

What happened to my year-end bonus?

 By [Madelein Taljaard \(van der Watt\)](#)

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Despite the expectations of employees, companies are not obliged to pay a year-end bonus, unless it is written in the employment contract. Even if it is written in, a number of technicalities may apply. Some companies will reward an employee based on performance or hours worked. Such bonuses are more likely to be paid out annually, linked to company performance. In times of slow economic growth, companies are less likely to produce good financial results, which have a major impact on possible bonus payments. It is advised that a company clearly communicate this well ahead of the end of the year so that employees know whether they can expect a bonus or not.

However, if the employee has signed up for a package that guarantees the year-end bonus, the company has to pay. This is irrespective of the performance of the company. A 13th cheque is paid on a date of anniversary, the employees' birthday or a specific date agreed upon.

Softening the tax blow

If an employee is fortunate enough to get a bonus or 13th cheque, the big chunk of income tax that the South African Revenue Service (SARS) will take from the bonus could dampen the joy. The best way to soften the blow is to ask the employer to spread the tax payments for the annual bonus over the preceding months of the tax year.

As an example, an employee is earning a salary of R23,300 per month, adding up to R279,600 for the tax year. According to the SARS tax tables, the tax payment for the year will be R44,887, taken from the salary as a monthly deduction of R3,740.

Assuming a R23,300 13th cheque is paid in December, the annual taxable earnings will increase to R302,900. In this case, the bonus payment now pushes the annual earnings from the 26% marginal tax rate into the 31% bracket. The annual tax deductible on the annual earnings including the bonus will be R51,885. If all the tax due on the bonus is paid in December, an employee will face an additional tax deduction of R6,998 on top of the regular monthly tax payment of R3,740. Income tax tables are structured on a progressive basis - the more an employee earns, the more taxes have to be paid.

If the employer spreads out the tax payments for the bonus over the year, such as from March to December, the amount in this case will be an additional R778 per month. In December, the employee will receive a net salary including his bonus of R42,860 (R23,300 salary + R23,300 bonus - R3,740 PAYE) instead of only R35,862 (R23,300 salary + R23,300 bonus - R3,740 PAYE - R6,998 bonus PAYE). This will however only work if the annual bonus is about the same every year, like a 13th cheque that is guaranteed.

A tax-efficient way to save for the future is to put the bonus money into a retirement fund. Should the need arise to access the retirement funds due to an emergency, one needs to keep in mind that with the upcoming changes to retirement funds and the tax treatment of contributions (expected from 1 March 2016), it is advisable to keep as much as possible invested in the fund. Once the legislation is passed, one may be eligible for higher tax deductions on your funds in the retirement annuity.

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