Harmony P - Temporary or Variable Payroll Categories

Temporary or variable payroll categories function a bit differently than their permanent counterparts. They can be assigned to a particular pay period, so when you process payroll for that pay period, the category will automatically be applied. The explanation ends here for temporary benefits and deductions, but temporary earnings have another layer. Temporary earnings are also taxed as a bonus. If you're familiar with our Acclaim or Clarity products, this refers to the *"Tax as Bonus"* flag/checkbox when setting up an earnings payroll category.

This article will only explain the definition and provide examples of a temporary or variable payroll category. For more information on running a bonus pay run, please refer to this article.

What does it mean for a payroll category to be taxed as a bonus?

A payroll category may need to be taxed as a bonus if the payments being made are a 'one-time' or irregular payment. This most commonly refers to bonus payments, but can also be true for lump-sum vacation payouts, retro payments, or other irregular commission payments (ones that the employee isn't normally entitled to or regular paid).

To understand how a temporary earnings payroll category is taxed as a bonus, let's first understand how a regular permanent earnings payroll category is taxed. Please note that the formulas below have been simplified to easily explain how this works.

> Harmony uses what is called a *prorated tax formula* for calculating taxes. In a nutshell, Harmony taxes the amount of your regular wages (and any benefits that are subjected to income tax), multiplies it by the number of payrolls in the year to determine the tax bracket, then calculates taxes on that value before dividing those taxes by the number of pays in the year. A visual of the formula is below:
>
> **((wages * pays in a year) * tax rate) / pays in a year**
>
> E.g. Employee receives $5000 per pay on a monthly payroll *(note: tax rate is fictional)* = ((5000 * 12) * 0.25) / 12 = $1250.00 tax per pay

> Since a bonus payment is irregular, we don't want Harmony to assume it's being paid on every payroll for the entire year (i.e. don't prorate it), so the 'tax as a bonus' part will add the amount of the bonus to the formula after we calculate the estimated annual gross wages, like this:
>
> **((wages * pays in a year + bonus) * tax rate) / pays in a year**
>
> E.g. Employee receives $5000 per pay on a monthly payroll, with a $6500 bonus *(note: tax rate is fictional)* = ((5000 * 12 + 6500) * 0.25) / 12 = $1385.42 tax per pay

Frequently-Asked Questions (FAQs)

I have a payroll category that is a temporary earning, but no taxes are being deducted from the employee. Why?

If the bonus is entered into a pay period where there are no regular pays present, then Harmony doesn't have any regular wages to use in the calculation of the bonus. Therefore, the annual tax is being calculated ONLY on the bonus amount. **Don't forget: 99% of the time, your bonus payments will likely be BELOW the employees' annual tax credits, so Harmony will see this as the employee owing no taxes.** Keep in mind that any benefits that are subjected to income tax are also used to calculate in any paycard.

Bonus payments must be made to a pay period where a) the regular wages have already been paid to the employee, OR b) regular wages are also being paid at the same time as the bonus payment.

I have a payroll category that is a temporary earning, but the taxes being deducted from the employee are way too high. Why?

Similar to the previous question, however, because the employee has no regular wage payroll categories included in the payroll you've chosen to process (e.g. you normally pay the employee *Salary* but have removed it from the 'active payroll categories' in the first step of the payroll wizard), then the system has no details on the regular payroll. Harmony will assume you've made an error and treat the bonus payroll category as a 'regular' payment type - so it ignores the 'tax as bonus' nature of the payroll category.