

South African Payroll Association
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13th Cheque versus performance bonus – what employers and employees need to know

As the year quickly draws to a close, the South Payroll Association (SAPA) has been inundated with queries regarding their expected annual bonuses in December.

Jethro Malapane, Executive Committee of SAPA, says that many of the enquiries stem from employees who don't know if their bonus constitutes a thirteenth cheque or a performance bonus.

"A thirteenth cheque is essentially an additional monthly salary paid, or 8.33% of the employee's annual salary, that gets paid to the employee (normally in December or any other month depending on the employer's contract.) A performance bonus, however, is based on an employee's individual performance and it is subject to the employer's conditions as stipulated in your employment contract," says Malapane.

Tax provisions and considerations

A bonus amount becomes part of your total taxable income for the year, which may impact your tax bracket and tax provisions should be made. Malapane says that if your contract stipulates that you will receive a thirteenth cheque, then monthly contributions can be made as part of your salary deductions to offset the tax implications of the bonus.

"A thirteenth cheque is a guaranteed extra amount that you need to make tax provisions for. Speak to your payroll department to adjust your monthly contributions so that you contribute towards tax each month. Doing this allows you to enjoy your bonus in full in December. If you haven't done this for 2019, then speak to your payroll professional so that it is in place for next year."

It isn't possible to make tax provisions for performance bonuses. "With performance bonuses being discretionary, it's not possible to know how much money you must set aside for tax. The payment of performance bonuses is seldom guaranteed, and employees shouldn't rely on the payment of these discretionary bonuses simply because they received the bonus over the past few years," says Malapane.

A shift to rewarding performance

Many South African companies now offer employees performance bonuses instead of thirteenth cheques. Not only are performance bonuses seen as more motivating for employees, but these bonuses can be determined based on influencing factors such as how the company performed in the past financial year.

"Companies have come to believe that offering employees a thirteenth cheque as part of their salary package creates a sense of entitlement surrounding bonuses. A performance bonus, however, allows companies to take stock of its financial performance before the money is divided on a departmental or individual level. High performers often find that they receive a salary increase as well as a performance bonus in December, which is obviously welcome news before the holidays," says Malapane.

He concludes by saying companies should create awareness about the types of bonuses – if any – they are offering employees.

"Employees need more certainty on the type of bonuses they will receive as well as the tax implications of these bonuses. Employees should carefully read their employment contract so that they fully understand their remuneration at the end of each year and can make the necessary tax provisions."

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