This factsheet will help you to:

- Understand your legal responsibilities around wage deductions
- Ensure that wage deductions are lawful
- Explore the options available if a wage deduction is not permitted

Guide to types of wage deductions

A good employer knows and adheres to their legal rights and responsibilities. This is good business practice, and will save time, money and effort in the long run.

Wage deductions are covered by the Wage Protection Act. This act is strictly enforced by the Labour Inspectorate and Employment Relations Authority. A good understanding of the rules around wage deductions will help you to avoid costly mistakes.

As a general rule, you cannot make deductions from an employee’s wages.

There are a few exceptions to this:

- The employee has requested or agreed to the deduction in writing. A signed employment agreement agreeing to a specific type of deduction can be taken as an agreement in writing;
- Deductions for overpayment of wages in a limited number of situations;
- A Court directs a deduction be made;
- The employee is required by law to make payment e.g. tax, child support and
- A bargaining fee applies to the employee. This can occur when the terms and conditions of a collective agreement are passed on to non-union members – as part of this agreement, a bargaining fee may be deducted from the wages of non-union members and paid to the union.

If you don’t have written consent for the deduction or it’s not otherwise provided for under the law, you cannot make the deduction. You need to look at other options instead.

Agreed deductions:

An employee may request, or agree to, a deduction in writing, e.g. in an employment agreement or other written document. The deduction clause needs to be very specific to be enforceable– an employer cannot rely on a general catch-all clause.

The deduction also needs to be fair and reasonable given the circumstances. If either the amount of the deduction, the reason for the deduction, or the process followed, are held to be unreasonable then the employer may be ordered to repay the deduction and probably pay penalties as well.
The employee is also entitled at any time to change or withdraw their consent to a deduction by writing to the employer. The employer must action this request within 2 weeks or as soon as practicable. This effectively means that the employee can withdraw their consent to any deduction clause in the employment agreement when they resign although in reality it is rare for employees to request this.

Recovering overpayments:

An employer can recover overpayments in a few limited situations:

- The employee has been absent from work without the employer's authority, or
- The employee has been on strike, locked out or suspended.

The employer is only allowed to recover the overpayment where it wasn't reasonably practicable to avoid making the overpayment in the first place. The employer must notify the employee of their intentions to make the deduction (normally before the next pay day) then make the deduction within two months.

If an employee has been overpaid by accident, the best thing is to sit down, discuss the issue and ask the employee to sign a deduction agreement to recover the amount in the next pay.

Board and lodgings:

If you provide accommodation, you can deduct the cost of board or lodging where the amount is fixed under an Act, determination or agreement. If the amount payable is not fixed, you can deduct up to 15% for board and up to 5% for lodgings. The amount must be clearly stated in the employment agreement.

Other options available:

If the deduction you wish to make is not provided for in the employment agreement or the deduction clause is too generic, then you cannot go ahead and make the deduction. You need to look at the other options available to you. Depending on the situation you can:

- Go and talk with the employee explaining the situation and asking them to sign a specific deduction agreement or to repay the amount directly. This option is most likely when the relationship is amicable;
- Decide it’s not worth it and implement procedures to prevent it happening again;
Pursue a legal solution. Possible options include:

- Lodge a claim with the Employment Relations Authority, asking that your employee be ordered to comply with the terms of their employment agreement. This could be an option, for instance, when the employee has left under bad terms and hasn’t returned some expensive equipment. For more details see the Factsheet “Lodging a Claim with the Employment Relations Authority”.

- Apply to the Disputes Tribunal to recover a debt. For example, this could be an option if you’ve made a personal loan to an employee, then the relationship has gone sour and they are refusing to repay the loan.