

Taking the sting out of the tax payment on your bonus

 By [Madelein van der Watt](#)

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We're nearing the end of the year with its annual rituals of radio ads for festive season shopping, Boney M in the shopping malls and, of course, fretting about whether you'll get an end-of-year bonus.

If you are one of the lucky people to get a bonus or 13th cheque, be prepared: your joy could be tempered by the big chunk of income tax that the South African Revenue Service (SARS) will grab from your bonus.

Also, keep in mind you will only receive a 13th cheque or performance bonus if it's guaranteed in your employment contract. If not, it's best to save upfront for your holidays.

The best way to soften the blow is to ask your employer to spread your tax payments for your annual bonus over the proceeding months of the tax year.

Here's how:

Imagine, for example, that you're earning a salary of R 29 000 per month, adding up to R348 000 for the tax year. According to the SARS tax tables, your tax payment for the year will be roughly R65 868, taken from your salary as a monthly deduction of R5 489.

Now, let's say you'll get a R30 000 bonus in December, lifting your annual taxable earnings to R378 000. You will still be in the same tax bracket with an annual tax of roughly R75 168.

However, if you pay all the tax due on your bonus in December, you'll be hit with an additional tax deduction of R9 300, on top of your regular monthly tax payment of R5 489.

You can make this more palatable by asking your employer to spread out your tax payment for your bonus over the year. You could pay R1 033 tax each month from March to December so that you receive a much healthier-looking pay package for the festive season holidays.

A caution

The drawback to this approach is that it only works if you receive roughly the same annual bonus each year. If your bonus is based on personal or company performance, it will be difficult for your payroll department to guess what your bonus will be. The result could be that your company deducts monthly tax for no reason and that you have to wait to recover your money.

If you don't have your bonus earmarked for paying off debt or funding a holiday, you could put some or all of it into your retirement fund. This is a tax-efficient way to save for your future. If you have a broker or a tax practitioner, find out whether this would be a good way to get the most from your bonus.

Should you wish to access your retirement funds due to an emergency, keep in mind that with the upcoming changes to retirement funds and the tax treatment of contributions (expected from 1 March 2016), you will be wise to keep as much as possible invested in your fund until you reach retirement age.

If you do want to put a portion of your bonus away for a rainy day, why not try one of the new tax-free savings accounts now offered by most major financial institutions and banks in South Africa? The interest you earn on your savings will not be taxable and if you save the maximum of R30 000 per year, you could grow your investment by a further R2 000 for the year, tax free.

ABOUT MADELEIN VAN DER WATT

Madelein van der Watt is Development Manager at Sage Pastel Payroll & HR and a regular commentator in financial and business media, is an expert in areas of employee tax and legislative changes affecting payroll.

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