WEEKLY LABOUR BULLETIN

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INTRODUCTION

PAYE is one of the statutory deductions that employers are required to make from employees' remuneration. However, a common mistake is to assume that PAYE is calculated simply on an employee's basic salary. The starting point is to establish what constitutes "**remuneration**" for the purposes of employees' tax.

This bulletin is **Part 1 of our PAYE on Farms series**, which will answer the practical questions farmers commonly face when processing payroll. The series will cover:

- **Part 1 – What Counts as Remuneration:** What does the law include as remuneration and what is specifically excluded.
- **Part 2 – Allowances and Reimbursements:** Which common allowances are subject to PAYE and the difference between an allowance and reimbursement of actual business expenditure.
- **Part 3 – Accommodation:** When employer-provided accommodation, including farmhouses and quarters, creates a taxable benefit and how that benefit is treated.
- **Part 4 – Benefits in Kind:** Motor vehicles, meals, school fees, loans, airtime/ data and other non-cash benefits.
- **Part 5 – PAYE and Other Payroll Deductions:** How PAYE interacts with NSSA, pension, union subscriptions, NEC-related deductions and other deductions, including which deductions affect the PAYE calculation.
- **Part 6 – Calculating and Paying PAYE:** When PAYE is calculated, the applicable tax tables, irregular payments, termination payments, AIDS Levy, and the employer's obligations to ZIMRA.

WHAT DOES THE LAW MEAN BY "REMUNERATION"?

The starting point is paragraph 1(1) of the Thirteenth Schedule to the Income Tax Act [Chapter 23:06]. The definition is deliberately broad. It provides that:

- *"remuneration" means any amount of income which is paid or payable to any person by way of any salary, leave pay, allowance, wage, overtime pay, bonus, gratuity, commission, fee, emolument, pension, superannuation allowance, retiring allowance, stipend or commutation of a pension or an annuity, whether in cash or otherwise...*

The definition also includes certain amounts referred to in the definition of "gross income" in section 8(1) of the Act. This therefore means that the law does not define remuneration as "basic salary". It expressly includes a range of payments that an employee may receive in addition to basic salary.

For example, salary, wages, allowances, overtime, bonuses, commissions, gratuities, and leave pay are all included. Therefore, a farmer should not calculate PAYE simply by looking at the employee's basic wage.

DOES IT MATTER WHETHER THE PAYMENT IS IN CASH?

No. The definition expressly states that remuneration can be paid: **"...whether in cash or otherwise..."** This is particularly important in agriculture because an employee may receive part of his or her employment package in cash and part in the form of a benefit.

For example, an employee may receive basic wage + allowance + accommodation. The fact that accommodation is not paid to the employee in cash does not, by itself, take it outside the PAYE rules. This is why the later parts of this series will deal specifically with accommodation and benefits in kind.

ARE ALLOWANCES PART OF REMUNERATION?

Yes. The definition of remuneration expressly includes an "**allowance**."Therefore, an employer cannot decide that an allowance is not subject to PAYE simply because it is called an allowance. For example:

Employee's remuneration	**Amount**
Basic wage	US$600
Housing allowance	US$100
Transport allowance	US$50
Total remuneration before applicable exclusions	**US$750**

The US$150 in allowances cannot simply be ignored when determining remuneration. However, this does **not** mean that every allowance will ultimately be taxable. The Income Tax Act contains specific exclusions and exemptions. That distinction will be dealt with fully in Part 2 on Allowances and Reimbursements.

WHAT ABOUT OVERTIME, BONUSES AND COMMISSIONS?

The law answers this directly. They are expressly included in the definition of remuneration. Therefore, overtime pay, bonus (subject to any applicable statutory exemption), commission, leave pay, and gratuity (subject to the applicable tax treatment) are all included. The fact that a payment is made occasionally, rather than every month, does not by itself remove it from remuneration.

The specific treatment of exemptions will be addressed when the relevant payment is discussed in the later parts of the series.

IS EVERYTHING PAID BY AN EMPLOYER AUTOMATICALLY REMUNERATION?

No. This is where paragraph 1 becomes particularly important. After defining remuneration, the Thirteenth Schedule identifies amounts that are not included. These include, among others, genuine reimbursement of business expenditure. Paragraph 1(1)(f) excludes:

- *"any amount paid or payable to an employee wholly in reimbursement of expenditure actually incurred by such employee in the course of his employment".*

This creates an important distinction between an allowance and a reimbursement. For example, a farm employee travels on official business and spends US$50 on employment-related expenses. If the employee incurs the US$50 expenditure and the employer reimburses the employee for that expenditure, the Act specifically excludes such a genuine reimbursement from remuneration, provided it meets the statutory requirement. That is different from paying the employee a regular transport allowance of US$50 per month."

The latter is an allowance, and allowances are expressly included in the definition of remuneration. This distinction will be examined in Part 2 of this series.

WHAT ABOUT AMOUNTS THAT ARE EXEMPT FROM INCOME TAX?

Paragraph 1 (1) (d) of the Thirteenth Schedule also excludes: "any amount exempt from income tax by virtue of the Third Schedule". Therefore, there are two separate questions:

Question 1 - Does the payment fall within remuneration?
Question 2 - Is there a specific statutory exclusion or exemption?

The fact that an amount is included in the broad definition of remuneration does not mean that PAYE must automatically be charged on the entire amount. The Act itself provides the exclusions and exemptions that must then be applied.

REMUNERATION IS NOT THE SAME THING AS "REMUNERATION LIABLE TO EMPLOYEES' TAX" (THE AMOUNT ON WHICH PAYE IS CALCULATED)

This distinction is important and will become particularly relevant when we deal with other payroll deductions. Paragraph 1 of the Thirteenth Schedule separately defines **"remuneration liable to employees' tax"** as the remuneration payable to an employee after the deduction of specified "ordinary contributions" under the Sixth Schedule, excluding contributions to a benefit fund.

But what are "ordinary contributions"? In simple terms, these are regular contributions to a qualifying pension or other fund that meets the requirements set out in the Sixth Schedule. The Schedule sets out what qualifies as an ordinary contribution and distinguishes between different types of funds.

The important point is that not every deduction appearing on an employee's payslip can be taken off before calculating PAYE. For example, an employee may have deductions for a loan, savings, a union subscription, or other personal expenses. The fact that these amounts are deducted from the employee's pay does not automatically mean that they reduce the amount on which PAYE is calculated. In simple terms, you start with the employee's remuneration and deduct the amounts that qualify as "ordinary contributions" under the Sixth Schedule. PAYE is then calculated on the amount that remains.

So, when calculating PAYE, the question is not simply, "What deductions have we made from the employee's pay?" The question is, "Is this a deduction that the law allows us to make before calculating PAYE?"

This is what the Income Tax Act means when it refers to "remuneration liable to employees' tax." Section 73(1) then provides that employees' tax is payable in respect of that remuneration liable to employees' tax. The interaction between PAYE and other payroll deductions will therefore be dealt with separately in Part 5.

A SIMPLE WAY FOR FARMERS TO UNDERSTAND THE STARTING POINT

When preparing payroll, do not begin with, "What is the employee's basic salary?" Rather, begin with, "What amounts of remuneration have been paid or become payable to the employee?" Look at the employee's complete remuneration package. For example, salary/wage + allowances + overtime + bonus + commission + other amounts falling within remuneration will equal total remuneration. Then consider the statutory exclusions and exemptions. Only after this process can the employer properly determine the amount on which employees' tax is to be calculated.

FARMER'S TAKE-AWAY

Remember these four rules:

1. Basic salary is only one component of remuneration.
2. Allowances are expressly included in the definition of remuneration.
3. Remuneration can be provided in cash or otherwise.
4. The Act also provides specific exclusions and exemptions.

KEY LEGAL PROVISIONS

- **Section 73(1), Income Tax Act [Chapter 23:06] -** Employees' tax is payable on remuneration liable to employees' tax.
- **Paragraph 1(1), Thirteenth Schedule -** Defines remuneration and remuneration liable to employees' tax and identifies specific exclusions.
- **Paragraph 1(1)(f), Thirteenth Schedule -** Specifically excludes genuine reimbursement of expenditure actually incurred by an employee in the course of employment.

Disclaimer: This article is issued to serve as a general guide to farmers and does not substitute legal advice that may be required to address a particular situation with peculiar circumstances.

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