2005/6

Tax Pocket Guide

Another helpful guide brought to you by the South African Revenue Service

SARS
At Your Service

This SARS tax pocket guide has been developed to provide a synopsis of the most important tax, duty and levy related information.

INCOME TAX: INDIVIDUALS AND TRUSTS

Tax rates (year of assessment ending 28 February 2006)

Individuals and special trusts

Taxable Income (R)		Rates of Tax (R)	
0 - 80 000	18%	of each	R1
80 001 - 130 000	14 400 + 25%	of the amount above	80 000
130 001 - 180 000	26 900 + 30%	of the amount above	130 000
180 001 - 230 000	41 900 + 35%	of the amount above	180 000
230 001 - 300 000	59 400 + 38%	of the amount above	230 000
300 001 and above	86 000 + 40%	of the amount above	300 000

Trusts other than special trusts

Rate of Tax **40%**

Tax Rebates

Rebates	R
Primary	6 300
Additional (Persons 65 and older)	4 500

Tax Thresholds

Age	Tax Threshold (R)
Below age 65	35 000
Age 65 and over	60 000

Provisional Tax

The following individuals are not required to register for provisional tax purposes —

- Individuals below the age of 65 who earn taxable non-employment income of R10 000 or less a year
- Individuals age 65 and older if their annual taxable income consists exclusively of remuneration, interest, dividends or rent from the lease of fixed property and is R80 000 or less.

Foreign Dividends

Most dividends received by individuals from foreign entities are taxable.

Exemptions

Interest and dividends

- Interest and dividends earned by any natural person under 65 years of age, up to R15 000 per annum, and persons 65 and older, up to R22 000 per annum, are exempt from taxation. Foreign interest and foreign dividends are only exempt up to R2 000 out of the total exemption.
- Interest is exempt where earned by non-residents who are absent from South Africa for 183 days or more per annum and who are not carrying on business in South Africa.

Deductions

Current pension fund contributions

The greater of —

- 7.5% of remuneration from retirement funding employment, or
- R1 750.

Any excess may not be carried forward to the following year of assessment.

Arrear pensions fund contributions

Maximum of R1 800 per annum. Any excess over R1 800 may be carried forward to the following year of assessment.

Current retirement annuity fund contributions

The greater of —

- 15% of taxable income other than from retirement funding employment, or
- R3 500 less current deductions to a pension fund, or
- R1 750.

Any excess may be carried forward to the following year of assessment.

Arrear retirement annuity fund contributions

Maximum of R1 800 per annum. Any excess over R1 800 may be carried forward to the following year of assessment.

Medical and physical disability expenses

- Taxpayers 65 and over may claim all qualifying expenditure
- Taxpayers under 65 are limited to the amount which exceeds 5% of taxable income
- Taxpayers under 65 may claim all qualifying medical expenses in excess of R500, where the taxpayer or the taxpayer's spouse, child or stepchild is a handicapped person.

Donations

Deductions in respect of donations to certain public benefit organisations are limited to 5% of taxable income before deducting medical expenses.

Allowances

Subsistence allowances and advances

Where the recipient is obliged to spend at least one night way from his/her usual place of residence on business and the accommodation to which that allowance or advance relates is in the Republic and the allowance or advance is paid or granted to pay for —

- meals and incidental costs, an amount of R196 per day is deemed to have been expended;
- incidental costs only, an amount of R60 for each day which falls within the period is deemed to have been expended

Where the accommodation to which that allowance or advance relates is outside the Republic, an amount equal to US$190 per day is deemed to have been expended. (These *per diem* rates were fixed for the 2004/5 tax year and are subject to possible change)

Travelling allowance

Rates per kilometre which may be used in determining the allowable deduction for business travel, where no records of actual costs are kept.

Value of the vehicle (including VAT)(R)	Fixed cost (R p.a.)	Fuel cost (c/km)	Maintenance cost (c/km)
0 - 40 000	14 489	34.5	21.6
40 001 - 60 000	19 869	36.2	22.4
60 001 - 80 000	25 068	36.2	22.4
80 001 - 100 000	30 893	40.7	27.8
100 001 - 120 000	35 578	40.7	27.8
120 001 - 140 000	40 732	40.7	27.8
140 001 - 160 000	46 157	45.0	37.7
160 001 - 180 000	51 930	45.0	37.7
180 001 - 200 000	57 332	51.1	41.6
200 001 - 220 000	63 287	51.1	41.6
220 001 - 240 000	68 697	51.1	41.6
240 001 - 260 000	74 287	51.1	41.6
260 001 - 280 000	78 992	53.9	49.8
280 001 - 300 000	83 744	53.9	49.8
300 001 - 320 000	88 854	53.9	49.8
320 001 - 340 000	94 322	53.9	49.8
340 001 - 360 000	99 240	59.8	65.5
exceeding 360 000	99 240	59.8	65.5

Note: 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.

Of the actual distance travelled during a tax year, in the absence of a log book, it is deemed that the first 16 000 kilometres are travelled for private purposes and the balance, but not exceeding 16 000 kilometres, is travelled for business purposes.

Alternatively:

- Where the distance travelled for business purposes does not exceed 8 000 kilometres per annum, no tax is payable on an allowance paid by an employer to an employee, up to the rate of 238 cents per kilometre regardless of the value of the vehicle.

- This alternative is not available if other compensation in the form of an allowance or reimbursement is received from the employer in respect of the vehicle.

50% of the travelling allowance must be included in the employee's remuneration for the purposes of calculating PAYE.

Other deductions

Other than the deductions set out above an individual may only claim deductions against employment income or allowances in limited specified situations, e.g. bad debt in respect of salary and premiums on certain income protection policies.

Fringe Benefits

Employer-owned vehicles

- The taxable value is 1.8% of the determined value (usually the cash cost excluding VAT) per month. Where a second (and further) vehicle is made available to an employee or his family, and the vehicle is not used primarily for business purposes, the benefit is 1.8% per month on the vehicle with the highest value and 4% per month on the other vehicle(s).
- Where the employee bears the cost of all fuel used for the purposes of the private use of the vehicle (including travelling between the employee's place of residence and his/her place of employment) the deemed monthly value is reduced by an amount of R120.
- If the employee bears the full cost of maintaining the vehicle (including the cost of repairs, servicing, lubrication and tyres) the deemed monthly value is reduced by an amount of R85.

Interest-free or low-interest loans

The difference between interest charged at the official rate (8,5% from 1 September 2004) and the actual amount of interest charged, is to be included in gross income.

Residential accommodation

The fringe benefit to be included in gross income is the greater of the formula-based benefit or cost to the employer

The formula will apply if the accommodation is owned by the employer, or an associated institution in relation to the employer, or where it is not owned and —

- It is customary for an employer in the industry concerned to provide free or subsidised accommodation to its employees, and
- It is necessary for the particular employer to provide free or subsidised accommodation:
  - for the proper performance by the employees of their duties, or
  - as a result of the frequent movement of employees, or
  - as a result of the lack of employer-owned accommodation, and
- the benefit is provided solely for *bona fide* business purposes other than for obtaining a tax benefit.

INCOME TAX: COMPANIES

Financial years ending on any date between 1 April 2005 and 31 March 2006

Type	Rate of Tax
Companies	29%
Small business corporations	
R0 – R35 000	0%
R35 001 – R250 000	10%
R250 001 and above	29%
Employment companies	34%
Foreign resident companies which trade in South Africa through a branch or agency	34%
Secondary tax on companies (STC) on dividends declared after being reduced by dividends receivable during a dividend cycle (South African branches of foreign resident companies are exempt from STC)	12.5%
Tax on retirement funds Gross interest, net rental and foreign dividend income of retirement funds (pension, provident, retirement annuity funds and untaxed policy holder funds of long-term assurance companies)	18%

RESIDENCE BASIS OF TAXATION

Residents are taxed on their worldwide income, subject to certain exclusions. Foreign taxes on that income are allowed as a credit against South African tax payable. This is applicable to individuals, companies, close corporations and trusts.

TAXATION OF CAPITAL GAINS

Capital gains on the disposal of assets are included in taxable income.

Maximum effective rate of tax:	
Individuals	10%
Companies	14.5%
Trusts	20%

Events that trigger a disposal include a sale, donation, exchange, loss, death and emigration.

The following are some of the specific exclusions:

- R1 million gain/loss on the disposal of a primary residence
- most personal use assets
- retirement benefits
- payments in respect of original long-term insurance policies
- annual reduction of R10 000 capital gain or capital loss is granted to individuals and special trusts.

OTHER TAXES DUTIES AND LEVIES

Transfer Duty

Transfer duty is payable at the following rates on transactions which are not subject to VAT —

- Acquisition of property by natural persons:

Value of property (R)	Rate
0 – 190 000	0%
190 001 – 330 000	5% of the value above R190 000
330 001 and above	R7 000 + 8% of the value exceeding R330 000

- Acquisitions of property by persons other than natural persons:
  - 10% of the value

Estate Duty

Estate duty is levied at a flat rate of 20% on all property of residents and South African property of non-residents. A basic deduction of R1.5 million is allowed in the determination of an estate's liability for estate duty as well as deductions for liabilities, bequests to public benefit organisations and property accruing to surviving spouses.

Donations Tax

- Donations tax is levied at a flat rate of 20% on the value of property donated.
- The first R30 000 of property donated in each year by a natural person is exempt from donations tax.
- In the case of a taxpayer who is not a natural person, the exempt donations are limited to casual gifts not exceeding R10 000 per annum in total.
- Dispositions between spouses, and donations to certain public benefit organisations are exempt from donations tax.

Stamp Duty

Stamp duty is imposed on —

- Instalment credit agreements
- Lease agreements of fixed property
- Unlisted marketable securities (registration of transfer and cancellation, but not on issue from 1 January 2006)

Uncertificated Securities Tax

The tax is imposed at a rate of a 1/4 of a per cent on issue (until 31 December 2005) and at a rate of a 1/4 of a per cent on a change in beneficial ownership of listed securities which are not interest-bearing.

Tax on International Air Travel

R110 (R120 from 1 August 2005) per passenger departing on international flights excluding flights to SACU countries in which case the tax is R55 (R60 from 1 August 2005).

Skills Development Levy

A skills development levy is payable by employers at a rate of 1% of the total remuneration paid to employees. Employers paying annual remuneration of less than R500 000 are exempt from Skills Development Levies from 1 August 2005.

Unemployment Insurance Contributions

Unemployment Insurance Fund contributions are payable monthly by employers on the basis of a contribution of 1 per cent by employers and 1 per cent by employees, based on employees' remuneration below a certain amount. Employers not registered for PAYE or SDL purposes must pay the contributions to the Unemployment Insurance Commissioner.

SARS INTEREST RATES

Rate of interest effective from 1 September 2004	Rate
Fringe benefits - interest-free or low-interest loan	8,5% p.a.
Rates of interest effective from 1 November 2004	**Rate**
Late or underpayments of tax	10,5% p.a.
Refund of overpayments of provisional tax	6,5% p.a.
Refund of tax on successful appeal or where the appeal was conceded by SARS	10,5% p.a.
Refund of VAT after prescribed period	10,5% p.a.
Late payments of VAT	10,5% p.a.
Customs and Excise	10,5% p.a.

OTHER TAX PROPOSALS

- Small business stimulus package
- Eliminate stamp duties on debit entries
- Increase fuel taxes by 10 cents a litre
- Strengthening of general anti-avoidance rules
- Eliminate excise duties on sun protection products and base oils for lubricating
- Introduce a final withholding tax on visiting entertainers and sportspeople
- From 1 March 2006 a new tax system for the tax treatment of medical scheme contributions will be introduced, which will favour low to middle income earners
- Abolish RSC levies from July 2006