Financial KNOWLEDGE

More about

Earnings and tax: Payslips

Introduction

There are several reasons why taking a few minutes to review your payslip, bank statements and monies paid on tax on your investments is worth your time.

These include:

- It creates a clear understanding of what deductions are coming off your payslip
- It allows for early identification of fraudulent activities on your account
- You can identify fees paid on various banking services
- You can calculate tax paid on investments, for example, your pension fund or retirement annuity and how to reduce it



1. Payslips

What we earn (our gross income) and what we get as “take-home” money (our net income) are two different things.

The deductions that are taken off our gross income are very important

1.1 Information on Payslip

Every payslip needs to indicate who the payslip belongs to, i.e. it must have the employee’s name on it. That is why you will find a section with ‘Personal Information’ on your payslip.

All payslips are different - the information below is what some payslips will have, so don’t panic if you don’t find this information on your payslip.

You will find the following information:

- Date
- Employee number
- Clock number
- Employee name
- ID number
- Department
- Occupation
- Rate of pay (i.e. how much you earn)
- Date appointed
- Gender (sex)
- Tax number (the number issued by the South African Revenue Services (SARS))

1.2 Deductions

There are several types of deductions that are typically taken off a person’s gross income.
These include:

- Contribution to your pension fund (money you save for when you retire, that will pay out monthly amounts) or provident fund (money you save for when you retire that is paid out in a lump sum)
- Your contribution to your medical aid (medical aid is a form of insurance where you pay a monthly amount – called a contribution or premium – in return for financial cover for medical treatment you may need, as well as any related medical expenses)
- Tax
- Your contribution to the Unemployment Insurance Fund (The Unemployment Insurance Fund (UIF) gives short-term relief to workers when they become unemployed or are unable to work because of maternity, adoption leave, or illness. It also provides relief to the dependants of a deceased contributor.)

Now that we know how much money is coming in, we can start finding out how much money is going out.

There could be other deductions of a personal nature, such as:

- A personal loan (this is a loan that you do not need to have something as security for repayment of the loan. It can be used for anything you want)
- Court order for maintenance (this is when the court gives an order for you to pay something, for example, child maintenance)
- Court order for a debt (garnishee order) (this is an order to repay a debt against a person)

1.3 Confirm you payslip is correct

Below are the steps that you can follow to make sure that your payslip is correct:
Steps to verify your payslip

- Identify your basic pay;
- Identify any other income, such as a bonus or commission;
- Calculate your gross salary by adding all income listed;
- Identify all your deductions, such as tax, UIF, pension, medical, etc.;
- Total all your deductions;
- Subtract all your deductions from your total salary - this is your net salary.

A salary is the money received if you are paid monthly.
A wage is the money received if you are paid weekly.

1.4 Errors

When you receive your payslip, it is up to you to make sure that all your personal information is correct. You must check that:

- Your surname is spelt correctly;
- Your initials or first name are correct;
- Your department is correct;
- Your identification number is correct;
- Your job description, occupation or position is recorded correctly;
- Your employment date is correct;
- Your employee number or clock number is correct;
- Your gender is correct;
- Your equity status is correct (i.e. Black, Coloured, Indian, White).
- The date from which service started (date of employment at the company)

All errors on your payslip must be reported to your supervisor or HR department.

1.5 Confidentiality

All information on a payslip is confidential. You should always receive your payslip in a sealed envelope, or if you receive it via electronic means, the information should be encrypted.

2. Pay packages

You work very hard for your money. You need to make sure that you take advantage of all tax deductible opportunities. Structuring your salary can help you increase your 'take-home' amount of money.

Structuring your salary needs to be done in consultation with your employer. Your employer will consider your cost-to-company when negotiating the structure of your salary. Cost-to-company means, the amount that it costs the company to employ you (this amount includes all benefits offered by the company as well as deductions). Often companies will allow you to structure your salary with regards to your pension and medical aid schemes, as long as it falls within the amount of your cost-to-company.

Example 1: 24 years old and single
For example, if you are young, single and starting out in life, you may want to maximise the portion of your salary that is paid to you as cash and to minimise the amount that goes to retirement savings and medical scheme contributions.

This is because you are likely to be healthy and thus require a less expensive medical scheme option that covers little more than hospitalisation. You also have many years ahead of you in which to save towards retirement, so you can afford to peg your contributions at a lower rate.

At this stage, you are also unlikely to need a large amount of life cover (life cover, also known as life assurance is a way to help protect your loved ones financially if you were to die). If your employer offers you a choice of the level at which you can insure your life – for example, one, two, three or even 10 times your annual salary – you are likely to choose the lowest level.

Example 2: 55 years old, married with 2 children at the age of 8 and 10 years

However, if you are older, earning more and are married with a family, you are likely to want the maximum amount of life cover – for example, 10 times your annual salary. If you were earning R6,000 a month that would mean you earned R72,000 a year, you would want cover for R720,000 – and a comprehensive medical scheme option with cover for each member of your family.

In light of nearing retirement age and also qualifying for early retirement at the age of 55, it is not plausible to keep the pension fund contributions low at this point. Granted, the medical aid will have higher contributions, but the pension fund should as well.

Example 3: 75 years old, married with 1 child at the age of 20 (Working on a contract)
If your children have left home and you have only a few years left until retirement, you are likely to want to maximise your contributions to a pension fund.

Your medical scheme needs will still be higher than they were when you were single, because you may be paying for your spouse. At this stage of your life, and if your company allows it, you can probably reduce your life cover too, for example, the equivalent of just one times your annual salary.

Note: Most of the group life cover, which is times your annual salary and linked to your retirement benefit, will automatically reduce with aging.

2.1 Salary Packages and Structure

If your company packages your salary correctly, it should give you personal flexibility that you can exercise yearly or in response to life-changing events. There may be some tax efficiencies (Tax efficiency is an attempt to minimise tax liability when given many different financial decisions), but these should not be the focus of how you structure your salary.

You should have the ability to choose between better benefits and more take-home pay.

If the benefits that your company offers are not online with the way you want to structure your salary, you should be able to negotiate different options with your employer.

Benefits offered to you could include:

- Shares
- Life protections
- Funeral policies
- Life assurance
- Medical aid
- Bonuses
- Disability policies
- Income protection
- Travel allowance
- Company vehicle
- Accident insurance
- Company bought vehicle insurance
- Company bought gym memberships