

Xmas lunch tax-free, but not end-of-year gifts

By [Ron Warren](#)

20 Oct 2011

While some people are looking forward to receiving a Christmas bonus, or 13th cheque, others will receive gifts or vouchers, which, contrary to popular belief, are not tax-free - so there is no tax benefit to the employee.



While gifts are allowed, the cost to the employer must be reflected as a taxable fringe benefit on the employee's pay slip, and PAYE calculated and deducted on this amount.

Companies can give anything they like to their staff, as long as they reflect the cost of the gift as a taxable fringe benefit on the pay slip, and calculate and deduct the appropriate PAYE. The only thing that would be tax-free is a Christmas lunch/party, which would be regarded as a non-taxable occasional meal and any gifts would be taxable - other than those from Christmas crackers!

The cost of any gifts must be shown on the employee's pay slip, and PAYE must be calculated on the total of the cash paid to the employee plus the cost of the gifts.

A non-cash fringe benefit

A good payroll system will show such items correctly as a non-cash fringe benefit as I have indicated, but in some payroll systems it may be necessary to show the value of the gift as a "cash earnings" amount (like a cash bonus), and an equivalent value as a "cash deduction" on the payslip, which is confusing for the employee.

Where a company buys gift vouchers from a retailer, and gives these vouchers to its own staff as a Christmas gift, the cost of the voucher given to an employee must be reflected on the pay slip and taxed as set out above.

Anything given to an employee as a gift is taxable, other than a long-service award (after 15 years' service). The first

R5000 of the cost of such a gift is free of tax and any excess is taxable as described above.

Seemingly harsh approach

SARS has to adopt this seemingly harsh approach, as otherwise some employers would abuse the giving of tax-free gifts. They would pay the employee a lower taxable salary and could, for example, give him a car free of tax for Christmas. For the FIFA World Cup, a special amendment was made to the Income Tax Act allowing for FIFA-related gifts to be made to an employee up to a value of R750 tax-free. This concession expired when the FIFA World Cup was over.

Bonuses month-to-month, calculations differ

Under the South African Labour Law, if an employer wishes to pay or not pay a bonus to an employee, it is their decision to make, whether it be a Christmas bonus or 13th cheque, but must be covered in an employee's terms and conditions of service.

If an employer has been paying employees an annual 13th cheque, but then wishes to discontinue or change the situation, such changes do constitute a change to the employees' terms and conditions of employment and must be negotiated with the employees. However, if the employer has sound and reasonable commercial reasons for making the change, then they can implement it after negotiations, even if all employees do not agree to it.

Common types of bonus

There are three common types of bonus, namely the Christmas bonus or 13th cheque as it is known, the performance bonus and the production bonus. There is no difference in the tax paid on these bonuses over a year, but the month-to-month tax calculations may differ.

For example, a production bonus paid each month is taxed in exactly the same way as a monthly salary. Because the rate of tax is based on the tax band into which an employee falls, it is always necessary when calculating monthly PAYE to estimate what the annual taxable income will be, calculate the annual tax on that annual income, and then divide the annual tax by 12 to arrive at the tax payable for the month.

However, if an annual bonus is paid during a particular month, it would obviously not be necessary to multiply that bonus by 12 when calculating estimated annual income - the actual bonus would just be added to the estimated annual income arrived at by multiplying normal pay for the month by 12. The tax on the bonus would be the difference between the annual tax on total income, including the bonus, and the annual tax on the estimated annual normal pay. Thus, the tax allocated to the bonus would be that calculated at the rate applicable to the final tax earnings bracket.

Not being overtaxed

For instance, if the normal monthly salary was R20 000, this would be equivalent to R240 000 a year. The first R150 000 would be taxed at 18 percent, the next R85 000 at 25 percent and the final R5000 at 30 percent. From this total, the annual tax rebate of R10 755 would be deducted, giving annual tax payable of R38 995.

This total would be divided by 12, to give monthly tax of R3249.58. This works out to an average tax rate of 16.25 percent. Then the tax on the annual bonus would be taxed at the rate of 30 percent, being the rate applicable to annual earnings in the tax bracket R235 000 to R325 000, giving tax due of R6000. There would be no tax rebates deducted, as these had all been used up in calculating the tax on the normal salary. Employees would query why the bonus had been taxed at a rate of 30 percent, whereas the normal salary was taxed at only 16.25 percent.

At the end of the tax year, the total tax due on the total earnings of R260 000 (R240 000 salary plus R20 000 bonus) would be R44 995. PAYE deducted would be $R3249.58 \times 12 = R38\,995 + R6000 = R44\,995$.

If the bonus had been paid monthly (R1666.67 per month), the monthly tax payable would have been R3749,58. The total tax for 12 months would then have been R44 994.96 (i.e. R44 995), proving that the bonus is not being overtaxed.

ABOUT THE AUTHOR

Ron Warren is executive chairman of NuQ and a tax expert.

For more, visit: <https://www.bizcommunity.com>