

Understanding back pay

Everyone gets excited for payday. So, when the numbers don't seem to add up, it can be disheartening and confusing. Understanding back pay and knowing the process for amending an incorrect payslip can help you resolve the matter as quickly as possible.

Being aware of when you can claim back pay and how to ask for it will ensure you get the amount you're entitled to. In this guide, we clarify what is back pay, reasons you may get it, and how to calculate what you may be owed.

What is back pay?

Back pay is money owed to you from your workplace. Untaken [annual leave](#), bonuses and commissions can result in back pay, meaning you receive extra money on top of your salary. You will typically receive the owed amount in your next pay cycle or at a date agreed upon with your employer.

Back pay versus retroactive pay

Back pay and retroactive pay (or retro pay) are similar, but not the same. They both refer to repayment of money owed to an employee, but back pay is for things like unpaid annual leave, commission, overtime and the like, while retroactive pay refers to correcting underpayment due to a [pay rise](#). Both may be caused by accounting or payroll system errors.

Reasons you may get back pay

There are a few different reasons you may get back pay. Such as:

- **Unpaid overtime:** if you worked overtime and it was not included in your salary.
- **Unpaid leave:** you're owed money for personal leave that you did not take.
- **Minimum wage violations:** if you were paid below minimum wage, you're owed back pay for the shortfall.
- **Retroactive pay-rise increases:** where you've [received a pay rise](#) but were

not paid the adjusted amount.

- **Payroll errors:** including system errors, data entry typos, etc.

It's important to always check your payslips for the amount you were paid to ensure it reflects what you're owed. Be sure to check hours worked, leave allowances, commissions owed and any overtime, as back-pay errors are often due to simple miscalculations.

Calculating back pay

If you think you've been underpaid, it helps if you can figure out exactly how much you are owed, by calculating back pay. Before you start calculating your back pay, you will first need to establish the amount you were supposed to receive, then compare this to the number on your pay slip.

To calculate your back pay:

1. Take the amount of money you received.
2. Subtract that number from the amount you were meant to receive.
3. You now have the amount owed to you in back pay.

Example

You were meant to receive \$1,200 in commission but received \$800 according to your pay slip, so you would be owed \$400 in back pay ($\$1,200 - \$800 = \400). You may also be owed extra superannuation, depending on your contract.

Examples of back pay

Any type of employee can be eligible for back pay in the right circumstances. Whether you're eligible for back wages or pay depends on the situation itself, your contract and other specifics. Here are some examples of back pay that may arise for different employment and compensation structures.

Salaried employee back pay examples

A salaried employee is someone who is employed to work in a particular position for a fixed amount of money for a fixed number of hours per week. The average salaried employee works 40 hours per week for an [agreed upon salary](#), regardless of whether they work more or fewer hours.

Examples of when a salaried employee may receive back pay include:

- Retroactive compensation for pay increases.
- Overtime pay, where a contract allows for overtime pay or has been agreed upon by a manager.
- Payroll miscalculations, such as an incorrect amount being entered into the system.
- Unpaid bonuses or commissions for performance or reward.

Having a copy of your employee contract, pay slips and confirmation of pay rises or bonuses will help support your claim for back pay in a salaried role.

Hourly wages back pay examples

An employee working for an hourly wage is paid a set amount each hour. As hours worked can change from week to week, and penalty rates can increase the hourly wage, back pay may be required when variables haven't been recorded or entered into a payroll system correctly.

Some examples of back pay for an hourly wage worker include:

- Unpaid overtime that has been recorded or agreed on
- Unpaid regular hours where normal hours worked have not been paid or paid in full
- Minimum wage violations where you've not been paid minimum wage
- Unpaid bonuses or commissions
- Payroll system errors
- Incorrect or no penalty rates applied

Keeping records of your hours worked is always a good idea, in case there's ever a situation when you need to calculate back pay.

Commission and bonus back pay examples

Commission pay is an amount paid to an employee based on KPIs and targets. These

payments might also be called bonuses, though bonuses aren't strictly based on specific targets, but rather for loyalty to the company or overall company performance.

Back pay examples around commission and bonuses may occur if:

- There has been an error in recording sales
- There are discrepancies between agreed terms and the amount paid
- There are delayed commission payments where clients have not signed the contract in time, targets weren't met in time or calculations were not complete

If you receive commissions or bonuses, it's important to keep track of your sales targets or KPIs yourself, to ensure what is being recorded by the company aligns with what you've achieved.

If you've been questioning if you're eligible for back pay, you should now have enough information to move forward. Remember to gather the documents needed to be able to show the differences in what should have been paid and what you received, such as your pay slips, a copy of your contract and any emails about agreed amounts. Most likely it's a payroll error and you'll recoup your back pay in your next salary payment. When it comes to back pay, being informed is the best way to know your rights.

FAQs

What is the process for calculating back pay?

To calculate back pay, subtract the amount you were paid from what you should have been paid. For example, if \$1,200 was paid, but it should've been \$2,000, then \$800 is the back pay owed by your employer. The amount you're owed might be more difficult to figure out if it's for unpaid annual leave or commissions, in which case, you should see your payroll officer for help.

How do I ask for back pay?

Typically, you can approach your manager, [human resources](#) contact or [payroll](#) officer to address back pay. You may need to supply evidence of hours worked if there are any discrepancies with payroll information.

When can I get back pay paid?

Back pay is typically paid in the next pay cycle. In some situations where this may not be possible, an agreed date for the payment to be made should be documented between the employee and the employer.

Is back pay taxed?

Back pay may be taxed as it is part of your income per federal tax regulations. How much it will be taxed depends on when the sum is received. The Delayed Income Tax Offset may apply to help limit the tax payable where a lump sum has been received outside of the year it was owed.

Can back pay be withheld?

Back pay can only be withheld under strict conditions, such as:

- you as the employee have given written permission,
- it's allowed under law and your employee award, and
- it's within your registered contract agreement.

For example, back pay may be reduced where you've been overpaid in another instance.

Is there a process in resolving back pay disputes?

If you've approached your employer to resolve back pay and they have refused or there is any type of dispute, your next step should be to consult with your union, the Fair Work Ombudsman or the Australian Taxation Office (ATO) for advice and assistance for your particular situation.

What documentation should I keep for a back pay claim?

If you think you might need to make a back pay claim, you should provide documentation of:

- your pay slips,
- a log of hours worked,
- overtime confirmation,

- a copy of your work agreement or contract,
- bank statements for the period,
- emails regarding the back pay, and
- any related documentation.

This will help you be prepared to provide evidence of how much is owed to you.