6 payroll myths busted

By Ancel Draai

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Navigating payroll taxes can feel like charting uncharted territory, even for the most diligent earners. To dispel some commonly held misconceptions, let's delve into six prevalent payroll tax myths in South Africa.

Image source: melpomen – 123RF.com

Myth 1: Salary vs. overtime/commission: A tax showdown?

Contrary to popular belief, the source of your income – salary, overtime, or commission – does not influence its tax treatment.

Commission earners, where the commission is greater than 50% of total earnings, upon assessment, Sars allows for expenses to be claimed on the basis that the expense was incurred in the production of income.

All forms of remuneration are taxed at the corresponding rate according to the standard PAYE tax tables, reflected on your payslip.

Allowances, such as travel, may have different tax implications based on usage percentages, but the core tax rate remains consistent. Specific payments, like retrenchment packages, might be exempt from payroll tax thanks to lifetime exemptions, so it's best to consult your employer for clarification.

Myth 2: Bonuses: An invitation to higher tax brackets?

While year-end bonuses might not feel like cause for celebration at first glance, they are taxed differently.

For example:
If the monthly salary value annually is R10,000 x 12 months = R120,000; you are taxed on R120,000. With an annual bonus, it isn’t annualised. So, if you get an annualised salary of R120,000 and a bonus of R10,000, your annualised remuneration is R130,000 and not R240,000.

These bonuses are factored into your annual earnings, potentially pushing you into a higher tax bracket for a portion of your income. However, your PAYE deductions are then subtracted from the total, leaving you responsible for the bonus tax and your regular monthly PAYE for that month. Be sure to use a payroll software solution that handles these calculations automatically.

Should bonuses in your organisation be guaranteed, you can speak to your Payroll department to do “Provision for Tax on Bonus”. This is where your taxable income is increased each month by 1/12th of your bonus, resulting in no taxable income increase when the bonus is received.

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Myth 3: Leaving the workforce? Cash in on all your leave!

The Basic Conditions of Employment Act (BCEA) guarantees 15 paid leave days for those working five days a week. Upon termination, you are entitled to a payout of any unused minimum leave days. However, the fate of any additional leave days exceeding the BCEA minimum depends on your employer's policy. While selling minimum leave days is prohibited, negotiating a payout for additional accrued leave in your employment contract might be a viable option.

Myth 4: Company car vs. private wheels

Travel allowances are meant to cover business travel expenses. If you use your private vehicle, you can claim a tax deduction for those travel costs against the allowance. However, with a company car, no travel allowance should be reflected on the payslip, and if it does, it is fully taxable. Nevertheless, a deduction for business travel can be claimed in some instances, against the fringe benefit amount you're already taxed on monthly.

Myth 5: Petrol card vs. travel allowance: A tax tango?

Like travel allowances, company-owned petrol cards for private vehicles have the same tax implications on your payslip. The only noteworthy difference is that the taxable amount, and consequently your tax liability, might fluctuate month-to-month depending on your petrol usage.

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Myth 6: Cloud payroll is unsafe for all my company data

False: While security concerns surrounding cloud technology are understandable, relying on a reputable payroll software solution hosted in the cloud doesn't inherently compromise your company data's safety. In fact, cloud-based payroll systems can offer enhanced security:

- **Advanced data encryption:** Reputable providers encrypt data at rest and in transit, preventing unauthorised access even if intercepted.
- **Strict access controls:** Granular access control features restrict data access only to authorised personnel based on their roles and responsibilities.
- **Regular backups and disaster recovery:** Secure data backups and robust disaster recovery plans ensure business continuity and data availability even in unforeseen circumstances.
- **Automated updates and security patches:** Cloud Payroll solutions receive automatic updates and security patches, safeguarding your data against evolving cyber threats.
- **Physical security:** Reputable providers house their servers in secure facilities with advanced physical security measures, further protecting your data.

Final words

Remember, these are just six of the many payroll tax myths floating around. The landscape of income tax regulations is constantly evolving, so if something seems unclear, seeking clarification from your employer or a tax professional is always advisable.

By staying informed and equipped with accurate knowledge, you can navigate the intricacies of payroll taxation with confidence.

**Bonus Tip: Bookmark the South African Revenue Service (Sars) website for official updates and regulations. Knowledge is power, especially when it comes to your hard-earned income!

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