

December 2018

# Official Rate of Interest

Fringe Benefits, Loans,  
Donations Tax and Dividends Tax



Audit / Tax / Advisory



## Official Rate of Interest

The official rate of interest has been increased from 7.5% to 7.75% with effect from 1 December 2018. Some of the implications are dealt with below. There has not yet been announced any increase in the rates of interest payable to or by SARS in respect of income tax and VAT late payments and refunds.

- **Fringe Benefits**

Official interest rate for loans to employees below which a deemed fringe benefit arises: 7.75% per annum from 1 December 2018 (was 7.5% per annum from 1 April 2018). See below for details.

- **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 December 2018 (was 7.5% per annum from 1 April 2018). See below for details.

- **Donations Tax**

Loans to Trusts by natural connected persons with interest charged at rates below the official rate create a donation subject to donations tax at 20%. Contact us for more details.

## Fringe Benefits, Loans, Donations Tax and Dividends Tax - Interest Rates

- 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.

- Distributions of income and capital gains from a company / close corporation are normally subject to Dividends Tax at the flat rate of 20%. Loans or advances to or for the benefit of a shareholder / member will be deemed to be dividends but only 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 payable by the company and only in respect of the interest benefit.

- Loans to Trusts by natural connected persons with interest charged below the official rate create a donation subject to donations tax at 20%. Contact us for more details.
- With effect from 1 March 2011, 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.

### The “official” rate of interest over the past 4 years

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.
With effect from 1 April 2018	-	7.5% p.a.
With effect from 1 December 2018	-	7.75% p.a.



## Contact

### **Crowe HZK**

7th Floor, 5 St. Georges,  
St. Georges Mall,  
Cape Town, 8001  
Main +27 21 481 7000  
hzk@crowe.za.com

### **Crowe JHB**

3 Sandown Valley Crescent,  
Sandown,  
Johannesburg, 2196  
Main +27 21 217 8000  
info@crowe.za.com

### **Crowe RMA**

Blandford House,  
67 Caledon Street,  
Somerset West, 7130  
Main +27 21 855 2917  
reception.winelands@crowe.za.com

### **Crowe DNA**

Blandford House,  
67 Caledon Street,  
Somerset West, 7130  
Main +27 21 855 2917  
infodna@crowe.za.com

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