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# Budget 2018

**South African Budget Newsletter written for Horwath Zeller Karro by Kent Karro, Managing Director of Horwath Taxation (Cape) (Pty) Ltd.**

The Minister of Finance, Mr Malusi Gigaba, presented his first budget on 21 February 2018.

**It was a tough but hopeful budget with difficult but necessary trade-offs.** It predicts a steady and confident increase in economic growth while taking into account radical social economic transformation in specific areas of need and also attempts to stabilise government debt.

The substantially improved and positive atmosphere since the appointment of the new President, is clearly also helping to enable more optimistic economic predictions with greater efficiency in the use of funds across the public sector.

**Unfortunately we are now being asked to pay for the gross mismanagement of State resources.**

As in the past, this newsletter deals only with those matters which we believe will be of interest to you.

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## **Some of the Major Proposals are as follows:**

- Increase in the rate of VAT from 14% to 15% (see para 2.1).
- Increase in the rate of estate duty to 25% for estates in excess of R30 million (see para 10).
- Increase in the rate of donations tax to 25% for donations in excess of R30 million (see para 10).
- Increase in the cost of fuel by 52 cents per litre (see para 14.1).
- Increase in the excise duties for alcohol and tobacco and for imported luxury goods such as cars, cosmetics, electronics, smart phones and golf balls.
- No adjustments to the normal tax rates for inflation for the higher income taxpayers (see para 3.5 and 3.6).
- Widening of the VAT base for foreign electronic services supplied by non-residents (see para 2.19).
- CGT inclusion rates were left unchanged and the effect is that the rate of tax on capital gains is unchanged (see para 9.2).
- Massive amounts have been allocated to free tertiary education over the next few years.
- Increase in the “official rate of interest” (see para 14.14).
- Exchange Controls were not dealt with extensively in the budget documentation although certain relief has been granted by the Reserve Bank (see para 1.1, 1.5, 1.9 and 1.10).
- Small increase in the medical tax credit (see para 4.7).
- Further measures to curb transfer pricing which results in base erosion and profit shifting (see para 14.2).
- A restriction in the exemption of foreign employment income (see para 3.4).
- The creation of special economic zones (see para 14.19).

## Summary of Some Important Rates

(Changes are indicated in colour)

	2019	2018
<b>Individuals</b> (including individual participants in partnerships) (see para 3.5) - highest marginal tax rate - reached at taxable income levels above	45% R1 500 000	45% R1 500 000
<b>Companies and Close Corporations</b> - normal tax - Standard rate (see para 6.1 and 6.2) - Small Business Corporations (see para 6.1, 6.2 and 15.2) (0% on first R78 150 (was R75 750); 7% on excess up to R365 000; 21% on excess up to R550 000; thereafter 28%) - Personal Service Provider Companies (see para 6.1 and 6.4) - Dividends Tax (see para 7) with effect from 22 February 2017	28%  28% 28% 20%	28%  28% 28% 20%
<b>Branches of foreign companies</b> (see para 6.1 and 6.3) - normal tax - Dividends Tax	28% Nil	28% Nil
<b>Trusts</b> (see para 5) - Special trusts - sliding scale as for individuals - all other trusts (flat rate)	(see above) 45%	(see above) 45%
<b>Micro Business</b> - maximum turnover (see para 16)	R1 million	R1 million
<b>PBO trading income</b> exempt up to (see para 19)	R200 000	R200 000
<b>Recreational Club</b> trading income exempt up to (see para 19)	R120 000	R120 000
<b>VAT</b> - basic rate (see para 2) - turnover threshold for compulsory registration (minimum R50 000)	15% R1 million	14% R1 million
<b>Capital Gains</b> - (see para 9) taxed at normal income tax rates - annual basic exclusion for natural persons and special trusts (increasing to R300 000 in year of death) - on 40% of gain in the case of natural persons and special trusts - highest effective rate - on 80% of gain in the case of most companies and close corporations - effective rate (excluding dividends tax which is also payable) - on 80% of gain in the case of other trusts - effective rate	R40 000  18%  22,4% 36%	R40 000  18%  22,4% 36%
<b>Donations Tax</b> (see para 10) - flat rate up to R30 million per 12 month period - flat rate thereafter - on amounts in excess of the tax year exemption of - for natural persons - for private companies	20% 25% R100 000 R10 000	20% 20% R100 000 R10 000
<b>Estate Duty</b> (see para 10) - flat rate up to R30 million - flat rate thereafter	20% 25%	20% 20%
<b>Property Transfer Duties</b> (including on sales of residential property companies/close corporations/trusts) (see para 13) - sliding scale	0% to 13%	0% to 13%
<b>Withholding taxes in respect of payments to non-residents</b> - on interest with effect from 1 March 2015 (see para 4.8 and para 8) - on gross royalties with effect from 1 January 2015 (see para 8) - on dividends with effect from 22 February 2017 (see para 7 and para 8) - on payments to visiting entertainers and sportspersons (see para 20) - on capital gains on the disposal of fixed property (see para 9.7)	15% 15% 20% 15% 7,5% to 15%	15% 15% 20% 15% 7,5% to 15%
<b>Skills Development Levy</b> - on payroll - exempt if payroll below R500 000 p.a.	1%	1%
<b>UIF</b> - Employer contributions on remuneration - Employee contributions on remuneration	1% 1%	1% 1%
<b>Compensation for Occupational Injuries and Diseases Act</b> - Employer contributions on remuneration paid (varying rate) - lowest rate	0,14%	0,14%
<b>Securities Transfer Tax</b> on the consideration passing for transfer of shares in companies and close corporations	0,25%	0,25%



# 1. Exchange Control

## 1.1

**No changes in personal Exchange Control limits have been announced. However, see para 1.5, 1.9 and 1.10 below.**

## 1.2

**The current offshore investment allowance for natural persons resident in South Africa is R10 million per calendar year per person (18 years and over).** A husband and wife can accordingly invest **R20 million** per year outside of South Africa. **Applications for larger amounts will also be considered.** The income thereon does not need to be repatriated although such income and/or capital gains will be subject to the normal rules of South African tax. Tax clearance certificates are required before funds can be remitted. For amounts above R10 million, the tax audit is more extensive.

**For most South Africans, these limits effectively remove all exchange control barriers (except for administrative and compliance controls).**

Local debit and credit cards may be used for small transactions up to R50 000 per transaction.

## 1.3

**Emigration allowances are R20 million per emigrating family and R10 million in the case of a single person.** Applications for special permission for larger amounts are usually favourably considered. **No exit fee is payable** on exporting such amounts. **The balance of blocked funds can be released locally without limit and for any purpose.** The limit for the export of household effects is R2 million. The limit in respect of gifts and donations received from third parties remains at R100 000.

## 1.4

**The single annual discretionary allowance remains at R1 million (for those 18 years and over) and can be used for any legal purpose abroad and is not subject to restrictions in regard to use.** This is in addition to the annual R10 million individual offshore investment allowance (see para 1.2). For children under 18, the annual travel allowance is R200 000. Bear in mind that large donations may still be subject to Donations Tax (see para 10).

**For South African residents temporarily abroad, local debit and/or credit cards within the overall single discretionary limit of R1 million per applicant during a calendar year may be used by them outside of South Africa.**

**Travellers whose visits extend from one year into the next year may use their second year foreign currency allowance without returning to South Africa.**

**It is illegal for South African residents to participate in foreign lotteries, sweepstakes and betting organisations.**

## 1.5

**Foreign direct investments up to R3 billion (was R2 billion) for listed companies and up to R2 billion (was R1 billion) for unlisted companies can be approved by your local bank.** There are of course a number of conditions and reporting obligations. These investments are available to companies wishing to expand their operations or to diversify their business interests to other countries. Passive and real estate investments may not benefit from this concession. South African companies exporting and using CFC accounts can retain such funds in foreign currency. Although needing to be reported, companies are also allowed to open and operate foreign bank accounts, make unlimited advance payments for imports and enjoy other similar relaxations.

## 1.6

Non-residents making bona fide direct investments into South Africa are not restricted in their ability to raise local finance. The current 1:1 ratio of local borrowings to foreign capital introduced remains in respect of the acquisition of residential properties and certain financial instruments.



### 1.7

To encourage foreign investors to establish South African **headquarter companies** to invest into the rest of Africa, they are allowed to raise and deploy capital offshore without prior Exchange Control approval.

Listed South African multinationals will be allowed to treat a single local subsidiary as a non-resident company for Reserve Bank purposes to encourage them to locate their treasury operations within South Africa. They are also allowed to use their foreign functional currency (rather than Rands) as the starting point for their tax calculations.

### 1.8

Intellectual property - Companies and individuals no longer need the Reserve Bank's approval for standard intellectual property transactions. It is also proposed that the "loop structure" restriction for all intellectual property transactions be lifted, provided they are at arms-length and at a fair market price. Loop structure restrictions prohibit residents from holding any South African asset indirectly through a non-resident entity.

### 1.9

**Loop structures are created when South African exchange control residents indirectly invest back into South Africa via a foreign entity. Even if set-up for legitimate business reasons, such structures are not allowed, except for limited exclusions.**

**One such exclusion, which applies to companies, including private equity funds, allows such investments up to 20% in a foreign company. It is now proposed that this provision be increased to a maximum of 40% for bona fide business investment, growth and expansion transactions.**

**Loop structures above the prescribed 40% threshold will require Reserve Bank approval with due consideration to transparency, tax, equivalent audit standards and governance.**

### 1.10

**There will also be an increase in the limits on offshore investments by institutional investors including investments that have been made into Africa. This will allow many unit trusts to increase their exposure to offshore investments.**

## 2. VAT

### 2.1

**The rate of VAT has been increased to 15% with effect from 1 April 2018 on goods and services supplied on or after that date.** Certain supplies are subject to a zero rate (e.g. exports) or are exempt from VAT (e.g. passenger road or rail transport).

### 2.2

The threshold for compulsory registration for VAT remains at an annual turnover of R1 000 000. The turnover threshold below which VAT registration will not be possible remains at R50 000. In respect of a commercial accommodation enterprise applying for registration, a minimum turnover of R120 000 p.a. is required for VAT registration.

Where VAT registration is compulsory, a person must apply to SARS within 21 days and cannot charge VAT on supplies until registered by SARS. This process can take many months and there is uncertainty as to how to handle VAT during this period. **We are pleased to note that, more recently, SARS has substantially reduced this waiting period if all documents are timeously submitted with the application for registration.**

During this interim period of trading, prior to VAT registration being granted, the vendor needs to put aside the tax fraction (approx 15%) of his total selling price to pay to SARS in due course. However, he cannot issue a statutory tax invoice (for amounts of R5 000 or more) to his customer as he cannot record his VAT number on the tax invoice because he is not yet VAT registered. This means that his customer cannot claim any amount as input tax as he does not have a valid tax invoice (second hand goods are ignored for this example). Theoretically you could arrange with your customer to pay you R100 for the sale and a further R15 after you get your VAT registration and can issue to him a "proper" tax invoice. Not very practical!!

On the other hand, the price of goods bought by you will probably include VAT. You will not be allowed to claim back the input tax as you will not be in possession of a valid tax invoice which has to record your VAT number as well as that of the supplier.

After you are VAT registered, you will need to go back to your suppliers to request them to issue you with “proper” tax invoices (with your VAT number thereon) with effect from the effective date of VAT registration so that you can claim back the input tax. You have 5 years to do so.

**A valid invoice for VAT purposes is a “Tax Invoice”. A full tax invoice must contain the following:**

- The words “Tax Invoice” or “VAT Invoice” or “Invoice”.
- The name, address and VAT registration number of the supplier.
- The name, address and, where the recipient is a registered VAT vendor, the VAT registration number of the recipient.
- An individual serialised number and the date on which the tax invoice is issued.
- Full and proper description of the goods or services supplied (indicating if the goods are second hand goods).
- The quantity and volume of the goods or services supplied.
- The value of the supply, the amount of VAT charged and the total consideration for the supply (in certain cases alternative information may be acceptable).
- The tax invoice must be in South African currency except if it is a zero-rated supply (e.g. an export) in which case a foreign currency can be used.

Where this consideration is less than R5 000, certain information may be omitted.

**The Value-Added Tax Act determines that a deduction of input tax may be allowed where a vendor is in possession of alternative documentary proof that is acceptable to SARS. The discretion is limited to circumstances where the vendor is unable to obtain proper tax invoices. On application, SARS may take other considerations into account in accepting alternative documentary proof.**

### 2.3

VAT returns and payments are generally due every two months. If the value of supplies (excluding VAT) exceeds R30 million p.a., monthly returns are required. Small businesses can elect to pay VAT on the payments basis if the value of their supplies (excluding VAT) is less than R2,5 million p.a. See para 15.6.

### 2.4

**If a VAT vendor deregisters**, there is a deemed supply of all assets of the enterprise at the lower of the cost or market value thereof and VAT at 15% is then payable in respect of such supply. If the deregistration is for the reason that the business has registered as a “micro business” (see para 16), the VAT payable on the value of such supplies as exceeds R100 000 may be paid in 6 equal monthly instalments or such further period as the Commissioner may allow.

### 2.5

The turnover threshold for farmers who submit VAT returns every 6 months remains at R1,5 million.

## 2.6

The sale of residential property by developers is subject to VAT while the leasing of residential accommodation is VAT exempt. This means that VAT input credits can be claimed for standard rated sales but not for exempt rentals.

**There has been a concession to cater for the temporary letting of residential fixed property originally acquired for the purpose of resale.**

If a property developer temporarily lets out a dwelling developed by him for the purpose of sale, this is a change of use as the letting of residential property is exempt from VAT. VAT has to be paid to SARS on the open market value of the dwelling at the date of change in use.

Many people in such position were caught when there was a downturn in the economy. Property acquired for the purpose of resale was not able to be sold and the property owners decided to let out the residential properties on leases ranging from 1 to 3 years but with the clear intention that, as soon as the market improved, they would sell the property. If there was a permanent change in use from selling to long term letting, output tax was payable on the open market value at the time of the change of intention.

SARS therefore introduced a concession which provided that, in such circumstances where a residential property which was available for sale was temporarily let for residential purposes, the VAT did not have to be paid back to SARS for a period of relief of 36 months but not later than **1 January 2018**. The idea was that, within that period, the property would be sold as was the original intention.

**It is essential to realise that this concession is no longer applicable. In other words, in respect of each property, if such property has not yet been sold, VAT would now have to be paid to SARS on the current open market value.**

## 2.7

A **notional VAT input credit** may be claimed where a VAT vendor buys second hand goods including fixed property or a share block share from a non-VAT vendor. **The notional VAT input credit is set at the tax fraction 15/115 of the selling price (consideration) payable for the property but can only be claimed after payment for the goods and (if applicable) registration of transfer in the deeds office or after signature of the share block use agreement. There are also special record retention requirements.**

**The input tax credit is limited to the tax fraction of that portion of the purchase price which has actually been paid.**

## 2.8

No VAT is payable on the importation of goods below the amount of R500 or services below the value of R100.

## 2.9

**If an invoice for supplies to you is not paid within 12 months, the VAT input tax claimed needs to be returned to SARS.** In a group of companies, the inter-company loans and current accounts continue indefinitely and it is impossible to determine if the particular invoice has or has not been paid. **It may be advantageous to capitalise these current account balances into loans or equity.** In a group structure as defined and under certain conditions, no adjustment will be necessary. Obviously a refund claimed by one entity will not be allowed unless there is a simultaneous claw-back by the other entity. See also para 2.12.

## 2.10

VAT period end dates can be changed as long as they end 10 days before or after a month end. Constant changes are not allowed. Changes are not allowed more than once in a 12 month period.



## 2.11

### **Amounts overpaid to you by your customers.**

Where an amount received in respect of a taxable supply of goods and services exceeds the consideration charged for the supply and that excess is not refunded within four months of receipt, that excess amount is deemed to be consideration for a supply of services on the last day of the VAT period during which the four month period ended.

In simple language, that means that if your customer overpays you and you don't refund the overpayment within four months (e.g. because your customer knows of the overpayment and asks you to use the overpayment towards his next purchase from you), the overpayment is vat-able and the tax fraction (15/115) of the overpayment is payable by you as output VAT. When the overpayment is subsequently refunded or used against the later purchase, the tax fraction of the overpayment "used" can be claimed back as input tax.

## 2.12

### **Amounts due by you to suppliers.**

If a VAT vendor claims input tax in respect of a taxable supply of goods or services made to him and within 12 months after the end of the VAT period within which the deduction of input tax was made, he has not paid the full consideration in respect of that supply, the tax fraction (15/115) of the portion of consideration not paid is deemed to be output tax payable. When the consideration is paid subsequently, the tax fraction can be deducted as input tax in that VAT period.

In simple language, that means if you haven't paid your supplier within 12 months and you claimed input tax on the supply, you must pay to SARS as output tax the tax fraction (15/115) of the amount not paid. See also para 2.18.

## 2.13

Tax invoices for VAT purposes must be issued in South African currency (unless it is a zero rated supply). Where vat-able transactions are concluded in foreign currency, the foreign currency value of the transaction must be converted to Rands at the spot rate agreed between the parties. If there is no agreement, the spot rate at the (defined) date of supply must be used.

## 2.14

When a share block company is converted to sectional title, it is a non-supply for VAT purposes. No output tax will be payable by the company and no input tax can be claimed by the new sectional title owners.

## 2.15

Supplies to its members by **body corporates and home-owners associations** are exempt from VAT.

## 2.16

The supply of membership units by property co-operatives will be treated like the supply of a share in a share block company and be subject to VAT at the standard rate where the property co-operative (or share block company) is registered or is obliged to be registered for VAT.

## 2.17

Damaged or destroyed imports. No VAT is levied on goods imported that have been destroyed, damaged or abandoned. This aligns with the current customs duty treatment.

## 2.18

Input VAT claimed on supplies received by a VAT vendor must be treated as output tax if the vendor has not discharged the debt for that supply within a period of 12 months.

## 2.19

With effect from 1 June 2014, **all foreign suppliers of electronic services have had to register for VAT** in South Africa where the total value of electronic services supplied in South Africa exceeds R50 000. **It has been clarified that the limit of R50 000 applies in any consecutive 12 month period.** This applies where the supply is by a person from a place outside South Africa to a recipient who is a resident of South Africa or where a payment made to the foreign supplier originates from a bank registered in South Africa.

**The definition of electronic services is very wide** and includes, but is not limited to, the supply of educational services, games, games of chance, internet based auction services, e-books, audio visual content, music, the supply of software and general subscription services. Cloud computing and services using online applications are also included in the definition of electronic services.

**The intention of the proposed amendments to the regulations is to capture all services that are provided by means of an electronic agent, electronic communication or the internet for any consideration. Two clear exclusions are -**

- **educational services provided by a person or entity that is regulated by an educational authority in the foreign country.**
- **telecommunication services.**

**Electronic services supplied by an intermediary will also be subject to VAT if the principal is not liable for VAT registration. An intermediary is a person who facilitates the supply of electronic services supplied by an electronic services supplier who is responsible for issuing invoices and collecting payment for the supply.**

## 3. Income Tax Rates for Individuals

### 3.1

**The top tax rate of 45% still applies for those with a taxable income above R1 500 000.**

**There is a very small reduction in the amount of tax payable by other individuals.** This is as a result of tax bracket adjustments and an increase in rebates. **This also has the effect of increasing tax thresholds.** (See paras 3.5, 3.10 and 3.11).

### 3.2

The rate of tax on the first amount of **R195 850** (was R189 880) taxable income remains at 18% and the **maximum marginal rate remains at 45% on taxable income levels above R1 500 000.**

### 3.3

There remains a single tax table (see para 3.5) for all natural persons, estates and “special trusts” (see para 5) i.e. persons other than companies, close corporations and trusts (other than “special trusts”).

Deceased estates (see para 5.14) and all trusts are not entitled to the primary rebate (see para 3.10) or the interest exemption (see para 4.8).

### 3.4

**All residents of South Africa for tax purposes are taxable in South Africa on their world wide income and capital gains. This applies to all taxpayers i.e. companies, close corporations, individuals, trusts and estates.** South Africa has entered into or is negotiating Double Tax Agreements (DTA) and Tax Information Exchange Agreements with more than 90 countries and exchange of information takes place. **Declaration of all foreign income is accordingly essential. If such income has been subject to foreign tax, such tax will be allowed as a credit against the applicable South African tax payable.**

**Remuneration received by an employee in respect of employment outside South Africa is exempt from South African tax, if that employee was outside South Africa –**

- for a period or periods (excluding in transit) exceeding 183 full days in aggregate during any period of 12 months, **and**
- for a continuous period exceeding 60 full days during that period of 12 months.

Bear in mind that foreign tax might still be payable on such remuneration subject to any applicable DTA.

**With effect from 1 March 2020, this exemption will only apply on so much of the remuneration as does not exceed R1 million.**

**The remuneration of South African based employees of foreign employers is often not subject to PAYE because the employer itself has no presence in South Africa. The remuneration is however taxable in South Africa and in most cases the employees need to be registered for provisional tax. It is essential that such employees do not neglect their statutory duties.**

**Foreign residents (for tax purposes) will only be liable for tax in South Africa on their income from South African sources as well as on capital gains on the disposal of South African immovable property (held directly or indirectly) or assets attributable to a permanent establishment of that person in South Africa. Rules are in place to clarify the identification of the source of various types of income.**

In general, if income accrues to a foreign company controlled to the extent of more than 50% by South African tax residents, then the proportionate share of the income of such “controlled foreign company” is deemed to accrue to the resident shareholder whether or not the income of the controlled foreign company was distributed. Credit is given for foreign tax paid and there are exemptions in the case of funds blocked in foreign countries until the restrictions are lifted.

**Most foreign dividends received by individuals from foreign companies (where the shareholding is less than 10% in the foreign company) are taxable at a flat rate of 20%. For companies and trusts, the effective rate is also 20%. No deductions are allowed for interest and other expenditure incurred to produce such foreign dividends.**

**Any dividend from a foreign company is exempt from South African normal tax if received by a person (if that person is a company, then together with any other company in the same group of companies) who holds at least 10% of the total equity share capital in the company declaring the dividend. At least 10% of the voting rights in the company declaring the dividend must also be held. The exemption does not apply if the declaration of the foreign dividend is part of a tax avoidance scheme.**

Foreign dividends are also exempt from tax if the underlying profits out of which the dividend is declared have already been subject to tax in South Africa.



3.5

The rates of tax for all persons other than companies and close corporations but including deceased estates and “special” trusts for the year ended 28 February 2019 will be as follows:

<b>Taxable Income</b>	<b>Amounts of Tax Payable and Percentages to be Applied to Excess over Base Amounts</b>
Up to R195 850	18%
Exceeds R195 850 up to R305 850	R35 253 plus 26%
Exceeds R305 850 up to R423 300	R63 853 plus 31%
Exceeds R423 300 up to R555 600	R100 263 plus 36%
Exceeds R555 600 up to R708 310	R147 891 plus 39%
Exceeds R708 310 up to R1 500 000	R207 448 plus 41%
Exceeds R1 500 000	R532 041 plus 45%

The rates for the year ended 28 February 2018 were as follows:

<b>Taxable Income</b>	<b>Amounts of Tax Payable and Percentages to be Applied to Excess over Base Amounts</b>
Up to R189 880	18%
Exceeds R189 880 up to R296 540	R34 178 plus 26%
Exceeds R296 540 up to R410 460	R61 910 plus 31%
Exceeds R410 460 up to R555 600	R97 225 plus 36%
Exceeds R555 600 up to R708 310	R149 475 plus 39%
Exceeds R708 310 up to R1 500 000	R209 032 plus 41%
Exceeds R1 500 000	R533 625 plus 45%

3.6

Examples of the tax payable (after age rebates) at various levels of taxable income are as follows:

<b>Individuals under 65 years</b>			
<b>Taxable income</b>	<b>2019</b>	<b>2018</b>	<b>Increase (Reduction)</b>
100 000	3 933	4 365	(432)
150 000	12 933	13 365	(432)
200 000	22 265	23 174	(909)
300 000	48 265	49 347	(1 082)
400 000	78 972	80 347	(1 375)
500 000	113 807	115 824	(2 017)
750 000	210 473	212 490	(2 017)
1 000 000	312 973	314 990	(2 017)
1 500 000	517 973	519 990	(2 017)
2 000 000	742 973	744 990	(2 017)

Individuals 65 years and over			
Taxable income	2019	2018	Increase (Reduction)
120 000	-	484	(484)
150 000	5 220	5 884	(664)
200 000	14 552	15 693	(1 141)
300 000	40 552	41 866	(1 314)
400 000	71 259	72 866	(1 607)
500 000	106 094	108 343	(2 249)
750 000	202 760	205 009	(2 249)
1 000 000	305 260	307 509	(2 249)
1 500 000	510 260	512 509	(2 249)
2 000 000	735 260	737 509	(2 249)

Individuals 75 years and over			
Taxable income	2019	2018	Increase (Reduction)
150 000	2 646	3 393	(747)
200 000	11 978	13 203	(1 225)
300 000	37 978	39 376	(1 398)
400 000	68 685	70 376	(1 691)
500 000	103 520	105 853	(2 333)
750 000	200 186	202 518	(2 332)
1 000 000	302 686	305 018	(2 332)
1 500 000	507 686	510 018	(2 332)
2 000 000	732 686	735 018	(2 332)

### 3.7

The maximum marginal rate of tax for individuals remains at 45% and the company/close corporation basic rate remains at 28% (see para 6.2). Dividends tax is payable at the rate of 20% (see para 7). If all company/close corporation income (after tax) is distributed, the total tax burden on such income is 42.4%. This is less than the top marginal rate for individuals of 45%. The tax burden for small business corporations is significantly lower. See para 15.2.

**At levels of taxable income in excess of R1 500 000, the marginal rate of tax for individuals will exceed the overall company tax burden.** Above those levels of taxable income, taxpayers will continue to attempt to reduce the “allocation” of company/close corporation profits to shareholders/members (by way of salaries, loan account interest, etc) and instead, where necessary, declare after tax company profits as dividends. Other persons will be tempted to “transfer” their personal incomes to companies/close corporations. **Unless such changes are motivated by factors other than tax, it is likely that SARS will seek to disregard such “schemes”.**

### 3.8

Except in very limited circumstances (e.g. deliberate income splitting schemes and donations), all the income of a married couple (except in the case of marriage in Community of Property) continues to be separately taxed in the hands of the spouse to whom the income accrues. Each spouse is entitled to the exemption in respect of interest income (see para 4.8).

### 3.9

Special rules apply to the taxation of mainly the interest and rental income of spouses married in Community of Property. Please advise us if you are married in Community of Property to enable us to consider whether you or your spouse can take advantage of the benefits.

3.10

The **rebates** for the year ended February are as follows:

	2019	2018
Standard primary rebate for all natural persons (i.e. excluding all companies, trusts, estates, etc)	R14 067	R13 635
Additional rebate for all persons 65 years and over at the end of the tax year	R7 713	R 7 479
Further additional rebate for all persons 75 years and over at the end of the tax year	R2 574	R 2 493

3.11

The tax thresholds (i.e. levels of taxable income below which no tax is payable) will be as follows:

	2019	2018
Under 65 years at the end of the tax year	78 150	R75 750
65 years and over	121 000	R117 300
75 years and over	135 300	R131 150

**Because of the interest income exemption (see para 4.8), each person over the age of 65 but younger than 75 can earn annual income (including interest of at least R34 500) of R155 500 (was R151 800) without being liable for income tax at all. For those 75 and over with at least R34 500 of interest income, the tax free income limit is R169 800 (was R165 650).**

3.12

**Certain persons receiving a single source of taxable employment income (other than allowances) up to R250 000 (as well as interest and capital gains below the tax free limits - see para 4.8 and 9.3) do not have to submit annual Tax Returns to SARS.** Contact us for further details.

3.13

**Capital Gains are included to the extent of 40% in the normal taxable income of a natural person. At the maximum marginal tax rate of 45%, the maximum effective rate of tax on Capital Gains (CGT) is 18% for natural persons, deceased estates and special trusts (on the excess over the annual exclusion of R40 000). See para 9.**



## 4. Other Deductions and Exemptions

### 4.1

**With effect from 1 March 2016, the following rules apply to contributions to and benefits from Pension, Provident and Retirement Annuity Funds.**

- All contributions paid by employers to Pension, Provident and Retirement Annuity Funds are taxable as a fringe benefit in the hands of the employee (including partners in a partnership) and fully tax deductible in the hands of the employer.
- The natural person employee will be deemed to have paid the total contributions to all these funds including both the employee's contributions and that of the employer.
- The employee will be entitled to deduct from his income the total contributions to all funds but limited to 27,5% of his total taxable income or 27,5% of his remuneration (whichever is the greater).
- The upper limit of deductions is currently R350 000 p.a. but contributions in excess thereof can be carried forward for deduction in future years up to the same limits. **For PAYE purposes, this amount of R350 000 may be spread over the tax year.**
- Contributions not deductible (e.g. in excess of the limits) can be deducted off the taxable portion of the proceeds on the withdrawal or retirement from the funds.
- In respect of all 3 types of funds, only one third of the value of the fund will be allowed to be withdrawn as a lump sum with the balance having to be used to purchase an annuity.

### 4.2

The full value of a provident fund accumulated up to 1 March 2016 will however still be able to be taken as a lump sum. Accumulations after that date may also be taken as a lump sum although it is proposed that they may in future be subject to annuitisation. For those over 55 years of age, even subsequent contributions to a provident fund will not be subject to annuitisation.

How these lump sums will be taxed is dealt with in para 4.5 below.

**On smaller pension values and on death or formal emigration, amounts may be distributed as lump sums.**

**If the retirement benefit of a member is R247 500 or less, the member will not be required to buy an annuity with at least two-thirds of the benefit. The full amount may be withdrawn as a lump sum. This applies to all types of retirement funds.**

### 4.3

The contributions mentioned above may only be deducted from the income of the spouse who is the member of the fund. Excess amounts paid may be carried forward to the following tax year.

### 4.4

**Premiums paid on income protection policies or similar policies covering death, disablement, severe injury or unemployment are no longer tax deductible with effect from 1 March 2015. Premiums paid by employers will be taxable as fringe benefits in the hands of employees. Proceeds received from these policies are tax free from 1 March 2015 whether paid as a regular annuity or as a lump sum (even if premiums on such policies were deducted for tax purposes in the past).**

## 4.5

**Lump Sum Receipts from Funds –**

**Compensation paid in terms of the Compensation for Occupational Injuries and Diseases Act (COIDA) or Unemployment Insurance Act are tax free.**

Portion of the lump sums payable **on death or on retirement** or withdrawal from Pension, Provident and Retirement Annuity Funds is exempt from tax as below.

**Amounts payable by such funds on death or retirement are tax free up to a life time cumulative exemption of R500 000. It also applies to post retirement annuities subsequently converted into a lump sum as well as severance benefits (see para 4.6). This tax free portion does not apply in the case of early withdrawals prior to retirement. See below.**

The **unchanged** table is –

<b>Amounts of death or retirement benefit</b>	<b>Tax payable</b>
Up to R500 000	- 0%
Exceeds R500 000 up to R700 000	- R0 plus 18% on excess over R500 000
Exceeds R700 000 up to R1 050 000	- R36 000 plus 27% on excess over R700 000
Exceeds R1 050 000	- R130 500 plus 36% on excess over R1 050 000

**If an amount of R1 200 000 is received on retirement, the tax payable thereon will be R184 500. No rebates or deductions will be allowed against these receipts nor will losses be allowed to be deducted therefrom.** The only deduction will be for contributions paid in the past which were not allowed as deductions from income. Other “bonus” distributions may in certain circumstances also be exempt from tax. **There is also a roll over concession in respect of amounts paid into new funds of the same kind or payments to certain funds known as preservation funds.**

**Amounts payable on early withdrawal from such funds (mainly on resignation but can also apply on divorce) will be taxable at the rates of tax set out below (as opposed to the higher marginal rates)** but after an initial tax free lifetime cumulative exemption of only R25 000 (as opposed to R500 000 available on death or retirement). Only the first R25 000 is free of tax.

The **unchanged** table is -

<b>Amounts of withdrawal benefit</b>	<b>Tax payable</b>
Up to R25 000	- 0%
Exceeds R25 000 up to R660 000	- 0% plus 18% on excess over R25 000
Exceeds R660 000 up to R990 000	- R114 300 plus 27% on excess over R660 000
Exceeds R990 000	- R203 400 plus 36% on excess over R990 000

**If an amount of R1 200 000 is received on early withdrawal, the tax payable thereon will be R279 000 (as opposed to R184 500 in the case of retirement).**

The tax payable is determined by applying the above rate tables to the aggregate of the taxable portions of all lump sum death or retirement benefits accrued since October 2007 (or since March 2009 for withdrawals) during the current and previous years of assessment and all **severance benefits** from March 2011 (see para 4.6) and deducting tax payable according to the current tax table on the aggregate of those lump sums accrued since October 2007 (or March 2009) during previous years of assessment.

**A retirement fund member may defer the drawing of retirement income until after their retirement date.**

**Retirement fund benefits are generally excluded from the dutiable estate for estate duty purposes when a member passes away although lump sum payments are subject to tax in the deceased's tax computation to date of death. An amount equal to the non-deductible contributions to retirement funds must however be included in the dutiable estate for estate duty purposes when a retirement fund member passes away. See also para 10.2.**

4.6

### **Lump Sum Receipts from Employers –**

**Lump sum payments from employers on the death of an employee (in addition to any payment under COIDA (previously WCA) (see para 4.5)) is exempt from tax up to R300 000.**

Amounts paid by employers to employees on termination or within the period of 5 years prior to termination of the services of the employee, are referred to as “**severance benefits**” and are to be added to the **lump sum death or retirement receipts and taxed at the concessional rates applicable to lump sums payable on death or retirement from funds as set out in para 4.5, if –**

- the employee has attained the age of 55 years, or
- the termination is due to ill health, or
- the Commissioner is satisfied that the termination is due to the employer having ceased to carry on or intending to cease carrying on the trade in which the employee was employed or due to the taxpayer having become redundant in consequence of his employer having effected a general reduction in staff or a reduction in staff of a particular class. This will also apply if an employee resigns voluntarily in terms of an offer from his employer in terms of a staff reduction scheme.

Where the employer is a company, this concession does not apply to someone who holds (or at any time held) more than 5% of the shares/members interest in the company/close corporation.

4.7

### **Medical and Physical Disability Expenses –**

**A medical scheme contribution tax credit will be available to taxpayers who belong to a medical scheme and for those taxpayers who incur qualifying medical expenses.**

**A medical tax credit in respect of medical scheme contributions is a direct deduction off tax as opposed to a deduction from income.**

The **medical tax credit** in respect of medical scheme contributions is set at fixed amounts per month -

- **R310 (was R303) each per month for the taxpayer and one dependant** (whether a spouse, child or other dependant).
- **R209 (was R204) per month for each additional dependant.**

**The amount of medical scheme contributions paid by an employer on behalf of an employee must be treated as a taxable fringe benefit.** Only when an employee has retired from an employer and the employer continues to pay contributions on behalf of the retired employee, the fringe benefit will not be taxable.

**These medical tax credits in respect of medical aid contributions can be taken into account for both PAYE and provisional tax purposes.**

#### **AN EXAMPLE OF THE CALCULATION APPEARS AT THE END OF THIS PARA 4.7**

- **For those below the age of 65, they will be entitled to the medical tax credits referred to above whether the medical aid contributions are paid by them directly or paid by the employer and taxed in their hands as a fringe benefit.**

They are entitled to medical tax credits calculated as follows –

- The standard monthly medical scheme credits for the taxpayer, spouse and dependants; plus
- 25% credits for medical scheme fees paid that exceed four times the standard medical scheme credits; plus
- 25% credits for all qualifying medical expenses (other than medical scheme contributions).

The allowable medical tax credit (in addition to the standard credits) is the amount by which the total of these last 2 items exceeds 7,5% of the taxpayer's taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit and severance benefit).

- **For a person 65 years and older (at tax year end) they are entitled to the medical tax credits referred to above whether the medical aid contributions are paid by them directly or paid by the employer and taxed in their hands as a fringe benefit.**

**Taxpayers of 65 years of age and above are entitled to the standard monthly medical scheme credits, and further credits are set as below at a 33,3% level. More specifically, the medical tax credits will be calculated as follows:**

- The standard monthly medical scheme credits for the taxpayer, spouse and dependants; plus
  - 33,3% credits for medical scheme fees paid that exceed three times the standard medical scheme credits; plus
  - 33,3% credits for all qualifying medical expenses (other than medical scheme contributions).
- **Disabled taxpayers or taxpayers who have a spouse or child who is disabled, are treated in the same way as taxpayers 65 years and older.**

**They are entitled to the standard monthly medical scheme credits, and further credits are set as below at a 33,3% level. More specifically, the medical tax credits will be calculated as follows:**

- The standard monthly medical scheme credits for the taxpayer, spouse, and dependants; plus
- 33,3% credits for medical scheme fees paid that exceed three times the standard medical scheme credits; plus
- 33,3% credits for all qualifying medical expenses (other than medical scheme contributions).

Disability” means a moderate to severe limitation of a person’s ability to function or perform daily activities as a result of a physical, sensory, communication, intellectual or mental impairment, if the limitation –

- has lasted or has a prognosis of lasting more than a year; **and**
- is currently diagnosed by a duly registered medical practitioner in accordance with criteria and in the form prescribed by the Commissioner (form ITRDD).
- The medical tax credit is based on the total amount of such expenses actually paid during the year in respect of the taxpayer, his/her spouse and children (those who previously qualified for child rebates i.e. a child, step-child and legally adopted child who is unmarried at year end and not older than 18 years or not older than 21 years and dependant on you and not liable for income tax for that year or older if a full time student or incapacitated). A child of a taxpayer also refers to any child who was alive during a portion of the year of assessment and who, on the last day of the year of assessment -
  - was incapacitated by a disability from maintaining himself, **and**
  - was wholly or partially dependent for maintenance upon the taxpayer, **and**
  - has not become liable for the payment of normal tax for the year.

A child as defined would however exclude a foster child, a child not yet legally adopted or a child under your custodianship. However such person may be able to be classified as a dependant (see below).

The medical tax credit is based on -

- the amount of **contributions paid to South African registered medical schemes** (or to any other fund which is registered under any similar law in any other country where such medical scheme is registered) in respect of the taxpayer, his/her spouse and children (as above) **and also for dependants** (see below)
- as well as payments (**including payments outside South Africa**) to doctors, dentists, homeopaths, physiotherapists, chiropractors, hospitals, clinics, nurses, nursing agencies, etc in respect of professional services or pharmacists for medicines prescribed by any of the foregoing or other expenditure in consequence of a physical disability of a permanent nature e.g. bad eyesight or hearing, diabetes, asthma, hyperactivity, etc for the above persons (**excluding dependants**) to the extent not recovered from a medical scheme.

For the purpose of medical scheme contributions, a **dependant** means the spouse or partner, dependant children or other members of the member’s immediate family in respect of whom the member is liable for the family care and support, or any other person who, under the rules of the medical scheme, is recognised as a dependant of the member.

The deduction or tax credit is allowed only to the spouse who pays the expenditure (or if paid by his/her employer and treated as a taxable fringe benefit). Great care needs therefore to be taken before deciding which spouse should pay such amounts.

## Examples of Medical Expenses Tax Credit Relief (using rates with effect from 1 March 2018)

Assumed Facts –

- 1 Member, wife, 1 child
- 2 Medical aid contribution of R2 500 per month (R30 000 for the year)
- 3 Additional expenses R20 000
- 4 Taxable income R200 000

	Person under 65 A	Person over 65 B	Person with disability C
Tax credit for medical aid contributions [(310 x 2) + (209 x 1)] x 12	9 948	9 948	9 948
Credit for excess expenses			
A 30 000 – (9 948 x 4) = -9 792 – therefore ignore 20 000 – (7,5% of 200 000) = 5 000 x 25%	1 250		
B [30 000 – (9 948 x 3)] x 33,3% 20 000 x 33,3%		52 6 660	
C [30 000 – (9 948 x 3)] x 33,3% 20 000 x 33,3%			52 6 660
Total Medical Tax Credit	R11 198	R16 660	R16 660

### 4.8

The first amount of local interest income is exempt from tax in the hands of a natural person. This limit is **unchanged** at R23 800 per annum for individuals under 65 and R34 500 per annum for those 65 and over on the last day of the tax year. There is no exemption in respect of taxable foreign interest and foreign dividend income.

Tax-free savings and investment accounts (which will produce tax free income) were introduced on 1 March 2015. These accounts have an annual maximum contribution limit of R33 000 and a lifetime maximum contribution limit of R500 000. Investments in excess of these limits will be subject to a flat tax of 40%. Investments are allowed in bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds. Eligible service providers include banks, asset managers, life insurers and brokerages.

See para 3.4 for the exemptions and the effective tax rate for certain foreign dividends.

Interest is exempt from normal tax in South Africa if it accrued from a South African source to a non-resident person or entity which at any time during the year did not carry on business in South Africa through a permanent establishment and, in the case of a natural person, such person was not present in South Africa for more than 183 days in the year in question. **Interest paid to non-residents is subject to a flat withholding tax of 15%. Interest is deemed to be paid on the date on which the interest becomes due and payable. Interest payments to non-residents may be subject to a reduced rate if there is an applicable Double Tax Agreement between South Africa and their country of residence. See para 8.** Interest includes premiums and discounts payable or receivable. There are exemptions in respect of interest payable by the Government on listed debt investments, payable by a South African Bank (including the Reserve Bank), trade finance, etc.

#### 4.9

Other than for the **payment of dividends tax at the rate of 20%** (see para 7), dividends/distributions from South African companies and close corporations are currently free of tax in the hands of the recipients.

Dividends from foreign companies are generally taxable in South Africa (but see the exemptions and special rate in para 3.4).

A “resident” is defined. Briefly it is a natural person who is ordinarily resident in South Africa or who falls within a defined physical presence test or a person other than a natural person (e.g. companies, trusts, etc) incorporated, established or formed or effectively managed in South Africa. If a natural person stays in South Africa for more than 91 days (or part days) in each of 6 consecutive tax years and more than 915 days (or part days) in aggregate in the first 5 years, he will be deemed to be a tax resident of South Africa with effect from the beginning of the sixth year. This test for residence is subject to the provisions of any applicable DTA. Consult us for further details in regard to this definition.

If the income from which the foreign dividend is declared has already been subject to tax in South Africa (e.g. interest income of a controlled foreign company), the dividend will not again be subject to tax.

Any foreign tax paid on the dividend will be allowed as a credit against the South African tax payable up to the amount of the applicable South African tax.

If the dividend, because of foreign laws, may not be remitted to South Africa, the dividend will only be taxable in the year in which it may be remitted.

To the extent that local unit trusts receive foreign dividends and distribute such income to their unit holders, such income will be taxable in the hands of the resident unit holders. Dividend distributions from overseas unit trusts are also taxable.

See para 4.8 for the primary interest exemption.

#### 4.10

### **Donations -**

Tax deductible contributions (not fees) may be made to a wide range of approved Public Benefit Organisations, including -

- universities, colleges and approved education funds (as defined)
- pre-primary schools that offer an approved educare programme
- primary schools that are Public Benefit Organisations
- approved Public Benefit Organisations whose activities are directed towards the prevention of HIV infection or the provision of care to individuals whose livelihoods have been impoverished by AIDS
- children’s homes, which are approved Public Benefit Organisations, providing care to abandoned, abused or orphaned children
- approved Public Benefit Organisations whose activities are mainly directed towards the care of destitute aged persons.

**It is clear that “approval” is required in terms of section 18A of the Income Tax Act for all these organisations before tax deductible donations may be made to them.** The Income Tax Act provides for a definition of a “Public Benefit Organisation” and a comprehensive list of acceptable public benefit activities which are of a philanthropic or benevolent nature. The above organisations, once approved, will also themselves be exempt from income tax on their “non business” income subject to certain conditions. See para 19.

**The deduction limit for individuals and for companies is 10% of taxable income (including capital gains) but excluding retirement fund lump sums and severance benefits. If such donations are paid by your employer for you, he may take into account for PAYE purposes such donations up to 5% of your taxable remuneration. Donations in excess of 10% of taxable income in any given year will be rolled over and treated as donations to qualifying public benefit organisations in the following tax year.**



## 4.11

### Employee Deductions -

#### 4.11.1

The deductions available for employees are very restricted. The current position is as follows:

- **All allowances (including entertainment allowances) of whatever nature are fully taxable to the extent that the amount is not a reimbursement of expenses that have been incurred on the instruction of the employer in furtherance of the business of the employer and with the appropriate proof provided to the employer.** Actual expenditure reimbursements by employers remain tax exempt if the above rules apply and are followed. This includes entertainment expenditure reimbursements.
- **The personal tax free subsistence allowance system remains unchanged.** Accommodation, meals and incidental costs will be deemed to have been expended if proof of these expenses can be submitted by the employee. "Incidental costs" is defined to mean any beverages (including alcoholic beverages), private telephone calls, gratuities and room service. The employee must be away from his/her usual place of residence in all cases. The deduction does not apply if the employer has directly borne the expenses in question. If the employer simply reimburses the employee for actual expenditure against documentary proof, then no tax is levied on the employee.

**If there is no proof of expenditure**, the following amounts are currently deemed to have been actually expended by the recipient who is obliged to spend at least one night away from his/her usual place of residence on business and to whom an allowance has been granted or paid -

- **where the accommodation to which that allowance relates is in South Africa and that allowance is paid or granted for -**
  - **incidental costs only, an amount equal to R128 (was R122) per day, or**
  - **the cost of both meals and incidental costs, an amount equal to R416 (was R397) per day, or**
- where the accommodation to which that allowance relates is **outside South Africa**, and that allowance is paid or granted to defray the cost of meals and incidental costs, an amount which varies according to the country visited. **Details are available in the Legal and Policy section on the following SARS website.**  
<http://www.sars.gov.za/AllDocs/LegalDoclib/SecLegis/LAPD-LSec-IT-GN-2018-002%20-%20Budget%202018%20-%20subsistence%20regulations%20-%202021%20February%202018.pdf>
- **80% of business travelling allowances are subject to PAYE. The percentage is reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle for the tax year will be for business purposes.** On assessment, the full allowance is taxable and actual or deemed expenditure can be claimed up to the amount of allowance received.

**The table below sets out the rates per kilometre which may be used from 1 March 2018 to determine the allowable deduction for business travel where no records of actual costs are kept.** Of course, it may be far more tax effective to keep records of actual costs instead of using the published table. Wear and tear must be calculated over 7 years on a cost not exceeding **R595 000**. Any interest or finance charges must also be limited to an amount calculated as if the original debt did not exceed **R595 000**. **Unless a detailed log book is maintained, all travel is deemed to be for private use. A standard form of log book is available on the SARS website**  
<http://www.sars.gov.za/AllDocs/Documents/Logbook/2017-18%20SARS%20eLogbook.pdf>

**We strongly recommend that you ensure that the information in the SARS logbook is maintained by you as part of your records. Please consult us for further information.**

Value of the vehicle (including VAT) (R)	Fixed Cost (R p.a.)	Fuel Cost (c/km)	Maintenance Cost (c/km)
0 - 85 000	28 352	95.7	34.4
85 001 - 170 000	50 631	106.8	43.1
170 001 - 255 000	72 983	116.0	47.5
255 001 - 340 000	92 683	124.8	51.9
340 001 - 425 000	112 443	133.5	60.9
425 001 - 510 000	133 147	153.2	71.6
510 001 - 595 000	153 850	158.4	88.9
Exceeding 595 000	153 850	158.4	88.9

No fuel cost may be claimed if the employee has not borne the full cost of fuel used in the vehicle and no maintenance cost can be claimed if the employee has not borne the full cost of maintaining the vehicle (e.g. if the vehicle is covered by a maintenance plan).

The fixed cost must be reduced on a pro-rata basis if the vehicle is used for business purposes for less than a full year.

### Alternatively -

- **In respect of the distance travelled for business purposes, no tax is payable on an allowance paid by an employer to an employee, up to the rate of 361 (was 355) cents per kilometre (plus actual parking and toll fees) regardless of the value of the vehicle. The actual distance travelled is no longer relevant.**

**Only the portion of the travel expenses reimbursed by an employer that exceeds the above rate fixed by the Minister of Finance should be regarded as remuneration for purposes of determining employees' tax.**

- This alternative is generally not available if other compensation in the form of an allowance or reimbursement (other than actual parking or toll fees) is received from the employer in respect of the vehicle in which event 80% of the travelling allowance and compensation must be included in the employee's remuneration for the purposes of calculating PAYE.
- **In general, deductions against the are limited to employment income of employees -**
  - The items referred to above
  - Contributions to pension and retirement annuity funds (see para 4.1)
  - Certain legal expenses
  - Wear and tear (depreciation) allowances on items used for trade, e.g. computers and books
  - Income continuation insurance premiums before 28 February 2015
  - Bad debts and doubtful debt allowances
  - Donations to Public Benefit Organisations (see para 4.10)
  - Expenses for premises, finance charges, insurance, repairs and fuel and maintenance of assets, if these premises or assets are used wholly and exclusively for purposes of trade
  - Home study expenses (see para 4.11.2)
  - Remuneration for services rendered subsequently repaid and restraint of trade payments refunded

**It is important to note that an agent or representative whose remuneration is normally derived mainly (i.e. over 50%) in the form of commission based on the sales or turnover attributable to that person, may claim all expenditure incurred in the production of income and does not suffer the same restrictions as for other employees referred to above.**

#### 4.11.2

**For home study expenses to be deductible for tax purposes, the relevant portion of the premises (in respect of which the expenses are claimed) must be specially equipped for purposes of the person's trade and must be regularly and exclusively used for the purpose of trade.** If the taxpayer is an employee or holder of an office, a deduction will only be allowed if either -

- the income of the taxpayer from such employment or office is derived mainly (i.e. over 50%) from commission or other variable payments which are based on the taxpayer's work performance and his duties are mainly performed otherwise than in an office which is provided to him by his employer,

or

- his duties are mainly performed in such portion of the premises

The practical requirements of SARS are difficult but not impossible to fulfil. In particular, the requirement to use an office at home should, wherever possible, be included in your written employment contract.

**The Capital Gains Tax implications when a portion of your primary residence is used for business purposes must also be considered. Please discuss this with us.**

#### 4.11.3

Details of the method of taxation of other fringe benefits are set out in para 18.

#### 4.12

##### **Learnership Incentives -**

A registered learnership agreement means a contract of apprenticeship registered in terms of the Manpower Training Act if the minimum required period is more than 12 months. Alternatively, it is a learnership agreement that is registered in accordance with the Skills Development Act. **All agreements have to be entered into before 31 March 2022. The enhanced incentive prioritises learners without basic intermediate qualifications.**

**In respect of all registered learnerships entered into on or after 1 October 2016, there is a flat commencement and annual allowance per learnership of R40 000 for learners within NQF 1-6 and R20 000 for learners within NQF 7-10 as well as a completion allowance of the same amounts irrespective of the remuneration of the employee. For employees with certain disabilities, both amounts are increased to R60 000 within NQF 1-6 and R50 000 within NQF 7-10.**

Prior to 1 October 2016, the annual and completion allowances per learner were all at R30 000 or R50 000 in the case of learners with disabilities.

**There are additional deductions for multi-year learnerships. The commencement allowance will be able to be claimed in respect of each successive year of learnership. In the final year of the contract, the completion allowance is multiplied by the number of consecutive completed full years of the learnership.**

There are also rules in the case of employee terminations and for transfer of learnerships to a new employer. There is no recoupment irrespective of the reason for the cancellation or transfer. Learnerships lasting for a period of less than 12 months (for whatever reason) are eligible only for a pro rata amount of the commencement allowance and where the 12 months is over 2 tax years, it may be split over 2 tax years. If the learnership is taken over by a new employer, the completion allowance is then only available to the new employer as well as the remaining pro rata share of the commencement allowance.

## Employment Tax Incentives (ETI)

The Employment Tax Incentive Act benefits cover the period from 1 January 2014 to 28 February 2019.

- Employers are entitled to claim the incentive benefit for **each employee** by way of a **reduction in tax** if the following conditions apply:
  - The employer must be registered as an employer for PAYE purposes.
  - The employee must be not less than 18 years old and not more than 29 years old at the end of the relevant month of the claim (this restriction does not apply if the business is situated in a Special Economic Zone).
  - The employee must be a South African citizen or permanent resident in possession of a South African identity document and must not be a domestic worker.
  - The employee must not be a connected person in relation to the employer e.g. the son of the member of the employer Close Corporation.
  - The employee must not have been employed by the employer or an associated person prior to 1 October 2013.
  - The salary payable to the employee must be above the sector determined minimum wage (or R2 000 if there is no wage determination) and be less than R6 000 per month.
  - **The tax affairs of the employer must be up to date i.e. all tax returns in respect of all taxes have been filed and all payments due have been paid or appropriate arrangements made with SARS.**
- The monthly incentive benefit is based on the monthly remuneration of the employee (working for 160 hours per month) according to the following table. **The benefit is for only 2 years and in the second year, the benefit is 50% of the amount in the first year.** If employed for part of a month, the incentive is proportionately reduced for that month.

Monthly remuneration (MR) in first twelve months	Monthly incentive in first twelve months	Monthly incentive in the following twelve months
R2 000 or less	50% of remuneration	25% of remuneration
R2 001 to R4 000	R1 000 p.m.	R500 p.m.
R4 001 to R6 000	R1 000 p.m. less 50% of (MR-R4 000)	R500 p.m. less 25% of (MR-R4 000)

**Example of calculations for the first year:**

Monthly remuneration (MR)	R1 000	R2 500	R3 000	R4 000	R4 500	R5 000	R6 000
Monthly incentive	R500	R1 000	R1 000	R1 000	R750	R500	R Nil

- **The incentive benefit for each month is collected from SARS by deducting the benefit amount for all the qualifying employees from the PAYE payment (in respect of all employees) due by the employer to SARS for that month. Benefits in excess of the monthly PAYE payment can be carried forward for set-off against future PAYE due. Not more than R6 000 per employee can be carried forward and amounts not claimed within 6 months will be forfeited. Direct refunds may be applied for where the incentive exceeds the PAYE payable.**
- There will be substantial penalties if “old” employees are replaced with employees within the benefit age group. Penalties will also apply if the employer claims the benefit for an employee who does not qualify.
- **The employee receives no benefit or reduction in PAYE. The benefit accrues only to the employer.**
- **With effect from 1 March 2017, there is a deduction cap of R20 million per employer in respect of ETI in each tax year.**

## 5. Trusts and Deceased Estates

### Trusts

**The flat rate of tax on the taxable income of trusts (other than special trusts) remains at 45% for years of assessment ending on 28 February 2019.**

The current position in regard to trusts is as follows -

#### 5.1

Trusts are divided into two categories for tax purposes -

- “Special” trusts
- All other trusts

#### 5.2

A “special” trust means a trust created -

- solely for the benefit of a person who suffers from -
  - any “mental illness” as defined in the Medical Health Care Act, 2002 (see para 4.6), or
  - any serious physical disability

where such illness or disability incapacitates such person from earning sufficient income for the maintenance of such person or from managing his or her own financial affairs.

If the person for whose benefit the trust was created dies on or before the last day of the tax year, then the trust will not be classified as a “special” trust for that year.

**OR**

- by or in terms of the will of a deceased person, solely for the benefit of beneficiaries who are relatives (as defined) in relation to that deceased person and who are alive on the date of death of that deceased person (including any beneficiary who has been conceived but not yet born on that date), where the youngest of those beneficiaries is on the last day of the year of assessment of that trust under the age of 21 years.

As such “special” trusts enjoy preferential tax treatment, it is prudent for separate trusts to be created for beneficiaries falling in the first category and not to have one trust for all classes of beneficiaries. Where existing trusts have both classes of beneficiaries, consideration should be given to splitting the trust into more than one trust (there is often the necessary power to do so already incorporated in trust deeds).

### 5.3

The rate of tax on Capital Gains has not been increased and is set out in para 5.10 and 9.2. The tax rates applicable to “special” trusts are the same as those applicable to natural persons (see para 3.5). The primary rebate (see para 3.10) and the interest exemption (see para 4.8) do not apply.

### 5.4

In regard to all other trusts (including both testamentary and inter-vivos trusts), the tax rate (other than on Capital Gains – see para 5.10) remains at the flat rate of 45% on the total amount of taxable income of the trust (see para 5.5). Foreign dividends are however be taxed at the effective flat rate of 20%.

The primary rebate (see para 3.10) and the interest exemption (see para 4.8) do not apply.

Income vesting in a beneficiary of the trust is usually taxed in the hands of that beneficiary. Many of the benefits of income splitting thus still remain. It is however not always advisable to distribute trust income to beneficiaries solely for tax purposes. Numerous other factors need also to be considered e.g. the needs of family members, estate duty, the creation of interest free loans, etc.

### 5.5

The income vesting in the trust as a taxpayer (i.e. not the income vesting in a beneficiary of the trust nor the income deemed to be that of another person in terms of Section 7 of the Income Tax Act) is taxed at the flat rate of 45%. See para 5.10 for the rate of tax on Capital Gains. In the case of “special” trusts, see para 5.3.

### 5.6

Trust losses are not allowed to flow through to the beneficiaries. The losses will be retained in the trust for carry forward to be set off against future income of the trust.

### 5.7

Where during a year of assessment -

- a South African resident (as defined) acquires a vested right to any portion of the capital of a trust which itself is not a resident (i.e. it has not been formed in South Africa nor is its place of effective management in South Africa), and
- the capital arose from income which was received by or accrued to the trust or from any receipts and accruals of such trust which would have constituted income if such trust had been a resident in any previous year during which such resident had a contingent right to such income or receipts and accruals, and
- such income or receipts and accruals had not been subject to South African tax,

**then**

- such amount will be taxable in the hands of the resident during the year in which the resident acquires the right to the capital.

In many offshore trusts, a South African resident may be able to be awarded income (i.e. they have a contingent right). If that trust receives income and such income is not distributed, then, in a later year, when the capitalised income is awarded to the South African resident, it will be subject to South African tax in that later year.

#### 5.8

An offshore trust is not classified as a controlled foreign company/entity. Income of such foreign trust will accordingly not automatically be able to be deemed to be that of a South African resident unless the income is awarded to the South African resident or the income accrues to the trust by virtue of a donation, settlement or other disposition from the resident (or a connected person to such resident) even if such income has been awarded to an unrelated non-resident beneficiary. **Trust income (including Capital Gains) will be taxable in the hands of a person who had been granted amnesty in respect of such assets which he had elected to be deemed to be his for tax purposes.**

#### 5.9

Where the beneficiary of a (local or foreign) trust is awarded trust income, then the deductions or allowances applicable thereto are deductible from such income.

If the trust is subject to tax in South Africa, then a loss incurred by the trust can be carried forward to be set off against the future income of the trust. Such loss can not be set off against the South African taxable income of a beneficiary. If the trust is not subject to tax in South Africa, then a loss incurred by the trust is carried forward to be set off against the beneficiary's future South African taxable income derived from the trust.

#### 5.10

For the purposes of Capital Gains Tax (CGT), 40% of the Net Capital Gain of a Special Trust is included in the taxable income of that trust. See para 9. In respect of other trusts, the inclusion rate is 80%. Only the first category of Special Trust (see para 5.2) will enjoy the other CGT benefits available for Special Trusts, i.e. excluding the special testamentary trusts. The primary residence exclusion of R2 million (see para 9.3) and the annual exclusion of R40 000 (see para 9.3) will be available for the first category of special trust but will not be available for the special testamentary trusts.

#### 5.11

**Certain low interest loans to trusts create a liability for donations tax. See para 10.5**

## Deceased Estates

#### 5.12

In respect of persons dying on or after 1 March 2016, the method of taxing the income arising after death has changed.

#### 5.13

Prior to that date, the taxable income of the estate arising after date of death was taxed in the hands of the legatee or heir who inherited that income.

If the Will provided for the creation of a testamentary trust, the taxable income flowed to that trust and was taxed in the hands of the beneficiary to whom that income was awarded by the trust. Unawarded income of the trust was taxable in the hands of the Testamentary Trust at the flat rate of 45% (unless it was a special trust - see para 5.2). The primary rebate (see para 3.10) and the interest exemption (see para 4.8) did not apply.

#### 5.14

In respect of persons dying on or after 1 March 2016, the taxable income of the estate arising after date of death is taxed in the hands of the estate itself until the liquidation and distribution account has been approved by the Master of the High Court. Income thereafter is taxable in the hands of the heirs.

The rate of tax for natural persons applies for the estate (see para 3.5). No natural person rebates or medical expense tax credits apply. The interest exemption of R23 800 applies (see para 4.8) as well as CGT exemption of R40 000 p.a. (see para 9.3) and the primary residence exclusion (see para 9.3).



## 6. Tax Rates for Companies and Close Corporations

### 6.1

The rates of tax payable on the taxable income of companies and close corporations in respect of years of assessment ending on or after 1 April 2018 and on or before 31 March 2019 are as follows:

- Basic rate (on undistributed income) remains at 28% (see para 6.2). Foreign Dividend Income (where the shareholding is less than 10% in the foreign company) is taxed at the effective rate of 20%. The effective rate on capital gains remains unchanged. See para 6.5 and 9.
- Basic rate (on undistributed income) of a Small Business Corporation (see para 6.2 and 15.2 for full details).
- Basic rate (on undistributed income) of a Personal Service Provider Company – 28% (see para 6.4).
- Dividends Tax – 20% (see para 7).
- Branch profits tax on foreign resident companies – 28% (see para 6.3). No Dividends Tax applies.
- Foreign Dividends – remains at 20% (see para 3.4).

The Residence based or Worldwide system of income tax (see para 3.4) has applied with effect from years of assessment commencing on or after 1 January 2001 to all entities resident in South Africa i.e. if they are incorporated, established, formed or effectively managed in South Africa.

So as to facilitate investment into Africa through South Africa and to encourage the development of regional investment banks and South African holding companies, headquarter companies may apply to be designated as such. A “Headquarter Company” has all the following unique characteristics (among others).

- it is a company resident in South Africa in which each shareholder holds at least 10% of the equity shares and voting rights for the full tax year, and
- at least 80% of the tax cost of the total assets of the company is attributable to equity or loan investments in foreign companies in which the company holds at least 10% of the equity shares and voting rights at the end of the current tax year and all prior years, and
- when its gross income for the year exceeds R5 million, at least 50% of the total receipts and accruals of the company consists of rents, dividends, interest, royalties, management fees or sale proceeds derived from the foreign investments.

Headquarter Companies are treated, inter alia, as follows -

- Companies which are significant foreign investments of the headquarter companies are not deemed to be controlled foreign companies and thus the income of such investment companies will not be taxable in the hands of the headquarter company.
- No Dividends Tax will be payable on dividends declared by the headquarter company.
- Thin capitalisation rules will not apply where headquarter companies have interest bearing foreign loans and have on-lent the funds to cross border companies. This means that “excessive” interest paid will not be disallowed as a deduction.
- No CGT on the capital gain realised on the disposal of the investments (subject to conditions).
- No Exchange Control restrictions on the headquarter company raising and using capital offshore.

## 6.2

In respect of years of assessment ending on or after 1 April 2018 and on or before 31 March 2019, the rate of normal tax payable by companies and close corporations remains at 28% of taxable income. See para 6.5, 7.14 and 9 for the rates applicable to Capital Gains. There is still inequality between the tax treatment of companies/close corporations as opposed to individuals. See para 3.7.

A “small business corporation” is separately recognised for tax purposes. To be classified as a “small business corporation”, a company /close corporation needs to comply with and continue to comply with the following rules-

- the entire shareholding of, or interest in, the company/close corporation must be held during the entire year of assessment by shareholders/members all of whom are natural persons, and
- the gross income for the year of assessment does not exceed R20 million (or a proportion thereof if the trading period is less than 12 months), and
- not one of the shareholders/members at any time during the year of assessment held any shares or had any interest in any other company/close corporation (other than a listed company or unit trust or share block company or sectional title body corporate), (the holding of shares in a dormant company/close corporation which is in the process of liquidation or deregistration will no longer be a barrier even if the existence of such company has not yet formally ceased), (the shareholders/members can hold shares in a company or close corporation if it has not traded during the year and did not own assets in excess of R5 000 in value), and
- not more than 20% of the company’s/close corporation’s gross income (including capital gains) consists collectively of “investment income” (see below) and income from the rendering of a “personal service” (see below), and
- the company/close corporation is not a “personal service provider” company (see para 6.4).

“Personal service” is defined as any service which is performed personally by any person who holds an interest in the company/close corporation referred to in the definition of “small business corporation”. See para 15.4 for details of the scope of this definition.

“Investment income” includes income in the form of interest, rentals derived from immovable property, annuities, royalties, dividends and income derived from trading and investing in financial instruments, marketable securities or immovable property.

See para 15 for further details of the benefits available to “small business corporations”. In view of the definition of a “small business corporation”, it will not be all small entities that will be able to avail themselves of these benefits. In some cases, a certain amount of restructuring may be necessary to bring the entity within the definition. For those that can, the concessions are significant. It is essential therefore that you contact us as soon as possible to ensure that you take all the steps necessary and do not break any of the technical rules.

## 6.3

The South African source income of foreign registered companies (which are effectively managed outside South Africa) derived from the commencement of years of assessment ending on or after 1 April 2018 and on or before 31 March 2019, remains subject to branch profits tax at the rate of 28%. If however a foreign registered company managed in South Africa becomes a non-resident entity (because its place of effective management is removed from South Africa), Dividends Tax is payable on the reserves of that company at that date.

Interest accruing from South African sources to a foreign company is only taxable if such company carries on business through a permanent establishment in South Africa. See para 8 in regard to the interest withholding tax.

#### 6.4

There are specific provisions to severely discourage the use of “personal service provider” companies as follows:

- remuneration payable to such a “personal service provider” is subject to PAYE.
- the allowable deductions of a “personal service provider” for tax purposes are limited to the amount of the remuneration paid to the shareholders, members or other employees of the company for services rendered as well as amounts paid for normally allowable legal expenses, bad debts and employee benefits. Also allowed will be expenses in respect of premises, finance charges, insurance, repairs, fuel and maintenance in respect of assets if such premises and assets are used wholly and exclusively for purposes of trade.
- the taxable income of a “personal service provider” is subject to tax at the rate of 28% and Dividends Tax will still be payable on the declaration of any dividends.

A “personal service provider” means any company or trust, where any service rendered on behalf of such company or trust to a client of such company or trust is rendered personally by any person who is a connected person in relation to such company or trust and -

- such person would be regarded as an employee of such client if such service was rendered by such person directly to such client, other than on behalf of such company or trust; or
- where those duties must be performed mainly at the premises of the client, such person or such company or trust is subject to the control or supervision of such client as to the manner in which the duties are performed or are to be performed in rendering such service; or
- where more than 80% of the income of such company or trust during the year of assessment from services rendered, consists of or is likely to consist of amounts received directly or indirectly from any one client of such company or trust, or any associated institution as defined, in relation to such client.

A company will, however, not be regarded as a “personal service provider” where such company or trust employs three or more full time employees engaged in the business of the company or trust of rendering such service (other than any employee who is a shareholder or member) throughout the year of assessment, none of whom are connected persons in relation to such shareholder or member.

A labour broker is considered to be an employee (and PAYE is deductible from remuneration paid to it) unless it has received an exemption certificate. The criteria for determining whether a labour broker is an independent contractor for purposes of obtaining an exemption certificate provide that an exemption certificate will be refused where -

- more than 80% of the income of the labour broker relating to services rendered consists of income received from one client of the labour broker, or
- one or more employees of such labour broker have been specified or required by one or more of the clients of such labour broker to render a service to such client or clients.

If your entity falls within these definitions, it would definitely be preferable to acquire or sell the business out of the entity.

#### 6.5

Dividends Tax is payable by shareholders and collected by the company as a separate final withholding tax at the rate of 20% (see para 7). The dividend will thereafter be exempt from further tax in the hands of the shareholder (i.e. it will not form part of the taxable income of the shareholder). Dividends tax will be payable not only on distributions during the life of the company but also on liquidation or deregistration.

Non-corporate and non-resident shareholders will be subject to the 20% Dividends Tax.

The overall tax payable on company normal profits and on Capital Gains is set out in para 7.14.

## 7. Dividends Tax (DT)

### 7.1

The rate of tax on dividends was increased from 15% to 20% with effect from 22 February 2017.

For listed companies any dividends declared before 22 February 2017, but paid after that date will be subject to the higher DT rate of 20%.

For unlisted companies, where dividends were declared (and were due and payable) before 22 February 2017, the DT rate applicable is 15%, even if it is paid after 22 February 2017. For dividends declared (and due and payable), by unlisted companies, on/after 22 February 2017, the rate of 20% will apply.

For in specie dividends, the earlier of paid or due and payable will apply to both listed and unlisted companies as is the case with cash dividends for unlisted companies explained above.

### 7.2

Dividends Tax is a final tax at a rate of 20% on dividends paid by all resident companies and also by non-resident companies the shares of which are listed on the JSE. 20% of the dividends declared will be withheld by the company (or regulated intermediary) and paid over to SARS. See para 7.8 for exemptions.

### 7.3

An important concept to understand is Contributed Tax Capital. It is the amount of share capital and share premium immediately before the effective date less any capitalised profits included therein plus consideration for shares issued thereafter less subsequent repayments.

### 7.4

A dividend is any amount transferred to or for the benefit of a shareholder to the extent that it is not a reduction of contributed tax capital.

### 7.5

In simple terms, DT is a tax imposed at a rate of 20% on shareholders who receive dividends. The DT is categorised as a withholding tax, as collection of the tax is withheld and paid to SARS by the company paying the dividend or by a regulated intermediary (e.g. an equity unit trust, or a broker or CSDP through whom shares have been dematerialised), and not the person liable for the tax, i.e. the beneficial owner of the dividend. See para 7.6 for exceptions to this general rule. Also see para 7.11 for due date of payment.

### 7.6

The liability for DT is triggered by payment, falls on the recipient (i.e. beneficial owner) of the dividend, and is to be withheld from the dividend payment by either the company distributing the dividend or, where relevant, certain withholding agents.

Dividends in specie are an exception to this rule as the liability for the DT remains on the company paying the dividend and is not payable or borne by the recipient. Further, where loans at below the official rate of interest (see para 18.2) are provided by a company to a person by virtue of shares held in that company, the interest benefit so provided is deemed to be a dividend and consequently subject to DT payable and borne by the company.

### 7.7

Under DT, the default position is that tax at 20% should be withheld by the company (or paid in the case of a dividend in specie) once a dividend is paid, unless one of the exemptions or a reduced rate is applicable.

#### 7.8

Dividend payments could be exempt from DT depending on the nature or status of the recipient. The exemptions are "elective" in the sense that they will only apply where the company distributing the dividend or the relevant withholding agent receives the required notifications ("declarations" and "undertakings" in the form prescribed by SARS) from the recipient prior to payment of the dividend. Examples of exempt recipients are all local companies and close corporations, government, approved public benefit organisations, retirement funds and non-resident beneficial owners of dividends (but only if received from SA listed non-resident companies).

See also para 16.2 in respect of exemption from Dividends Tax for certain dividends paid by companies (including close corporations) which have elected to be micro businesses.

#### 7.9

Dividend payments **(which would include distributions from a Real Estate Investment Trust (REIT))** to non-residents may be subject to a reduced rate where the relevant Double Taxation Agreement (DTA) between South Africa and their country of residence provides for such. In order to qualify, the foreign resident needs to declare their status (by way of a similar "declaration" and "undertaking" referred to above) to the company declaring the dividend or the regulated intermediary involved – if they do not make a declaration, they will not qualify.

#### 7.10

DT is based on the gross outflow of dividends with no reference to any period.

#### 7.11

The payment of the tax will normally not be made by the party liable for the tax (the beneficial owner of the dividend), but will be withheld from the dividend payment by a withholding agent (either the distributing company or a regulated intermediary) who will then pay the tax to SARS (on or before the end of the month following the month in which the dividend was paid to the beneficial owner). Withholding agents who fail to withhold could be held personally liable under certain circumstances. Where a dividend in specie is distributed, the company distributing the dividend retains the liability for the tax as well as the duty to pay SARS.

#### 7.12

Payment of DT has to be accompanied by a return in the form prescribed by the Commissioner. A return must be submitted to SARS by each entity that is involved in the dividend distribution chain (except in certain group structures). The returns must account for the payment of dividends to beneficial owners (including any withholding of tax) and/or the pass through of dividends to regulated intermediaries for further distribution (and withholding of tax where relevant). The return summarises how the dividends were dealt with and whether any taxes were withheld and must be accompanied by supporting data underpinning the return.

#### 7.13

In order for SARS to effectively administer DT and ensure a complete audit trail of a dividend from the time the dividend was declared/paid up to the point where it is received by the beneficial owners, all entities and persons involved in the dividend are required to submit supporting data as prescribed by SARS. It is now proposed to repeal the requirement for a person receiving a tax exempt dividend to submit a return.

## 7.14

The overall tax payable on company normal profits remains unchanged as follows:

	2019	2018
Company normal profits <b>(other than a Small Business Corporation)</b>	100,00	100,00
Normal tax	28,00	28,00
	<u>72,00</u>	<u>72,00</u>
Dividends Tax - 20% of 72	14,40	14,40
	<u>57,60</u>	<u>57,60</u>
After tax amount to individual shareholders	57,60	57,60
	<u>42,40</u>	<u>42,40</u>
Overall tax burden	42,40	42,40

The effective rate of tax on company Capital Gains is calculated as follows:

	2019	2018
Taxable Capital Gain	100,00	100,00
Normal tax thereon (inclusion rate 80%) and normal tax rate 28% - (80% of 28% = 22.4%)	22,40	22,40
	<u>77,60</u>	<u>77,60</u>
Balance available for distribution	77,60	77,60
Dividends tax at 20% of distributable amount	15,52	15,52
Dividend (after deduction of dividends tax)	<u>62,08</u>	<u>62,08</u>
	<u>77,60</u>	<u>77,60</u>
	NIL	NIL
	<u>37,92</u>	<u>37,92</u>
Overall tax burden	37,92	37,92

## 8. Non-Residents

- Withholding Taxes on payments of income from a South African source to a person not resident in South Africa (natural person, company or trust). Interest is deemed to be paid on the date on which the interest becomes due and payable.

Rates		Effective date
Dividends (including distributions from a REIT)	20%	22 February 2017
Royalties	15%	1 July 2013
Interest	15%	1 March 2015

- These rates may be reduced in terms of applicable Double Tax Agreements which South Africa has with many foreign countries.
- These are final taxes and are payable by the recipient of the income although collected by the payer in the form of a withholding tax.
- A foreign recipient of interest or royalties will be exempt from the withholding tax if –
  - the foreign payee is a natural person who was physically present in South Africa for a period exceeding 183 days during the twelve month period preceding the date on which the amounts are paid,
  - or
  - the amounts are effectively connected with a permanent establishment in South Africa.

In such cases, South African normal tax will be payable as opposed to the final withholding tax.

- Service fees paid in respect of services rendered by an employee to an employer with a presence in South Africa is exempt from withholding tax but is subject to PAYE which is the normal tax collected by the employer and withheld by the employer from the amount payable to the employee. See also para 11.1.
- For interest, there are further exemptions if the amounts are paid by the Government, any bank, any headquarter company or in respect of any debt listed on a recognised Stock Exchange.
- Payment of the withholding taxes on all these amounts must be made to SARS by the end of the month following the month in which the amounts are paid. If denominated in a foreign currency, the amount must be converted at the spot rate on the date of withholding.

**The other withholding taxes are for Dividends (para 7), CGT on the disposal of South African immovable property (para 9.7) and Foreign Entertainers and Sportspersons (para 20).**



## 9. Capital Gains Tax (CGT)

### 9.1

#### The effective rate of tax on Capital Gains remains unchanged.

CGT is payable on the gains derived from the disposal of capital assets. Events that trigger a disposal include a sale, donation, exchange, loss, death (see para 10.4) and emigration. However, on emigration, the holding of fixed property and certain business assets in South Africa are not treated as a disposal until they are subsequently sold.

Exemptions include most personal use assets, retirement benefits and proceeds of original long term insurance policies. See para 9.3 for further exemptions.

### 9.2

CGT is not a separate tax. A portion of the net capital gain is “included” in and combined with other taxable income.

The following rates apply in respect of disposals during years of assessment commencing on or after 1 March 2017. The rates remain unchanged.

	Individuals and Special Trusts	Companies	Other Trusts
Inclusion rate	40%	80%	80%
Effective rate (assuming a 45% rate for individuals and special trusts)	18%	22.4%	36%
If balance of profits declared as a dividend the additional dividends tax is	-	15,52%	-
<b>Total tax burden</b>	<b>18%</b>	<b>37,92%</b>	<b>36%</b>

### 9.3

There are certain unchanged exemptions from CGT in addition to those in para 9.1 above:

Annual exclusion of gains or losses (applicable only to individuals and special trusts)	R40 000
In the year of death, the annual exclusion is	R300 000
Primary residence exclusion (see para 9.4)	R2 million
On the disposal of a small business when a person is over age 55	R1.8 million
Maximum market value of assets for the small business disposal exemption	R10 million

### 9.4

Subject to certain conditions, the capital gain or loss realised by a natural person or special trust (excluding the special testamentary trust) in respect of the disposal of the primary residence of that person or that trust is disregarded to the extent it does not exceed R2 million. If there are joint owners occupying the property as their primary residence, they each are allocated a portion of the R2 million exemption. If only one of the two owners occupies the property as a primary residence and the other owner does not reside in the property, only the first person is entitled to the full R2 million exemption.

### 9.5

The sale of all shares after a period of holding in excess of three years automatically triggers a Capital Gains Tax event. The gain will then not be treated as normal income. The normal tax treatment of executive employee share schemes are not affected. Gains realised on shares purchased for long term investment and sold before three years will not automatically be treated as a revenue gain subject to full normal tax.

Share dealers will however need to take great care that shares which have declined in value should be sold before the 3 year period to ensure that the deduction of the realised loss will be able to be claimed as a revenue instead of as a capital loss. Anti-avoidance measures are in place to prevent the creation of artificial losses.

## 9.6

When ownership of shares in a share block company is converted into sectional title ownership, there is technically a disposal which could give rise to CGT. In such cases, the base cost of the property is rolled over to the sectional title holders and any CGT will accordingly be deferred.

## 9.7

Since the imposition of CGT in South Africa, non-residents (as defined for tax purposes) have been liable for tax on Capital Gains realised on the disposal of South African immovable property (owned by them personally or through a company (if they hold at least 20% of the shares and 80% of the value of the assets of the company consists of immovable property)).

If the total purchase price of the transaction is R2 million or more for each seller, the purchaser is liable to withhold a percentage of the gross amount payable to a non-resident seller of immovable property. It is not payable on the deposit until the deposit is applied in reduction of the purchase price.

The withholding tax rates are unchanged. The rate is 7,5% of the purchase price if the seller is a natural person, 10% if the seller is a Company/Close Corporation and 15% if the seller is a Trust.

The amount withheld must be paid over to SARS (with a declaration in a prescribed form) within 14 days if the purchaser is a resident and 28 days if the purchaser is a non-resident. This provisional amount is then set off against the tax liability of the seller as finally determined.

The seller can apply to SARS for a directive that a lower or no amount should be withheld by the purchaser. Reasons for the granting of a directive would be that security is furnished to SARS by the seller to cover the potential tax liability; the seller may have other assets in South Africa sufficient for SARS to attach if the seller defaults; the seller may be exempt from CGT (e.g. due to the provisions of a Double Tax Agreement); the seller's actual liability for CGT may be less than the amount of the withholding tax (e.g. there may be a capital loss). Sufficient evidence must be provided to allow for this claim to be verified.

Failure to withhold and pay over to SARS, will make the purchaser personally liable for the amount that should have been paid if he knew or should reasonably have known that the seller was a non-resident.

An estate agent and a conveyancer who is entitled to any remuneration in relation to the transaction must notify the purchaser that the seller is a non-resident and that tax must be withheld. If they knew or should reasonably have known that the seller was a non-resident, and did not advise the purchaser, then they will be jointly and severally liable for the amount that should have been paid but limited to the amount of the remuneration they derived in connection with the disposal or registration of transfer of the immovable property.

If the purchaser, estate agent or conveyancer becomes liable to pay personally as described above, they have a right of recovery against the seller for the required withholding tax but not for any penalties (10%) or interest they incur.

## 10. Estate Duty and Donations Tax

### 10.1

**The rates of estate duty and donations tax have been increased in respect of persons dying on or after 1 March 2018 and donations made on or after that date.**

**In respect of Estate Duty, the rate of 20% of the dutiable amount will apply to so much of that dutiable amount as does not exceed R30 million and 25% of the dutiable amount on the excess over R30 million.**

**In respect of Donations Tax, the rate of 20% of the value of the donation applies to so much of such value as does not exceed R30 million and 25% of the value on the excess over R30 million donated during the immediately preceding 12 month period.**

**Although the higher rate applies to donations in excess of R30 million during the preceding 12 month period, the annual exemption of R100 000 applies for each tax year. See below.**

The primary exemption from estate duty of the net value of an estate (i.e. after deduction of liabilities and costs as well as bequests to PBO's and surviving spouses) remains at R3,5 million. Donations to PBO's and spouses and bequests between spouses remain exempt from donations tax and estate duty.

**The first R100 000 of all donations made by natural persons (husband and wife separately) during a year of assessment remains exempt from donations tax.** For private companies (including close corporations) and trusts the exemption remains at R10 000.

Tax deductible donations are dealt with in para 4.10.

As both estate duty and CGT are payable on death, there is an element of double taxation. Estate duty is often substantially reduced by the use of trusts, etc. The rules relating to low interest loans to Trusts were introduced to combat this. See para 10.5.

### 10.2

For the purpose of determining the dutiable value of an estate for estate duty purposes, certain assets (referred to as "property") are included and certain property is excluded.

Currently excluded is so much of a benefit that is due and payable by, or in consequence of membership or past membership, of a pension fund, pension preservation fund, provident fund, provident preservation fund or retirement annuity fund. Preservation funds are funds not linked to employment.

Accordingly, retirement fund benefits are excluded from the dutiable estate for estate duty purposes when a member passes away although lump sum payments are subject to tax in the deceased's tax computation to date of death.

The effect of this exclusion was that some individuals transferred large amounts (beyond the tax deductibility limits) into a Retirement Annuity Fund before their death. To eliminate the potential to avoid estate duty on such contributions, the amount equal to the non-tax deductible contributions to retirement funds is included in the dutiable estate when a retirement fund member passes away.

### 10.3

Spouses have flexibility to use the R3,5 million deduction they are each entitled to. The surviving spouse's estate will automatically benefit from the unused deduction of the deceased spouse irrespective of the date of death of the first spouse.

As an example, if the estate of spouse "A" has a net value of R2 million and "A" dies first leaving all to the children, there will be no estate duty. On the death of the survivor, the estate will be entitled to a first deduction of R5 million, being R3,5 million for his estate plus R1,5 million (R3,5 million less utilised R2 million) unutilised from "A's" estate.

#### 10.4

As death is an event which triggers CGT, a deceased estate will be liable for CGT on the net capital gains deemed to have been made and which will be based on the value of the assets in question for estate duty purposes. In other words estate duty would be computed on the gross value of such assets (less liabilities and expenses) and CGT on the deemed capital gain. Any CGT payable will be allowed as a deduction for estate duty purposes. Sufficient cash must be available in the estate to meet the liability for both Estate Duty and Capital Gains Tax.

#### 10.5

##### **Loans to Trusts –**

- With effect from 1 March 2017, this provision applies to any loan, advance or credit made directly or indirectly to a Trust by a natural person, or by a Company at the instance of a natural person and that Company is a connected person in relation to that natural person and the natural person or Company is a connected person in relation to the Trust. Such loans to Companies owned by a Trust are also included in this anti-avoidance rule.
- The interest not charged on the loan (i.e. the amount of interest charged below interest at the official rate) would be treated as a donation on the last day of the tax year and subject to donations tax at the rate of 20% payable by the lender.
- The official rate of interest from 1 March 2017 to 31 July 2017 was 8% p.a. and 7,75% p.a. from 1 August 2017 to 28 February 2018. If interest is charged on the balance of the loan from time to time at a rate below these rates, the shortfall is deemed to be a donation on the last day of the tax year and the donations tax is payable before the end of the following month.
- Donations tax at 20% will only apply on annual donations (whether to Trusts or others) in excess of the natural person primary exemption (applicable to the donor/lender) of R100 000 per annum.
- Loans to the following are excluded from the application of this provision –
  - Special Trusts established solely for the benefit of persons with disabilities.
  - Trusts that are registered with SARS as Public Benefit Organisations.
  - Vesting Trusts where the rights of beneficiaries are clearly established.
  - To the extent that a loan is used by the Trust for funding the acquisition of the primary residence of the lender.
  - International loans where non arms-length loans are subject to adjustment in terms of special tax rules.
  - Loans in terms of Sharia compliant financing arrangements.
  - Loans which are deemed to be dividends.
- The new provisions will apply to all loans with effect from 1 March 2017 whether such loans were advanced before or after that date.
- **The annual Donations Tax will be payable for as long as the low interest loan exists even when the accumulated interest not charged exceeds the capital amount of the loan.**

- **Simple Example**

**Facts -** Interest free loan of R2 million granted by a natural person to a connected Trust on 1 March 2017. Further interest free loan of R1 million advanced on 1 August 2017.

<b>Calculation -</b> Interest on R2 million at 8% p.a. for 5 months	66 667
Interest on R3 million at 7,75% p.a. for 7 months	<u>135 625</u>
	202 292
Annual donations tax exemption	<u>100 000</u>
Amount subject to donations tax	<u>R102 292</u>
Donations Tax at 20% (payable before end March 2018)	<u>R 20 458</u>

## 11. Provisional Tax and PAYE on Directors Remuneration

### 11.1

Any natural person who derives any amount of income which does not constitute remuneration must register as a provisional taxpayer. This would include all sole traders and those earning taxable investment income.

An individual who does not carry on business and his taxable income is below the tax threshold for that year (see para 3.11) is exempt from the payment of provisional tax.

If however such person does not carry on business and his taxable income will be below the tax threshold (see para 3.11) or he does not derive any taxable income (other than remuneration) (e.g. interest, foreign dividends and rental) in excess of R30 000 p.a., there is an exemption from payment of provisional tax for the year in question. This amount of R30 000 is after deduction of the tax exempt portion of interest income. See para 4.8.

Annual tax returns may still have to be submitted. The fact that there are exemptions from the payment of provisional tax does not affect the actual liability to tax - only the timing of the payment thereof. Accordingly those concerned will need to budget carefully for their single tax payment for that year which will only be payable when the assessment in respect of that year is received.

Any resident director of a private company or member of a close corporation no longer automatically needs to register as a provisional taxpayer unless the other conditions apply.

All companies, close corporations, trusts and any other person who is notified by SARS that he is a provisional taxpayer must also register and is liable for the rendition of provisional tax returns (Form IRP 6).

There is often an uncertainty as to whether or not a taxpayer must register as a provisional taxpayer and submit regular provisional tax returns. PBO's and recreational clubs are exempt from rendering provisional tax returns.

The remuneration of South African based employees of foreign employers are often not subject to PAYE because the employer itself has no presence in South Africa. The remuneration is however taxable in South Africa and in most cases the employees need to be registered for provisional tax. SARS is intending to issue a public notice in this regard. It is essential that such employees do not neglect their statutory duties in this regard.

Without penalty, provisional tax payments can be based on the taxable amount reflected on the latest tax assessment (excluding taxable capital gains and retirement fund lump sums and pre-retirement withdrawals). SARS has the right to call for justification of the estimate and to increase the amount payable. In respect of taxpayers with a taxable income for the current year in excess of R1 million, in order to avoid substantial automatic penalties, the total of the first and second provisional tax payments cannot be less than the tax on 80% of the taxable income as finally assessed for that year.

### 11.2

Companies/close corporations having taxable income in excess of R20 000 p.a. and individual provisional taxpayers having taxable income in excess of R50 000 p.a. will continue to be liable for interest at the current rate of 10.25% per annum (non-tax deductible) on any tax liability outstanding more than 7 months (6 months in the case of companies/close corporations having a year end other than February) after the end of their financial years. Consequently, the voluntary third provisional tax (“topping-up”) payment due 6 or 7 months (as applicable) after the year end remains.

Because these income limits have not been increased, many more provisional taxpayers are affected each year simply due to inflation. The abovementioned taxpayers as well as any other provisional taxpayers entitled to a refund in excess of R10 000, will receive taxable interest on tax overpayments at the current rate of 6.25% per annum calculated from 6 or 7 months (as applicable) after the end of the financial year.

### 11.3

It may also be necessary to deduct and pay over to SARS, PAYE on remuneration paid to directors of companies (including members of close corporations). However, see para 11.4.

This only applies to directors earning at least 75% of their remuneration in the form of fixed monthly payments. This means that such a director can earn one or more bonuses during the tax year amounting in total to not more than 4 months salary e.g. if the regular salary is R10 000 per month, the bonuses cannot exceed R40 000 for that year. In total, the regular payments of R120 000 will then not be less than 75% of the total remuneration for that year of R160 000. If larger bonuses are paid, PAYE based on a formula related to the prior year remuneration is payable.

### 11.4

Under the Income Tax Act and the Value-Added Tax Act, a non-executive director’s fees may be subject to both employees’ tax (PAYE) and VAT. Views differed on whether to deduct PAYE from these fees or whether the director should register as a VAT vendor.

It has now been clarified by SARS in Interpretation Notes recently issued that, except in very exceptional circumstances, PAYE will not apply. VAT registration will be necessary if total turnover (i.e. non-executive director’s fees from all sources) exceeds R1 million p.a.

It is now also clear that non-executive directors may be able to claim deductions for certain expenses such as travel and home study expenses which are prohibited for ordinary employees.

## 12. Intellectual Property

### 12.1

Intellectual property means patents, designs, trade marks, copyrights registered in South Africa or elsewhere, property of a similar nature and knowledge connected to the use of such rights.

### 12.2

An “**end user**” means a taxable person (generally a taxpayer other than a non-resident) or a person with a permanent establishment in South Africa who or which uses intellectual property.

### 12.3

Intellectual property is “tainted” if (in brief) -

- it was the property of the end user or his connected person
- it is the property of a taxable person
- a material part of it was used by a taxable person in certain circumstances
- it was discovered, developed, etc by its end user or by a taxable person

12.4

A deduction is generally denied for expenditure for the use of tainted intellectual property to the extent such expenditure does not constitute income received by or accrued to another person.

12.5

There are exchange control restrictions applying to the export of intellectual property from South Africa. See also para 1.8.

12.6

If the recipient is taxable at a rate of at least 10%, then a deduction is allowed to the payer but only as to one third of the amount payable.

## 13. Transfer Duty

13.1

**The rate of transfer duty was slightly decreased in respect of the acquisition of all immovable property after 1 March 2017.**

Based on the amount on which transfer duty is to be charged, the rates (which apply irrespective of the type of purchaser) and which apply to properties acquired under purchase agreements concluded on or after **1 March 2017**.

Value of property	Rate
Up to and including R900 000	0%
Exceeds R900 000 up to R1 250 000	3% of value above R900 000
Exceeds R1 250 000 up to R1 750 000	R10 500 plus 6% of excess over R1 250 000
Exceeds R1 750 000 up to R2 250 000	R40 500 plus 8% of excess over R1 750 000
Exceeds R2 250 000 up to R10 000 000	R80 500 plus 11% of excess over R2 250 000
Exceeds R10 000 000	R933 000 plus 13% of excess over R10 000 000

13.2

The main existing exemption from Transfer Duty applies where the acquisition of property is subject to Value-Added Tax (VAT) at the standard or zero rate. Some of the other exemptions are:

- Acquisition as an heir from a deceased estate.
- Acquisition by a surviving spouse in respect of the acquisition in any manner from the estate of a deceased spouse.
- Transfers of property between spouses in the case of divorce or death.
- Acquisition as part of an approved group corporate rationalisation scheme.
- Acquisition by certain tax exempt bodies.



## Example of calculation of Transfer Duty for sales on or after 1 March 2017 -

Consideration payable by a related natural person	R11 000 000
Appraised value of the property	R12 000 000

### Calculation of tax -

As the parties are related, the transfer duty is calculated on the appraised value as it is higher than the consideration payable.

- 0% of first R900 000	-
- 3% of next R350 000	10 500
- 6% of next R500 000	30 000
- 8% of next R500 000	40 000
- 11% of next R7 750 000	852 500
- 13% of balance of R2 000 000	260 000
	<hr/>
Total transfer duty payable	R1 193 000
	<hr/>

### 13.3

The transfer of shares in residential property owning companies (as well as the transfer of such close corporations and discretionary interests in trusts) is liable for normal transfer duty as if the property itself had been acquired. An entity falls into this category where (briefly) the fair value of the property comprises more than 50% of the aggregate gross fair value of all the assets held by the entity at the date of sale.

There is a duty on Estate Agents who derive remuneration from such transactions, to report the transaction to SARS within 6 months of the date of acquisition. Failure to do so is a criminal offence subject to a fine and/or imprisonment.

## 14. Sundry Items

### 14.1

#### Cost of Fuel

**The cost of fuel increases by 52 cents per litre on 4 April 2018** by way of increases to the general fuel levy and the RAF levy.

### 14.2

#### Transfer Pricing

Government is to continue its **efforts to combat base erosion and profit shifting (BEPS)** usually effected by the use of aggressive transfer pricing policies for cross border supplies of goods and services between related parties.

**As the South African corporate tax rate is very high in relation to international norms, there is always an incentive to “move” profits to lower tax jurisdictions.**

There is to be a further review of the tax treatment of excessive debt financing which it is claimed also encourages profit shifting.

14.3

### **Electronics**

SARS is considering the use of electronic fiscal devices (**electronic cash registers**) to help SARS monitor business transactions.

14.4

### **Medical Tax Credits**

There is a concern where more than one individual contributes to the cost of medical scheme subscriptions that **medical tax credits are allowed at a higher rate than was intended**. A splitting of the rebate is being considered.

14.5

### **Housing Loans**

It is proposed to reinstate the **tax free benefit of low interest loans granted to employees solely for housing use** where the remuneration does not exceed R250 000 p.a. and the value of the low cost housing does not exceed R450 000.

14.6

### **More Retirement Reforms**

In regard to retirement reforms, a review is to take place to ensure that **deductible contributions will only apply where the benefits are taxable**. Double Tax Agreements need to be taken into account.

Consideration is also being given to aligning the tax treatment of lump sum withdrawals and payouts on formal emigration.

It is also being proposed that transfers to pension preservation and provident preservation funds be catered for in the legislation.

It is also accepted that transfers between funds of the same employer should not give rise to additional tax consequences. Retrospective legislation may be needed.

14.7

### **Taxation of Debt Relief**

Very harsh debt relief measures were recently passed into law. **A simple extension of the term of a loan, or a change in interest rate or other terms of a loan could give rise to a tax liability in the hands of the borrower**. Amendments are to be introduced to address the concerns raised by many parties.

14.8

### **Interest Deductions**

Debt financed acquisitions of a controlling interest in an operating company gives rise to an interest deduction in very limited circumstances. This is to be reviewed.

14.9

### **Share Buybacks**

The anti-avoidance rules dealing with share buybacks and dividend stripping have been found to affect legitimate transactions and arrangements. The issues are to be clarified.

14.10

### **Doubtful Debt Allowance**

**Criteria for determining a doubtful debt allowance are to be codified and included in the Income Tax Act.** Previously taxpayers had to rely on the discretion of SARS and their prevailing practice at the time.

14.11

### **Venture Capital Investments**

Investments into approved venture capital companies are treated very favourably from a tax point of view. Certain administrative and technical issues are to be reviewed to allow for **further growth in this tax incentive regime.**

14.12

### **Wealth Tax**

No comment was made about the introduction of a Wealth Tax.

14.13

### **Interest Withholding Tax**

There is currently a level of uncertainty as to who bears the withholding obligation when a local trust pays interest to a non-resident beneficiary. This anomaly is to be addressed. Awards of interest income to non-resident beneficiaries is not clearly the payment of interest by the trust to such beneficiary.

14.14

### **Official Rate of Interest**

The official rate of interest (see para 18.2) is currently defined as the repo rate plus 1%. This affects fringe benefits on low interest loans to employees and low interest loans to trusts by connected persons. **It is proposed to increase the official rate to a level closer to the prime rate of interest. This can have a major tax cost implication for those concerned.**

14.15

### **Replacement Tax Invoices**

It is to be clarified that, when a replacement tax invoice is issued by a VAT vendor to replace a tax invoice which contained errors and was thus not a valid tax invoice for the recipient, no offence is committed. **The issuing of extra tax invoices is usually considered to be an offence.** A proper audit trail will need to be retained.

14.16

### **Bitcoin**

The tax and VAT systems are going to be amended to clarify the tax and VAT treatment of cryptocurrencies (e.g. Bitcoin).

14.17

### **Non-Compliant Tax Practitioners**

Continuous and repetitive non-compliant tax practitioners will, after due warning from SARS, be deregistered.

14.18

### **Taxation on Non-Executive Director's Fees**

Under the Income Tax Act and the Value-Added Tax Act, a non-executive director's fees may be subject to both employees' tax (PAYE) and VAT. Views differed on whether to deduct PAYE from these fees or whether the director should register as a VAT vendor.

It has now been clarified by SARS in Interpretation Notes recently issued that, except in very exceptional circumstances, **PAYE will not apply. VAT registration will be necessary** if total turnover (i.e. non-executive director's fees from all sources) exceeds R1 million p.a.

It is now also clear that **non-executive directors may be able to claim deductions for certain expenses** such as travel and home study expenses which are prohibited for ordinary employees.

14.19

### **Special Economic Zones**

Measures are being considered to create special economic zones in the country with **reduced company tax rates and additional employment tax incentives for workers of all ages.**

## **15. Small Business**

**The benefits currently available are generous and make it extremely important for those who may qualify to ensure that they do all that is necessary to comply.**

15.1

The definition of a "small business corporation" is set out in paragraph 6.2 of this newsletter. The annual turnover (gross income) must not exceed R20 million to qualify. This is a substantial amount and many entities may be able to be classified as a small business corporation.

15.2

The amount of normal tax payable by a "small business corporation" in respect of years of assessment ending on or after 1 April 2018 is set out below. A normal company pays tax at the flat rate of 28% (see para 6.1).

In a table form, the rates will be as follows –

<b>Taxable Income</b>	<b>Amounts of tax payable and percentages to be applied to excess over base amounts</b>
Up to R78 150	0%
Exceeds R78 150 up to R365 000	7% of excess over R78 150
Exceeds R365 000 up to R550 000	R20 080 plus 21% of excess over R365 000
Exceeds R550 000	R58 930 plus 28% of excess over R550 000

In respect of the previous year, the rates were as follows –

<b>Taxable Income</b>	<b>Amounts of tax payable and percentages to be applied to excess over base amounts</b>
Up to R75 750	0%
Exceeds R75 750 up to R365 000	7% of excess over R75 750
Exceeds R365 000 up to R550 000	R20 248 plus 21% of excess over R365 000
Exceeds R550 000	R59 098 plus 28% of excess over R550 000

**Dividends tax still remains payable on dividends declared – see para 6.5 and 7.**

<b>Example</b>	<b>Normal Company</b>	<b>Small Business Corporation</b>
Total taxable income	550 000	550 000
<u>Less:</u> Tax thereon (see para 15.2 above)	154 000	58 930
	<hr/>	<hr/>
Balance available for dividend	396 000	491 070
	<hr/>	<hr/>
Dividends tax at 20%	R79 200	R98 214
	<hr/>	<hr/>
Total tax burden	R233 200	R157 144
	<hr/>	<hr/>

### 15.3

The cost of manufacturing assets acquired and brought into use for the first time may be written off in full in the first year. On all other assets, the standard write off/depreciation rates apply. In respect of assets acquired and brought into use, the depreciation rates on these other assets are 50% (first year); 30% (second year) and 20% (third year). If the cost of individual assets is less than R7 000, the full cost can be written off in the year of purchase.

### 15.4

All the above measures also apply to small companies and close corporations that offer a variety of services that were previously excluded such as accounting, engineering and information technology. To prevent abuse there must be a minimum of three employees, unrelated to the shareholders, who are employed on a full-time basis engaged in the core operations of the business.

The full list of service fields are: accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, broking, commercial arts, consulting, draftmanship, education, engineering, entertainment, health, information technology, journalism, law, management, performing arts, real estate, research, secretarial services, sport, surveying, translation, valuation or veterinary science.

### 15.5

Taxpayers over the age of 55 receive a lifetime cumulative CGT exclusion for the first R1.8 million of Capital Gains realised on the disposal of small business assets (subject to certain conditions).

### 15.6

Small business can elect to pay VAT on the cash/payments basis if their turnover is less than R2,5 million per annum. Consult us for further details.

### 15.7

All employers with an annual payroll of R500 000 or less (even if required to register for PAYE purposes) are exempt from the payment of Skills Development Levies. The levy is not payable by an employer during any month that there are reasonable grounds for believing that the total amount of remuneration paid or payable by that employer to all its employees during the following 12 month period will not exceed R500 000.

### 15.8

If a shareholder owns multiple companies, the small business relief (or micro business relief - see para 16) will not be applicable. This creates a problem for business owners who place their business in a purchased shelf company which already has non-qualifying shareholders. Relief is granted by excluding the prior ownership of a purchased shelf company or an inactive dormant company in the process of liquidation or deregistration.

## 16. Turnover Tax Payable by Micro Businesses

### 16.1

This special tax is based on the taxable turnover of the person or entity.

### 16.2

**A person (which is not a trust) qualifies as a Micro Business if that person is a -**

- **natural person (or the deceased estate of such person if registered as such prior to death), or**
- **company (including a close corporation)**

**where the qualifying turnover (see below) of that person for the year of assessment does not exceed R1 million.** If the period of carrying on business is less than 12 months, the R1 million is proportionately reduced. If the turnover does not exceed R335 000 then no turnover tax will be payable.

**Dividends paid** by a company registered as a micro business **are exempt from dividends tax** to the extent that the aggregate amount of dividends paid by the micro business to its shareholders during the year of assessment in which the dividend is paid does not exceed R200 000.

### 16.3

**Excluded from qualification as a Micro Business is -**

- a person who, at any time during the year, holds shares or has an interest in a company or close corporation (other than listed shares, unit trusts, share block companies, sectional title body corporates, housing associations, venture capital companies, less than 5% of a social or consumer co-operative, less than 5% of a primary savings co-operative bank or similar institution, or any friendly society). Shares held in a liquidating dormant company will not be a problem.
- a person, where more than 10% of the total receipts during that year consists of investment income (i.e. dividends, royalties, immovable property, rents, annuities, interest, or proceeds of trading in shares or property).
- a person who is a “personal service provider” or labour broker (without an exemption certificate) (see para 6.4).
- a person who renders a professional service i.e. the service fields referred to in para 15.4.

- a person whose total receipts from the disposal of business immovable property or other business capital assets exceeded R1,5 million over a period of 3 years being the current and preceding two tax years.
- In addition, **in the case of a company** -
  - if its year ends on a date other than end February
  - if any of its shareholders at any time during the year was not a natural person
  - if any of its shareholders held shares or an interest in a company or close corporation (other than those listed in the first exclusion above)
  - if it is a PBO or Recreational Club
- In addition, **in the case of a person that is a partner in a partnership during the year** -
  - if any partner is not a natural person
  - if any partner is also a partner in any other partnership during the year
  - the qualifying turnover of the partnership exceeds R1 million for the year

#### 16.4

Qualifying Turnover means the total receipts from carrying on business activities, excluding amounts of a capital nature and amounts exempt from tax. To prevent abuse, the amounts received by connected persons can, in certain circumstances, be included in qualifying turnover.

#### 16.5

The taxable turnover of a registered micro business is the qualifying turnover plus 50% of receipts of a capital nature from the disposal of business capital assets plus investment income.

#### 16.6

In the case of a natural person however, taxable turnover excludes investment income, exempt income and income previously subject to normal tax.

#### 16.7

A person needs to elect to be registered as micro business - it is not compulsory. If you elect, you may also deregister as a VAT vendor. See para 2.4. Micro businesses that register for VAT are not barred from registering for turnover tax. One needs to apply for registration as a micro business before the beginning of a tax year (or such longer period as SARS allows). To be deregistered, one also needs to apply before the beginning of a tax year.

If you register, and thereafter deregister, you cannot re-register for 3 years. This applies even if one is deregistered by SARS because the micro business no longer complies as such.

#### 16.8

Within 6 months from the beginning of the year, a micro business must estimate its taxable turnover for that year and calculate the tax thereon and pay to SARS 50% of the tax so calculated. The estimate may not be less than the taxable turnover of the previous year unless SARS agrees. Interest is payable on shortfalls.

The balance of the estimated tax must be paid by the end of the tax year. If this estimate of taxable turnover is less than 80% as finally assessed for that year, a 20% penalty is charged on the shortfall which may be waived in whole or in part on application to SARS.

**Micro businesses have the option of VAT and PAYE returns and payments to be made twice a year.**

16.9

Records to be maintained are prescribed including records of all amounts received, dividends paid, asset register for all assets costing more than R10 000 and each liability at year end exceeding R10 000.

16.10

The rates of tax for financial years ending on or after 1 April 2018 are **unchanged** and are as follows -

<b>Taxable Turnover</b>	<b>Tax Liability</b>
0 to R335 000	0%
R335 001 to R500 000	1% of each R1 above R335 000
R500 001 to R750 000	R1 650 + 2% of the amount above R500 000
R750 001 to R1 000 000	R6 650 + 3% of the amount above R750 000

16.11

If a micro business grows to the extent that it becomes a small business corporation (see para 15) certain relief transitional rules will apply.

## 17. Housing Allowances

17.1

**There is an allowance of 5% p.a. of the cost to a taxpayer of a new and unused residential unit** (or a new and unused improvement to a residential unit) owned by him, if –

- the qualifying unit or improvement is used by the taxpayer solely for his trade, **and**
- it is situated in South Africa, **and**
- he owns at least 5 residential units in South Africa (not necessarily in the same development or place) that are used by him for the purposes of a trade carried on by him.

17.2

**A residential unit is a building or self-contained apartment mainly used for residential accommodation unless it is used by a person in carrying on a trade as a hotel keeper.**

17.3

**An additional allowance of 5% p.a. applies in respect of the cost of a “low-cost residential unit”.**

A low-cost residential unit is an apartment qualifying as a residential unit in a building in South Africa, when

- its cost does not exceed **R350 000**, **and**
- its owner does not charge a monthly rent exceeding 1% of its cost (increasing at not more than 10% p.a.)

It also means a building qualifying as a residential unit located in South Africa, when

- its cost does not exceed **R300 000**, **and**
- its owner does not charge a monthly rent that exceeds 1% of its cost plus a proportionate share of the cost of the land and bulk infrastructure (increasing at not more than 10% p.a.).



#### 17.4

In regard to residential units acquired by purchase by the taxpayer (or an improvement) representing only a part of a building, his costs are deemed to be 55% of the acquisition price for the unit being acquired, or 30% of the acquisition price for the improvement being acquired.

#### 17.5

**So as to encourage the disposal of such units to his employees, the taxpayer may claim a deduction equal to 10% p.a. of the amount owing to the taxpayer by the employee for the unit at the end of his tax year.** No interest can be payable by the employee and the allowance falls away on termination of employment. No deduction applies in the eleventh and subsequent years. If any amounts are paid back to the taxpayer, the taxable recoupment is the lesser of the amount paid back or the amount allowed as a deduction in terms of this allowance in the current and previous years of assessment.

## 18. Fringe Benefits

Employers are obliged to deduct PAYE from the determined value of fringe benefits granted to their employees. The law allows SARS to raise an assessment on the employer if the full value of the fringe benefit has not been taken into account for PAYE purposes.

#### 18.1

##### **Employer owned vehicles/“Company Car” -**

- The deemed value of each company car is 3,5% per month of the cash cost of the car (including VAT). The effect is that a high earning employee pays tax of 18.9% of the value of the car in each year. After about 6 years, he has paid the full cost of the car in the form of tax and will continue to pay in subsequent years. If a maintenance plan is included in the cost, the inclusion is reduced to 3,25%. The maintenance plan must cover all costs of maintenance (excluding oil, tyres, etc) for at least 60 000 km or 3 years. The “cost” of vehicles will be based on actual retail market values.
- 80% of the fringe benefit must be included in the employees remuneration for the purpose of calculating PAYE. The percentage is reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle for the tax year will be for business purposes.
- On assessment, the fringe benefit for the tax year is reduced by the ratio of the distance travelled for business purposes substantiated by a log book divided by the actual distance travelled during the tax year. See para 4.11.1 for a link to a SARS approved log book.
- On assessment, further relief is available for the cost of licence, insurance, maintenance and fuel for private travel if the full cost thereof has been borne by the employee and if the distance travelled for private purposes is substantiated by a log book.

#### 18.2

##### **Fringe benefits and Dividends Tax - interest rate -**

- If inadequate interest is charged to an employee (including working directors) on loans (other than for the purpose of furthering his own studies) in excess of R3 000 from his employer (or associated institution), tax on the fringe benefit may be payable.
- Unless interest is charged at the “official” rate or greater, the employee is deemed to have received a taxable fringe benefit calculated as being the difference between the interest actually charged and interest calculated at the “official” rate.

- For employees' tax purposes, the tax deduction must be made whenever interest is payable. If not regularly, then on a monthly basis for monthly paid employees, weekly for weekly paid employees, etc.
- In general, only distributions of income from a company / close corporation are subject to Dividends Tax. Loans or advances to or for the benefit of a shareholder / member will be deemed to be dividends to the extent that interest at less than the "official" rate (or market related rate in the case of foreign currency loans) is payable on the loan or fringe benefits tax is payable on an interest free (or subsidised interest) loan to an employee.
- It is not the amount of the loan but the interest reduction which is deemed to be a dividend. Low interest loans are accordingly subject to Dividends Tax (see para 7.6) in respect of the interest benefit only.
- The official rate has been defined as the rate of interest equal to the South African "repo rate" plus 1%. For foreign currency loans, the rate is the equivalent of the foreign "repo rate" plus 1%. The South African repo rate is currently 6,75% p.a. **See para 14.14 for a proposal to increase the official rate to a rate more aligned with the prime overdraft interest rate.**
- The "official" rate of interest over the past 5 years is as follows -
 

With effect from 1 August 2012	- 6,0% p.a.
With effect from 1 February 2014	- 6,5% p.a.
With effect from 1 August 2014	- 6,75% p.a.
With effect from 1 August 2015	- 7,0% p.a.
With effect from 1 December 2015	- 7,25% p.a.
With effect from 1 February 2016	- 7,75% p.a.
With effect from 1 April 2016	- 8,0% p.a.
With effect from 1 August 2017	- 7,75% p.a.

### 18.3

In respect of residential accommodation, the fringe benefit to be included in gross income is the greater of the benefit calculated by applying a prescribed formula (based on prior year income) or the cost to the employer.

No rental value is placed on accommodation provided by an employer to an employee away from his usual place of residence outside South Africa -

- for a period not exceeding two years from the date of his arrival in South Africa for the purpose of performing his duties of his employment, or
- if that accommodation is provided to him during the year and he is physically present in South Africa for a period of less than 90 days in that year.

#### **This concession does not apply -**

- if the employee was present in South Africa for a period exceeding 90 days during the year immediately preceding the date of arrival in South Africa to perform his duties, or
- to the extent that the cash equivalent of the value of the taxable benefit derived from the occupation of the residential accommodation exceeds R25 000 multiplied by the number of months during which the accommodation is provided.

18.4

### **Scholarships and Bursaries –**

If a scholarship or bursary has been granted by an employer to an employee, it will be **tax exempt** as long as the employee agrees to reimburse the employer for the scholarship or bursary if he fails to complete his studies for reasons other than death, ill-health or injury. If the scholarship or bursary is granted to enable employees or relatives of an employee to study, this will also be **exempt** if the remuneration derived by the employee during the year of assessment is not in excess of **R600 000**.

The value of the qualifying bursaries is R20 000 for National Qualifications Framework levels 1 to 6 and R60 000 for levels 7 to 10.

18.5

### **Telephones and Computers –**

The use of an asset consisting of telephones (including cellphones) or computer equipment which the employee uses mainly for the purposes of the employer's business, does not have any value for fringe benefit tax purposes. The same applies to any communication service (e.g. internet) provided to an employee if the service is used mainly for the purposes of the employer's business.

18.6

### **Medical Aid Contributions –**

Such contributions paid by employers are fully taxable in the hands of employees. See para 4.7.

18.7

### **Employer Provided Long-Term Insurance –**

The premiums paid on such policies are deductible in the hands of the employer if -

- the insurance cover must be restricted to the employee's death, disability or severe illness, and
- the policies must have no investment element. In other words, they must be term policies, and
- the employer must be not only the sole owner of the policy but also the sole beneficiary during the relevant tax year. This provision is not breached if the policy is ceded as security for a debt when the policy was initially taken out and a creditor of the employer is thus the owner of the policy or beneficiary of the proceeds.

The proceeds of such policies would obviously be taxable in the hands of the employer. If the proceeds are to be applied for the benefit of an employee or director, the employer loses the tax deduction. Furthermore, the employee or director is taxable on such proceeds at his/her marginal rate of tax without the benefits and exemptions set out in para 4.5 and 4.6.

Alternatively, premiums paid on such long-term insurance policies will be deductible in the hands of the employer if the expenditure incurred on such premiums is included as a fringe benefit in the taxable income of the employee or director when paid by the employer.

## 19. Public Benefit Organisations (PBO) and Recreational Clubs

- Generally, PBO's and recreational clubs registered with and approved by SARS are exempt from income tax on any taxable income arising from their normal activities provided the provisions of the Income Tax Act in this regard have been complied with including special rules relating to the distribution of assets on dissolution. The system of partial taxation for PBO's and clubs exempts from tax their non-exempt trading activities (which do not form an integral part of their public benefit or recreational activities) to the extent that the taxable income from these activities does not exceed 5% of gross income or R200 000 in the case of PBO's and R120 000 in the case of clubs, whichever is the greater.
- **The rate of normal tax payable by any PBO or any recreational club approved by SARS in respect of their non-exempt taxable income is fixed at the flat rate of 28%.** This rate applies whether the organisation or club is constituted as a trust, company, association or any other form. PBO's and recreational clubs are not required to register for provisional tax purposes.
- A PBO can also be a conduit to other PBO's. In other words, if a PBO receives donations which are passed on to other PBO's which themselves carry on certain Public Benefit Activities, the conduit PBO is entitled to issue Section 18A receipts to its donors.

The rule relating to conduit PBO's is that during the tax year in question and until the end of the following year, the conduit PBO is obliged to distribute to appropriate PBO's not less than 50% of the donations received by it during the year in respect of which it had issued Section 18A receipts.

In addition, it must distribute its income received from its investments not later than 6 months after each period of 5 years from 1 March 2015 for existing PBO's and 5 years after registration as a PBO if formed after 1 March 2015.

The combination of these provisions has the important benefit that conduit PBO's will be allowed to "plough back" and not distribute 50% of its donations received and, in so doing, ensure its longer term sustainability. On the other hand, investment income has to be distributed to qualifying PBO's on a more regular basis.

- Donations to Section 18A qualifying PBO's are tax deductible up to 10% of the taxable income of both companies and individuals. Donations in excess of 10% of taxable income in any given year will be rolled over and treated as donations to qualifying public benefit organisations in the following tax year. See also para 4.10.

## 20. Tax on Foreign Entertainers and Sportspeople

The South African income of foreign entertainers and sportspeople is exempt from SA Normal Tax if the withholding tax (as set out below) applies. No tax return is required.

- **Instead a final withholding tax of 15% is payable.** This rate is applied to the total gross payments made for the performance in South Africa. If the entertainer requests amounts to be paid to others, the total of all amounts paid is subject to the 15% tax.
- **No amounts are allowed to be deducted from the gross amounts to calculate the tax.**
- **An “entertainer or sportsperson” is defined** as a person who, for reward, performs any activity as a theatre, motion picture, radio or television artiste or a musician **or** takes part in any type of sport **or** takes part in any other activity that is usually regarded as of an entertainment character. This tax applies if a specified activity is carried on viz. any personal activity exercised in the Republic or to be exercised by a person as an entertainer or sportsperson, whether alone or with another person or persons.
- If the payment to the entertainer, etc was made outside South Africa, the withholding tax does not apply. Instead, in such case, the entertainer is obligated to make payment of the 15% tax. **In other cases, the resident who is liable to pay the entertainer must withhold and pay over the tax before the end of the month following the month in which it is withheld. Failure to do so brings about personal liability** for the resident. Within 14 days of an agreement relating to a specified activity having been concluded, the resident must advise SARS in advance of the forthcoming performance.
- There are various exceptions and special conditions. Applicable Double Tax Agreements also need to be considered.

## 21. Tax and VAT Interest Rates

It is important to remember that **interest and penalties paid to SARS are not deductible for tax purposes.** On the other hand, interest received from SARS is fully taxable (after deducting the current initial exemption of R23 800 per annum (R34 500 if you are 65 or older) for all interest income earned by natural persons.

- **VAT**

Payable to SARS on late payments: **10.25% per annum from 1 November 2017** (was 10.5% per annum from 1 July 2016).

Payable by SARS on VAT refunds after prescribed period: **10.25% per annum from 1 November 2017** (was 10.5% per annum from 1 July 2016).

- **Income Tax, Provisional Tax, Dividends Tax, etc**

Payable to SARS on short payments of all such taxes (other than VAT): **10.25% per annum from 1 November 2017** (was 10.5% per annum from 1 July 2016).

Payable by SARS on refunds of tax (where interest is applicable): **6.25% per annum from 1 November 2017** (was 6.5% per annum from 1 July 2016).

If the refund is made after a successful tax appeal or where the appeal is conceded by SARS, the interest rate is **10.25% per annum from 1 November 2017** (was 10.5% per annum from 1 July 2016).

- **Fringe Benefits**

Official interest rate for loans to employees below which a deemed fringe benefit arises: 7.75% per annum from 1 August 2017. See para 18.2.

- **Dividends Tax**

Official interest rate for loans (designated in Rands) to shareholders below which the interest on such loans can be deemed to be dividends on which Dividends Tax is payable: 7.75% per annum from 1 August 2017. See para 7.6 and 18.2.

- **Penalties**

The amount of penalties for late payments (where applicable) are substantial and are in addition to interest charged.

This newsletter has been written by Kent Karro who is the Managing Director of Horwath Taxation (Cape) (Pty) Ltd and National Tax Specialist for Horwath in South Africa, Horwath Zeller Karro in Cape Town and the tax group of Crowe Horwath in Africa.

## Crowe Horwath in Southern Africa

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For tax consulting and advice, contact our senior tax specialist **Kent Karro** – [kent.karro@crowehorwath.co.za](mailto:kent.karro@crowehorwath.co.za)



Kent Karro [B.Com (Hons)(Tax), CA(SA), MTA(SA), CPA(ISR), TEP] is a Chartered Accountant with a passion for all things related to Tax. He studied under the legendary Dr Aubrey Silke while obtaining his B.Com(Hons) in Tax at the University of Cape Town. He also had an extensive professional relationship with the late Advocate Dave Meyerowitz. Kent is an authority in virtually all areas of tax including Income Tax, Capital Gains Tax, Value Added Tax, Dividends Tax, Donations Tax, Estate Duty and International Tax issues. He is currently the Managing Director of Horwath Taxation (Cape) (Pty) Ltd. For more than 20 years he was also the Chairman of the Integritax editorial panel which produced a monthly tax newsletter for the South African Institute of Chartered Accountants.

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