employment aged over 18	€6.92
Second year from date of first employment aged over 18	€7.79

If food (known as board) and/or accommodation (known as lodgings) is provided by the employer, the following amounts are included in the minimum wage calculation:

€54.13 for full board and lodgings per week, or €7.73 per day

€32.14 for full board only per week, or €4.60 per day

€21.85 for lodgings only per week, or €3.14 per day

Source: <http://www.citizensinformation.ie>

Pay as defined for tax purposes

- Wages/ salary
- Benefits-in-kind
- Bonuses
- Overtime
- Sick pay
- Holiday pay
- Christmas bonuses

Benefits-in-Kind

Examples of Benefits-in-Kind	
<ul style="list-style-type: none">• the private use of a car	<ul style="list-style-type: none">• the payment of bills
<ul style="list-style-type: none">• free or subsidised accommodation	<ul style="list-style-type: none">• medical insurance premiums on an employee's behalf.
<ul style="list-style-type: none">• preferential loans	<ul style="list-style-type: none">• club subscriptions
<ul style="list-style-type: none">• vouchers in various forms	

Small benefits

Where an employer provides an employee with a small benefit (that is, a benefit with a value not exceeding €250) PAYE, PRSI and USC need not be applied to that benefit.

No more than one such benefit given to an employee in a tax year will qualify for such treatment.

Where a benefit exceeds €250 in value the full value of the benefit is to be subjected to PAYE, PRSI and USC.

This concession does not apply to cash payments regardless of the amount.

Rent-free accommodation

- A taxable benefit will not arise where an employee (but not a director) is required by the terms of their employment to live in accommodation provided by the employer in part of the employer's business premises so that the employee can properly perform their duties ("better performance test"), and it is necessary, in the particular class of trade, for employees of the class in question to live on the premises.
- It is accepted that the "better performance test" is met in practice where -
 - the employee is required to be on call outside normal hours, and
 - the employee is in fact frequently called out, and
 - the accommodation is provided so that the employee may have quick access to the place of employment

Taxes on Employment

Tax	Employee Liable	Employer Liable
Income Tax – Pay As You Earn (PAYE)	✓	
Universal Social Charge (USC)	✓	
Pay Related Social Insurance (PRSI)	✓	✓

As an employer you have an obligation to administer the **collection and transfer** of the above taxes to Revenue

PAYE – Bands & Rates

Personal Circumstances	2014
Single	€32,800 @ 20%, Balance @ 41%
Married or in a Civil Partnership - one Spouse or Civil Partner with income	€41,800 @ 20%, Balance @ 41%
Married or in a Civil Partnership - both Spouses or Civil Partners with income	€41,800 @ 20% (with an increase of €23,800 max), Balance @ 41%

PAYE – Credits

Personal Circumstances	2014
Single Person	€1,650
Married Person or Civil Partner	€3,300
PAYE Tax Credit	€1,650

Universal Social Charge (USC)

Bands	Rate
On the first €10,036	2%
On the next €5,980	4%
On the balance	7%

Pay Related Social Insurance (PRSI)

Weekly Salary	Subclass	Employee	Employer
€38 - €352	A0	NIL	8.5%
€353.01 - €356	AX	4%	8.5%
€356.01 - €500	AL	4%	10.75%
More than €500	A1	4%	10.75%

Affect of PRSI on Net employment cost

	Annual	Per Week
Employee Gross Wages	€20,300	€390
Employer PRSI @10.75%	€2,182	€42
Final Net Cost to the employer	€22,482	€432

Information for Employers

Employers Guide to PAYE

<http://www.revenue.ie/en/business/payee/guide/index.html>

PRSI Guide

<http://www.welfare.ie/en/downloads/SW14.pdf>

Citizens Information

[http://www.citizensinformation.ie/en/employment/employment rights and conditions/](http://www.citizensinformation.ie/en/employment/employment_rights_and_conditions/)

Payroll- Legal Requirements

As an employer you are legally required to do the following:

- Give a payslip to each employee (weekly, fortnightly or monthly). This should state gross pay, deductions for income tax, PRSI (employees and employers), USC & pension payments.- with cumulative totals.
- Send income tax and PRSI payments to the Revenue Commissioners each month (or quarter*), accompanied by a P30 form (issued by the Revenue Commissioners). A receipt will be issued to you.
**Quarterly returns and payments allowed if annual total PAYE/ PRSI is €28,800 or less*
- At the end of each tax year, give a P60 form to every employee. This is a summary of all earnings, income tax and PRSI paid during the tax year.
- Each year, send a P35 form to the Revenue Commissioners. This is a statement of income tax and PRSI paid by your employees during the tax year.

Key Dates for Employers

- 15th February - Date by which P60 must be given to an employee
- 15th February - Due date for submission of form P35
- 14th day of each month - Date by which the monthly P30s and payments must be made
- 23rd day of each month - Extension due date for employers where the P30 and P35 returns and associated payments are filed electronically via ROS (Revenue Online Service)

Payroll Administration

- Many businesses take this on themselves for small numbers of employees using paper records or computer software
- Care should be taken with pay calculations - it is complex work and mistakes can be costly
 - Revenue provide worksheets to do this but you still need to understand the process
- Software option
 - Some accountancy packages can do payroll
 - Specialised Payroll Software also available

CollSoft Payroll 2003 - Wine & Dine Gourmet Experience (Sample Company)

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www.collsoft.ie

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Fee Based Payroll Service

- Accountant / secretarial services provide payroll services for a fee
 - This can be fairly costly for a small number of employees
 - Example charge of a minimum of €60 + vat per quarter for 1 employee, €80 minimum per quarter for two employees
- Key Features
 - Provision of payslips
 - Returns to the Revenue Commissioners filed on time
 - Preparation of P45 and P60s
 - Preparation of P35 year end returns
 - Fixed fees agreed in advance
 - Payment direct to employees' bank accounts

Labour data from Teagasc eProfit Monitor

	Average	Max	Min
Labour Cent per Litre	3.95 c/L	8.6 c/L	1.6 c/L
Labour € per cow	€213	€417	€71
Labour € per LU	€139	€285	€52
Labour € per Ha	€315	€667	€124
Labour as a % of Cash Receipts	7.2%	14%	2.6%
Labour as a % of Cash Payments	12%	20%	4.6%

Selected sample of 2013 Dairy Profit Monitors from farms with > €20,000 labour cost per annum. Average farm size 110 Ha and cow numbers range 56 – 434 cows

Actual Cost of Labour

	With Labour	No Labour
Taxable Profit Before Labour	€80,000	€80,000
Labour Charge (incl PRSI)	€22,482	
Taxable Profit less labour charge	€57,518	€80,000
Tax Payable * (income tax, PRSI & USC)	€17,150	€28,841

Summary of potential costs associated with farm labour

- Wages / salary
- Employers PRSI
- Administration costs – payroll and Revenue returns
- Employer Liability Insurance Costs

Wage Incentive Plans

- Providing basic wage with performance linked bonuses
 - Must not be a substitute for a fair wage
- Hard to design and implement so that they are fair to both employer and employee but they have been used to tackle problem areas
 - Milk quality, reproductive performance
- May be more applicable where the farm owner is in a management role without hands on day-to-day involvement

Designing an incentive plan

- Should be attractive enough to make it worthwhile for the employee to participate
- Plans must be in writing and set realistic and attainable goals
- The means for determining the bonus incentive should be simple to understand
- Plans should allow annual review and revision options
- They should not foster unprofitable practices

Possible Incentive Plan Options

- €50 bonus per month if milk bacterial counts below 10,000 average
- €20 bonus per week for keeping SCC below 200,000
- €50 bonus for each heifer that calves down at 24 months
- €5 for every cow scanned in calf 100 days post calving

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