South African Payroll Association
29 January 2019

South African Payroll Association explains how employees can benefit from Provision for Tax on Annual Bonus

Many employees look forward to their annual bonus, only to be met with disappointment when a large portion of the bonus is deducted for tax. Sumeshan Nair, Executive Committee Member of the South African Payroll Association (SAPA), says that “employees can pay extra tax on a monthly basis towards the tax that would be deducted from their annual bonus so that no tax is deducted when a person receives their annual bonus.”

“An amount is included in an employee’s monthly tax calculation to compensate for the tax on the bonus when the annual bonus is paid. This way, the employee effectively pays their ‘bonus tax’ month on month to get a full bonus payout” says Nair.

Employees can request this option from employers
One of the main reasons for companies failing to offer this option to staff is because they are unsure of how it works or how the monthly tax deductions should be calculated therefore not offering it to their employees.

This has led to employees being unaware of the option for provision for tax on bonus and thereby being hit with a large tax deduction on their annual bonus.

“If more employees request this option, then payroll professionals can request that their employers change the status quo so that this becomes a standard offering for employees,” says Nair.

Payroll vendors offer automated functionalities and training
Nair says “Different companies have different approaches on how they make provision for the tax on bonus for their employees and that the process will depend on the payroll vendor or software that is used. Leading solutions providers offer very straightforward options to automate this calculation.”

“Payroll professionals can ask their vendors whether their software incorporates these options and they can also request training from their vendor on how to use this functionality. It is important to embrace change through the digital solutions that are at a payroll professional’s disposal,” says Nair.

Nair warns payroll professionals against doing their own calculations when processing monthly tax deductions for the tax on bonuses themselves as the software that they use often has this functionality.

“It is always best to opt for an automated calculation when determining an employee’s provision for tax on bonus. The employee’s tax on bonus will be based on an individual’s marginal tax rate, so if the employee falls within the 35% tax bracket within a tax year, he will pay approximately 35% of his bonus to taxes. Instead of this happening, the tax can be automatically calculated and deducted each month so that employees absorb the smaller financial knocks throughout the tax year and get their full bonus payout,” says Nair.

The provision for tax on bonus is calculated over the tax year and not the calendar year. Nair encourages employees to request this at the beginning of every tax year. “Employees should request it for the next tax year should they want to spread out their tax deductions throughout the year to get their full payout of their bonus,” concludes Nair.

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