Understand Your Payslip

Once a month, employees across South Africa receive their payslips, often putting them away in a drawer, bag or briefcase without giving them much thought. Some employees take the trouble to file their payslips properly. But how many of us actually open them, go through the details and understand everything reflected on the payslip?

Having the right attitude towards your payslip is essential if you want to become financially fit, particularly when starting your first job. It is your first official step towards financial independence.

Understanding your payslip helps you live according to a budget and determine how much disposable income you have available. It is therefore an essential part of your financial planning—not only from month to month, but over a full 12-month period.

It is important to understand the terminology used on your payslip and to know how each item affects your personal financial situation. You should understand how much your employer is paying you and what deductions are being made from your salary.

The important question is: Are the deductions being made the right choices for you? If not, your financial planner should be able to advise you on the options available to you.

Cost to Company

When a company offers you a position, they will generally provide you with the total amount that employing you will cost the company—known as your Cost to Company (CTC).

This refers to your total remuneration package and may include employee benefits, contributions made by both you and your employer, medical aid and other benefits, as well as tax-related costs.

Before accepting a position, ask for a detailed breakdown of the Cost to Company. The CTC may sound like a substantial amount, but what really matters is how much you will receive in your bank account.

A useful tip is to ask for an example payslip before accepting a position. This will give you a clearer understanding of the deductions that will be made and what your expected net salary will be.

Deductions

The largest deduction on your payslip will probably be income tax. You are generally taxed on your regular earnings, annual bonus and certain fringe benefits. The amount of tax you pay depends on your taxable income.

You should know which tax bracket you fall into and understand why a particular amount is being deducted from your salary. There are also legitimate ways of reducing your tax liability—for example, by contributing to a Retirement Annuity (RA), subject to the applicable tax rules and limits.

Contributions to your pension or provident fund may also be deducted from your remuneration package. It is important to know how much you contribute and how much your employer contributes on your behalf. Understanding these contributions will help you determine whether you are making sufficient provision for your retirement.

Another common deduction is your medical scheme contribution. The level of cover you choose should be based on your personal needs and circumstances. Make sure you know which plan you are on and exactly what level of cover it provides.

Also check whether an additional amount is being deducted from your salary for any medical scheme club or membership benefits. Make sure that you are benefiting from these additional services. If not, consider whether you should change your plan or cancel the additional membership.

Other smaller deductions may include a funeral plan, trade union membership or contributions to the Unemployment Insurance Fund (UIF).

Your employer is responsible for paying the applicable UIF contributions to the fund, consisting of both the employee and employer portions, subject to the prescribed limits.

Check Your Payslip

Ultimately, it is your responsibility to ensure that your salary and deductions are correct. Do not simply file your payslip away each month without checking it.

Your payslip provides valuable information about your financial position. Understanding what you earn, what you are paying for and what you are saving can help you make better financial decisions and ensure that your money is working towards your financial goals.

Your payslip may even tell you something about your relationship with your employer—and whether it is time to have a conversation with your boss about your remuneration.