

# Back pay

You might owe an employee back pay to account for a wage increase, or to make up for an incorrect pay rate.

Back pay is the difference between:

- how much the employee should have been paid over the back pay period, and
- how much the employee was actually paid.

Once you've worked out the back pay amount, set up a new earning pay item to include the back pay on the employee's next pay.

## Tax on back pay

Tax on back pay can get complicated, and our example below is a simple one. Seek advice from your accounting advisor or the ATO/IRD for help with your specific back pay needs.

Before proceeding, make sure you've [updated the employee's pay details](#) to reflect their updated wage.

OK, let's step you through how to handle back pay.

1. Work out what the employee should have been paid
2. Work out what the employee was actually paid
3. Calculate the back pay
4. Set up a new earning
5. Pay the back pay

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