

## EXTERNAL GUIDE

# COMPREHENSIVE GUIDE TO THE ITR12 INCOME TAX RETURN FOR INDIVIDUALS

## REVISION HISTORY TABLE

Date	Version	Description
01-08-2020	22	Updates for the 2020 Filing Season (automatic assessment, third party data, travel claim, s10(1)(o)(ii) exemption)
14-09-2020	23	More than fifteen IRP5 certificates, Exemption in terms of section s8A/s8C from 2019, medical tax credits for main member
04-12-2020	24	Auto assessment, Donations to Solidarity Fund

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# 1 PURPOSE

The purpose of this document is to provide guidance for the completion of the ITR12 return and to briefly explain the various sections of the Income Tax Act No. 58 of 1962 that will be applied during the assessment process.

This guide in its design, development, implementation and review phases is guided and underpinned by the SARS strategic objectives, the SARS intent, and the SARS values, code of conduct and applicable legislation. Should any aspect of this guide be in conflict with the applicable legislation the legislation will take precedence.

## 2 GENERAL INFORMATION

### 2.1 WHEN MUST THE RETURN BE SUBMITTED?

The due date for submission of income tax returns is published annually in the Government Gazette. Every year SARS embarks on an extensive publicity campaign to inform taxpayers of the deadline for the year.

For the 2020 year of assessment (YOA), the income tax returns for individuals must be submitted on or before the following dates:

- **22 October 2020** – if your return is submitted electronically with the assistance of a SARS official at a SARS branch or manually;
- **16 November 2020** – if you are a non-provisional taxpayer and your return is submitted electronically via eFiling;
- **29 January 2021** – if you are a provisional taxpayer and your return is submitted via eFiling.

eFiling is the quickest, easiest and most convenient way to submit the return and is the option recommended by SARS.

If you do not submit your return by the relevant deadline, you will be liable for an administrative penalty due to non-compliance.

### 2.2 WHO IS NOT REQUIRED TO SUBMIT A RETURN?

Although a taxpayer still has to register for income tax, he/she is not liable to submit a return for the 2020 year of assessment if any of the following apply:

- He/she does not have any deductions to claim **and** if his/her gross income consists **solely of gross income** described in one or more of the following:
  - **Remuneration** income that:
    - Is for the full year of assessment;
    - Is paid or payable from one single source (e.g. one employer);
    - Does not exceed R500 000;
    - Does not include any allowance or advance (example travel allowance, public office allowance); and
    - Employees' tax has been deducted or withheld in terms of the deduction tables prescribed by the Commissioner.
  - **Interest** income from a source in the Republic not exceeding:
    - R23 800 in the case of an individual below the age of 65 years; or
    - R34 500 in the case of an individual aged, or above the age of, 65 years
    - R23 800 in the case of the estate of a deceased person
  - **Dividends** and the individual was a non-resident for the year of assessment
  - Amounts received or accrued from a tax free investment
  - Please note: If you earned remuneration for foreign services rendered, you are required to submit a return from the 2019 year of assessment (even if the amount

is below R500 000).

- SARS issues a written notification confirming that he/she is **eligible** for an automatic assessment; **and** the gross income, exemptions, deductions and rebates as reflected in SARS' records are complete and correct as at:
  - The date on which the taxpayer accepts the automatic assessment; or
  - 29 January 2021, if the taxpayer does not respond to the automatic assessment by this date.

### 2.3 AUTOMATIC ASSESSMENT (Auto Assessment)

SARS has amended the Annual Notice to incorporate new category of taxpayers that are not required to submit a return (new paragraph 3(3) of the Annual Notice 741, 2020). A person is not required to submit an income tax return in terms of paragraph 2(f)(vii) if that person:

- is notified by the Commissioner in writing that he/she is eligible for automatic assessment; **AND**
- the person's gross income, exemptions, deductions and rebates reflected in the records of the Commissioner are **complete and correct as at the date**:
  - of accepting auto assessment; OR
  - specified by the date in paragraph 4(b)(iii) of the Notice (29 January 2021 for the 2020 Filing Season) if the person does not respond.

You can view the auto-assessment by:

- Logging on to eFiling
- Logging on to the SARS MobiApp
- Booking an appointment with a SARS branch for assistance.

After viewing the auto-assessment details (using any of the above channels), you will have the option to either:

- **Accept** the auto-assessment result; or
- **Edit** the return and submit it via the normal return process
  - The return would typically be edited if the information is not correct, or if you have additional income to declare (e.g. rental income) or if you have additional expenses to claim (e.g. additional medical expenses).

If you accept the auto-assessment result, SARS will automatically process a return on your behalf and a notice of assessment will be issued. Log on to eFiling or the SARS MobiApp to view the notice of assessment.

Note: The auto-assessment process will not be applicable once the [deadline to submit the 2020 returns](#) has passed.

### 2.4 HOW TO REQUEST AND SUBMIT A RETURN?

You can request a return through any of the following channels described below.

#### **eFiling:**

The quickest and easiest way to obtain a return is to register as an eFiler on [www.sarsefiling.co.za](http://www.sarsefiling.co.za), request and submit the completed return online.

You can make use of the 'Help-You-eFile' service, which allows you to share the view of your eFiling screen on your personal computer with a SARS agent. This service will enable a SARS agent to view the same screen as you to assist in identifying the problems you are experiencing and to help you solve your problem. You benefit by being able to call on the support and advice of our staff without having to visit a SARS branch. You can even ask a SARS agent to call you back.



**SARS MobiApp:**

If you have a smartphone install the SARS eFiling App from the App Store (for Apple devices) or Google Play Store (for Android devices). Once installed, login with your eFiling profile to request and submit the return via the App.

**Telephonically:**

You can use our eBooking System to book a telephonic appointment with SARS. A SARS official will assist you to complete and submit your return telephonically. Please ensure that you have all the required supporting documents readily available before your appointment.

## 2.5 UTILISING THE SERVICES OF A TAX PRACTITIONER

In terms of section 240 of the Tax Administration Act No.28 of 2011, all Tax Practitioners who complete and submit tax returns on behalf of clients must be registered with both a Recognised Controlling Body (RCB) and with SARS. Such tax practitioners have the full authority to prepare and submit tax returns on behalf of their clients. Practitioners that are not registered with the RCBs will not have this privilege.

If you utilise the services of a tax practitioner to submit your return via eFiling and that tax practitioner is not registered with a Recognised Controlling Body, he/she can only complete and save the electronic return on your behalf but will not be allowed to submit the electronic return to SARS. In this instance, only the following options will be available on eFiling to the tax practitioner:

- **'Save'** – this option will allow the return to be saved on eFiling for completion at a later stage, without performing form validations.
- **'Save for Filing'** – this option will allow form validations to be performed when the prepared ITR12 is saved on eFiling.

In order to ensure that your tax return is submitted to SARS before the due date you can either:

- Book an appointment with your local SARS branch where a SARS official will retrieve the completed return for you and submit it for processing; or
- You can register for eFiling and request shared access from your tax practitioner.

## 2.6 SITE TAXPAYERS

The Standard Income Tax on Employees (SITE) was a component of the Pay as You Earn (PAYE) method of paying income tax and was in effect a final withholding tax levied on the first R60 000 of remuneration.

SITE was phased out over the 2012 and 2013 tax years and is applicable to taxable income that consisted solely of remuneration of which the full amount was subject to SITE (done in terms of section 6(5) of the Income Tax Act through the application of a SITE rebate).

A SITE rebate is only applicable to the 2012 and 2013 tax years for taxpayers who earned net remuneration from more than one source and the net remuneration of each source of income was less than or equal to R60 000 per annum.

The SARS system will validate whether you qualify for a SITE rebate. If you meet the criteria, the amount of normal tax payable by you will be reduced as follows:

- 1 March 2011 to 29 February 2012 – normal tax payable reduced by a SITE rebate of 2/3
- 1 March 2012 to 28 February 2013 – normal tax payable reduced by a SITE rebate of

## 2.7 DOCUMENTATION REQUIRED TO COMPLETE YOUR RETURN

Supporting documents are required to complete an income tax return. Below are examples of the documentation/information that may be required:

- IRP5/IT3(a) Employees' Tax Certificate for remuneration received or in respect of lump sums from your employer, pension fund, provident fund or retirement annuity fund;
- Certificates received for local interest income, foreign interest income and foreign dividend income
  - If you are **married in community of property**, the certificates received by both you (the taxpayer) **and** your spouse are required
  - If you **married out of community of property**, only the certificates that you receive are required;
- Documents relating to medical expenditure such as:
  - The tax certificate received from your medical scheme for the period 1 March 2019 and ending 29 February 2020 (if you belong to a medical scheme)
  - Proof of qualifying medical expenses paid by you and not recovered from a medical scheme
  - Completed ITR-DD Confirmation of Diagnosis of Disability form (if you want to claim disability related expenses);
- If you received a travel allowance or a fringe benefit for an employer provided vehicle, you must have a logbook to claim the business travel deductions;
- The income tax certificate(s) received from the financial institution for retirement annuity contributions made;
- Section 18A donation tax certificate;
- All information relating to capital gain transactions (local and foreign) for e.g. proof of proceeds for each asset disposed of (such as sales agreement, invoices, IT3(c) certificate), calculation of the base cost in respect of each asset;
- Documents and receipts for commission related expenditure including a logbook to claim business travel deductions;
- All information relating to the letting of assets, e.g. rental/lease agreement, bond statement reflecting interest on bond if claimed on return, schedule of details rental expenses, related invoices;
- Financial statements for trading and farming activities (if applicable);
- Any other documents relating to income that must be declared or deductions that may be claimed.

Please you are required to keep all supporting documents for a period of five (5) years from the date of submission of the return. SARS may request these documents to verify the information declared on your income tax return.

When uploading documents via eFiling; MobiApp or the SARS Online Query System, please ensure that the documents are not password protected.

## 2.8 MARRIAGE IN COMMUNITY OF PROPERTY

Income received by (or accrued to) a taxpayer (other than that from the carrying on of any trade, but including investment income and capital gain transactions), is deemed to accrue to the spouses in equal portions. This includes rental from the letting of fixed property/assets that forms part of the communal estate.

Where the income does not accrue to the communal estate, it must be included in the income of the spouse who owns the property/asset. SARS may request the details regarding these excluded amounts to ensure the correct assessment of the return.

Income received by (or accrued to) a taxpayer from the carrying on of a trade (excluding the letting of fixed property) will be deemed to be the income of the spouse who is carrying on the trade. Where the spouses are trading in partnership, the income will, subject to the anti-avoidance provisions, accrue in the agreed profit-sharing ratio.

Any benefit paid by a pension fund, provident fund or retirement annuity fund is deemed to be trade income and will be taxed in the hands of the member/previous member of the fund. Any annuity received as a result of a purchased annuity, as defined in section 10A of the Income Tax Act, is also deemed to be trade income and will be taxed in the hands of the person to whom the annuity is payable.

Where a taxpayer's income is deemed to be the income of his/her spouse, any deductions or allowances relating to that income will be allowed in the same proportion in which the income is taxed.

## 2.9 RESIDENCE BASIS OF TAXATION

With effect from 1 January 2001, the Income Tax system in South Africa changed from a source based system to a residence basis of taxation. Residents are subject to tax on their worldwide income, subject to certain exemptions. Non-residents are subject to tax on receipts and accruals derived from sources within South Africa (certain exceptions apply).

A resident (pertaining to individuals) means:

- A person who is ordinarily resident in South Africa (the term 'ordinarily resident' means the country to which a person would naturally and as a matter of course return from his/her travels)
- A person who has been present in South Africa for:
  - More than 91 days in aggregate during the current year of assessment; and
  - More than 91 days in aggregate during each of the five preceding years of assessment; and
  - More than 915 days in aggregate during the five years of assessment preceding the current year of assessment.
- Note: In this instance, the person will be a resident with effect from the first day of the relevant year of assessment (for this purpose a day includes a part of a day).

A person will not be regarded as a resident when:

- A person is outside South Africa for a period of 330 full continuous days immediately after the day on which he ceases to be physically present in South Africa, if a person was a residence in terms of the physical presence test.
- A person is deemed to be exclusively a resident of another country for purposes of the application of any agreement entered into between the government of South Africa and the government of the other country for the avoidance of double taxation.

Remuneration as a result of services rendered for an employer outside South Africa is exempt from tax in terms of section 10(1)(o)(ii) of the Income Tax Act if:

- The employee is outside South Africa for a period of more than 183 days in any twelve month period and the employee is outside South Africa for a continuous period of more than 60 full days during that twelve month period
- The services were rendered during that period
- This provision does not apply to employees of national, provincial or local governments; and to employees of certain public entities
- From 1 March 2020, only the first R1.25 million of foreign employment income earned will qualify for exemption.

Pensions received by or accrued to a resident under the social security system of another country are exempt from normal tax in South Africa. Foreign income received by (or accrued

to) a resident individual is taxable.

Any pension received or accrued to any resident from a source outside South Africa, which is not deemed to be from a South African source, in consideration of past employment outside South Africa is exempt from normal tax in South Africa.

## 2.10 REMUNERATION OF EMPLOYEES WORKING FOR FOREIGN GOVERNMENTS IN SOUTH AFRICA

In terms of Section 10(1)(c)(iii) any remuneration paid to any person of a foreign diplomatic or consular mission in South Africa is exempt from normal tax in South Africa on condition that the person is based in South Africa solely for the purpose of holding office as an official of a foreign government and he/she is not ordinarily resident in South Africa.

The remuneration paid to any domestic or private servants of the abovementioned employees is also exempt from normal tax provided that the domestic or private servant is not a South African citizen and is not ordinarily resident in South Africa. The exemption is not applicable to any other income (e.g. interest income or rental income) that the person of a foreign government may earn while working in South Africa.

This exemption will cease to apply and the remuneration will become taxable if:

- the employee receives a permit for permanent residence in South Africa;
- the foreign government carries on business activities in South Africa (any double taxation agreements in place will be taken into account)

The s10(1)(c) exemption does not apply to remuneration paid to any persons who are ordinary residents in South Africa (i.e. employees that are recruited locally).

In the case where a person's remuneration is not exempt from normal tax in terms of section 10(1)(c) and the diplomatic or consular mission has not voluntarily deducted or withheld PAYE, that person is regarded as a provisional taxpayer.

For more information refer to the following guides available on the SARS website:

- 'Guide for Provisional Tax'
- 'Guide on the Taxation of Foreigners working in South Africa - External Guide'

## 2.11 INSOLVENCY

Based on legislation, a person (purely for personal income tax purposes) may be issued with up to three tax reference numbers to finalise an insolvent estate. The taxpayer or the appointed trustee/administrator is required to visit a SARS Branch to request for the tax number to be coded as an insolvent person. The tax reference numbers are defined and issued as follows:

- The first tax reference number refers to the **taxpayer's** original number registered and is applicable to assessments for the income and deductions up to the date preceding the date of sequestration.
- The second tax reference number refers to the **insolvent estate** managed by the court appointed administrator/trustee. It is not a compulsory tax reference number and is for any income and deductions applicable to the "**insolvent estate**" from the date of sequestration until the estate is finalised.
  - The taxpayer or appointed representative may either be aware of the income received/accrued or assets disposed of at the time when the first tax reference number is coded as insolvent by SARS or at a much later stage.
  - This registration may be initiated by the appointed representative on eFiling if he/she is already recorded and verified as the registered representative at SARS. For more information on how to register via eFiling refer to the external guide

'GEN-REG-01-G04 – How to complete the registration amendments and verification form (RAV01)' available on the SARS website.

- The third tax reference number refers to the **taxpayer's** 'new identity' and is applicable to income and deductions after the date of sequestration. The taxpayer will only use this number to comply with his/her tax liabilities after the date of sequestration.

The date of sequestration/insolvency implies:

- The date of voluntary surrender of an estate, if accepted by the Court; or
- The date of provisional sequestration of an estate, if final order or sequestration is granted by the court.
- **Example:** If the date of insolvency is 4 March 2018, the date after insolvency will be 5<sup>th</sup> March 2018. This implies that first tax reference number (described above) will be applicable to transactions up to 4 March 2018 and the third tax reference number (described above) will be applicable from 5 March 2018 onwards.

The court appointed representative may appoint a tax practitioner to complete returns in respect of the first and second tax reference numbers. The normal eFiling user rights rule will apply.

New tax reference number after date of sequestration:

- If the taxpayer is an eFiler, he/she must ensure that the newly allocated tax reference number (i.e. effective from after the sequestration date) is linked to his/her eFiling profile.
- Ensure that the correct tax reference number is reflected on the applicable individual income tax return.
- Certain information is prepopulated by SARS on the return, such as IRP5/IT3(a) details, retirement annuity contributions, medical contributions; etc. Where the sequestration date is in the middle of the year of assessment, (example sequestration date is 12 September 2018 and the tax year end is 28 February 2019) an apportionment of the prepopulated income will be required between the first and third tax reference numbers. In this instance, please lodge a dispute in order to notify SARS that the prepopulated income must be split.

For information on how to complete the income tax return for an insolvent estate, please refer to 'IT-GEN-06-G01 - Guide to the Individual Income Tax Return for Deceased and Insolvent Estates' on the SARS website.

## 2.12 HTML5

'HTML5' refers to 'Hyper Text Mark-up Language' and is a type of technology used for structuring and presenting content on websites. Some of the advantages of HTML5 is that it is compatible with multiple web browsers (e.g. Google Chrome, Edge, Firefox, Safari, Opera) and it offers improved access to users irrespective of the screen size, orientation and resolution of their devices.

The look and feel of the individual income tax return has changed from the 2019 filing season. The return is built in "HTML5". The advantage of this is that it allows the return to be accessed on multiple platforms including desktop, tablet and mobile devices and is intended to provide you with a better user experience.

## 3 INFORMATION TO CREATE YOUR PERSONAL INCOME TAX RETURN (FORM WIZARD)

The first page of the income tax return for individuals (Form Wizard) consists of a number of questions and your return will be customised according to your answers to these questions. These questions are discussed very briefly below. For further details, please refer to the applicable sections in this guide.

- If you are registered for eFiling you can customise your own return on the eFiling website.
- If you contact SARS for assistance you will have to answer the mandatory questions to enable the SARS agent to customise your return.

### 3.1 STANDARD QUESTIONS

#### 3.1.1 PERSON MAKING THE DECLARATION

**'Is this declaration made by a tax practitioner?'** (Select 'Y' or 'N').

- The answer to this question is used to create the correct declaration on the return. If you are completing and submitting your own return, a 'Taxpayer Declaration' will be added to the return for you to sign. If a Tax Practitioner is completing and submitting the return on your behalf, a 'Tax Practitioner Declaration' will be added to the return for the tax practitioner to sign.

#### 3.1.2 RESIDENCY

**'Mark with an "X" if you ceased to be a resident of the RSA during this year of assessment'**

- If you ceased to be a resident and the information has been made available to SARS, the date on which you ceased to be a resident will be pre-populated on your return. If not, please complete the date field you ceased to be a resident during the year of assessment. The date must fall within the year of assessment.

#### 3.1.3 EMPLOYMENT STATUS

**'Were you unemployed for the full year of assessment and did not receive any income including any capital gain/loss?'** (Select 'Y' or 'N')

- If you select 'Y', please indicate if you made any retirement annuity fund contributions. Retirement annuity contributions amounts that do not qualify for a deduction in the current year of assessment will be carried forward to subsequent years of assessment.

**'Were you unemployed for any period during this year of assessment?'** (Select 'Y' or 'N')

- If yes, please indicate: **'For how many periods were you unemployed?'**
- This question is applicable from the 2016 year of assessment and onwards. A maximum value of 5 is allowed in this field. Each continuous period of unemployment during the year of assessment is considered as one period. You are also required to complete the 'unemployed from date' and the 'unemployed to date' for each period

**Example: 1**

Mr Taxpayer's employment status was as follows for the year of assessment

Mar – May	Employed
Jun	Unemployed
Jul – Nov	Employed
Dec – Jan	Unemployed
Feb	Employed

Mr Taxpayer was therefore unemployed for **2** periods.

(Jun = 1 unbroken period and Dec - Jan = 1 unbroken period)

**Example 2:**

Mr Taxpayer's employment status was as follows for the year of assessment

1 Mar – 30 Apr	Employed
1 May – 31 May	Unemployed
1 Jun – 16 Jul	Employed
17 Jul – 15 Aug	Unemployed
16 Aug – 30 Sep	Employed
1 Nov – 30 Nov	Unemployed
1 Dec – 31 Jan	Employed
1 Feb – 28 Feb	Unemployed

Mr Taxpayer was therefore unemployed for 4 periods.

(1 May - 31 May = 1 period, 17 Jul - 15 Aug = 1 period, 1 Nov - 30 Nov = 1 period and 1 Feb - 28 Feb = 1 period)

### 3.1.4 INCOME RECEIVED REFLECTED ON AN IRP5/IT3(a) EMPLOYEE TAX CERTIFICATE

This section focuses on an individual who received remuneration related income and incurred typical expenditure such as pension fund contributions, medical expenses, retirement annuity contributions, travel expenses against a travel allowance and expenditure against employer provided vehicles. Indicate if you received income reflected on an IRP5/IT3(a) certificate.

#### 'How many certificates did you receive'?

- The return caters for a maximum of fifteen IRP5/IT3(a) certificates to be captured. If you received more than fifteen certificates please refer to the section '[Employee's Tax Certificate Information](#)' for the steps to complete your information on the return.
- The number of IRP5 certificates that SARS has prepopulated on the return cannot be changed to a lower number. The value in this field can however be increased if you have more IRP5 certificates to declare. Please note that in this instance the certificates added to the return will be blank and you must complete the information.
- If any of the information prepopulated on the IRP5/IT3(a) section of the return is incorrect, you must contact the third party (i.e. employer or fund administrator) to rectify and resend the correct data to SARS.

#### 'Did you pay any medical expenditure (including medical scheme contributions made by you or your employer towards a medical scheme where you are the principal / main member)?' (Select 'Y' or 'N')

- This question applies from the 2017 year of assessment and refers to medical expenditure made for yourself, your spouse or your qualifying children only.
- Medical scheme contributions that were paid via your employer will reflect next to source code **4005** on your IRP5/IT3(a) certificate.

#### 'Did you pay any medical expenditure (including medical scheme contributions where you are not the principal/main member of the medical scheme) in respect of any immediate family member who is dependent on you for family care and support?' (Select 'Y' or 'N')

- From the 2017 year of assessment, medical expenditure that you paid on behalf of immediate family members who are financially dependent on you for family care and support must be declared separately.

#### 'Did you pay any medical expenditure (including medical scheme contributions made by

**you or your employer)?'** (Select 'Y' or 'N')

- This question applies to the 2016 year of assessment and prior years only and includes medical expenses and contributions paid by you on behalf of immediate family members who are dependent on you for family care and support.
- Medical scheme contributions that were paid via your employer will reflect next to source code **4005** on your IRP5/IT3(a) certificate.

**'Did you or your employer make any retirement annuity fund contributions for the benefit of yourself?'** (Select 'Y' or 'N')

- If your retirement annuity fund contributions were paid via your employer it will reflect next to source code **4006** on your IRP5 certificate.
- The institution to which these contributions were made will issue a certificate confirming the total contributions made for the tax year. This amount must be inserted in the *'Retirement Annuity Fund Contributions'* section next to source code 4006 in order for the deduction to be taken into account during the assessment process.
- Note: Income protection contributions cannot be claimed from the 2016 year of assessment

**'Do you want to claim a deduction against a travel allowance?'** (Select 'Y' or 'N').

- You can only claim expenditure if you received a travel allowance and you have kept accurate records of your business travel.
- Indicate the number of vehicles used during the year of assessment. If the number of vehicles exceeds five, please contact the SARS Contact Centre or your local SARS branch for further assistance.

**'Do you want to claim a deduction against an employer provided vehicle?'** (Select 'Y' or 'N').

- You can only claim expenditure if you received a taxable fringe benefit for the right of use of a motor vehicle provided by your employer and you have kept accurate records of your business travel.
- If the taxable fringe benefit is for an employer provided vehicle held under an 'operating lease', this will reflect next to source code **3816** or **3866** on your IRP5/IT3(a) certificate.
- If the taxable fringe benefit is for an employer provided vehicle held under any method other than an operating lease, this will be reflected next to source code **3802** or **3852** on your IRP5/IT3(a) certificate.
- Insert the number of employer provided vehicles used during the year of assessment. A maximum of 12 vehicles is allowed.

**'Did you receive any form of remuneration for foreign services rendered'** (Select 'Y' or 'N').

- If yes, indicate if any portion of this foreign services remuneration was subject to tax in another country?
- You will be required to complete the following applicable sections on the return:
  - 'Residency Information'
  - 'Amounts considered non-taxable'
  - 'Other Deductions'.

### 3.1.5 INVESTMENT INCOME

**'Did you receive any interest (local and foreign), distributions from a Real Estate Investment Trust (REIT), taxable foreign dividends and / or dividends deemed to be income in terms of s8E & s8EA (excluding amounts received as a beneficiary of a trust(s), or deemed to have accrued in terms of s7)?'** (Select 'Y' or 'N')

- This question will display from the 2017 year of assessment and onwards.



- Any income distributed to you/vested in you as a beneficiary of a trust, or deemed to have accrued to you in terms of s7 must be excluded and declared separately in the Trust section of the return.
- If yes to the above question, indicate 'Did you receive exempt local and/or foreign dividend income?'
- If you received local dividend income, the following sections must be completed on the return:
  - 'Amounts considered non-taxable'
  - 'Exempt Local Dividends' & 'Exempt Foreign Dividends' fields.

**'Did you receive interest (local and foreign), distributions from a Real Estate Investment Trust (REIT) and/or taxable foreign dividends?' (Select 'Y' or 'N')**

- This is applicable to the 2015 and 2016 year of assessment.
- All gross receipts and accruals must be declared including amounts received/vested in you as a beneficiary of a trust or deemed to have accrued.

**'Was any income distributed to you/vested in you as a beneficiary of a trust, or deemed to have accrued in terms of s7?' (Select 'Y' or 'N')**

- This question is applicable from the 2017 year of assessment.
- If yes, 'Indicate the number of trust(s) applicable?'
- The 'Trust Income' section will be added to the return and repeated according to the value entered in this field (maximum of 20 allowed).

**'Were there any transactions (contributions, transfers, withdrawals, income received/accrued) on any Tax Free Investments held by you during this year of assessment?' (Select 'Y' or 'N')**

- If yes, 'Indicate the number of tax free investments'
- From the 2020 year of assessment, this field will be prepopulated with data received from third parties (e.g. banks). This value cannot be changed to a lower number however, it can be increased if you have more tax free investments to declare.
- If the information prepopulated on the return is incorrect, you must contact the third party to rectify and resend the correct data to SARS.

### 3.1.6 RENTAL INCOME

**'Did you derive income from the letting of fixed property(ies) (excluding amounts received/accrued as a beneficiary of a trust(s), or deemed to have accrued in terms of s7)'**

- This question will display from the 2017 year of assessment and onwards.
- If yes, indicate: 'From how many separate rental activities did you derive income?'
- The section for 'Local Rental Income from the letting of Fixed Property' will be added to the return and will be repeated according to the number of rental activities inserted in this field.
- Note: A maximum of 20 rental activities can be declared on the return.
- Amounts received/vested in you as a beneficiary of a trust or deemed to have accrued must be excluded and declared separately in the Trust section of the return.
- The following question will display for the 2016 year of assessment and prior years:
  - **'Did you derive income from the letting of fixed property?'**
  - Include amounts received, accrued or deemed to have accrued as a beneficiary of a trust.

### 3.1.7 DIRECTOR OR MEMBER OF A CLOSE CORPORATION

**‘Are you a director of a company or a member of a close corporation?’ (Select ‘Y’ or ‘N’)**

- If yes is selected, the ‘Statement of Local Assets and Liabilities’ section will be added to your return.

### **3.1.8 VOLUNTARY DISCLOSURE PROGRAMME**

**‘Does any declaration in this return relate to an application made under the SARS Voluntary Disclosure Programme?’ (Select ‘Y’ or ‘N’).**

- If yes, the Voluntary Disclosure Programme section will be added to the return.

### **3.1.9 DONATIONS**

**‘Do you want to claim donations made to an approved Public Benefit Organisation in terms of s18A?’ (Select ‘Y’ or ‘N’)**

- If yes, indicate ‘How many Public Benefit Organisations did you donate to?’
- The maximum value allowed is 99.

### **3.1.10 OTHER INCOME AND ALLOWABLE EXPENSES**

**‘Did you receive any other income (Excluding amounts received/accrued as a beneficiary of a trust(s), or deemed to have accrued in terms of s7) and/or incur any other allowable expenses not addressed above?’ (Select ‘Y’ or ‘N’).**

- This refers to all other types of income that is not reflected on an IRP5/IT3(a) certificate.
  - Note: Select yes if you did not receive an IRP5/IT3(a) certificate but you want to claim medical expenses and/or retirement annuity.
  - Where SARS has received third party data from your retirement fund or your medical scheme, this field will be defaulted to yes.
- If you select yes a more comprehensive list of questions will display for completion
- Amounts received/vested in you as a beneficiary of a trust or deemed to have accrued must be excluded and declared separately in the Trust section of the return.
- The following will display for the 2016 year of assessment and prior years:
  - **‘Did you receive any other income and/or incur any other allowable expenses not addressed above?’ (Select ‘Y’ or ‘N’).**
  - Include amounts received/vested in you as a beneficiary of a trust or deemed to have accrued.

## **3.2 COMPREHENSIVE QUESTIONS**

### **3.2.1 FOREIGN INCOME**

**‘Did you receive any foreign income apart from foreign interest and foreign dividend income and excluding foreign capital gain transactions?’ (Select ‘Y’ or ‘N’)**

- If yes, the container for ‘Foreign Income’ and ‘Local Statement of Assets and Liabilities’ will be added to the return.
- Amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be included if the year of assessment is 2016 or prior. From the 2017 year of assessment onwards this information must be excluded and declared separately in the Trust section of the return.

### 3.2.2 CAPITAL GAIN / LOSS

**‘Did you dispose of any local assets attracting capital gain or loss (including cryptocurrency)?’** (Select ‘Y’ or ‘N’).

**‘Did you dispose of any foreign assets attracting capital gain or loss (including cryptocurrency)?’** (Select ‘Y’ or ‘N’)

- If yes to the above questions, indicate ‘How many disposals (shares to be combined as one disposal) took place?’
- You must declare each disposal separately. The return makes provision for a maximum 10 local and 10 foreign disposals.
- If you disposed of shares (and such shares are administered by one single administrator) and you received one advice for the disposal of these shares, the disposals can (for the completion of the return purposes) be regarded as one transaction. For further detail refer to the ‘Capital Gain/Loss’ section in this guide.
- Amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be included if the year of assessment is 2016 or prior. From the 2017 year of assessment onwards, this information must be excluded and declared separately in the Trust section of the return.

### 3.2.3 PARTNERSHIPS

**‘Are you a partner in a partnership(s)?’** (Select ‘Y’ or ‘N’).

- If yes, indicate ‘How many partnerships?’ (Maximum of 20 allowed).
- The partnership container will be added to the return.

### 3.2.4 LOCAL BUSINESS TRADE AND PROFESSIONAL INCOME

**‘Did you derive income from local business trade or profession other than rental income from the letting of fixed property(ies)?’** (Select ‘Y’ or ‘N’)

- If yes indicate ‘How many separate trading activities did you carry on?’
- The return makes provision for a maximum of eight trading activities to be declared. To declare more than eight trading activities, you must add the profits or the losses of similar trades and insert the total amount on the return.
- From the 2016 year of assessment and onwards rental income must be excluded and declared separately under the section for ‘Local Rental Income from the letting of Fixed Property’.
- From the 2017 year of assessment, amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be excluded and declared separately in the Trust section of the return.

### 3.2.5 LOCAL FARMING

**‘Did you participate in any local farming operations’** (Select ‘Y’ or ‘N’)

**‘Did you participate in any farming partnership operations’** (Select ‘Y’ or ‘N’)

- If yes, indicate ‘How many farming partnership operations did you participate in?’
- A maximum of 20 operations is allowed on the return.

### 3.2.6 OTHER TAXABLE RECEIPTS AND ACCRUALS

**'Did you have any receipts and accruals not addressed by the previous questions but excluding amounts that you consider non-taxable?'** (Select 'Y' or 'N')

- If yes, the section for 'Other Receipts and Accruals' will be added to the return
- From the 2017 year of assessment, amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be excluded and declared separately in the Trust section of the return.

### 3.2.7 FOREIGN TAX CREDITS

**'Will you be claiming any foreign tax credits in terms of s6quin (Foreign taxes on income from source within the Republic)?'** (Select 'Y' or 'N')

- This question will only display for the 2016 year of assessment and prior years.
- If yes, the section for 'Foreign Tax Credits' will be added to the return.

**'Were any foreign tax credits refunded/discharged during the year of assessment for which a rebate/deduction was allowed during a previous year of assessment?'** (Select 'Y' or 'N').

- For the 2016 YOA and prior years, the section 'Foreign Tax Credits - South African Sourced Income (already elsewhere included in this return) - s6quin' will be added to the return.
- From the 2017 YOA, the section 'Foreign Tax Credits Refunded / Discharged' will be added to the return.

### 3.2.8 AMOUNTS CONSIDERED NON-TAXABLE

**'Did you receive any income that you consider non-taxable?'** (Select 'Y' or 'N')

- If yes, the 'Amounts considered non-taxable' section must be completed on your return.
- This section makes provision for the declaration of the amount that you consider exempt. For further details please refer to the section in this guide that discusses the residence basis of taxation.
- If you received income that should be exempt in terms of section 10(1)(o), select yes for this question.
- From the 2017 year of assessment, amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be excluded and declared separately in the Trust section of the return.
- Income earned by a resident (natural person) from employment outside South Africa is subject to tax in South Africa. The provisions contained in s 10(1)(o) of the Income Tax Act exempts remuneration of:
  - Any officer or crew member of a ship engaged in the international transportation (for reward) of passengers or goods or in the prospecting, exploration or mining for, or production of, any minerals from the seabed outside the Republic, if such officer or crew member is employed on board such ship solely for purposes of the 'passage' of such ship, for a period or periods exceeding 183 full days (in aggregate) during the year of assessment.
  - Any person in respect of services rendered by that person outside the Republic for or on behalf of any employer if such person was outside the Republic for a period or periods exceeding 183 full days (in aggregate) during any period of 12 months and for a continuous period exceeding 60 full days during that 12 month period.

### 3.2.9 MEDICAL DEDUCTIONS

Note: the medical questions described in [3.1.4](#) above will display under the comprehensive list of questions if you have answered no to the question 'Did you receive income that is reflected on an IRP5 or IT3(a) certificate?'

### 3.2.10 RETIREMENT AND/OR INCOME PROTECTION CONTRIBUTIONS OR RETIREMENT CONTRIBUTIONS

- Note: the retirement related questions described in [3.1.4](#) above will display under the comprehensive list of questions if you have answered no to the question 'Did you receive income that is reflected on an IRP5 or IT3(a) certificate?'

### 3.2.11 VENTURE CAPITAL COMPANY INVESTMENTS

**'Did you invest in SARS approved Venture Capital Companies in exchange for shares during the year of assessment?'** (Select 'Y' or 'N')

- If yes, 'Specify the number of investments made in SARS approved Venture Capital Companies'

**'Were any SARS approved Venture Capital Company shares sold during the year of assessment, for which a tax deduction was allowed?'** (Select 'Y' or 'N').

### 3.2.12 OTHER DEDUCTIONS

**'Did you incur any expenditure that you wish to claim as a deduction that was not addressed by the previous questions?'** (Select 'Y' or 'N').

- If yes, the section for 'Other Deductions' will be added to the return.

## 4 COMPLETING THE RETURN

Your income tax return will be pre-populated with information available to SARS, such as personal particulars (for example name, surname, physical and postal address, banking details, etc.) and information received from third parties (e.g. employers, pension funds, retirement funds and medical schemes).

You must check if the prepopulated information is accurate.

Where a profit or loss source code must be completed, please refer to the Source Code Booklet tool available on the SARS website.

### 4.1 TAXPAYER INFORMATION

SARS will pre-populate the available information on your return. The following information cannot be amended:

- **'Income tax reference number'**
- **'Year of assessment'**: This is the period commencing on 1 March of a particular year to the end of February of the following year.

**Personal details:** You can only update some of your personal information via this section of your return:

- **'Surname'**: This field is mandatory and must be completed
- **'First name'**: This field is mandatory and must be completed
- **'Other name'**: This is an optional field
- **'Initials'**: This is a mandatory field. Indicate your full initials.
- The following fields cannot be updated via your return. If the information is incorrect you will have to contact your nearest SARS branch to change it:
  - **'Date of birth'**
  - **'Identity number'**
  - **'Passport number'**
  - **'Passport Issue Date'**
  - **'Passport Country'**
- **'Marital status'**: This field is mandatory. It is vital that your marital status is completed accurately as it may affect your assessment result (where you received investment and/or rental income or entered into capital gain transactions). Your marital status as at 28 February must be reflected by marking the applicable box with an 'X'
- **'Spouse details'**: If you are 'married in community of property' it is mandatory to complete your spouse's details.

**'Contact Details'**: Your information will be pre-populated in the following fields (if available). Please check to ensure that your contact details are correct. If you utilise the services of a tax practitioner, enter the tax practitioner's contact information in the 'Tax Practitioner Details' section of the return.

- **'Email'**: You are encouraged to provide your email address to assist SARS with its 'Go-Green' initiative, which intends to decrease the use of paper. If a valid email address is provided, your notice of assessment will be emailed to you. If you do not have an email address, select the field *'Mark here with an 'X' if you declare that you do not have an email address'*.
- **'Cell Number'**: You are encouraged to provide your cell number so that SARS can send communications to your cell number. For example: once your return is successfully processed, SARS will automatically send you an SMS with your assessment result. If you do not have a cell phone number, select the field *'Mark here with an 'X' if you declare that you do not have a cell phone number'*.
- **'Home Telephone Number'**
- **'Business Telephone Number'**
- **'Do you confirm that the email and telephone number(s) supplied are correct?'**: Select Y or N

**'Address Details'**: This information will pre-populate on the return. If your residential address is the same as your postal address, mark the applicable box indicating that the addresses are the same. Please note that the address information must be your specific details and not the details of another person such as a tax practitioner who completed the return on your behalf.

**'Tax Practitioner Details'**: If a tax practitioner completes and submits a return on behalf of a taxpayer, provide the following details in the 'Tax Practitioner Details' section of the return:

- **'Tax Practitioner Registration No.'**: The first two characters must be PR followed by 7 alphanumeric characters.
- **'Tax Practitioner Telephone No.'**
- **'Tax Practitioner Email Address'**: If the tax practitioner does not have an email address, select the field *'Mark here with an 'X' if you declare that you do not have an email address.'*

## 4.2 DECLARATION AND SIGNATURE

A personal income tax return is your legal declaration to SARS declaring all the income you have received for a specific tax year (a tax year runs from 1 March of each year until the last

day of February of the following year).

It also indicates the tax you have paid by way of the monthly PAYE deducted by your employer. As such, it allows SARS to make a final assessment on whether you have met all income tax obligations for the tax year and whether you have paid too much tax (in which case you will receive a refund) or too little (in which case you will be required to make an additional payment).

You must ensure that you make a full and accurate disclosure of all relevant information required in the income tax return. Misrepresentation, neglect or omission to submit a return or supplying false information may be subject to penalties and/or additional assessments (together with interest) and/or prosecution.

The Declaration section is dynamic as it allows either the taxpayer or the tax practitioner to sign the declaration.

- If the taxpayer completes the return, the declaration for the taxpayer to sign will display.
- If the tax practitioner completes the return, the declaration for the tax practitioner to sign will display.

It is acceptable to have returns completed by someone else (such as a bookkeeper, accountant, tax practitioner or friend). However, you are ultimately responsible for the declarations on the return.

After completing the return, you must read the declaration on the return and sign accordingly. If you or your tax practitioner is registered as an eFiler and your return is submitted electronically via eFiling, the password received during registration as an eFiler will serve as the digital signature for the return.

- If you are a tax practitioner submitting a return on behalf of your client, you must sign the declaration on the return and in doing so you confirm that:
  - To the best of your knowledge the information provided by the taxpayer to you is correct and complete.
  - All the income and relevant information as provided by the taxpayer to you is disclosed to SARS.
  - You have the necessary receipts and records to support this declaration and will retain these for inspection purposes

In terms of the rules for electronic communication prescribed under section 255(1) of the Tax Administration Act a voice recording is acceptable as an electronic signature, if your return is submitted telephonically with the assistance of a SARS official.

## 4.3 BANK ACCOUNT DETAILS

SARS has adopted a policy of issuing all refunds electronically. It is therefore imperative that your bank account details are correct. SARS will not pay a refund into an account of a third party.

Where your bank details are available to SARS, this information will be pre-populated on your return. To amend the bank details click on the 'Edit' button

If no banking details are pre-populated on your return and you do not have a bank account, mark the field '***I declare that I have no South African bank account***' and select the applicable reason field. If neither this field nor the banking details are completed, the return will be considered as incomplete.

### 4.3.1 BANK DETAIL FIELDS ON THE RETURN

'Bank Account Holder Declaration' – select one of the following:

- 'I use South African bank accounts'
- 'I use a South African bank account of a 3rd party'
- 'I declare that I have no South African bank account'.

**'Reason for No Local / 3<sup>rd</sup> Party Bank Account'** – select one of the following:

- 'Non-resident without a local bank account'
- 'Insolvency/Curatorship'
- 'Deceased Estate'
- 'Shared Account'
- 'Income below tax threshold / Impractical'
- 'Statutory restrictions'
- 'Minor child'.

**'Bank Account Status'** – this field is for SARS use and will be prepopulated by the SARS system.

**'Account number'** – enter your bank account number

**'Branch number', 'Bank Name' and 'Branch Name'** – Select the applicable bank name from the drop-down list. Once selected, the 'branch name' and the 'branch number' fields will be automatically completed on the return. If you cannot find the bank name on the list, select 'Other' and complete all the necessary fields.

**'Account type'** – Indicate if you have a cheque, savings or transmission account

**'Account holder name'** – please insert the account holder name as registered at the bank.

**'Agreement Statement'** – Mark the corresponding statement on the return with an 'X'. This is to declare that the information provided is true and correct in every respect.

#### 4.3.2 DOCUMENTATION REQUIRED FOR BANK DETAIL CHANGES

If you change your banking details on your return it will be verified by SARS. You will be notified if the following documentation is required to verify and effect the banking detail changes on the SARS system:

- A valid original or temporary identity document/passport/driving licence/asylum seekers permit and a certified copy thereof;
- An original bank statement, or ATM/Internet generated statement, or ABSA eStamped statement, not more than three months old that confirms the account holder's legal name, bank name, account number, account type and branch code;
- Where a new bank account was opened and a bank statement cannot be produced, an original letter from the bank not older than one month on the bank's letterhead with the original bank stamp reflecting the date the bank account was opened
- Copy/Original proof of residential address.

Copies certified by authorised persons (e.g. South African Post Office, South African Police Station, Attorneys, etc.) are acceptable. Note: A 'true copy' stamp should always be accompanied by the 'Commissioner of Oaths' stamp.

#### 4.3.3 PROOF OF RESIDENTIAL ADDRESS

The document provided as proof of residential address must reflect your physical address and name (either initials and surname or first name(s) and surname).

If your residence owned by a third party (i.e. the proof of residence is in the name of someone else and not you the taxpayer), a *'Confirmation of Residential/Business Address by Third Party*



(CRA01)' form must be completed and signed by the third party. This form is available on the SARS website.

- If you reside in an area where municipal accounts are not issued, the CRA01 form must be completed by the Chief or Councillor. The ID document or proof of residence of the Chief or Councillor is not required.
- If a letter is obtained from the Ward Councillor, the letter must be from the municipality area in which you reside.

The table below provides a list of documentation that will be accepted by SARS as proof of residential address.

	<b>Document description</b>	<b>Validity Period</b>
<b>1</b>	<b>GENERAL ACCOUNTS:</b>	
1.1	Utility account i.e. rates and taxes, water, electricity or gas account	Less than 3 months old
1.2	Educational Institution account	Less than 3 months old
1.3	Co-op statement (for farmers)	Less than 3 months old
1.4	Medical aid statement	Less than 3 months old
1.5	Mortgage statement from mortgage lender	Less than 6 months old
1.6	Telephone account (landline and cell phone networks)	Less than 3 months old
1.7	e-Toll account	Less than 3 months old
1.8	SABC television license documentation	Less than 1 year old
1.9	Major Retail Accounts	Less than 3 months old
<b>2</b>	<b>GOVERNMENT ISSUED DOCUMENT:</b>	
2.1	Motor vehicle license documentation	Less than 1 year old
2.2	Court order	Less than 3 months old
2.3	Subpoena	Less than 3 months old
2.4	Traffic fine	Less than 3 months old
2.5	Documentation relating to UIF or pension pay-out	Less than 3 months old
<b>3</b>	<b>INSURANCE AND INVESTMENT DOCUMENT:</b>	
3.1	Life assurance document	Less than 1 year old
3.2	Short- term insurance document	Less than 1 year old
3.3	Health insurance document	Less than 1 year old
3.4	Funeral policy document	Less than 1 year old
3.5	Investment statement from share, portfolio or unit trust	Less than 1 year old
<b>4</b>	<b>LEASE / FRANCHISE AGREEMENT:</b>	
4.1	Current and valid agreement	
<b>5</b>	<b>LEGAL DOCUMENTS:</b>	
5.1	Any statutory body, Local Government or any other legal document statement that bears the residential address of the taxpayer	Less than 3 months old

Banking detail changes **cannot** be made via e-mail, fax, post or the SARS Contact Centre. For any further information concerning banking detail changes, you can refer to the 'Change of Banking Details Guide' on the SARS website.

#### **4.4 EMPLOYEE'S TAX CERTIFICATE INFORMATION [IRP5/IT3(a)]**

Note: In terms of Paragraph 13(1) of the Fourth Schedule to the Income Tax Act, 1962, an employer has a legal obligation to provide an employee with an employee's tax certificate.

The employer(s) / institution(s) from which you received income will issue an IRP5/IT3(a)

Employee's Tax Certificate if tax on that income was withheld or if no tax was withheld (in this instance the certificate will contain a reason code for the non-deduction of tax).

- Example: If you were employed by two employers during the year of assessment and you also received payments from a retirement annuity fund, you would have received three IRP5/IT3(a) certificates for the tax year. Your customised income tax return will contain three separate pages for IRP5/IT3(a) information – one for each employer as well as one for the retirement annuity payments received.

The IRP5/IT3(a) data submitted by a third party (e.g. employer, institution, or fund administrator) to SARS via the EMP501 Employer Reconciliation process will be used to pre-populate the information on your income tax return.

If your return is pre-populated check the information to ensure that it is correct. SARS cannot alter or delete any of the pre-populated IRP5/IT3(a) data provided by third parties. If any of the pre-populated data is incorrect you will have to request the third party to make the required corrections. Once the third party resubmits the corrected information to SARS and the reconciliation is successfully processed, the updated information will reflect on your return.

If your information is not pre-populated, complete this section of the return as per the details reflected on the certificate(s) that you received from your employer or relevant institution.

According to the definition of 'provisional taxpayer' in paragraph 1 of the Fourth Schedule, a natural person will be regarded as a provisional taxpayer if he/she derives remuneration from an employer that is not registered for the payment of employees' tax with SARS or if the natural person receives any amount which does not constitute remuneration, allowance or an advance. If the following conditions apply from the 2018 YOA, SARS may convert a person to a provisional taxpayer on assessment:

- IRP5/IT3(a) certificates without a PAYE reference number captured on the return; and
- The income on these IRP5/IT3(a) certificates plus any taxable investment income exceeds the provisional tax threshold

The return caters for a maximum of fifteen IRP5 certificates to be completed. If you received more than fifteen certificates for the year of assessment:

- Complete the details of the first fourteen IRP5 certificates on your ITR12 return (if this information is not already prepopulated)
- For all the remaining certificates:
  - Identify all similar source codes (e.g. income received, deductions, contributions, and tax credits) and combine these amounts
  - Edit the section for the fifteenth IRP5 certificate on your ITR12 and capture the amounts and source codes from the remaining certificates.
- You must retain the certificates for a period of five years after the date of submission of the return, as SARS may request it for verification.

The following are examples of income and/or benefits that will reflect on your IRP5/IT3(a) Employee Tax Certificate:

- Salaries and wages
- Service and fringe benefits
- Allowances
- Overtime
- Options/rights to purchase shares, etc.
- Pensions
- Gratuities/Lump sum payments
- Bonuses
- Restraint of trade payments
- Annuities
- Directors fees

- Incentive awards
- Commission.

#### 4.4.1 INCOME RECEIVED SECTION ON THE EMPLOYEE'S TAX CERTIFICATE

##### **Salaries and Wages:**

Salaries and wages are reflected under code **3601** on the IRP5/IT3(a) certificate received from your employer.

##### **Service and Fringe Benefits:**

Fringe benefits usually refer to non-cash benefits granted to employees, but do not constitute cash payments made. For example, an employee may be offered the use of a company car in lieu of a portion of his cash salary. These fringe benefits will be reflected on the IRP5/IT3(a) certificate by source codes starting with the numbers **38** followed by two more numbers.

##### **Allowances:**

Allowances will be reflected on the IRP5/IT3(a) certificate by source codes starting with the numbers **37** followed by two numbers. Examples: **3701** for travel allowance or **3712** for telephone or cellphone allowance

##### **Overtime:**

Overtime will be reflected under code **3607** on the IRP5/IT3(a) certificate.

##### **Options/Rights to Acquire Marketable Securities:**

Section 8A applies to all rights (including options) acquired by an employee before 26 October 2004. Thereafter such rights are dealt with by section 8C.

Gains made by a director or employee in respect of the exercise, cession or release of a right to acquire marketable securities, i.e. securities, stock, debentures, shares, options or other interests capable of being sold on a stock exchange or otherwise (this also includes shares, etc. in private companies), must be declared as income if that right was awarded either in the capacity of a director or former director, or in respect of services which have been rendered or are still to be rendered by him/her as an employee to an employer.

When the taxpayer exercises his/her right, the employer will apply for a tax directive from SARS to determine the amount of tax to be withheld. The amount to be included in your gross income will reflect under source code **3707** or **3718** on your IRP5/IT3(a) certificate.

In section 8B of the Income Tax Act provision is made for the issuing of shares in terms of a broad-based employee share plan. To promote long-term broad-based employee empowerment, special tax rules were introduced to allow for the tax-free treatment of 'qualifying equity shares' acquired by employees, even though the shares may be acquired without cost or at a discount. In order for a share to qualify it must satisfy two requirements, namely:

- It must be acquired in terms of a broad-based employee share plan
- The total shares received under the plan by the employee may not exceed R50, 000 in value during any five-year period.

When these shares are disposed of, special rules will apply. If you (the employee) sell the shares within five years from the date the shares were granted, your employer will include the proceeds as income on your IRP5/IT3(a) certificate. This amount will be reflected under source code **3717** on your IRP5/IT3(a) Employee Tax Certificate. If you sell the shares after a period of five years, your gain will be of a capital nature and you will have to declare the disposal as a capital gain transaction.

##### **Pensions:**

If you received a pension from the private sector it must be declared if the services or part of the service period was rendered in South Africa. Pensions will reflect under code **3603** on your IRP5/IT3(a) certificate.

If the pension was awarded for services rendered within and outside South Africa, only that

portion of the pension for services rendered in South Africa will be deemed to be from a source within and subject to tax in South Africa.

Pensions awarded by the Government, Transnet, provincial administrations and local authorities are taxable in full.

The following pensions are exempt from tax (**exempt pension**):

- War veteran's pensions [s10(1)(g)]
- Compensation paid under any law in respect of diseases contracted by persons employed in the mining industry [s10(1)(g)]
- Disability pensions paid under section 2 of the Social Assistance Act [s10(1)(gA)]
- Any compensation paid in terms of the Workman's Compensation Act or the Compensation for Occupational Injuries and Diseases Act [s10(1)(gB)(i)]
- Pension paid on death or disablement of an employee in the course of employment due to occupational injury or disease before 1 March 1994, if that employee would have qualified for compensation under the Compensation for Occupational Injuries and Diseases Act, had that injury or disease been sustained or contracted on or after 1 March 1994 [section 10(1)(gB)(ii)].
- Compensation paid for the death of an employee resulting from the course of employment to the extent that the compensation is in addition to the compensation mentioned in section 10(1)(gB)(i) and does not exceed R300 000 [section 10(1)(gB)(iii)].
- Amounts received under the social security system of another country [s10(1)(gC)(i)]
- Any lump sum, pension or annuity received or accrued to a resident from a source outside South Africa for past employment outside South Africa [s10(1)(gC)(ii)].

#### **Gratuities/Lump Sum Payments:**

The code for any payment received in respect of a gratuity or a lump sum will start with the number **39** followed by two more digits. Below are examples of codes on the IRP5/IT3(a) certificate:

- **3901** – A gratuity prior to the 2012 year of assessment or severance benefits from the 2012 year of assessment received from an employer on termination of employment.
- **3922** – Death compensation from the employer.
- **3920** – A lump sum payment received from a retirement fund on resignation or on a withdrawal from the fund or lump sums transferred on resignation (the required deduction in terms of the Second Schedule will be allowed programmatically by SARS when the assessment is finalised).
- **3921** – Commutation of living annuities after 1 March 2009 but prior to the 2012 year of assessment and future surplus payments after 1 March 2009.
- **3915** – Amounts received in respect of Retirement Fund Lump Sum Benefits (on retirement, death, etc.). From the 2012 year of assessment, the commutation of annuities will also be reflected under this code.
- **3907** – Lump sums paid/payable in terms of par (d) of 'gross income' which is not a 'severance benefit' and lump sum payments from unapproved retirement funds. From 1 March 2012 for lump sums paid due to normal termination of service (e.g. resignation or a lump sum paid upon retirement where the employee is below 55 years of age) and Employer Owned Insurance Policy (risk policy) proceeds not exempt in terms of the exclusion in section 10(1)(gG)(i) of the Income Tax Act.
- **3908** – Exempt Employer Owned Policy Proceeds.

#### **Annual Payment:**

This will reflect under code **3605** or **3655** on your IRP5/IT3(a) certificate. Examples include:

- Annual bonus
- Incentive bonus
- Leave pay (on resignation/encashment)
- Merit awards
- Bonus/incentive amount paid to an employee to retain his/her service for a specific period.

### **Restraint Of Trade Payments:**

This amount will reflect under code **3613** on your IRP5/IT3(a) certificate. Any payment received on or after 23 February 2000 in respect of restraint of trade will be regarded as income of the person to whom it is paid. This would apply to any person who:

- Is a natural person. However, from 1 March 2015 it only applies to a natural person in respect of employment or holding of any office (i.e. this does not apply to a natural person who is carrying on trade (other than employment or holding of office))
- Is or was a labour broker as defined in the Fourth Schedule (other than a labour broker in respect of which a certificate of exemption has been issued)
- Is or was a personal service provider as defined in the Fourth Schedule
- Was a 'personal service company' or 'personal service trust as defined in the Fourth Schedule

### **Annuities**

A purchased annuity consists of a taxable and a non-taxable amount. The taxable portion will reflect as code **3611**, whilst the non-taxable portion will reflect as code **3612**. The pension received in respect of a retirement annuity will reflect as code **3610** on your IRP5/IT3(a) certificate.

From the 2021 YOA, any qualifying annuity paid on a regular basis from a provident or provident preservation fund as well as backdated provident or qualifying annuity (from a provident or provident preservation fund) will reflect next to source code **3618**.

### **Director's Remuneration**

This amount will reflect under code **3615** on your IRP5/IT3(a) certificate.

### **Incentive Awards**

These amounts are usually supplementary to a salary and are included in the definition of remuneration contained in the Fourth Schedule to the Income Tax Act. On the IRP5/IT3(a) certificate, the amounts will either be included under code **3601** or alternatively reflect under code **3605** (e.g. annual bonus, leave pay, merit awards).

### **Commission Income**

Section 23(m) prohibits a deduction of expenditure relating to employment or holding of office unless the deduction is specifically permitted in terms of section 23(m). The prohibition of deductions applies to expenses, losses or allowances which relate to the employment of any person or an office held by any person. The term 'employment' refers to an employer-employee relationship. The holding of an office generally flows from an appointment, for example a Minister in the Cabinet or a director of a company, whereas the holding of employment flows from a contract. The prohibition of deductions applies to natural persons only.

A person who is an independent contractor under the common law is therefore not affected by the prohibition of the deductions. The prohibition applies to expenses, losses and allowances that relate to 'remuneration' as defined in the Fourth Schedule to the Act. An employee or office holder who receives two or more streams of income may thus be in a situation where the deduction of expenses, losses or allowances relating to the 'remuneration' stream is prohibited, while it remains deductible if it relates to another trade.

The following expenses and allowances may still be deducted:

- Any contribution to a pension or retirement annuity fund may be deducted from the income of that person. Section 11(n) applies to the 2016 year of assessment and prior years and allows deductions for qualifying current contributions and arrear contributions made to a retirement annuity fund. With effect from 1 March 2016 deductions in respect of pensions, retirement annuity funds and provident funds is covered by section 11F.
- Expenses in terms of section 11(nA) and 11(nB), i.e. a refund of any amount (including voluntary payments) received or accrued in respect of services rendered or to be rendered or any amount received in respect of or by virtue of employment or holding of office as was included in the taxable income of that person or a refund of a restraint of

- trade payment received by him/her.
- Any allowance or expense which may be deducted from the income of that person in terms of section 11(c), (e), (i) or (j) - legal expenses, wear and tear, bad debts and provision for doubtful debts.
- For years of assessment prior to 2015, any deduction which is allowed under section 11(a) in respect of any premium paid by that person in terms of an insurance policy:
  - That covers a person solely against the loss of income as a result of illness, injury, disability, or unemployment.
  - In respect of which all amounts in terms of that policy constitutes or will constitute income as defined.
- Any expenses incurred to maintain a home office. Such expenses will only be considered in special circumstances. Please refer to the section in this guide dealing with the deductions for a home office.

An agent or representative whose remuneration is normally derived mainly (more than 50%) in the form of commission based on sales or turnover that are attributable to him/her, is excluded from the provisions of section 23(m). This means that should the commission income exceed 50% of remuneration, the expenses incurred may be considered as a deduction. For purposes of section 23(m) the term 'agent', 'representative' and 'commission' should be interpreted as follows:

- 'Agent' – a person authorised or delegated to transact business for another
- 'Representative' – one who represents another or others
- 'Commission' – a percentage of sales or turnover of the person on behalf of whom the agent or representative is acting.

To determine which part of your remuneration does not relate to commission income, calculate the total amount of remuneration and exclude the non-taxable reimbursive allowances. The following example illustrates this.

<b>Example:1</b>			
A taxpayer receives the following income:			
3601	Salary	R 276,000	
3605	Annual payment	R 40,000	
3705	Subsistence - not taxable	R 3,000	(reimbursive amount)
3713	Other allowances	R 10,000	
3810	Medical benefit	R 4,500	
3606	Commission	R 300,000	
3699	Gross remuneration	R 630,500	
<p>To determine whether section 23(m) should be applied, calculate 50% of the gross remuneration and compare it to the commission income (i.e. code <b>3606</b> – R300 000). Note that the amount of R3 000 (code <b>3705</b>) in respect of subsistence reimbursements is not included in the calculation of gross remuneration.</p> <p>In the example above the gross remuneration (code <b>3699</b>) is R630 500. R315 250 represents 50% of the gross remuneration and is compared to the commission amount actually received. As the commission income is only R300 000 and is less than R315 250, deductions in terms of section 11 will not be considered and 23(m) restrictions will be applicable.</p>			
<b>Example:2</b>			
A taxpayer receives the following income:			
3601	Salary	R 276,000	
3605	Annual payment	R 40,000	
3705	Subsistence - not taxable	R 3,000	(reimbursive amount)
3713	Other allowances	R 10,000	
3810	Medical benefit	R 4,500	
3606	Commission	R 350,000	

3699      Gross remunerations      R 680,500

In the example above the gross remuneration (code 3699) is R680 500. This amount refers to the taxable retirement funding plus the taxable non-retirement funding income and excludes the non-taxable subsistence reimbursement (code 3705).

R340 250 represents 50% of the gross remuneration and must be compared to the commission received. As the commission income of R350 000 is greater than R340 250, section 23(m) will not be applicable and the deductions claimed by the taxpayer may be considered.

#### **Example:3**

A taxpayer received pensionable salary of R40 000 and commission income of R130 000 on sales. The taxpayer contributed R3 000 to an approved pension fund and incurred commission related business expenses of R70 000.

Since more than 50% of the taxpayer's remuneration consists of commission, the restrictions of section 23(m) do not apply. The R70 000 commission-related expenses may therefore be considered. The pension fund contribution is unaffected by the introduction of section 23(m) and remains deductible.

#### **Example:4**

A taxpayer received pensionable salary of R60 000 and commission of R60 000 on sales. The taxpayer contributed R4 500 to a pension fund and incurred commission related expenses of R10 000.

Since not more than 50% of the taxpayer's remuneration consists of commission, the restrictions of section 23(m) apply and only the expenses not prohibited in terms of section 23(m) are deductible from the commission.

In the case where the taxpayer worked for two employers during the year and he/she received salary income from the one and commission income from the other and the employers are not connected to one another, the contractual arrangements from unconnected sources will be considered on their own.

#### **Example:5**

For the period 1 March to 31 August of the tax year a taxpayer received salary income of R300 000 from employer A, of which cell phone airtime expenses of R300 were incurred. For the period 1 September to 28 February the taxpayer received commission income of R250 000 from employer B (which is not connected to employer A) and incurred commission-related expenses of R30 000.

In this case, section 23(m) will prohibit certain deductions related to the remuneration received from employer A (salary), but does not prohibit the deduction of expenses incurred related to the income received from employer B (commission income). The commission-related expenses of R30 000 may be considered as a deduction, but the R300 cell phone airtime expenses may not be claimed.

The following exceptions apply:

- **Mainly and normally in the form of commission:**  
A taxpayer receives remuneration which includes commission income, and although the commission income is less than 50% of the gross remuneration received, he/she usually derives remuneration mainly in the form of commission (in excess of 50%). In other words, the taxpayer's remuneration is normally in the form of commission which is in excess of 50% of gross remuneration, with the exception of the relevant year of assessment, the deductions claimed in the production of income may be considered. Documentation proving that the income is normally mainly received in the form of commission must be retained for a period of five years after the date of the submission of the return.
- **Non-executive directors:**  
Non-executive directors are holders of an office and are therefore subject to the limitations imposed by section 23(m) if the expenses, losses or allowances relate to that

office, and they have received remuneration as defined in the Fourth Schedule to the Act in respect of that office.

If they render the services independently of the person to whom they are rendering the service, they are independent contractors and section 23(m) does not apply.

For further information please refer to the Interpretation Note 13 (Limitation of deductions for employees and office holders) available on the SARS website.

#### 4.4.2 DEDUCTIONS/CONTRIBUTIONS/INFORMATION

This section must be completed with the amounts reflected in the 'Deductions/Contributions/Information' section of your Employee's Tax Certificate.

A 'Total Deductions/contributions' field under source code **4497** is included in the return.

- If you are completing your return via eFiling the total amount will be calculated automatically from the deduction and contribution amounts that you have inserted.
- If you are completing your return manually, the total amount that you must enter here is calculated by adding all the deductions/contributions entered on the return (please ensure this amount is calculated correctly).

#### 4.4.3 TAX CREDITS AND/OR EMPLOYER/EMPLOYEE CONTRIBUTION

The following descriptions and codes appear in this section of the return. Insert the amounts (rands and cents) as reflected on your Employee Tax Certificate:

- **4102** : PAYE
- **4115** : PAYE on lump sum benefit
- **4141** : Employee and Employer UIF contribution
- **4142** : Employer SDL contribution
- **4149** : Total Tax, SDL and UIF
- **4116** : Medical Scheme Fees Tax Credit
- **4120** : Additional Medical Scheme Fees Tax Credit

Where no employees' tax was withheld/deducted, insert the reason code next to **4150** '*Reason for non-deduction of Employees' tax*' on the return. The code for non-deduction of employees' tax will be indicated on your Employee's Tax Certificate:

- **01** : Director's remuneration prior to 2013 YOA (invalid from 01 March 2002)
- **02** : Earn less than the tax threshold
- **03** : Independent contractor
- **04** : Non-taxable earnings (including nil directives)
- **05** : Exempt foreign employment income
- **06** : Director's remuneration – income determined in the following tax year
- **07** : Labour broker with a valid IRP30
- **08** : No Tax to be withheld due to Medical Scheme Fees Tax Credit allowed
- **09** : Par 11A(5) Fourth Schedule notification – No withholding possible

#### 4.4.4 PAY PERIODS

The following must be completed in the relevant fields:

- '**Periods in year of assessment**' (can be indicated in months or days)
- '**No of periods that you have worked**' during the year of assessment (can be indicated in months or days)
- '**Period employed from**' during the year of assessment (in the format CCYYMMDD)



- 'Period employed to' during the year of assessment (in the format CCYYMMDD).

#### 4.4.5 DIRECTIVE NUMBERS

If you insert a tax directive number or you declare a lump sum source code that requires a tax directive number, the IRP5 certificate number will become mandatory.

## 5 TAXPAYER INFORMATION: INCOME

### 5.1 INVESTMENT INCOME (EXCLUDING EXEMPT DIVIDENDS)

If you received investment income, it is important that you indicate your marital status correctly on the first page of your return as it may impact the calculation of your assessment. The **total** amount of your investment income must be declared even if you are married in community of property. SARS will do the necessary apportionment.

If you are married in community of property mark the applicable box on the return to indicate if any amounts declared must be excluded from the communal estate.

For the 2016 year of assessment and prior years, amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be included in the investment section of the return. From the 2017 year of assessment onwards this information must be excluded and declared separately in the Trust section of the return.

You are liable for tax on any income received by/accrued to/in favour of any of your minor children if such income arises from a donation, settlement or other disposition by:

- You (the taxpayer)
- Any other person (if you made a donation, settlement or gave some consideration directly or indirectly in favour of the other person or his/her family).

A minor child will, however, be liable for tax on income which is received by (or accrues to) him/her in his/her own right. Example: bona fide salary and investment income derived from his/her own funds (from money inherited by him/her or received as a gift from any person other than the person mentioned in (a) and (b) above or from any other source). Should a minor child's taxable income be sufficient to render him/her liable for tax, you (as the parent/legal guardian) must register him/her for income tax purposes and complete and submit a return on his/her behalf.

If you received investment income (e.g. local interest or foreign interest) from more than 10 institutions, consolidate the additional income amounts and add it to the amount displayed for the 10th institution on the return. Please note the amount prepopulated for the 10th institution on your return may be increased, but it may not be reduced.

#### 5.1.1 LOCAL INTEREST:

If you are married in community of property, your total amount of local interest income must be declared in this section. This will include your own income and that of your spouse and/or minor children. The exemptions as well as the 50% split will be applied programmatically by SARS.

If you are married in community of property mark the applicable box on the return to indicate if any amounts declared must be excluded from the communal estate. In this instance, the 50% split will not be applied, only the exemptions. Should the assessment be incorrect an objection should be lodged

For the 2019 YOA and prior years insert the total amount received in respect of local interest next to source code **4201**. Any interest received from SARS must be declared separately in the field provided.

From the 2020 YOA the total amount for **'Local interest'** will be auto-calculated

- The local interest per institution will be prepopulated with third party data received. If any of the prepopulated information is incorrect, you must contact the third party (e.g. your bank) to rectify and resend the correct data to SARS
- To declare additional amounts, click on the 'Add' button and complete the fields for each institution. If you received **local interest from more than 10 institutions**, consolidate the additional amounts and add it to the amount for the 10th institution on the return.

### 5.1.2 SARS INTEREST:

Interest that a taxpayer received from SARS (under any Tax Act) must be included in gross income and declared in the year of assessment in which it was received. On assessment, the system will allocate the interest exemption proportionally between other local interest and SARS interest.

For the 2019 year of assessment insert the SARS interest received next to source code **4237**.

From the 2020 YOA, the SARS interest received per tax type will be prepopulated on the return.

- Please note the amount prepopulated on your return may be increased, but it may not be reduced.
- The total SARS interest received for the various tax types will be auto-calculated (source code **4237**).

If the taxpayer is married 'In community of property', the total SARS interest received by both spouses must be reflected next to code 4237. A taxpayer cannot opt to exclude SARS interest from the communal estate, as it is not applicable.

#### Example:

Mr and Mrs X are married in community of property. For the 2019 year of assessment, Mrs X received R100 000 interest from SARS and R60 000 interest from Absa which must be excluded from the communal estate. Mr X received R50 000 interest from Investec.

#### Mrs X must declare the following on her return:

4201	Local Interest	R 110 000	(*R60 000 from ABSA plus R50000 earned by spouse)
4237	SARS Interest	R 100 000	

#### Mr X must declare the following on his return:

4201	Local Interest	R 50 000	(*R60 000 earned by spouse not declared as it is excluded from the communal estate)
4237	SARS Interest	R 100 000	(* SARS interest earned by spouse)

From 1 March 2019 (i.e. 2020 YOA), any SARS interest that was taxed and subsequently repaid to SARS by the taxpayer can be claimed as a deduction (in the YOA it was repaid) under source code 4052 on the return. This deduction is limited to the taxable portion of interest included in the previous year of assessment taxable income.

### 5.1.3 FOREIGN INTEREST:

For the 2019 YOA and prior years complete the following:

- **'Foreign interest'** received next to source code **4218**.
- **'Foreign tax credits on foreign interest'** next to source code **4113**. If any withholding tax was paid on the foreign interest received, this amount will appear on the certificate received from the institution administering the investment. Declare the gross amount of withholding tax.

From the 2020 YOA the total amounts for **'Foreign interest'** and **'Foreign tax credits on foreign interest'** will be auto-calculated

- The foreign interest and foreign tax credits per institution will be prepopulated with third party data received. If any of the prepopulated information is incorrect, you must contact the third party to rectify and resend the correct data to SARS
- To declare additional amounts, click on the 'Add' button and complete the fields for each institution. If you received **'foreign interest' and 'foreign tax credits on foreign interest' from more than 10 institutions**, consolidate the additional amounts and add it to the amount for the 10th institution on the return.

#### 5.1.4 FOREIGN DIVIDENDS:

For the 2019 YOA and prior years complete the following:

- **'Gross foreign dividends subject to SA normal tax'** next to source code **4216**. The exemption in terms of section 10B(3) on foreign dividends subject to SA normal tax will be applied programmatically by SARS. The exemption is calculated in terms of the formula  $A = B \times C$  (ratio of 26/41).
- **'Foreign tax credits on foreign dividends'** next to source code **4112**. If any withholding tax was paid on the foreign dividend received, this amount will appear on the certificate received from the institution administering the investment. Declare the gross amount of withholding tax.

From the 2020 YOA the total amounts for **'Gross foreign dividends subject to SA normal tax'** and **'Foreign tax credits on foreign dividends'** will be auto-calculated

- The foreign dividends and foreign tax credits per institution will be prepopulated with third party data received and cannot be deleted from the return. If any of the prepopulated information is incorrect, you must contact the third party to rectify and resend the correct data to SARS
- To declare additional amounts, click on the 'Add' button and complete the fields for each institution. If you received **'Gross Foreign Dividends subject to SA normal tax'** and **'Foreign tax credits on foreign dividends' from more than 10 institutions**, consolidate the additional amounts and add it to the amount for the 10th institution on the return.

**Note:** You can only claim foreign tax credits on foreign dividends (4112) if you have declared a foreign dividend income (4216) that is greater than zero.

#### 5.1.5 DISTRIBUTION FROM A REAL ESTATE INVESTMENT TRUST (REIT)

Real Estate Investment Trusts (REITs) are companies listed on the JSE that manage a portfolio of immovable property assets. The taxation of a REIT is regulated in section 25BB on the Income Tax Act. Any person can invest in a REIT. Dividends distributed by a REIT is subject to normal tax in the hands of the shareholder (s10(1)(k)(i)(aa) of the Income Tax Act), but is exempt from Dividends Tax (refer to section 64F(l) of the Income Tax Act).

For the 2019 YOA and prior years if you received distributions from a Real Estate Investment Trust (REIT), insert the **total** income amount next to source code **4238**.

From the 2020 YOA the total income amount for **'Distribution of Real Estate Investment Trust (REIT)'** will be auto-calculated

- The distribution per institution will be prepopulated with third party data received and cannot be deleted from the return. If any of the prepopulated information is incorrect, you must contact the third party to rectify and resend the correct data to SARS
- To declare additional distributions, click on the 'Add' button and complete the fields for

each institution. If you received distributions from more than 10 institutions, consolidate the additional amounts and add it to the amount for the 10th institution on the return.

For marriages in community of property, the SARS system will apply the 50% split.

#### 5.1.6 DIVIDENDS DEEMED TO BE INCOME IN TERMS OF s8E AND s8EA

In terms of section 8E dividends and foreign dividends accrued to or received by a person is deemed to be income if the dividend or foreign dividend is paid on a hybrid equity instrument. In terms of section 8EA, any dividend or foreign dividend accrued to or received by a person is deemed to be income if the share is a third-party backed share at any time during the year of assessment.

For the 2019 YOA and prior years insert the amount for '**Dividends deemed to be income in terms of s8E and s8EA**' next to source code **4292**.

From the 2020 YOA the total for '**Dividends deemed to be income in terms of s8E and s8EA**' will be auto-calculated

- The dividends per institution will be prepopulated with third party data received and cannot be deleted from the return. If any of the prepopulated information is incorrect, you must contact the third party to rectify and resend the correct data to SARS
- To declare additional dividends, click on the 'Add' button and complete the fields for each institution. If you received dividends from more than 10 institutions, consolidate the additional amounts and add it to the amount for the 10th institution on the return

#### 5.1.7 FOREIGN INCOME (EXCLUDING INVESTMENT INCOME AND CAPITAL GAINS TAX)

Complete the applicable line items in this section as per the relevant amounts in the foreign financial statements/certificates.

Amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be included if the year of assessment is 2016 or prior. From the 2017 year of assessment onwards, this information must be excluded and declared separately in the Trust section of the return.

The following appear in this section:

- **4288** : 'Foreign Rental (from the letting of fixed property(ies)) – Profit'
- **4289** : 'Foreign Rental (from the letting of fixed property(ies)) – Loss'
- **4121** : 'Foreign Tax Credits on Foreign Rental Income'
- **4222** : 'Business/trading – profit (excluding rental income derived from the letting of fixed property(ies))'
- **4223** : 'Business/trading – loss (excluding rental income derived from the letting of fixed property(ies))'
- **0192** : 'Farming – profit'
- **0193** : 'Farming – loss'
- **4278** : 'Royalties – profit'
- **4279** : 'Royalties – loss'
- **4230** : 'Controlled Foreign Company (CFC) – share of profit' (Only your share of the profit from a CFC must be completed here)
- **4235** : From the 2021 YOA this field will display as 'Income received from foreign employment services reflected on a South African IRP5/IT3(a) certificate subject to tax outside the RSA and the s10(1)(o)(ii) exemption **does not apply**'
  - For the 2020 and prior YOA this field will display as 'Income reflected on a South African IRP5/IT3(a) certificate that was subject to tax outside the RSA'.
- **4228** : 'Other – profit (excluding rental from the letting of fixed property(ies))'
- **4229** : 'Other – loss (excluding rental from the letting of fixed property(ies))'
- **4111** : From the 2021 YOA this field will display as 'Other Foreign Tax Credits (excluding Rental from the letting of fixed property(ies) and income received from foreign

employment services **not** reflected on a South African IRP5/IT3(a) certificate, subject to tax outside RSA and the s10(1)(o)(ii) exemption applies'

▫ For the 2020 and prior YOA this field will display as 'Other Foreign Tax Credits (Excluding Rental from the letting of fixed property(ies))'

- **4259** : 'Income received from foreign employment services not reflected on a South African IRP5/IT3(a) certificate, subject to tax outside RSA and the s10(1)(o)(ii) exemption applies' - this is applicable from the 2021 YOA
- 'Foreign Tax Credit on income received from foreign employment services not reflected on a South African IRP5/IT3(a) certificate, subject to tax outside RSA and the s10(1)(o)(ii) exemption applies' – this is applicable from the 2021 YOA

All foreign income must be declared in South African currency. Although financial statements drawn up in another currency are acceptable as supporting documents, if so requested by SARS it must be translated to South African currency.

#### **Foreign Currency Translation:**

A natural person (that is a resident) who derives income measured in a foreign currency may, in translating the taxable income to Rands, make an election between either the spot rate or the average exchange rate for the relevant year of assessment. Where the information you supplied was in a foreign currency, the average exchange rates can be used for conversion to South African currency.

- You can obtain the average exchange rates on the SARS website. Note: only the main currencies are addressed.
- If the exchange rates of another country are applicable, you can contact any of the local merchant banks.

#### **Proof of payment of foreign taxes:**

The following will be accepted as proof of payment of foreign taxes if requested by SARS:

- Where foreign tax has been withheld at source – the original documentation issued by the applicable institution
- Where foreign tax has not been withheld at source – an assessment or receipt issued by the relevant tax authority.

#### **Limitation of foreign credits (section 6quat):**

Foreign tax credits will be limited to the South African tax payable in relation to the foreign income received by applying the following formula:

$$\frac{\text{Foreign taxable income} \times \text{Normal tax payable}}{\text{Total taxable income}}$$

If a taxpayer received foreign income, the allowable deductions for donations and retirement annuity fund contributions will be proportioned in the ratio of foreign and local income to the total income before offsetting the abovementioned deductions.

For further details, please refer to:

- Interpretation Note No 18: Rebates and Deduction for Foreign Taxes on Income
- Interpretation Note No. 16 : Exemption from Income Tax - Foreign Employment Income

#### **5.1.8 EXEMPTION FOR INVESTMENT INCOME**

Section 10(1)(i) provides only for an exemption of interest received from a source in the Republic. Foreign dividends and foreign interest are therefore no longer exempt under this section.

The following amounts must be declared in the section '**Amounts considered non-taxable**' of your return:

- Exempt local and foreign dividends exempt in terms of section 10B(2).
- Interest earned by non-resident in terms of section 10(1)(h).

All investment income that you or your minor children received must be declared (including investment income not been paid but utilised, accumulated, or re-invested for your own or your minor children's benefit). Where interest is claimed as a deduction against investment income received, full particulars (i.e. amounts invested/borrowed, interest rates, date of each loan and investment) must be retained for a period of five years after submission of the return.

Distributions from a Real Estate Investment Trust (REIT) do not qualify for interest exemption.

## 5.2 FOREIGN TAX CREDITS

Foreign tax paid on income that is taxable in South Africa may be deducted from the South African tax on that income. This is done in terms of the following provisions:

- **Section 6quat:** This refers to a foreign tax rebate in respect of foreign tax on income from a non-South African source.  
Section 6quat(1) provides relief for foreign taxes proved to be payable on income derived from a foreign source that is included in a resident's taxable income.  
Foreign taxes falling within this category do not qualify for the section 6quat(1C) deduction or the section 6quin rebate (see below).
- **Section 6quin:** This refers to a foreign tax rebate in respect of foreign tax withheld on income from a South African source.  
Foreign taxes falling within this category may also qualify for a deduction under section 6quat(1C). In these circumstances the taxpayer may choose the rebate under section 6quin or the deduction under section 6quat(1C), not both.  
Note: This is only applicable to the 2016 year of assessment and prior years.
- **Section 6quat1(C):** Under this section, a resident may claim foreign taxes, that do not qualify for the section 6quat(1) rebate, as a deduction in determining taxable income. That is, essentially, foreign taxes payable on South African-sourced amounts.

A resident qualifying for a section 6quat(1C) deduction may also qualify for a rebate under section 6quin when foreign taxes are paid on South African-sourced service income. In these circumstances the resident can elect to claim the foreign taxes as a deduction under section 6quat(1C) or as a rebate under section 6quin, not both.

Section 6quin is narrower than section 6quat(1C) as it only caters for foreign taxes paid on South African-sourced income from **services** while section 6quat(1C) caters for foreign taxes proved to be payable on **any amounts** of South African-sourced income

In contrast to sections 6quat(1) and 6quat(1C), section 6quin provides for a foreign tax rebate even if a resident has a right of recovery of the foreign tax payable by the resident. However, should the resident receive a refund of the foreign tax withheld, or be discharged from a liability to pay such foreign tax, the amount refunded or discharged is treated as an amount of normal tax payable by the resident

Note: Section 6quin has been deleted with effect from 1 January 2016 and is only applicable to the 2016 year of assessment and prior years.

For further details, refer to Interpretation Note No 18: Rebates and Deduction for Foreign Taxes on Income on the SARS website.

### 5.2.1 FOREIGN TAX CREDITS – SOUTH AFRICAN SOURCED INCOME – S6QUIN

This section will only display for the 2016 year of assessment and prior years.

S6quin provides for a tax credit to be claimed in respect of tax withheld or imposed by a foreign country. To qualify for this rebate you must submit the return of Foreign Tax Withheld to SARS and retain the proof of:

- The return of Foreign Tax Withheld (FTW01) and the relevant material in respect of foreign tax withheld must be sent to SARS within 60 days from the date the tax was withheld or paid. The return must be emailed to [6quin@sars.gov.za](mailto:6quin@sars.gov.za)
- The Return of Foreign Tax Withheld (FTW01) can be downloaded from the SARS website.
- The amount of income must be from a source within the Republic and received by or accrued to a resident for services rendered.
- The tax credit may be in respect of an amount of tax levied by any sphere of the government of any country -
  - Other than the Republic, and
  - With which the Republic has concluded a Double Tax Agreement (DTA).
  - Where a DTA is not concluded between the Republic and the other country a tax credit may also be in respect of the amount of tax imposed in terms of the laws of that country.

Complete the following amounts on your return:

- **'Taxable income from services rendered in South Africa taxed outside the RSA'**
  - This amount must have been declared as taxable income elsewhere in this return as this section is only used by SARS to calculate the allowable foreign tax credit applicable to this amount.
- **'Was the declaration of foreign tax withheld (FTW01) submitted to the Commissioner within 60 days?'** (Select 'Y' or 'N')
- **'Please confirm that the amount was not claimed as a deduction in terms of s6quat(1C)?'** (Select 'Y' or 'N')
- **'Foreign tax credits'** (source code **7456**)
  - The amount must be converted to the rand value on last day of the year of assessment by applying the average exchange rate for that year of assessment.

## 5.2.2 FOREIGN TAX CREDITS – REFUNDED / DISCHARGED

A section 6quat deduction reduces the taxable income of a South African resident. This in turn reduces the normal tax liability of the taxpayer. Where a South African resident claimed a deduction for foreign tax paid/payable in terms of section 6quat and in a subsequent year of assessment the foreign tax was refunded or he/she was discharged from the applicable tax liability, then the amount that was discharged (limited to the amount that was originally claimed) will be deemed to be an amount of normal tax payable by that taxpayer in the subsequent year of assessment.

Complete the following fields on your return:

- **'Specify the portion of the amount so refunded/discharged as was previously allowed by SARS as a rebate'**
- **'Specify the portion of the amount so refunded / discharged as was previously allowed by SARS as a deduction in terms of s6quat(1C) from a South African source of income'** – source code 4249.
- **'Specify the portion of the amount so refunded / discharged as was previously allowed by SARS as a deduction in terms of s6quat(1C) from foreign income'** – source code 4291.

### 5.3 TRUST INCOME DISTRIBUTED TO YOU, VESTED IN YOU AS A BENEFICIARY OR DEEMED TO HAVE ACCRUED IN TERMS OF S7

If you received income from a trust or income accrued to you as a beneficiary of a trust, or you have a vested interest in an asset held by a trust or a capital gain is made by a trust vested in you, the income received, accrued or deemed to have been received/accrued from the trust must be declared on your return.

From the 2017 year of assessment onward, declare this income separately in the 'Trust Income' section that has been added to the return (e.g. interest income received must be declared next to source code 4201 in the 'Trust Income' section of the return).

For years prior to 2017, declare the income in the specific part of the return relating to the type (source) of income prior to the distribution by the trust (e.g. interest income received must be declared next to source code 4201 in the 'Investment Income' section of the return).

Complete the following information on your return:

- **'Trust Name'**
- **'Trust Registration Number'**
- **'Trust Tax Reference Number'**
- **'Local Remuneration'**
  - If an income amount is entered, insert the income source code.
  - The source code must fall within the following range: 3601-3606, 3616, 3617 and 3667.
- **'Local Annuities'** – if an income amount is entered, insert the income source code (3610 or 3611).
- **'Local Interest'** – 4201
- **'SARS Interest'** – 4237
- **'Distribution from Real Estate Investment Trust(s) (REIT)'** – 4238
- **'Local Capital Gain/Loss'** – if an amount is entered, insert the source code (4250 or 4251)
- **'Local Rental Income from the letting of fixed property(ies)'** – 4210
- **'Dividends deemed to be income in terms of s8E and s8EA'** – 4292
- **'Local Business and trading Income (excluding Rental Income from letting of fixed property(ies) and income from Farming Operations)'** – if an amount is entered, insert the source code
- **'Income from Local Farming Operations (IT48)'**
  - If an amount is entered, insert the source code
  - This amount will auto-populate in the new 'Income from Local Farming Operations (IT48) distributed by a trust(s)' on the IT48.
- **'Deemed Annuity'** – 3611
- **'Other Local Income'**
  - If an amount is entered, insert the source code
- **'Foreign Interest'** – 4218
- **'Foreign Tax credits on foreign Interest'**- 4113
- **'Foreign Dividends'** – 4216
- **'Foreign Tax credits on foreign dividends'** – 4112
- **'Foreign Capital Gain/Loss'** – if an amount is entered, insert the source code (4252 or 4253)
- **'Foreign Tax credits i.r.o capital gain/loss'** – 4114
- **'Foreign Farming'** – 0192
- **'Foreign tax credits on foreign farming income'** – 4119
- **'Imputed Net Income from Controlled Foreign Companies (CFC)'** – 4276
- **'Foreign Tax Credit on Imputed Net Income from Controlled Foreign Companies (CFC)'** – 4122
- **'Other Foreign Income'** – 4220
- **'Foreign tax credits on foreign other income'** – 4110
- **'Amount Considered Non-Taxable'**



## 5.4 CAPITAL GAIN/LOSS (CGT)

CGT provisions became effective from 1 October 2001. In order to give effect to the proposals relating to Capital Gain Tax (CGT), an Eighth Schedule was added to the Income Tax Act. This schedule determines a taxable capital gain or assessed capital loss and section 26A of the Act provides that a taxable capital gain is included in taxable income.

All capital gain transactions must be declared. Local and foreign transactions should be declared separately, with the exception of the disposal of shares which can be grouped together per certificate received.

The primary residence exclusion is applicable to those persons who occupy the residence as their primary residence. The exclusion amount must be inserted if you complete the return manually. The exclusion will be populated on the return if it is completed and filed electronically. An auto calculation will take place.

Amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be included if the year of assessment is 2016 or prior. From the 2017 year of assessment onwards this information must be excluded and declared separately in the Trust section of the return.

Section 20A(6)(b) permits a ring-fenced assessed loss to be set off against the taxable capital gain once the trade has ceased and the asset that was used in carrying on the trade is disposed of. For more information on how to declare this on your return, please refer to the 'Local Business, Trade and Profession' section of this guide.

If you are married in community of property, the full amounts relating to proceeds, base cost and exclusion/roll-over (excluding annual exclusions) in respect of disposal(s) for both you and your spouse must be declared and SARS will programmatically apply the 50% apportionment. If any amounts must be excluded from the communal estate, mark the applicable box on the return to indicate this. In this instance, the 50% split will not be applied. Should the assessment be incorrect an objection should be lodged.

If you are married out of community of property, only your own disposals must be declared.

For more detailed information refer to the 'Comprehensive Guide to Capital Gains Tax' available on the SARS website.

### 5.4.1 DETERMINING A CAPITAL GAIN OR A CAPITAL LOSS

A CGT event is triggered by the disposal of an asset. Unless such disposal (or deemed disposal) occurs, no gain or loss arises. CGT applies to all assets disposed of on or after 1 October 2001 (valuation date). Only the gain or loss attributable from 1 October 2001 to date of disposal will be subject to the CGT.

- An asset is defined as widely as possible and includes any property of any nature and any interest therein
- A disposal covers any event, act, forbearance, or operation of law, which results in a creation, variation, transfer, or extinction of an asset. It also includes certain events treated as disposals, such as the change in the use of the asset. (Paragraphs 65 and 66 of the Eighth Schedule to the Income Tax Act make provision for the election of tax relief in respect of reinvestment and involuntary disposals in respect of assets disposed of on or after 22 December 2003.
- Once an asset is disposed of, the amount that is received by (or which accrues to) the seller of the asset constitutes the proceeds/income from the disposal.
- The base cost of the asset is generally the expenses that were actually incurred in obtaining the asset, together with the following:

- Expenses directly related to the asset's improvement
  - Expenses and direct costs in respect of its acquisition and disposal of the asset
  - Certain holding costs.
- The base cost does not include any amounts otherwise allowed as a deduction for income tax purposes.

Cryptocurrencies are not official South African legal tender and is also not widely used and accepted in as a medium of payment or exchange in South Africa. As a result, SARS does not regard cryptocurrencies as being a currency. The definition of financial instruments in the Income Tax Act has been extended to include cryptocurrencies. Any capital gain or loss realised on the disposal of cryptocurrencies must be declared in this section of the return

#### 5.4.2 WHAT IS THE BASE COST OF AN ASSET HELD ON 01 OCTOBER 2001?

In order to exclude the portion of the gain relating to the period before 1 October 2001, any **one** of the following methods of calculation may be used:

- 20% of [the proceeds upon realisation less post-valuation date expenditure]
- Market value of the asset as at 1 October 2001 (the 'valuation date')
- Time apportionment method.

The Act prescribes various requirements that apply when the **market value method** is used:

- **Time limit for performing valuations** – All valuations should have been done by 30 September 2004. Therefore, if you have a valuation certificate that was issued after 30 September 2004, such valuation certificate cannot be used for the determination of the base cost of an asset.
- **Retention periods for valuation certificates** – Should the market valuation of base cost method be adopted, the valuation certificate must be retained for a period of five years after the submission date of the return in which the disposal of the asset is declared.
- **Loss and gain limitation rules** – Certain rules, which are beyond the scope of this guide, are in place to limit losses and gains when the market value is used. These rules prevent the creation of fictitious losses from inflated valuations and prevent hardship when assets are sold above market value on 1 October 2001, but below original cost. More information can be obtained in the **Comprehensive Guide to Capital Gains Tax** available on the SARS website.

#### 5.4.3 TIME APPORTIONMENT METHOD:

This method may be used when a person/entity has records of the date of acquisition and the cost of the asset. The following formula is used to determine the time apportionment base cost of the asset:

$$\text{Original cost} + \frac{[\text{Gain} \times \text{Period held before valuation date}]}{\text{Period held before and after valuation date}}$$

Improvements or additions made before 1 October 2001 are assumed to have taken place when the asset was acquired. The period before 1 October 2001 is limited to 20 years. Additions to an asset after valuation date are added to the base cost (not apportioned). Where no additions or improvements have taken place prior to valuation date, the 20-year limit does not apply.

#### 5.4.4 EXCLUSIONS

The first R2 million capital gain or loss of a primary residence, in the case of an individual or special trust type A (as defined in section 1 of the Income Tax Act), will not be taken into consideration for CGT purposes. In other words, where a capital gain or loss exceeds R2 million the excess would be subject to CGT. A natural person or special trust type A must disregard a

capital gain or loss on disposal of a primary residence if the proceeds on disposal does not exceed R2 million.

In order for a residence to qualify as a primary residence:

- The interest must be held by a natural person or a special trust type A
- That person, beneficiary or spouse of either such persons must ordinarily reside therein as their main residence
- The residence must be used mainly for domestic purposes.

A primary residence includes the land upon which it is actually situated and may include other adjacent land that is used mainly for domestic or private purposes together with that residence. The total of all the land may not exceed two hectares. This could also include unconsolidated adjacent land, provided that, upon disposal of the primary residence, any unconsolidated land is disposed of at the time and to the same person as the primary residence itself.

The primary residence exclusion must be taken into account prior to your declaration of the gain/loss.

The annual exclusion will be applied programmatically by SARS and you are therefore not required to complete this 'exclusion' on your return

- The annual exclusion of a natural person and a special trust type A is R30 000 for the 2016 year of assessment and R40 000 from the 2017 year of assessment.
- During the assessment process, all capital gains and/or losses are added together and thereafter the sum of such capital gains and losses is reduced by the annual exclusion, limited to the amount of the gain/loss.
- Where a natural person dies during the year of assessment, the annual exclusion is increased to R300 000.
- The exclusion applies to gains as well as losses.
- The unutilised portion of the annual exclusion cannot be carried forward to a following year of assessment.

#### **5.4.5 INCLUSION RATE:**

Where a net capital gain for the current year of assessment has been determined, such amount is multiplied by the inclusion rate to determine the taxable capital gain. The result is included in the taxable income for that year of assessment. Note that this will be done programmatically during the assessment process.

The inclusion rate is 33.3% for the 2016 year of assessment and 40% from the 2017 year of assessment.

A capital loss can only be offset against a capital gain, and not against normal taxable income.

#### **5.4.6 COMPLETION OF THE RETURN:**

The income tax return makes provision for you to declare ten local and ten foreign capital gain or loss transactions. You must declare each transaction separately. Where multiple disposals of shares (that is administered by a single administrator) take place and the disposal of such shares are reported on a single certificate, the disposals reflected on the certificate can be treated as one disposal.

With regard to the disposal of a primary residence, the return caters for the insertion of the primary residence exclusion. If you disposed of a primary residence and the difference between the proceeds and the base cost is less than the primary residence exclusion, the gain must be indicated as a '0'. See the example below:

#### **Example:1**

Proceeds on the disposal of a primary residence	R 3 800 000
Base cost	<u>R 2 500 000</u>
Gain prior to primary residence exclusion	R 1 300 000
Less: Primary residence exclusion R2 000 000 (this will be limited to the R1 300 000)	<u>R 1 300 000</u>
Gain	0

**Example: 2**

You are married out of community of property and the primary residence is registered in both spouse's names:

Proceeds on the disposal of a primary residence (R8 000 000/2)	R 4 000 000
Base cost (R5 000 000/2)	<u>R 2 500 000</u>
Gain prior to primary residence exclusion (R3 000 000/2)	R 1 500 000
Primary residence exclusion (R2 000 000/2)	<u>R 1 000 000</u>
Gain	R 500 000

Where you have indicated that you have a Local or Foreign Gain/Loss, complete the following information on your return:

- **'Main Asset Type Source Code'**
  - Select the source code from the drop down list
  - This field will only display from the 2019 YOA onwards
  - Select the applicable option from the drop down list.
- **'Do you confirm that this transaction relates to a primary residence?'** – Select 'Y' or 'N'
  - **'If Yes, indicate whether the primary residence is held jointly?'**
  - **'Is the primary residence held in a partnership?'** – Select 'Y' or 'N'
  - **'If Yes, state the percentage held'.**
  - **'Mark the applicable field with an 'X' to confirm that the full amounts relating to proceeds and base cost of the primary residence are declared'**
  - **'Does any exemption/rollover other than primary residence exemption apply to this transaction'** – Select 'Y' or 'N'.
  - Note: From the 2019 YOA, the above questions will only display if the source code selected for the main asset type source code is 6504 (Gain: Primary Residence) or 6505 (Loss: Primary Residence).
- **'Proceeds'**

If 'yes' is selected for the question 'Does the transaction relate to a primary residence?' and the amount captured in this field is less than or equal to R2 million, a pop-up message will display to indicate that proceeds on the disposal of the primary residence does not exceed R2 million, therefore the capital gain/ loss is disregarded.
- **'Base cost'**
- **'Primary Residence / Other Exclusions (excl. annual exclusions)'**

If 'yes' is selected for the question 'Does the transaction relate to a primary residence?' this field will be auto-populated with:

  - R1 000 000 if the YOA is 2005 and prior
  - R1 500 000 if the YOA is from 2006 to 2012
  - R2 000 000 if the YOA is from 2013 onwards.
- **'Exclusion/Roll-over (excluding annual exclusions)'**
- **'Gain'(4250)**

This field is auto-calculated by the system. The capital gain will be disregarded if the proceeds on the disposal of the primary residence does not exceed R2 million.
- **'Loss' (4251)**

This field is auto-calculated by the system. The capital loss will be disregarded if the proceeds on the disposal of the primary residence does not exceed R2 million.

Where you declare a foreign capital gain (which is calculated on the same basis as a local capital gain described above) and you are claiming an amount for 'Other foreign tax credits',

complete the applicable tax amount in the fields provided.

## 5.5 LOCAL RENTAL INCOME FROM THE LETTING OF FIXED PROPERTY

For 2015 and prior years of assessment, rental income must be declared in the section 'Local Business, Trade and Professional Income (Including Rental Income)'. From the 2016 year of assessment and onwards, rental income from the letting of fixed property must be declared separately on the return.

Complete the information for each rental activity separately (maximum of 20 is allowed).

Amounts received/vested in you as a beneficiary of a trust or deemed to have accrued in terms of s7 must be included for the 2016 year of assessment. From the 2017 year of assessment onwards, this information must be excluded and declared separately in the Trust section of the return.

Note: If you are in a partnership, declare the full partnership financial details. If you have incurred expenditure for your own account relating to the partnership and this is not reflected in the financial statements of the partnership, such expenditure should be claimed under "Other Deductions".

If you are married in community of property the amounts relating to income and expenditure for both you and your spouse must be declared. SARS will programmatically apply the 50% apportionment.

If you are married in community of property and any amounts must be excluded from the communal estate, mark the applicable check box with an "X". Where the communal estate indicator is marked, the 50% apportionment will not be applied. Should the assessment be incorrect you must lodge an objection.

### 5.5.1 DESCRIPTION

Insert the description of the fixed property. If rental income from the fixed property was declared in a previous year of assessment, insert the same description that you completed in the previous year.

### 5.5.2 UNIQUE IDENTIFIER

SARS automatically allocates a unique identifier to each property, local business, trade and/or profession as per the information declared on your return.

If you received rental income from fixed property that was declared in a previous year of assessment, a unique identifier will have been allocated by SARS. Please complete the '**unique identifier**' number as allocated to you by SARS. You can obtain this number from the previous notice of assessment issued to you.

If you started renting the fixed property in the current year of assessment, leave this field blank on your return. SARS will allocate a new unique identifier number.

### 5.5.3 INCOME DETAILS

Insert the total '**Rental Income**' amount received for the letting of the fixed property. If you are married in community of property, the SARS system will apply the 50% split.

### 5.5.4 EXPENDITURE DETAILS

Where part of a property is rented out, only allowable expenses relating to that part of the

property may be claimed as a deduction. The portion of the expenses relating to the privately used part of the property must be excluded from the expenses claimed.

Non-allowable expenses such as bond registration fees, bond repayments, etc. must also be excluded. Only tax deductible amounts must be declared in the 'Expenditure' section of the return.

Complete the applicable fields for expenditure incurred for the letting of the fixed property:

- **'Accounting Fees'**
- **'Agency Fees'**
- **'Bad Debts'**
- **'Depreciation'**
- **'Electricity / Rates and Taxes'**
- **'Insurance'**
- **'Interest / Finance Charges'**
- **'Levies Paid'**
- **'Repairs / Maintenance'**
- **'Other'** – Insert a description for the other expense
- **'Total'** – the total expenditure will be auto calculated if your return is completed electronically.

### 5.5.5 DETERMINATION OF PROFIT / LOSS

If your return is completed electronically, the profit or loss will be automatically calculated. If you are completing your return manually, calculate your rental profit or loss and insert the amount in the applicable field below:

- **'Taxable Profit'** (4210)
- **'Taxable Loss'** (4211)

**'Should the loss incurred be excluded (ring-fenced) for the calculation of your tax liability?'** – select Y or N.

**'Are you in a partnership?'** – select Y or N. If yes is selected, complete the following:

- **'State the profit/loss percentage' or**
- **'Mark with an 'X' if variable ratios should be applied for the sharing of income and/or expenses'**

## 5.6 LOCAL BUSINESS, TRADE AND PROFESSION

The information required in this section refers to the activities in respect of local business, trade and/or profession carried on by a taxpayer for his/her own account **and not as an employee**.

- However if a taxpayer received an IRP5/IT3(a) Employee Tax Certificate in respect of services rendered by means of trading activities undertaken such income will be part of the information in the IRP5/IT3(a) section of the return.
- This amount must also be completed in the field *'Income reflected on an IRP5/IT3(a) regarded to be trade income'* in the 'Local Business, Trade and Professional Income' section of the return

A complete set of financial information must be prepared in respect of each local business, trade or profession carried on by the taxpayer where such income is not considered as a single trade with reference to section 20A of the Income Tax Act.

The return makes provision for a maximum of eight activities to be declared. If there are more than 8 activities to declare, similar trades must be added together. Example: if a taxpayer has nine rental properties to declare, either add two properties that result in profits or two that result in losses. Please do not add one property that results in a loss with one that results in a profit.

Expenditure incurred by independent contractors can be claimed in this section of the return. The amount reflected next to code 3616 on the IRP5/IT3(a) certificate received must be inserted in the field '**Income Reflected on an IRP5/IT3(a) regarded to be Trading Income**'.

- For the 2015 year of assessment and prior years, rental income must be declared in the '**Income Other than Turnover**' field in this section of the return.

From the 2017 year of assessment any amounts received, accrued or deemed to have been received/accrued as a beneficiary of a trust must be excluded from this section and declared separately in the Trust section of the return

### **5.6.1 DESCRIPTION**

Insert the description of each local business, trade, or profession. If the local business, trade, or profession was declared in a previous year of assessment, insert the same description that you completed in the previous year.

### **5.6.2 UNIQUE IDENTIFIER**

SARS automatically allocates a unique identifier to each property, local business, trade and/or profession as per the information declared on your return.

If the same local business, trade and professional income section of the return was declared in a previous year of assessment, please enter the **unique identifier** number as allocated to you by SARS. You can obtain this number from the previous notice of assessment (ITA34) issued to you.

If you commenced a new local business/trade/profession, leave this field blank on your return. SARS will allocate a new unique identifier number.

If you have completed the Local Business, Trade and Profession section, you must also complete the Statement of Assets and Liabilities for each business activity.

### **5.6.3 DUAL – PURPOSE EXPENDITURE**

Some of the expenses incurred may be partly personal and partly business related. These may include amounts paid for fuel and oil, rent, electricity, telephone, car maintenance, repairs, insurance, interest and overseas travelling expenses. The personal portion of these expenses is not deductible as business expenditure and must be allocated accordingly. Full details of calculations must be retained for a period of five years after the date of submission of the return.

Reasonable allocation – It is not easy to determine what portion of dual-purpose expenditure should be allocated to the business and what portion to the non-business activities. No rule can be prescribed but the allocations must be reasonable.

With regard to travelling expenses, an apportionment must be made according to distances actually travelled for private and business purposes.

### **5.6.4 CAPITAL EXPENDITURE**

In general capital expenditure is an amount paid or a debt incurred for the acquisition, improvement or restoration of a capital asset. However, capital expenditure is not necessarily confined to capital assets. Expenditure designed to extend the scope of a business, incurred to create or to protect a source of income or to acquire an enduring advantage for the benefit of trade is regarded for tax purposes as expenditure of a capital nature.

Examples of capital expenditure:

- Acquisition of land and building (including transfer costs)
- Additions, alterations and improvements to any assets used by the business, for example: buildings, plant, machinery, furniture and fittings, etc.
- Cost of material, labour and installation of capital assets
- Goodwill
- Expenditure to eliminate competition
- Expenditure to protect capital or intangible assets, including rights
- Certain legal expenses.

### **5.6.5 TRADING STOCK TAKEN FOR PRIVATE USE**

If such goods have already been accounted for, this adjustment must not be taken into account again in the determination of taxable income. A note must be made on the statement, which must be retained for five years, indicating the value of the goods and how this was accounted for.

### **5.6.6 LEARNERSHIP AGREEMENTS – SECTION 12H**

The learnership incentive is intended to encourage skills development and job creation. A taxpayer can deduct learnership allowances from trading income derived during the year of assessment if certain requirements are met. The taxpayer must retain all relevant material.

The deduction will be considered in respect of the entering into and completion of such registered learnership agreements as defined in section 12H of the Income Tax Act.

Provision is made for registered learnership agreements with durations less than 12 months and for those with durations of more than 12 months. Registered learnership agreements including contracts of apprenticeship with a period of more than 12 months have a more favourable completion allowance.

Where a registered learnership agreement or contract of apprenticeship is terminated prior to the completion of such agreement or contract, the amount allowed as a deduction shall be deemed to have been recovered or recouped by the employer. No further annual or completion allowance must be claimed by the employer.

#### LEARNERSHIP ALLOWANCES BEFORE 1 OCTOBER 2016

- The learnership allowance for a learner with no disabilities is R30 000
- A pro rata allowance applies where a learnership agreement is for a period of less than 12 months
- The learnership allowance for a learner with disabilities is R50 000 (30 000 + 20 000)
- A completion allowance for a learner with no disabilities is R30 000 in the year in which the learner has successfully completed the learnership. In the case of a learner with disabilities, the completion allowance will increase to R50 000
- A learnership allowance for a learner in a learnership agreement for a period that equals to or exceeds 24 months for a learner with no disabilities is R30 000 multiplied by the number of consecutive 12 months within the duration of the agreement. In the case of a learner with disabilities, the allowance will increase to R50 000.

#### LEARNERSHIP ALLOWANCES FROM 1 OCTOBER 2016

##### **NQF Level 1 - 6**

- Learnership allowance for a learner with no disabilities is R40 000
- A pro rata allowance is allowed in the case where a learner is a party to a learnership agreement for a period of less than 12 months
- Learnership allowance for a learner with disabilities is R60 000 (40 000 + 20 000)
- A completion allowance for a learner with no disabilities is R40 000 in the year in which the learner has successfully completed the learnership. In the case of a learner with



- disabilities, the completion allowance will increase to R60 000
- A learnership allowance for a learner in a learnership agreement for a period that equals or exceeds 24 months for a learner with no disabilities is R40 000 multiplied by the number of consecutive 12 months within the duration of the agreement. In the case of a learner with disabilities, the allowance will increase to R60 000.

#### **NQF Level 7 - 10**

- Learnership allowance for a learner with no disabilities is R20 000
- A pro rata allowance is allowed in the case where a learner is a party to a learnership agreement for a period of less than 12 months
- Learnership allowance for a learner with disabilities is R50 000 (20 000 + 30 000)
- A completion allowance for a learner with no disabilities is R20 000 in the year in which the learner has successfully completed the learnership. In the case of a learner with disabilities, the allowance will increase to R50 000.
- A learnership allowance for a learner in a learnership agreement for a period that equals or exceeds 24 months for a learner with no disabilities is R20 000 multiplied by the number of consecutive 12 months within the duration of the agreement. In the case of a learner with disabilities, this amount will increase to R50 000.

For more information, refer to **Interpretation Note 20 – Additional deduction for learnership allowance** on the SARS website.

#### **5.6.7 LEGAL EXPENSES**

Any expenses in respect of any dispute or action at law, other than those of a capital nature, which were actually incurred in the production of income or which arose in the course of or by reason of the ordinary operations undertaken by the taxpayer in the carrying on of the trade, may be claimed as a deduction. Details of the expenses must be retained.

#### **5.6.8 GENERAL EXPENSES**

General or sundry expenses claimed in the accounts must be detailed in a separate statement including expenses contained therein which are not allowable. Such statement must be retained for inspection purposes.

#### **5.6.9 PRIVATE USE OF BUSINESS PREMISES**

If the taxpayer or any member of his/her family occupied, free of charge, part of the premises from which the business or profession is carried out, only the expenditure in respect of the portion used for business purposes can be claimed.

#### **5.6.10 ELECTED DEPRECIABLE ASSET ALLOWANCE**

Section 11(o) provides for an election in respect of the deduction of any loss incurred as a result of the alienation, loss or destruction of any asset that qualified for a capital allowance or deduction provided that the expected useful life of that asset for tax purposes did not exceed ten years. The deduction must be equal to the difference between the amount received or accrued from the disposal and the cost price of the asset.

Where an asset was brought into use during a non-taxable period, that period must be taken into account in the determination of the deduction provided for in terms of section 11(o).

No election may be made if the amount received or accrued from the alienation, loss or destruction of the asset was received or accrued from a connected person.

**Note:** Cognisance must be taken of the provisions of paragraph 65 and paragraph 66 of the Eighth Schedule to the Act that came into effect on 22 December 2003.

### **5.6.11 EXPIRED LEASE AGREEMENTS**

At the expiry of a lease agreement in respect of moveable assets, full details must be retained if such assets:

- Were sold and the proceeds paid to the taxpayer
- Were transferred to the taxpayer free or for some consideration
- Any other benefit accrued to the taxpayer in these circumstances.

Copies of documentation from the relevant financial institution/s must be retained.

### **5.6.12 RECOUPMENT OF EXPENDITURE**

Any items of expenditure or losses, which were allowed as deductions in the determination of the taxable income for the current or a previous year of assessment and recovered or recouped during this year of assessment, must be reflected if not already accounted for in the financial accounts.

### **5.6.13 RESERVES**

Details of all reserves that were not disclosed as such in the balance sheet must be retained, showing the amounts transferred to reserve during the year of assessment and indicating where those amounts were debited in the accounts.

### **5.6.14 INTEREST PAID**

If interest was paid the information regarding the purpose for which the capital (on which the interest is payable) was utilised must be retained.

### **5.6.15 FINANCE CHARGES**

These must not, for wear and tear purposes, be added to the cost price of assets purchased but must instead be shown separately.

### **5.6.16 COST OF TRIPS ABROAD**

If the amount claimed as travelling expenses includes the cost of trips abroad, retain details as to who undertook the trip and the purpose thereof as well as details of the expenses and itinerary.

### **5.6.17 DRAWINGS AND CAPITAL ACCOUNTS**

Retain details of the sources and amounts credited to these accounts.

### **5.6.18 DOUBTFUL DEBT**

Retain full details with regard to source, amounts, dates, nature of debt and reasons for regarding debt as bad. In the case of doubtful debt, a similar list must be retained and the amount claimed as an allowance for such debt must be shown.

### **5.6.19 RING-FENCING OF ASSESSED LOSSES OF CERTAIN TRADES**

Section 20A provides that, subject to certain tests, an assessed loss incurred by a natural person may not be set off against any income derived by the person otherwise than from carrying on that trade. The effect is that trading losses will in certain circumstances and/or in respect of certain identified trades, be subject to potential ring fencing unless the 'facts and

circumstances test' provided for in subsection 3 indicates that the trade constitutes a business in respect of which there is a reasonable prospect of deriving taxable income within a reasonable period of time.

A pre-requisite for the application of section 20A is that, in the year in which the ring-fencing is applied, the sum of the taxpayer's taxable income (determined without having regard to other provisions of this section) and any assessed loss and balance of assessed loss which were set off in terms of section 20 in determining that taxable income, equals or exceeds the amount at which the maximum marginal tax rate chargeable in respect of individuals becomes applicable. The maximum marginal tax rate will apply to taxable income in excess of:

- R701 300 for the 2015 to 2017 years of assessment
- R1 500 000 for the 2018 to 2020 years of assessment
- R1 577 300 from the 2021 year of assessment.

In any trade contemplated under section 20A(2)(a) and (b) of the Income Tax Act, the potential ring fencing will be applied as from the 2005 year of assessment, unless the 'facts and circumstances test' indicates that the particular activity constitutes a business which has a reasonable prospect of deriving taxable income within a reasonable period of time.

The potential ring-fencing can be applied in respect of losses from all the identified trades or other trades, in terms of the three-out-of-five-year-rule, and ring fencing of any trade loss (excluding farming activities) will occur in terms of the six-out-of-ten-year-rule.

The identified trades listed in section 20A (2)(b) are as follows:

- Any sport practiced by the taxpayer (or relative)
- Dealing in collectibles by the taxpayer or any relative
- The rental of residential accommodation, unless at least 80% of the residential accommodation is used by persons who are not relatives of that person, for at least half of the year of assessment
- The rental of vehicles, aircraft or boats, unless at least 80% of the vehicles, aircraft or boats are used by persons who are not relatives of that person, for at least half of the year of assessment
- Animal showing by the taxpayer or any relative
- Farming or animal breeding (unless the taxpayer carried on the farming or animal breeding on a full time basis)
- Any form of performing or creative arts
- Gambling or betting
- Acquisition or disposal of any cryptocurrency
- Note: a relative is defined in relation to any person, as 'a spouse, parent, child, stepchild, brother, sister, grandchild or grandparent of that person'.

### **SET-OFF OF TAXABLE CAPITAL GAIN AGAINST RING-FENCED ASSESSED LOSS**

Section 20A(6)(b) permits a ring-fenced assessed loss to be set off against the taxable capital gain once the trade has ceased and the asset that was used in carrying on the trade is disposed of. Note: No set-off is permitted if an asset is disposed of during the course of the trade.

If this scenario applies to you, the taxable capital gain (after taking into account the annual exclusion and inclusion rate) must be reflected as income in the "Local Business, Trade and Profession" section of the return. Please ensure that you use the same unique identifier, description and source code of that particular trade (prior to cessation) in order for the ring-fenced assessed loss brought forward to be utilised during the assessment.

**Note:** Please do not declare this event in the Capital Gains section of the return as this will result in the capital gain being taxed as well.

### **THE THREE-OUT-OF-FIVE-YEAR-RULE:**

The three-out-of-five-year-rule applies to any trade that is not included in the list of identified trades mentioned above. The current year must be taken into account in determining the three-out-of-five-year-rule. Losses incurred in respect of other trading activities not listed above could, therefore, be subject to potential ring fencing commencing on or after the 1 March 2004 year of assessment in terms of section 20A (2)(a). This would occur if the specific trading activity has realised a loss for at least three years out of five years. Should any trading activity realise a profit in any one of the three years mentioned above, the potential ring fencing is delayed, as illustrated in the following example:

<b>Example</b>	
<b>Year of assessment</b>	<b>Rental property A</b>
2010	Loss
2011	Loss
2012	Profit
2013	Loss

Due to the fact that the trading activity (rental income is also considered to be trading income) has realised a loss in three-out-of-five-years (where that person has, during the five year period ending on the last day of that year of assessment, incurred an assessed loss in at least three years of assessment), ring fencing could be applied in the 2013 year of assessment. As the taxpayer realised a profit in the 2012 year of assessment and a loss in 2013, ring fencing would apply as from the 2013 year of assessment

The trade in respect of which the three-out-of-five-year-rule applies includes:

- Rental of residential accommodation where at least 80% of the residential accommodation is used for at least half of the year of assessment by persons who are not relatives
- The rental of vehicles, aircraft or boats where at least 80% of the vehicles, aircraft or boats are used by persons for at least half of the year of assessment who are not relatives of that person
- Farming or animal breeding carried on a full time basis
- Any other trade not specifically identified.

#### **FACTS AND CIRCUMSTANCES:**

In respect of both the identified trades, as well as the other trades listed above, ring-fencing can be avoided in terms of subsection 3 of section 20A. This section provides an escape route in terms of which the taxpayer can prove that the particular activity constitutes a business that has a reasonable prospect of deriving taxable income within a reasonable period of time. The factors to which special regard must be made are:

- The proportion of the gross income derived from that trade in relation to the amount of allowable deductions incurred in carrying on that trade
- The level of activities carried on by the person or the amount of expenses incurred by the person in respect of advertising, promoting or selling, in carrying on that trade
- Whether that trade is carried on in a commercial manner, taking into account
  - The number of full time employees appointed to that trade
  - The commercial setting of the premises where the trade is carried on.
  - The extent of the equipment used exclusively for the purpose of carrying on the trade
  - The time the person spends at the premises conducting that business
- The number of years of assessment in which assessed losses were incurred in relation to the total number of years that the specific trade was carried on, taking the following into account
  - Any unexpected events giving rise to the losses
  - The nature of the business involved.
- The business plans and any changes thereto, to ensure that the business will in future derive taxable income

- The extent to which any asset attributable to the trade is available for recreational use or personal consumption by the person or any relative of the person.

#### **THE SIX-OUT-OF-TEN-YEAR-RULE:**

Where losses have been realised in at least six-out-of-ten-years of assessment the 'facts and circumstances test' will, in terms of subsection (4), no longer be available to prevent the ring fencing of a loss in respect of the trades identified in subsection (2)(b). This means that where a loss pertaining to an identified trade was not ring fenced after having applied the 'facts and circumstances test', the loss will, however, be ring fenced where the specific trade has incurred a loss in at least six-out-of-ten-years of assessment. The 'facts and circumstances' escape route will, therefore, no longer be available to prevent the ring fencing of the specific trade loss. Although this provision applies to all identified trades, subsection 4, however, specifically provides that this rule is not applicable to farming activities. This is in recognition of the fact that many forms of legitimate farming activities entail long-term losses before the expectation of profit can be realised.

#### **LOSSES TO BE TAKEN INTO ACCOUNT:**

In the application of both the three-out-of-five-year-rule and the six-out-of-ten-year-rule any losses incurred on or before 29 February 2004 will not be taken into account.

Please note that each trading activity is evaluated separately for the application of the potential ring fencing. Financial statements must therefore be drawn up separately and the profit or loss declared separately in respect of each trade/property/asset (rental income).

In certain circumstances where more than one property/asset is let, the letting of such properties/assets could be considered as a single trade. Should this be the case, the profit/loss must be declared as a single entry in which case a combined set of financial statements can be prepared and retained.

If the taxpayer is in receipt of rental income and is married in community of property, the full profit/loss of such income must be declared. The 50% application will be done programmatically by SARS.

For further details refer to the guide on section 20A, which is available on the SARS website.

#### **'SHOULD THE LOSS INCURRED BE EXCLUDED (RING-FENCED) IN THE CALCULATION OF THE TAX LIABILITY?'**

The taxpayer should indicate whether the loss should be ring fenced or not by selecting 'Y' or 'N' for this field on the return.

If yes is selected for this field, the loss (if incurred) will not be taken into account in the determination of the taxable income.

If no is selected for this field (i.e. the loss should not be ring fenced), substantiating documentation based on the information contained in the paragraph dealing with 'facts and circumstances' (escape clause) must be retained, to support the claim. The documentation must be based on the factors specifically mentioned in the relevant paragraph. All documentation in this regard must be available on request for a period of five years after the submission of the return.

#### **5.6.20 PARTNERSHIPS**

The information from the financial statements of the partnership must always be reflected even though a variable ratio is applicable in the sharing of income and expenditure within a partnership. If this is the case the question referring to the variable ratio should be marked with an 'X' in the 'Local business, trade and professional income' section of the return. In these cases, copies of the supporting documentation must be available on request in order for SARS

to correctly assess the relevant taxpayer.

Taxpayers that are in a partnership might incur expenditure for their own account in the production of their income. Such income is usually not reflected in the financial statements of the partnership. In such cases, the individual taxpayer should claim such expenditure in the 'Other deduction' section of the return.

For the 2016 year of assessment and prior years, if you were in a partnership and have paid pension fund contributions, as a deemed employee defined in section 11F in the Income Tax Act, you must:

- Select 'Y' in the applicable field
- Complete the amount next to source code **4049**.
- **Note:** Your return will be regarded as incomplete if you have selected 'N' for the question 'Are you in a partnership?', but marked 'Y' for the question 'Did you make any pension contributions as a deemed employee'.

From the 2017 year of assessment, complete the following fields on the return:

- **'Did you or the partnership make any pension / provident fund / retirement annuity fund contribution(s) for your benefit as a deemed employee of the partnership?'** – Select 'Y' or 'N'
- If yes, select the type of fund (multiple selections can be made). For each type of fund selected, complete the fields below.
- **'Contributed by the Partnership'**
- **'Fringe Benefit'** – The fringe benefit amount must be less than or equal to the amount contributed by the partnership
- **'Contributions made by you'**
- The **'Total'** field is the sum of the fringe benefit and the contributions made by you. If you are submitting your return via eFiling the totals for each of the following funds will be auto-calculated:
  - 4001 – pension fund
  - 4003 – provident fund
  - 4006 – retirement annuity fund
  - Please ensure that the 4006 amount above is also inserted next to source code 4006 the 'Retirement Annuity Funds Contributions' section to claim).
- **'Is this information reflected on any IRP5/IT3(a) certificate included in this return?'** – Select 'Y' or 'N'

## 5.7 ADDITIONAL INFORMATION

### 5.7.1 URBAN DEVELOPMENT ZONES (UDZ) – SECTION 13*quat*

Due to the insertion of section 13*quat* 'Deductions in respect of erection/acquisition or improvement of buildings in urban development zones' in the Income Tax Act, an allowable deduction was introduced in the form of an accelerated depreciation allowance. This deduction was initially available until 31 March 2009, but has been extended to 31 March 2020.

A deduction will be allowed in respect of the cost of the erection, extension, acquisition or improvements of any commercial or residential building within an approved urban development zone which is to be used solely for the purpose of that trade. The deduction will cease where the building ceases to be used solely for the purpose of trade or if it is sold.

The allowable amount will be calculated as follows:

- Refurbishment of a building - 20% straight-line depreciation allowance over a five-year-period (where the existing structural or exterior framework is preserved)
- Construction of a new building - 11 year write-off period (20% in the first year and 8% per annum thereafter for the next 10 years). Prior to 2008, 5% instead of 8% write off).

- Refurbishment of existing or part of the building – 20% straight-line depreciation allowance over five years.
- Refurbishment of a low-cost residential unit – 25% straight-line depreciation allowance over a four year period
- Construction of a new low-cost residential, extension of or addition of unit – seven year write-off period (25% in year one, 13% over the next five succeeding years and 10% in the seventh year)
- A deduction will also be allowed for first time buyers who buy from a bona-fide developer. The first time buyer, although not having incurred the actual cost of construction of refurbishment, could qualify for the tax incentive and be able to claim an allowance on a percentage of the purchase price as prescribed in section 13quat which is deemed to be cost incurred by the buyer.

Where a building or part of a building is purchased from a developer the following must be available:

- The purchase price of that building or part thereof
- The amount of the purchase price deemed to be the cost incurred in terms of subsection 3B
- A certificate from the developer (UDZ 3) confirming that the requirements in terms of section 13quat have been met.

The following forms can be downloaded from the SARS website and must be completed and retained for a period of five years after the date of submission of the return in which the amount was claimed:

- **UDZ1:** 'Deduction claimed in terms of s13quat: Erection or extension of or addition to or improvement of a building/part of a building within an Urban Development Zone'
- **UDZ2:** 'Deduction claimed in terms of s13quat: Purchase of a building/part of a building within an Urban Development Zone'
- **UDZ4:** 'Developer information'. This form must be submitted to the Legal Section at the SARS Head Office

**'Total cost incurred i.r.o erection/acquisition or improvements of a building'** – complete this field if you qualify for a deduction under section 13quat (UDZ).

Note: The above total cost must also be allocated as follows in the 'Adjustments: Allowable' section of your return:

- **'Improvements allowable in respect of this year'**
- **'Erection/acquisitions of a new building allowable in respect of this year'**
- **'Other Deductions in respect of Buildings: excluding s13quat'**

## 5.7.2 RESEARCH AND DEVELOPMENT INFORMATION – SECTION 11D

Note: these questions are only applicable for the 2015 year of assessment and prior years.

If you qualify for a deduction in respect of Research and Development (section 11D), you must complete the following questions in this section of the return:

- **'Did you incur any expense on scientific or technological research and development for the purpose of:'**
  - **'The discovery of novel, practical and non-obvious information of a scientific and technological nature?'**
  - **'The developing or creating of any inventions, any design or computer programme or other similar property?'**
- **'Did you incur any capital expenditure on buildings, machinery, plant, implements or utensils?'**
- **'Did you receive any amount from government for the purpose of scientific or**

- **technological research and development?’**
- **‘Was your research and development application approved by the Department of Science and Technology?’**

You must insert the total amount for the Research and Development deduction in the field provided in the ‘Adjustments: Allowable’ section.

### **5.7.3 IMPROVEMENTS NOT OWNED BY TAXPAYER – SECTION 12N**

In terms of section 12N of the Income Tax Act, an allowance exists for expenditure actually incurred by a lessee for obligatory improvements undertaken on leased land or buildings. Section 12N deems the taxpayer to be the owner of improvements completed for the purposes of a deduction in sections 11D, 12B, 12C, 12D, 12F, 12I, 12S, 13, 13bis, 13ter, 13quat, 13quin, 13sex or 36, and for the purposes of the Eight Schedule.

An allowance is not allowed if the lessor is tax exempt unless the improvement is undertaken:

- In terms of a Public Private Partnership
- On land owned by government (national, provincial or local) or by an exempt government controlled body if the land is leased for a period of at least 20 years.
- Any entity referred to in section 10(1)(cA) or (t); or
- The Independent Power Producer Procurement Programme administered by the Department of Energy

Where you have claimed deductions as a deemed owner in respect of section 12N – select ‘Y’ for the question **‘Did you claim any deduction as a deemed owner in terms of section 12N?’**

## **5.8 OTHER TAXABLE RECEIPTS AND ACCRUALS**

This section of the return must be used to declare any amount that has not been addressed by previous sections. The income that must be declared here relates to income that must be included in taxable income to calculate the tax liability (e.g. royalties).

Please note that if income is distributed from a trust, such income retains its identity and must therefore be declared in the specific part of the return relating to the source of the income prior to distribution from the trust.

Complete the following information on your return if applicable:

- **‘Remuneration from foreign employer for services rendered in SA’** (source code 4236)
- **‘Royalties – profit’** (source code 4212)
- **‘Royalties – loss’** (source code 4213)
- For any other income, insert the amount in the field for **‘Other’** (next to source code 4214) and also complete the **‘Description relating to other’**.

## **5.9 AMOUNTS RECEIVED/ACCRUED CONSIDERED NON-TAXABLE**

The income that must be declared here relates to income such as donations or foreign income, which is not taxable and will not be included in your gross income when calculating your tax liability.

Complete the following if applicable:

- **‘Amounts accrued to you as an exclusive deemed resident of another county in terms of a double taxation agreement between RSA and that other country’**
- **‘Exempt i.t.o. section 10(1)(o)’**



- Applicable to the 2019 YOA and prior years
- **'Donations'**
- **'Exempt local and foreign dividends'**
  - Applicable to the 2019 YOA and prior years
- **'Exempt Local Dividends'**
  - Applicable from 2020 YOA
- **'Exempt Foreign Dividends'**
  - Applicable from 2020 YOA
- **'Interest earned by a non-resident i.t.o. s10(1)(h)'**
- **'Inheritances'**
- **'Foreign pension'**
- Where an amount is considered non-taxable, and has not been specified in the list provided, the amount must be completed under 'Other' and the description field must be completed.

## 5.10 TAX FREE INVESTMENTS (TFI)

Section 12T of the Income Tax Act came into operation on 1 March 2015 and is an incentive to encourage household savings.

A Tax Free Investment is a financial instrument or policy (as defined in section 29A) owned by a natural person or deceased/insolvent estate of a natural person, and administered by a person or entity designated by the Minister of Finance (e.g. banks, long term insurers, national government, collective investment scheme companies).

In terms of section 12T:

- Any amount received by or accrued to a natural person or deceased/insolvent estate of a natural person in respect of a tax free investment is exempt from:
  - Normal tax in respect of interest & profit/loss in share trading
  - Dividends tax
  - Capital gains or losses.
- The contributions made by a person to a tax free investment:
  - Must be in cash
  - Is limited to R500 000 in aggregate (during the natural person's lifetime).
  - Is limited to the following for the year of assessment:
    - R30 000 for years prior to 1 March 2017
    - R33 000 from 1 March 2017
    - R36 000 from 1 March 2020
- The annual and lifetime contribution limits:
  - Apply in respect of multiple tax free investment accounts.
  - Are not affected if the person transfers amounts between tax free investments.
  - Are not affected by the income or proceeds received from a tax free investment (in other words, the capitalised returns are not regarded as contributions).
- Any capital gain or capital loss from the disposal of the tax free investment is also disregarded for CGT purposes.
- If a person contributes more than R33 000 to a tax free investment during the tax year, 40% penalty will be payable on the amount that exceeds R33 000.
  - Example: Mr Taxpayer contributes R50 000 to a tax free investment account during the 2020 year of assessment. The annual limit is exceeded by **R17 000** therefore **R6 800** (i.e. (R50 000 – R33 000) x 40%) will be added to normal tax payable after rebates.
- If a person contributes more than R500 000 in aggregate to a tax free investment, 40% penalty will be payable on the amount in excess of R500 000 (reduced by any penalty paid under the annual limit).

From the 2020 YOA, the tax free investment information will be prepopulated with third party data received and cannot be deleted from the return.

- If any of the prepopulated information is incorrect, you must contact the third party (e.g.

- your bank) to rectify and resend the correct data to SARS.
- Note: If you have **more than 10 tax free investments** to declare, consolidate the additional amounts and add it to the amount for the 10th institution on the return.

Complete the following on your return:

- 'Institution'
- 'Investment Type'
- 'Policy/Client No.'
- 'Contributions made to a TFI during the year of assessment' (source code 4219)
- 'Amount transferred from a TFI to another during the year of assessment' (source code 4246)
- 'Amount transferred out of a TFI during the year of assessment' (source code 4247)
- 'Amounts withdrawn out of a TFI during the year of assessment' (source code 4248)
- 'Net return on Investment - Profit' (source code 4239)
- 'Net return on Investment - Loss' (source code 4240)
- 'Interest' (source code 4241)
- 'Dividends' (source code 4242)
- 'Capital Gain' (source code 4243)
- 'Capital Loss' (source code 4244)
- 'Other' (source code 4257) - Example: manufactured dividends

Transfers from one tax free investment to another tax free investment are only admissible from 1 March 2018.

- If you have transferred funds between TFI accounts, please ensure that you specify the amount transferred out of the one TFI account (source code 4247) and the amount transferred into the other TFI account (source code 4246).
- Note: If the 'transfer in' amount is greater than the 'transfer out' amount, the excess is deemed to be contributions for the year of assessment and will be included when determining if the annual and lifetime contribution limits have been exceeded and if a penalty is applicable.

#### Example 1

Mr Taxpayer completed the following amounts on his 2019 return:

Contributions to Investment One	R32 000	(code 4219)
Transfer out of Investment One	R3 000	(code 4247)
Transfer into Investment Two	R7 000	(code 4246)

The 'transfer in' amount exceeds the 'transfer out' amount by R4 000 and is deemed to be new contributions for the 2019 tax year. The total contributions for the year is therefore R36 000.

Mr Taxpayer has exceeded the annual limit by **R3 000** and therefore **R1 200** (i.e. R36 000 – R33 000) x 40%) will be added to normal tax payable after rebates.

#### Example:2

Mr Taxpayer completed the following amounts on his 2019 return:

Contributions to Investment One	R32 000	(code 4219)
Transfer out of Investment One	R7 000	(code 4247)
Transfer into Investment Two	R7 000	(code 4246)

Mr Taxpayer has not exceeded the annual limit of R33 000 and no penalty applies for the 2019 tax year.

## 6 RESIDENCY INFORMATION

This section of the return will only display for the 2016 year of assessment and prior years. If amounts are completed for 'Exempt Amount i.t.o Section 10(1)(o)' and/or 'Amount taxed on IRP5 but comply with exemption i.t.o. Section 10(1)(o)(ii)' (source code 4041), then it is mandatory to complete this section of the return.

- **'Are you a SA resident as defined in the Income Tax Act?'** (Select 'Y' or 'N')
- If 'Y' has been selected for the SA resident question, state the number of days you were outside of the RSA for:
  - This year of assessment – 'year' and 'number of days' must be completed
  - The previous year of assessment – 'year' and 'number of days' must be completed.
- **'Did you within the period indicated above spend at least 60 days continuously outside the RSA?'** (Select 'Y' or 'N').
- Insert the following amounts:
  - **'Amount received and/or accrued in respect of foreign services rendered'** in RSA currency.
  - **'Amount exempt'** in RSA currency
- **'If you are not a SA resident as defined in the Income Tax Act, please state the country of tax residency'**
- **'Please state the number of days present in South Africa'** by completing the following for the current year of assessment and the 5 previous years:
  - **'Tax period from'**
  - **'Tax period to'**
  - **'Number of days'**.

## **7 INCOME FROM FARMING OPERATIONS (INCLUDING PARTNERSHIP FARMING OPERATIONS)**

All income derived directly from any farming operations will be regarded as farming income. Income from farming activities will also include, for example, grazing fees derived by a person who carries on farming operations, recoupment of wear and tear allowed on vehicles, implements and machinery used to carry on farming activities and subsidies received by farmers, whether in respect of farm products or capital expenditure on dams.

Retain a schedule detailing the amounts received in respect of each type of subsidy received, e.g. for bond interest, dams, fencing, soil erosion, approved bulls, etc. Local and foreign farming activities must be reported separately.

If a farmer's spouse has conducted farming operations for his/her personal account, he/she must submit a separate return.

Stakes won by a farmer as a result of racing horses bred by him/her and a fixed rental income received in respect of farming property will not constitute farming income.

If you have completed the farming section of your return, you must complete the Statement of Assets and Liabilities.

If livestock/produce was utilised for private consumption, an amount equal to the cost of such livestock/produce must be included in the income. If the cost price cannot be readily determined, the market value of the livestock/produce must be included in the income.

### **Livestock sold on account of drought, stock diseases damage to grazing and livestock reduction schemes (paragraph 13 and 13A):**

- If proceeds in respect of the sale of livestock has been received on account of drought, stock disease or damage to grazing by fire or plague or by reason of participation in a livestock reduction-scheme organised by the Government, it must be included in the farming income in the year of assessment in which such a sale takes place as it is taxable.

- In the event of such sale, the following information is required to be submitted:
  - The names and addresses of persons to whom such livestock were sold or to whom such livestock were given in exchange
  - A description of the livestock
  - The amount of the proceeds received.
- The Act provides that you may elect, subject to certain conditions, to deduct the cost of replacement livestock purchased in, either:
  - The year of assessment during which such livestock was purchased
  - The year of assessment during which the original livestock was sold.
- If you wish for the cost of the replacement livestock purchased, to be deducted in the year of sale you must notify SARS of your selection. The assessment for that year of assessment will be reduced.
- If you wish to deduct the cost in the year of disposal, you must submit full particulars of the purchases as the concession will only be granted if the Commissioner is satisfied that:
  - You have replaced the livestock sold on account of drought; stock disease or damage to grazing by fire or plague within four years after the close of the year of assessment during which the livestock was sold
  - You have replaced the livestock sold by reason of the participation in a livestock reduction scheme organised by the Government within nine years after the close of the year of assessment during which the livestock was sold.

#### **Livestock sales deposited with Land Bank:**

- Where a farmer has disposed of livestock on account of drought on or after 1 March 1982 and the whole or any portion of the proceeds of such disposal has been deposited with the Land Bank of South Africa into an account in the name of the farmer, the amount of such deposit will be deemed not to be gross income for the year of assessment. Only that portion of the proceeds deposited within three months after receipt thereof will qualify for this concession.
- The amount, so deposited, will be deemed to be gross income in any of the following scenarios:
  - On the date of disposal, if it is withdrawn within six months after the last day of the year of assessment in which such disposal took place
  - On the date of withdrawal, if it is withdrawn after a period of six months, but within six years after the last day of the year of assessment in which such disposal took place
  - On the day before the death or insolvency, in the event of a farmer's death or insolvency before the expiration of the six year period
  - On the last day of the six year period if it is not withdrawn within the six year period.
- You cannot make use of this concession if you have selected to claim a deduction for the cost of livestock purchased in replacement in the year of assessment in which the livestock was sold on account of drought.
- For livestock and produce sold or bartered or donated, prepare and retain a list of:
  - The names and addresses of persons to whom livestock and/or produce were donated
  - A description of the livestock or produce donated
  - The market value thereof.
- If livestock or produce were removed from South Africa for purposes other than sale, retain a description of the livestock or produce removed, and the market value thereof.
- Value of livestock and produce consumed by the farmer, his/her family and domestic workers
  - Retain a list of the number of persons in the family, the number of domestic workers and the estimated value (based on the cost of production or market value) of the livestock and produce consumed.

For any other farming income, including a withdrawal from Land Bank account of the amount invested in respect of livestock sold on account of drought:

- Retain details of any other farming income not specifically mentioned - this includes

bonuses from agricultural co-operatives. Rental received from farming property must be reflected as trading income in the return.

Recoupment of expenditure incurred in respect of development and improvements:

- If the farmer or any person other than an employee occupied, during the year of assessment, any farm building, the cost of which has previously been allowed as a deduction for tax purposes, retain full particulars for a period of five years.
  - The total amount received or accrued in respect of immoveable assets must be included as a recoupment.
  - The total amount recouped will be included in the income, except where a balance in respect of expenditure on development and improvements has been brought forward from the previous year of assessment where the expenditure could not be deducted. In such a case, the amount recouped will be set off against the relevant balance and only the excess, if any, will be brought into account as farming income.
- The following information in respect of assets sold, given in exchange or donated must be retained:
  - Description of asset
  - Original purchase price
  - Date sold, exchanged or donated
  - Selling price or market value of asset given in exchange or donated.

Examples of farming expenditure that is deductible in terms of s11 (a):

- Purchase of livestock
- Rent
  - This includes hiring of farm land and equipment
  - Keep a record of the description of the property/properties for which rent was paid; the names and addresses of persons to whom payment was made; the amount that was paid in respect of each property.
- Animal feed, fertilisers, manure
  - Retain a list detailing the names and addresses of persons from who purchases were made and the amounts paid.
- Wages of farm employees
  - Retain a list detailing the number of employees normally employed, and number of casual employees.
  - The actual amounts paid do not include wages of domestic workers
  - Wages paid in respect of improvements is regarded as part of the cost of capital works and must be claimed under improvements.
- Rations for farm employees
  - The value of livestock and produce used by a farmer as rations for farm employees must be included in both income as well as expenditure deductible. In effect, the rations to farm employers are therefore not taxable.
  - Retain a list detailing the names and addresses of persons or firms from whom the farmer purchased rations and the amounts paid.
  - Do not include the value of farm produce produced by the farmer or stock bred or purchased by the farmer which has already been included
- Seeds, plants and trees
- Expenses related to the clearing of land on condition that income from farming is derived in the same year that the expenditure is incurred.
  - Includes the cost of material and/or contract price in respect of eradication of noxious plants and prevention of soil erosion (par 12(1)(a) of the First Schedule)
  - Only the actual costs which were specifically incurred in eradicating noxious plants or soil conservation must be claimed
  - Wages, rations, fuel, materials, etc., which have already been claimed under other headings must not again be claimed here
  - If independent contractors undertook the work, the names of the contractors and the amounts paid to them must be retained. The nature of the work done by the farmer him/herself or the contractor must be available on request; and

- If the work includes the building of dams, weirs or the erection of fences, an explanation of why the expenses are claimed under this section must be retained
- Veterinary surgeons fees for services rendered to animals and medicine for animals
- Rates and taxes
  - Retain a list detailing the nature of the taxes and the amounts paid.
- Packing materials such as grain-bags, wool packs, binding wire
- Medical services for employees
- Interest on loans or bank overdrafts used for farming purposes
  - Retain a schedule detailing the names and addresses of persons or institutions to whom payment was made, the amount of each loan, rate of interest payable on each loan, purpose for which each loan was utilised, the amount of interest paid on each loan.
  - Capital repayments must not be included.
- Travelling and entertainment expenses
- **Note:** Expenses in respect of the farmers dwelling or household must be excluded.

A farmer is also entitled to claim the special deductions granted to other taxpayers, for example repairs (s11(d)), lease premiums (s11(f)) and wear and tear (s11(e)).

- Repairs
  - This part only refers to repairs to vehicles, machinery and implements.
  - Retain a list detailing the nature of the repairs and the cost of the work done.
  - Only repairs to buildings (except the farmer's private dwellings or the dwellings of persons who are not employees), windmills or pumping plant, etc. or expenses for the maintenance of other assets used for farming purposes may be claimed. Wages paid to own farm employees must not be included in this part.
- Wear and tear allowance of an asset owned by the farmer or acquired in terms of an instalment credit agreement
  - This allowance may only be claimed in respect of motor vehicles (of which the exclusive or primary function is the transportation of people), caravans, aircraft (except an aircraft used solely or mainly for crop-spraying), and office furniture or office equipment used for farming purposes
  - The following information must be retained:
    - Particulars and value of assets on which wear and tear is claimed and which were on hand at the beginning of the year of assessment
    - Dates, description and purchase price of assets purchased or received in exchange during the year of assessment
    - Dates and descriptions of assets sold, exchanged, traded in or scrapped during the year of assessment and the amounts received for such assets
    - The original date of purchase and cost price of each asset must be stated.

### Expenditure on developments and improvements

- Paragraph 12(1) allows the following development expenditure to be deducted:
  - Dipping tanks
  - Dams, irrigation schemes, boreholes and pumping plant
  - Fences
  - Erection of, or extensions or additions or improvements to buildings used in connection with farming operations, other than those used for domestic purposes
  - Planting of trees, scrubs or perennial plants for the production of grapes or other fruit, nuts, tea, coffee, hops, sugar, vegetable oils or fibres and the establishment of an area for such purposes
  - Building of roads and bridges used in the farming operations
  - Carrying of electric power from the main transmission lines to the farm apparatus
- The following details must be retained in respect of development and improvement works:
  - Description of the work undertaken
  - How the expenses were compiled, i.e. what amounts were spent on wages, materials, etc.
  - If an independent contractor undertook the work, the name and address of the

contractor and the amount paid to him/her must be retained.

The allowance for housing used by farm employees must be claimed under section 13sex. For more information, refer to the 'Guide to Building Allowances' on the SARS website

Deduction – machinery and implements owned by the farmer or acquired in terms of an instalment credit agreement (section 12B):

- A deduction in respect of machinery, implements and utensils brought into use for farming purposes for the first time, will be allowed as follows:
  - 50% of the cost of the asset in the year of assessment in which the asset is brought into use
  - 30% of such cost in the following year of assessment
  - 20% of such cost in the third year of assessment
- This deduction also applies to an aircraft used solely or mainly for the purpose of crop spraying. The cash cost of a new asset, acquired to replace an asset, which was damaged or destroyed, must be reduced by the amount recouped in respect of the latter asset
- The amount recouped is deferred, and therefore, not included in the farmer's income.

### Livestock purchased and received in exchange

#### Example: 1

Farming income	R 5,000
Closing stock Livestock	<u>R 1,500</u>
	R 6,500
Less: Opening stock Livestock	R (1,000)
Livestock purchases	<u>R (8,000)</u>
	R (9,000)
Balance of expenditure not allowed	R (2,500)

- The amount of R2 500 in respect of the purchase is not allowable and is limited and the amount not allowed is carried forward to the following year of assessment.
- This limitation is not applicable if the farmer can show that he/she no longer held and had not disposed of the livestock that he/she acquired on or after 31 May 1988.
- If the farmer can prove that, for example, due to drought, the fair market value of his/her livestock at the end of the year of assessment is less than the loss on livestock as shown above, together with the value of opening stock, such loss is reduced by the difference.

#### Example: 2

Amount to be carried forward (loss on livestock)	R 2,500
Plus: Opening stock of livestock	<u>R 1,000</u>
	R 3,500
Less: Fair market value of closing stock	<u>R 3,000</u>
Allowable	<u>R 500</u>

The amount of R2 500 is reduced to R 2 000.

### Standard classification and standard values of livestock

- In terms of paragraph 6(1), the standard value of any class of livestock is either the:
  - Standard values fixed by regulation under the Act; or
  - Any other standard value adopted by the farmer when rendering his first income tax return for his farming operations or when including a particular class of livestock in his income for the first time.
- In terms of paragraph 6(2), the standard value adopted by a farmer that is not fixed by regulation may not be more than 20% higher or lower than the standard values fixed by

regulation in respect of livestock of that class. The standard value adopted by the farmer is binding in respect of all subsequent income tax returns and cannot be altered.

- The standard values fixed by regulation under the Act are as follows:

STANDARD CLASSIFICATION		STANDARD VALUES (R)
Cattle	Bulls	50
	Oxen	40
	Cows	40
Tollies and Heifers	Two to three years	30
	One to two years	14
Sheep	Calves	4
	Wethers	6
	Rams	6
	Ewes	6
Goats	Weaned lambs	2
	Fully grown	4
Goats	Weaned kids	2
	Horses	Stallions over four years
Mares over four years		30
Geldings over three years		30
Colts and fillies three years		10
Colts and fillies two years		8
Colts and fillies one year		6
Foals under 1 year		2
Donkeys	Jacks over three years	4
	Jacks under three years	2
	Jennies over three years	4
	Jennies under three years	2
Mules	Four years and over	30
	Three years	20
	Two years	14
	One year	6
Ostriches	Fully grown	6
Pigs	Over six months	12
	Under six months (weaned)	6
Poultry	Over nine months	1
Chinchillas	All ages	1

Should you not apply the standard values as prescribed and you have not yet made an election in this regard, you are requested to complete a declaration conforming to the example below and retain it for inspection purposes, for a period of five years from the date of submission of the last return in which you declared any farming activities:



I hereby select the following classification and values and understand that my selection may be altered only with the consent and approval of the Commissioner for the South African Revenue Service.

Mark with an 'X':

- (a) The standard classification and standard values as fixed by the Regulations under the Income Tax Act and set out above.
- (b) The standard classification, but at my own values as detailed above.
- (c) My own classification and my own values, as detailed.

Date: .....

Signature: .....

### Selection in respect of equalised normal tax rates

If you selected to have your normal tax calculated at equalised tax rates and you have not previously exercised such a selection, complete a declaration conforming to the example below and retain it for a period of five years after the last return was submitted in which you declared farming income:

I.....  
hereby select that, with effect from the year of assessment ended  
....., my normal tax be calculated at the equalised tax rate  
in terms of the provisions of paragraph 19 of the First Schedule to the Income Tax Act.

I understand and accept that this decision is binding for all future years of assessment.

Date

.....

Taxpayer/Executor/ Trustee

.....

Note: This selection must be exercised only if the farmer wishes to adopt the system of equalised normal tax rates. If normal tax is to be calculated at ordinary rates the selection need not be made.

The selection must be made by the person who is carrying on farming operations. In the case of a deceased or insolvent person, the executor or trustee, as the case may be, must make the selection.

## 7.1 INCOME FROM LOCAL FARMING OPERATIONS (IT48)

### 7.1.1 FARMING OPERATIONS

Complete the information regarding the farming operations

If par 13, 13A, 15, 17, or 20 of the First Schedule to the Income Tax Act applies to the assessment, mark the applicable box(es) with an "X".

#### 'Description'

Insert the description of each farming operation. If the farming operation was declared in a previous year of assessment, insert the same description that you completed in the previous year.

### **'Unique Identifier'**

- If you received farming income that was declared in the previous year's returns (since the 2005 year of assessment), a unique identifier would have been allocated to the specific operations. You can obtain this number from the previous notice of assessment (ITA34) issued to you.
- If you only started farming operations in the current year of assessment leave this field blank. A number will be allocated to you.

Complete the information in the applicable fields:

- **'Gross Receipts and Accruals (including private usage but excluding partnership income and distributions from a trust(s))'**;
- **'Partnership Income (Add Profit/Loss)'**.
- **'Income from local Farming Operations (IT48) distributed by a trust(s)'**
  - This field is only applicable from the 2017 year of assessment
- **'Plus: Livestock on hand at the end of the current year of assessment'**
- **'Plus: Produce on hand at the end of the current year of assessment'**.
  - Add the above amounts and insert the total amount in the field **'Sub-Total (i)'**.
  - Note: Exclude the market value of 'Livestock' and 'Produce' acquired otherwise than by purchase, natural increase or in the ordinary course of farming operations (e.g. donations and inheritance).
- **'Livestock on hand at the ends of the preceding year of assessment'**;
- **'Livestock purchase and received in exchanged'**;
- **'Balance of livestock not allowed in the preceding year of assessment'**
- **'Sub-Total (ii)'** will be auto-calculated.
- **'Less: Amount deducted'** [Sub-Total(ii) limited To Sub-Total (i)];
  - The amount of this field cannot be greater than the amount in the field for 'Sub-Total (ii)';
- **'Less balance carried forward to the following year of assessment'** (this amount may not create or increase a loss)
  - This field will be auto-calculated
  - Calculation: Sub-Total (ii) less 'Amount deducted [Sub-Total(ii) limited To Sub-Total (i)]'
- **'Less: Allowable Expenses'**
  - From the 2016 YOA onwards if there are allowable expenses, then the 'Details of Farming Expenses' section must be completed.
- **'Less: Produce on hand at the end of the year in the preceding year of assessment'**
- **'Less: Special Depreciation'**
  - Insert the special depreciation amount
  - The amount in the field adjacent to 'Special Depreciation' field will be auto calculated.
- **'Net Profit/Loss'**
- **'Less: Amount of improvements deductible from Net Profit'**
  - This value must be equal to the 'Less: Allowable deductions current year' field in the section 'Information on Capital Improvements'
- Insert the amount for **'Taxable Income / Loss from Farming Operations'**
- Insert the applicable income/loss **'source code'**.
- **'Equalisation Rate Selection'** - Select the applicable option from the drop down list:
  - 'None'
  - '3 year' – this option will only display for plantation farming source codes (0132 and 0133)
  - '5 year'
- **'If a loss incurred was incurred, should it be excluded (ring fenced) for the calculation of your tax liability'** – select Y or N.
  - This question is mandatory if a loss source code is selected
- Note: The statement of assets and liabilities is mandatory for completion if you received farming income.

### 7.1.2 SPECIAL DEPRECIATION INFORMATION

- **'Balance b/f Previous Year'** (*Current Year column*)
- **'Balance b/f Previous Year'** (*Subsequent Year column*)
- **'Purchases Current Year'**
- **'Deductions in respect of Purchases Current Year'** (*Current Year column*)
  - This field will be auto calculated
  - Calculation: 'Purchases current year' x 50%
- **'Deductions in respect of Purchases Current Year'** (*Subsequent Year column*)
  - This field will be auto calculated
  - Calculation: 'Purchases current year' x 30%
- **'Deductions in respect of Purchases Current Year'** (*Year Following Subsequent Year column*)
  - This field will be auto calculated
  - Calculation: 'Purchases current year' x 20%
- **'Deductions Added Back in respect of Assets Sold'** (*Subsequent Year column*)
- **'Deductions Added Back in respect of Assets Sold'** (*Year Following Subsequent Year column*)
- **'Amount Allowable Current Year'**
  - This field will be auto calculated

### 7.1.3 INFORMATION ON CAPITAL IMPROVEMENTS

- **'Balance brought forward from Previous Year'**
- **'Less: Recoupments'**
  - The value in this field cannot be greater than the 'Balance b/f from Previous Year'
- **'Plus: Purchases/Costs Current Year'**
- **'Plus Total brought forward from Partnership IT48V's'**
- **'Total Improvements'**
  - This field will be auto calculated
- **'Less: Allowable Deductions Current Year'**
  - Note: The cannot exceed 'Total Improvements'
  - The value in this field must be equal to the amount in the 'Less: Amount of improvement deductible from Net Profit' field in the 'Income from Local Farming Operations' section.
- **'Balance carried forward to Subsequent Year'**
  - This field will be auto calculated
  - Calculation: 'Total improvements' less 'Allowable deductions current year'.

### 7.1.4 DETAILS OF FARMING EXPENSE (IT48)

This section is only applicable from the 2016 YOA assessment onwards.

Complete the applicable fields for **'Expenses'**:

- **'Accounting fees'**
- **'Administration costs and bank charges'**
- **'Bad debts'**
- **'Costs of residential buildings for employees (s13ter)'**
- **'Electricity, rates and taxes'**
- **'Entertainment expenses'**
- **'Expenses for cleaning land'**
- **'Fuel, oil and related expenses'**
- **'Insurance and licenses'**
- **'Interest and finance charges'**
- **'Lease payments (s11(f))'**
- **'Legal expenses'**
- **'Livestock feeds'**

- 'Packing materials'
- 'Protective clothing'
- 'Rations and other staff costs (excl. housing, salary and wages)'
- 'Rent (incl. hiring of farm land, equipment, etc.)'
- 'Repairs and maintenance'
- 'Salaries and wages'
- 'Security expenses'
- 'Seeds and fertilizers'
- 'Telephone and fax expenses'
- 'Travelling and accommodation - Local'
- 'Travelling and accommodation - Foreign'
- 'Veterinary expenses (incl. medicines)'
- 'Wear and tear allowance (s11(e)) – excl. special depreciation in terms of s12B'
- 'Learnership Allowance: Agreements in effect / completed in current year (Agreements entered before 1 October 2016): s12H'
- 'Learnership Allowance: Agreements in effect / completed in current year (Agreements entered into on or after 1 October 2016): s12H'
- 'Other'
  - 'Please provide a description relating to other expenses indicated above'
- 'Total expenses'
  - This field will be auto calculated

Complete the fields for the applicable **'Adjustments – Add back'**:

- 'Disallowable foreign expenses'
- 'Donations'
- 'Finance charges'
- 'Legal expenses'
- 'Private/personal expenses'
- 'Recoupment (excl. capital improvements)'
- 'Unproductive interest'
- 'Other'
  - 'Please provide a description relating to other indicated above'
- 'Total Adjustments – Add back'
  - This field will be auto calculated
- 'Total Allowable Expenses'
  - This field will be auto calculated as 'Total Expenses' – 'Total Adjustments: Add Back'

#### **7.1.5 CAPITAL IMPROVEMENTS INCURRED DURING THE YEAR OF ASSESSMENT (Paragraph 12(1) of the First Schedule)**

This section is only applicable from the 2016 YOA assessment onwards. Complete the following:

- 'Dipping tanks'
- 'Dams, irrigation schemes, boreholes and pumping plants'
- 'Fences'
- 'Erection of, or additions or improvements to farm buildings (other than buildings used for domestic purposes)'
- 'Planting of trees, shrubs or perennial plants for the production of grapes or other fruit, nuts, tea, coffee, hops, sugar, vegetable oils or fibres and the establishment of an area for such purposes'
- 'Building of roads and bridges used in farming operations'
- 'Carrying of electric power from the main transmission lines to the farm apparatus or under an agreement concluded with the Electricity Supply Commission as stipulated'
- 'Wages paid to employees employed in construction of capital works as set out above'

- **'Total Purchases/Costs – Current Year'**
  - This field will be auto calculated

## 7.2 INCOME FROM LOCAL PARTNERSHIP FARMING OPERATIONS (IT48V)

### 7.2.1 LOCAL PARTNERSHIP FARMING OPERATIONS

Complete the following fields:

- **'Partnership name'**
- **'Gross Receipts and Accruals (including private usage)'**
- **'Plus: Livestock on hand at the end of the current year of assessment'**
- **'Plus: Produce on hand at the end of the current year of assessment'**
- **'Sub-Total (i)'** is the sum of the above amounts.
  - Note: Exclude the market value of 'Livestock' and 'Produce' acquired otherwise than by purchase, natural increase or in the ordinary course of farming operations (e.g. donations and inheritance).
- **'Livestock on hand at the end of the preceding year of assessment';**
- **'Livestock purchased and received in exchange'**
- **'Balance of livestock not allowed in the preceding year of assessment'**
- **'Sub-Total (ii)'** will be auto calculated.
- **'Less: Amount deducted [Sub-Total(ii) limited To Sub-Total (i)];'**
  - The amount of this field cannot be greater than either of the amounts in Sub-Total (i) or 'Sub-Total (ii)'
- **'Less balance carried forward to the following year of assessment'** (this amount may not create or increase a loss)
  - This field will be auto-calculated
  - Calculation: 'Sub-Total (ii)' less 'Amount deducted'
- **'Sub-total'**
  - This field will be auto-calculated
- **'Less: Allowable Expenses'**
  - From the 2016 YOA onwards if there are allowable expenses, then the 'Details of Farming Expenses' section must be completed.
- **'Less: Produce on hand at the end of the year in the preceding year of assessment'**
- **'Less: Special Depreciation'**
  - Insert the special depreciation amount
  - The amount in the field adjacent to 'Special Depreciation' field will be auto calculated.
- **'Net Profit/Loss Partnership'**
- **'Your share % of Taxable Income/Loss from partnership farming operations'**
  - This amount will be populated with the taxpayer's portion of the profit/loss as calculated in the section 'Partner's Information for Share Distribution (Farming)'.
    - This amount must be carried forward to your personal IT48.

### 7.2.2 SPECIAL DEPRECIATION INFORMATION

Complete the following:

- **'Balance b/f Previous Year'** (*Current Year column*)
- **'Balance b/f Previous Year'** (*Subsequent Year column*)
- **'Purchases Current Year'**
- **'Deductions in respect of Purchases Current Year'** (*Current Year column*)
  - This field will be auto calculated
  - Calculation: 'Purchases current year' x 50%
- **'Deductions in respect of Purchases Current Year'** (*Subsequent Year column*)
  - This field will be auto calculated
  - Calculation: 'Purchases current year' x 30%
- **'Deductions in respect of Purchases Current Year'** (*Year Following Subsequent Year*)

column)

- This field will be auto calculated
- Calculation: 'Purchases current year' x 20%
- **'Deductions Added Back in respect of Assets Sold'** (*Subsequent Year column*)
- **'Deductions Added Back in respect of Assets Sold'** (*Year Following Subsequent Year column*)
- **'Amount Allowable Current Year'**
  - This field will be auto calculated

### 7.2.3 INFORMATION ON CAPITAL IMPROVEMENTS

Complete the **'Purchases/costs – current year'**.

Note: Reflect your percentage share of the above amount on the IT48.

### 7.2.4 PARTNER'S INFORMATION FOR SHARE DISTRIBUTION (FARMING)

As there must be a minimum of two partners in a partnership, it will be mandatory to complete the fields for at least two partners on the return.

Complete the applicable fields for each partner:

- **'Surname / Trading name'**
- **'Income Tax Reference Number'**
- **'Initials (if applicable)'**
- **'Share %'**
  - An individual partner percentage may never be 100% or greater
  - The Share% fields of all partners must always total up to 100%
- **'Profit / Loss'**
  - This field will be auto calculated
- **'Improvements'**
  - Each partner's portion will be auto calculated based on the value entered for 'Purchases/costs – current year' in the 'Capital Improvements' section described above.
  - Calculation: 'Purchases current year' x 'Share %'.

### 7.2.5 DETAILS OF FARMING EXPENSE (IT48V)

This section is only applicable from the 2016 YOA assessment onwards and if you answered 'Yes' to the question 'Did you participate in any local farming partnership operations?'.

Complete the applicable fields for **'Expenses'**:

- **'Accounting fees'**
- **'Administration costs and bank charges'**
- **'Bad debts'**
- **'Costs of residential buildings for employees (s13ter)'**
- **'Electricity, rates and taxes'**
- **'Entertainment expenses'**
- **'Expenses for cleaning land'**
- **'Fuel, oil and related expenses'**
- **'Insurance and licenses'**
- **'Interest and finance charges'**
- **'Lease payments (s11(f))'**
- **'Legal expenses'**
- **'Livestock feeds'**
- **'Packing materials'**
- **'Protective clothing'**
- **'Rations and other staff costs (excl. housing, salary and wages)'**
- **'Rent (incl. hiring of farm land, equipment, etc.)'**
- **'Repairs and maintenance'**

- **'Salaries and wages'**
- **'Security expenses'**
- **'Seeds and fertilizers'**
- **'Telephone and fax expenses'**
- **'Travelling and accommodation - Local'**
- **'Travelling and accommodation - Foreign'**
- **'Veterinary expenses (incl. medicines)'**
- **'Wear and tear allowance (s11(e)) – excl. special depreciation in terms of s12B'**
- **'Learnership Allowance: Agreements in effect / completed in current year (Agreements entered before 1 October 2016): s12H'**
- **'Learnership Allowance: Agreements in effect / completed in current year (Agreements entered into on or after 1 October 2016): s12H'**
- **'Other'**
  - 'Please provide a description relating to other expenses indicated above'
- **'Total expenses'**
  - This field will be auto calculated

Complete the applicable fields for **'Adjustments – Add back'**:

- **'Disallowable foreign expenses'**
- **'Donations'**
- **'Finance charges'**
- **'Legal expenses'**
- **'Private/personal expenses'**
- **'Recoupment (excl. capital improvements)'**
- **'Unproductive interest'**
- **'Other'**
  - 'Please provide a description relating to other indicated above'
- **'Total Adjustments – Add back'**
  - This field will be auto calculated
- **'Total Allowable Expenses'**
  - This field will be auto calculated
  - Calculation: 'Total Expenses' – 'Total Adjustments: Add Back'

## **7.2.6 CAPITAL IMPROVEMENTS INCURRED DURING THE YEAR OF ASSESSMENT (Paragraph 12(1) of the First Schedule) (IT48V)**

This section is only applicable from the 2016 YOA assessment onwards and will only be added to the return if the following conditions are met:

- You answered 'Yes' to the question 'Did you participate in any local farming partnership operations?', and
- The value in the field 'Purchases/costs Current Year' (under 'Information on Capital Improvements') is greater than zero.

Complete the applicable amounts:

- **'Dipping tanks'**
- **'Dams, irrigation schemes, boreholes and pumping plants'**
- **'Fences'**
- **'Erection of, or additions or improvements to farm buildings (other than buildings used for domestic purposes)'**
- **'Planting of trees, shrubs or perennial plants for the production of grapes or other fruit, nuts, tea, coffee, hops, sugar, vegetable oils or fibres and the establishment of an area for such purposes'**
- **'Building of roads and bridges used in farming operations'**
- **'Carrying of electric power from the main transmission lines to the farm apparatus or under an agreement concluded with the Electricity Supply Commission as stipulated'**
- **'Wages paid to employees employed in construction of capital works as set out above'**

- **'Total Purchases/Costs – Current Year'**
  - This field will be auto calculated

## 8 DEDUCTIONS

### 8.1 MEDICAL

The system of deductions for medical scheme contributions was converted to tax credits effective 1 March 2012 in an attempt to improve the equity of the tax system. This conversion was based on the notion that medical tax credits provide a more equitable form of relief than medical deductions because the relative value of the relief does not increase with higher income levels (in other words, the medical scheme fees tax credit is unrelated to a taxpayer's income bracket). The principle difference between a tax deduction and a tax credit is that medical tax credits reduce a taxpayer's tax liability, whereas deductions reduce a taxpayer's taxable income.

Since the medical tax credit is a 'rebate' against taxes payable and not a 'deduction,' it is limited to the normal tax payable. In other words, it is not refundable and cannot exceed the amount of normal tax payable.

Section 6A of the Income Tax Act deals with the **medical scheme fees tax credits**. It entitles taxpayers to a monthly 'tax rebate' (i.e. credit) in respect of any medical scheme contributions made for the benefit of themselves and their dependants.

- Section 6A is applicable from 1 March 2012 (i.e. 2013 year of assessment and onwards) to taxpayers below 65 years of age
- Section 6A is applicable from 1 March 2014 (i.e. 2015 year of assessment and onwards) to taxpayers aged 65 years and older.

Section 18 of the Income Tax Act deals with the **deduction of medical and dental expenses** and is only applicable to the 2014 and prior years of assessment. Section 18 was repealed with effect from 1 March 2014 and was replaced with section 6(B).

Section 6B of the Income Tax Act deals with the **additional medical expenses tax credits**. It came into effect on 1 March 2014 and is applicable to all taxpayers (regardless of age) from the 2015 year of assessment onward.

#### 8.1.1 MEDICAL SCHEME FEES TAX CREDIT

A taxpayer qualifies to claim medical tax credits in respect of the qualifying contributions he/she paid (or is deemed to have been paid) to a registered medical scheme for him/herself and his/her dependants.

On your IRP5/IT3(a) Employee Tax Certificate received, the medical scheme fees tax credit will reflect next to source code **4116** if your medical contributions were paid via your employer. If you paid the medical contributions directly to your medical aid (e.g. via your bank account), this code will not appear on your IRP5/IT3(a) certificate.

The medical scheme fees tax credits are as follows for each month for which medical scheme contributions were paid:

Year of assessment	Medical scheme fees tax credit
<b>2013</b> 1 Mar 2012 – 28 Feb 2013	R230 per month for the taxpayer; R230 per month for the first dependant; R154 per month for each additional dependant



<b>2014</b> 1 Mar 2013 – 28 Feb 2014	R242 per month for the taxpayer; R242 per month for the first dependant; R162 per month for each additional dependant
<b>2015</b> 1 Mar 2014 – 28 Feb 2015	R257 per month for the taxpayer; R257 per month for the first dependant; R172 per month for each additional dependant
<b>2016</b> 1 Mar 2015 – 29 Feb 2016	R270 per month for the taxpayer; R270 per month for the first dependant; R181 per month for each additional dependant
<b>2017</b> 1 Mar 2016 – 28 Feb 2017	R286 per month for the taxpayer; R286 per month for the first dependant; R192 per month for each additional dependant
<b>2018</b> 1 Mar 2017 – 28 Feb 2018	R303 per month for the taxpayer; R303 per month for the first dependant; R204 per month for each additional dependant
<b>2019</b> 1 Mar 2018 – 28 Feb 2019	R310 per month for the taxpayer; R310 per month for the first dependant; R209 per month for each additional dependant
<b>2020</b> 1 Mar 2019 – 29 Feb 20 20	R310 per month for the taxpayer; R310 per month for the first dependant; R209 per month for each additional dependant
<b>2021</b> 1 Mar 2020 – 28 Feb 2021	R319 per month for the taxpayer; R319 per month for the first dependant; R215 per month for each additional dependant

### 8.1.2 DEPENDANTS

For the purposes of section 6A, a dependant means:

- A person's spouse (i.e. husband or wife)
- A person's child and dependant children (e.g. son, daughter, step son, step daughter, adopted child)
- Any other member of a person's immediate family in respect of whom he or she is liable for family care and support (e.g. mother, father, mother-in-law, father-in-law, brother, sister, grandparents, grandchildren.)
- Any other person who is recognised as a dependant of that person in terms of the rules of a medical scheme or fund

For the purposes of section 6B, a child means a person's child or child of his or her spouse who was alive during any portion of the year of assessment and who on the last day of the year of assessment:

- was unmarried and was not or would not, had he or she lived, have been:
  - over the age of 18 years;
  - over the age of 21 years and was wholly or partially dependent for maintenance upon the person and has not become liable for the payment of normal tax in respect of such year; or
  - over the age of 26 years and was wholly or partially dependent for maintenance upon the person and has not become liable for the payment of normal tax in respect of such year and was a full-time student at an educational institution of a

- public character; or
- in the case of any other child, was incapacitated by a disability from maintaining himself or herself and was wholly or partially dependent for maintenance upon the person and has not become liable for the payment of normal tax in respect of that year

### 8.1.3 QUALIFYING MEDICAL EXPENSES

Qualifying medical expenses are any amounts paid by a taxpayer during the year assessment and not recovered from the medical scheme. Examples:

- For services rendered and medicines supplied by a registered medical practitioner, dentist, optometrist, homeopath, naturopath, osteopath, herbalist, physiotherapist, chiropractor or orthopaedist for professional services rendered or medicines supplied to the person or any dependant of the person;
- To a nursing home or hospital or any duly registered or enrolled nurse, midwife or nursing assistant (or to any nursing agency in respect of the services of such a nurse, midwife or nursing assistant) in respect of the illness or confinement of the person or any dependant of the person
- For medicines prescribed by a registered medical practitioner and acquired from a pharmacist
- Medical expenses incurred and paid outside South Africa.

Qualifying medical expenses can only be claimed in the year of assessment during which they are actually paid.

### 8.1.4 PHYSICAL IMPAIRMENT EXPENSES NOT RECOVERED FROM YOUR MEDICAL SCHEME

The Income Tax Act makes provision that a taxpayer can claim any expenses prescribed by the Commissioner necessarily incurred and paid in consequence of any physical impairment suffered by:

- The taxpayer,
- His/her spouse or child and child of his or her spouse,
- Any other member of a person's family in respect of whom he or she is liable for family care and support; and
- Any other person who is recognised as a dependant of that person in terms of the rules of a medical scheme or fund.

Physical impairment is not defined in the Act, however, in the context of section 6B it is considered to be a disability that is less restraining than a 'disability' as defined in section 6B. This means the restriction of the person's ability to function or perform daily activities after maximum correction is less than a 'moderate to severe limitation'. Maximum correction in this context means appropriate therapy, medication and use of devices

For a list of qualifying disability expenditure, please refer to the following documents on the SARS website:

- List of Qualifying Physical Impairment or Disability Expenditure Effective 1 March 2012
- List of Qualifying Physical Impairment or Disability Expenditure Effective 1 March 2020
- It is important to note that with effect from 1 March 2020 this list is prescriptive. In other words if an expense is not included in the list, the expense cannot be claimed as "qualifying medical expenses" under paragraph (c) of that definition in section 6B(1) of the Act.

### 8.1.5 PERSON WITH A DISABILITY

The Income Tax Act provides for a more widely accepted and understood definition of 'disability'

instead of the previous term 'handicapped'. A person who qualified as a 'handicapped person' in the past must have his or her disability re-confirmed in order to continue to claim a deduction.

The Income Tax Act defines 'disability' to mean a person with a moderate to severe limitation of that 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 diagnosed by a duly registered medical practitioner in accordance with the criteria prescribed by the Commissioner

From the 2010 year of assessment and onwards, a disability must be confirmed by a duly registered medical practitioner (this includes persons who previously qualified as a 'handicapped person').

- These legislative changes were effective from 1 March 2009. If the disability is not confirmed, you will not be able to claim the qualifying expenses in full and will be subject to the 7.5% limitation.
- Due to this change in legislation an ITR-DD form (**Confirmation of diagnosis of disability form for an individual taxpayer**) must be completed by a medical practitioner. This form is available on the SARS website, and contains the criteria for the diagnosis of disability.

For a list of qualifying disability expenditure, please refer to the following documents on the SARS website:

- List of Qualifying Physical Impairment or Disability Expenditure Effective 1 March 2012
- List of Qualifying Physical Impairment or Disability Expenditure Effective 1 March 2020
- It is important to note that with effect from 1 March 2020 this list is prescriptive. In other words if an expense is not included in the list, the expense cannot be claimed as "qualifying medical expenses" under paragraph (c) of that definition in section 6B(1) of the Act.

### 8.1.6 PROOF OF MEDICAL EXPENSES

You must retain proof of your medical expenses for period of five years after submission of your return to substantiate the claim should it be requested by SARS.

Examples of proof required:

- Tax certificate from your medical aid scheme for the year of assessment
- Where you are liable for the family care and support of a family member (refer to the dependants section above) and you have paid the medical scheme contributions for that family member you must retain:
  - Proof of payment of the contributions (e.g. banks statements)
  - A copy of the tax certificate from the medical scheme where the medical aid is in the name of the said family member.
- Receipts for qualifying medical expenses:
  - Paid by you and not recovered from your medical aid scheme
  - Paid by you and not recovered from the medical aid scheme of a family member for whom you are liable for family care and support.

### 8.1.7 TAXPAYERS AGED 65 YEARS AND OLDER

For the 2014-year of assessment and prior years, neither the limitation of 7.5% nor the medical tax credits is applicable to taxpayers aged 65 years and older. The taxpayer is entitled to claim (as a deduction) the full medical scheme contribution paid and other qualifying medical and physical impairment or disability expenses not recovered from the medical scheme (section 18).

From the 2015 year of assessment onwards, section 18 is no longer applicable and section 6B becomes effective. The medical tax credits will be the sum of the following:

- The standard monthly medical scheme credits for the taxpayer, spouse and dependants; and
- 33.3 per cent credits for medical scheme fees that exceed three times the medical scheme fees tax credit; and 33.3 per cent credits for all qualifying medical expenses (other than medical scheme contributions).

<b>Example: 1</b>									
Mr Taxpayer is 65 years old. For the year of assessment commencing on 1 March 2014, he contributed R2 000 per month on behalf of himself and his wife to a medical scheme. By 28 February 2015, he had incurred R20 000 in qualifying medical expenses									
<b>1) Medical scheme fees tax credit (S6A) for the year</b>	R6 168								
<u>Calculation:</u> Medical scheme fees tax credit for taxpayer, spouse and each dependent <i>times</i> number of months for which contributions were paid to the medical scheme  $= (R257 + R257) \times 12$									
<b>2) Additional medical expenses tax credit (S6B)</b>	R 8490								
<u>Calculation:</u> (Excess Medical Scheme Fees <i>plus</i> Qualifying Medical Expenses) $\times$ 33.3%  <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Total contributions paid to the medical scheme less 3 times the medical scheme fees tax credit <math>= (R24\ 000 - (3 \times R6\ 168))</math></td> <td style="width: 20%; text-align: right; vertical-align: bottom;">R5 496</td> </tr> <tr> <td><b>Plus:</b> Qualifying medical expenses paid</td> <td style="text-align: right; vertical-align: bottom;">R20 000</td> </tr> <tr> <td style="border-top: 1px solid black;">Subtotal:</td> <td style="text-align: right; border-top: 1px solid black;">R25 496</td> </tr> <tr> <td style="border-top: 1px solid black;">33.3% of the above subtotal <math>= 25496 \times 33.3\%</math></td> <td style="text-align: right; border-top: 1px solid black;">R8 490</td> </tr> </table>		Total contributions paid to the medical scheme less 3 times the medical scheme fees tax credit $= (R24\ 000 - (3 \times R6\ 168))$	R5 496	<b>Plus:</b> Qualifying medical expenses paid	R20 000	Subtotal:	R25 496	33.3% of the above subtotal $= 25496 \times 33.3\%$	R8 490
Total contributions paid to the medical scheme less 3 times the medical scheme fees tax credit $= (R24\ 000 - (3 \times R6\ 168))$	R5 496								
<b>Plus:</b> Qualifying medical expenses paid	R20 000								
Subtotal:	R25 496								
33.3% of the above subtotal $= 25496 \times 33.3\%$	R8 490								
<b>Total amount by which Mr Taxpayer's tax liability will be reduced for the 2015 year of assessment:</b>	<b>R14 658</b>								

### 8.1.8 TAXPAYERS UNDER 65 YEARS WITH A DISABILITY

The 7,5% limitation applicable to taxpayers under 65 years (see section below) does not apply if the taxpayer, his or her spouse or any of his or her qualifying children is a person with a disability

From the 2015 year of assessment onwards, the medical deduction for taxpayers under 65 years with a disability is calculated the same as that for taxpayers aged 65 years and older.

For the 2013 and 2014 years of assessment the taxpayer is entitled to a deduction equal to the sum of the following amounts:

- All medical scheme contributions paid that exceed four times the medical scheme tax credit calculated under section 6A; and
- Actual qualifying medical expenses (including physical impairment or disability expenses)

paid and not recoverable from the medical scheme.

<b>Example:2</b>	
Mr Taxpayer is 34 years old. For the year of assessment commencing on 1 March 2012, he made contributions of R46 900 to a medical scheme on behalf of himself, his wife and their child. By 28 February 2013, he had incurred R9 232 in qualifying medical expenses and also paid R32 691 for two hearing aids for his child who is regarded as a person with a disability. Mr Taxpayer's taxable income before the medical deduction is R210 200 for the 2013 year of assessment.	
<b>1) Total contributions paid to medical scheme less four times the S6A medical scheme fees tax credit</b>	R17 428
Total contributions paid to the medical scheme                      R46 900 <b>Less:</b> 4 x the medical scheme fees tax    (R29 472) = 4 x [(230+230+154)x12months] = 4 x 7368	
R17 428	
<b>2) Add: Actual qualifying medical expenses paid and not recoverable from the medical scheme</b>	R41 923
(9 232 + 32 691)	
<b>Total amount by which Mr Taxpayer's taxable income will be reduced for the 2013 year of assessment:</b>	<b>R59 351</b>

### 8.1.9 TAXPAYERS UNDER 65 YEARS WITH NO DISABILITY

Note: Qualifying physical impairment expenses are taken into account when computing the allowable medical deduction.

For the 2013 and 2014 years of assessment, the taxpayer is entitled to a medical deduction that is limited to the amount by which the total of the following 2 amounts exceed 7.5% of the taxpayer's taxable income before the medical deduction is taken into account (Any 'retirement fund' lump sum or withdrawal benefit or severance benefit is excluded from the taxable income for purposes of the 7,5% calculation):

- All medical scheme contributions paid that exceed four times the medical scheme fees tax credit calculated under section 6A; and
- Actual qualifying medical expenses (including physical impairment expenses) paid and not recoverable from the medical scheme

<b>Example: 3</b>
Mr Taxpayer is 35 years old. For the year of assessment commencing on 1 March 2012, he made contributions of R46 900 to a medical scheme on behalf of himself, his wife and their child. By 28 February 2013, he had incurred and paid R19 232 in qualifying medical expenses and also paid R2 691 for physical impairment expenses (the expenses are covered by the prescribed list). Mr Taxpayer's taxable income before the medical deduction is R210 200 for the 2013 year of assessment.

<b>1) Total contributions paid to medical scheme less four times the S6A medical scheme fees tax credit</b>	R17 428
Total contributions paid to the medical scheme	R46 900
<b>Less:</b> 4 x the medical scheme fees tax = 4 x [(230+230+154)x12months] = 4 x 7368	(R29 472)
	R17 428
<b>2) Add: Actual qualifying medical expenses paid and not recoverable from the medical scheme</b>	R21 923
(19 232 + 2 691)	
<b>Subtotal</b>	<b>R39 351</b>
<b>3) Less: 7.5 per cent of the taxable income before the medical allowance</b>	(R15 765)
(R210 200 x 0.075)	
<b>Total amount by which Mr Taxpayer's taxable income will be reduced for the 2013 year of assessment:</b>	<b>R 23 586</b>
<b>Note:</b> If Mr Taxpayer's taxable income was R530 000 for the 2013 year of assessment, he would not be entitled to a medical deduction, since 7.5% of his taxable income (R39 750) would exceed his qualifying medical expenses.	

From the 2015 year of assessment onwards, the medical deduction allowed will be the sum of the following two calculations:

- The monthly medical scheme fees tax credits for the taxpayer, spouse, and dependants; and
- **25 per cent** tax credits of the value of the amount by which the aggregate of the medical scheme contributions that exceed four times the medical scheme fees tax credits, and all qualifying medical expenses (other than medical scheme contributions), exceed 7.5 per cent of the taxpayer's taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit and severance benefit)

<b>Example: 4</b>	
Mr Taxpayer is 30 years old. For the year of assessment commencing on 1 March 2014, he contributed R2 000 a month to a medical scheme for himself, his wife, and their child. By 28 February 2015, he had incurred R20 000 qualifying medical expenses. Mr Taxpayer's taxable income for the 2015 year of assessment is R200 000.	
<b>1) Medical scheme fees tax credit (S6A) for the year</b>	R 8 232
Calculation: Medical scheme fees tax credit for taxpayer, spouse and each dependent times number of months for which contributions were paid to the medical scheme  = (R257 + R257 + R172) x 12	

<b>2) Additional medical expenses tax credit (S6B)</b>	R 1 250
<p>Calculation:            25% of: ( Total contributions paid to the medical scheme <i>less</i> (4 <i>times</i> the medical scheme fees tax credit) <i>plus</i> qualifying medical expenses paid <i>less</i> 7.5% of taxable income)</p>	
Total contributions paid to the medical scheme	R24 000
<b>Less:</b> 4 times the medical scheme fees tax credit – calculation 1 (4 x 8232)	(R32 928)
<i>Note: Negative result therefore no excess carried. Default to zero.</i>	0
<b>Plus:</b> Qualifying medical expenses	R 20 000
	R 20 000
<b>Less:</b> 7.5% of taxable income (R200 000 x 0.075)	(R15 000)
	R 5 000
25% of the above aggregate total (R5 000 x 0.25)	R 1 250
<b>Total amount by which Mr Taxpayer’s tax liability will be reduced:</b>	<b>R 9 482</b>
<p><b>Note:</b> If Mr Taxpayer’s taxable income was R300 000 for the 2015 year of assessment, he would not be able to claim an additional medical expenses tax credit, since 7.5% of his taxable income (R22 500) would exceed his qualifying medical expenses.</p>	

### 8.1.10 COMPLETING THE MEDICAL DEDUCTIONS SECTION FROM THE 2017 YEAR OF ASSESSMENT ONWARDS

From the 2020 YOA, the medical details will be prepopulated for the main member as per data received from the third party. If any of the prepopulated information is incorrect, you must contact the third party (e.g. your medical scheme) to rectify and resend the correct data to SARS

Please complete the applicable fields if not prepopulated.

#### DETAILS OF MAIN MEMBER

**‘Were you the principal/main member of a medical scheme to which you and/or your employer made contributions?’ – Select Y or N**

- **Note:** If you are the main member on the medical scheme but another person (e.g. a son/daughter) has paid the medical contributions on your behalf, you cannot claim the medical tax credits. In this instance select ‘N’ for the above question.
- The person paying the medical contributions can claim the medical tax credits on his/her own personal income tax return. This claim is limited to a person’s spouse, child (child of spouse) or any other family member if that person is liable for family care and support of that main member.

**‘In how many medical scheme(s) were you a the principal / main member during this year of assessment’**

- The section ‘Details of Medical Scheme’ will repeat according to the number of medical

- schemes that you belonged to during the year of assessment.
- The maximum value allowed is 12.
- Note: You cannot belong to more than one medical scheme in the same month.

**'Medical Scheme Name'** – insert the name as reflected on the medical tax certificate received from the scheme.

**'Medical Scheme Membership Number'** - insert the membership number as reflected on the medical tax certificate.

**'State total number of dependents (including yourself) per month'**

- This refers to the number of members/dependants for whom contributions were paid to the medical scheme for the period 1 March to 28/29 February
- If you have made the contributions towards a medical scheme (where you are not the principal main member) for a family member whom you are liable for family care and support, please **exclude** this person(s) when completing this field.

**'State the total medical contributions made by yourself and / or your employer to this scheme (incl. subsidies from former employer)' – source code 4005**

- This field will display from the 2019 YOA.
  - For the 2017 and 2018 YOA this field will display as '*State the medical contributions made by yourself and / or your employer to this scheme*'
- Medical contributions reflected on the IRP5/IT3(a) certificate (source code 4005) will not be automatically taken into account during the assessment process
- You must insert the total contributions paid to the medical scheme in this field in order for the deduction to be taken into account. The total contributions paid will reflect on your medical tax certificate.
- Where the medical tax certificate does not display the contributions and refers to the amount on the employee tax certificate, the amount next to source code 4005 on the IRP5/IT3(a) certificate must be completed this field.
  - Note: the amount next to source code 4005 on the IRP5/IT3(a) certificate represents medical scheme contributions paid and **deemed** paid by an employer. In other words, this amount includes the contributions made by your employer.
- If you are a pensioner and you received any medical subsidies from former employers it must be completed as follows on your return:
  - From the 2019 YOA include the subsidy (source code 4493) when calculating the medical contributions amount (source code 4005).
  - For years prior to 2019, exclude the subsidy (source code 4493) when calculating the medical contributions amount (source code 4005).

**'State the medical subsidies from former employer (if applicable)' – source code 4493**

- This field is applicable from the 2019 YOA.
- Complete this field if you received a subsidy from your former employer. In most cases this amount will be reflected next to source code 4493 on your IRP5/IT3(a) certificate, or on your medical tax certificate.

**'State any medical expenses paid by you that was claimed from your medical scheme and reflected on the medical certificate (other than physical impairment or disability expenses)' – source code 4020**

- This **only** refers to the amount(s) reflected as '*claims not recovered from the scheme*' on the medical tax certificate(s) that you received from the medical scheme.
- You must have proof of payment (e.g. receipts) to confirm that the above expenses have been paid.
- If this field is prepopulated and:
  - You do not have proof of payment for the whole amount; reduce the amount prepopulated on the return to the total value of the proof of payment (e.g. receipts)



- that you have available.
  - You do not have any proof of payment, change the amount on your return to zero
- Note: Other qualifying medical expenses actually paid by you and not claimed from your medical scheme must be declared next to source code 4034.

### **DETAILS OF IMMEDIATE FAMILY MEMBER DEPENDENT ON YOU FOR FAMILY CARE AND SUPPORT**

This section will only display if you answered 'Yes' to the related medical question on page one of the form. The medical information for a family member will not be pre-populated by SARS.

- An immediate family member who is dependent on a taxpayer for family care and support refers to a mother, father, mother-in-law, father-in-law, brother, sister, grandparents, grandchildren or any other person who is recognised as a dependant of that person in terms of the rules of a medical scheme or fund.
- Where you are liable for the family care and support of an immediate family member and you have paid the contributions towards a registered medical scheme for that financial dependant, you must retain proof of payment of the contributions (e.g. bank statements) and a copy of the tax certificate from the medical scheme where the family member is registered.

**'Were any of the immediate family member(s) dependant(s) of a medical scheme(s) to which you paid the contributions?' – select Y of N**

**'Indicate the number of medical schemes to which you paid the contributions in respect of such dependant(s)'**

- The section 'Details of Medical Scheme' will repeat according to the number of medical schemes that you paid contributions to during the year of assessment.
- The maximum value allowed is 12.

**'Medical Scheme Name'** – insert the name of the scheme as reflected on the medical tax certificate.

**'Medical Scheme Membership Number'** – insert the membership number as reflected on the medical tax certificate.

**'State total number of dependents per month'** – insert the number of members as reflected on the medical certificate.

**'State the total amount of medical scheme contributions paid on behalf of any immediate family member(s) who is dependent on you for family care and support'** – source code 4005

- Insert the contribution amount paid by you.

**'State the amount of the medical expenses paid by you that was claimed from the medical scheme and reflected on the medical certificate (other than physical impairment or disability expenses)'** – source code 4020

- This **only** refers to the amount(s) reflected as '*claims not recovered from the scheme*' on the medical tax certificate(s) received from the medical scheme.
- You must have proof of payment (e.g. receipts) to confirm that the above expenses have been paid by you.
- Other qualifying medical expenses actually paid by you and not claimed from your medical scheme must be declared next to source code 4034.

### **EXPENSES NOT REFLECTED ON ANY MEDICAL CERTIFICATE**

**'State any qualifying medical expenses paid by you not claimed from any medical scheme and not reflected on any medical scheme certificate (other than physical**

**impairment or disability expenses)’ – source code 4034**

- Insert the total amount of qualifying medical expenses paid by you during the year assessment.
- This refers to qualifying medical expenses paid by you in respect of yourself, your spouse, your qualifying children, any family member who is dependent on you for family care and support and any person who is recognised as a dependant in terms of a medical scheme
- Please ensure that you have proof of payment of these expenses.

### **PHYSICAL IMPAIRMENT**

**‘State any qualifying physical impairment expenses paid by you and not recovered from any medical scheme(s) and not included above’ – source code 4022**

- The expenses incurred and not recovered from the medical fund must be completed in this field
- This refers to qualifying physical impairment expenses paid by you in respect of yourself, your spouse, your qualifying children, any family member who is dependent on you for family care and support and any person who is recognised as a dependant in terms of a medical scheme
- Please retain details of how the amount was calculated and the nature of the impairment suffered by the respective person(s).

### **DISABILITY**

**‘Are you, your spouse or any of your qualifying children a person with a disability?’**

- Note: this excludes any family member who is dependent on you for family care and support.

**‘If ‘Yes’, has the disability been confirmed by a duly registered medical practitioner prescribed?’**

- Ensure that the prescribed ITR-DD form has been completed and stamped by a duly registered medical practitioner, before selecting ‘Y’ above.
- For a permanent disability, the ITR-DD is valid for 10 years.
- For a temporary disability, the ITR-DD is only valid for 1 year
- The ITR-DD form must be readily available should SARS request it for verification.

**‘Indicate the number of qualifying person(s) with a disability’**

- Insert the number in the field provided. The “Details of Disability section will be repeated according to the number entered in this field.

**‘Details of Disability’**

- **‘Indicate the person with the disability’** – Select one of the following options:
  - ‘Yourself’
  - ‘Spouse’
  - ‘Qualifying Child’
- **‘Date of birth of person with disability’**
- Select the applicable option to indicate the severity of the disability:
  - ‘Temporary Disability’
  - ‘Permanent Disability’
- **‘Specify the date on which the latest ITR-DD for this person was confirmed by a duly registered practitioner (CCYYMMDD)’**
- **‘Registered Medical Practitioner Practice Number’**

**‘State the qualifying disability expenses paid by you i.r.o yourself, your spouse and qualifying children and not recovered from your any medical scheme and not included in any expenses claimed above’ – source code 4023**

### **8.1.11 COMPLETING THE MEDICAL DEDUCTIONS SECTION FOR THE 2016 YEAR OF ASSESSMENT AND PRIOR YEARS**

Note: The medical expenditure in respect of any family members who are dependent on you for family care and support must be included in when completing the fields in this section.

**‘Were you a member of a medical scheme to which you and/or your employer made contributions’ – Select ‘Y’ or ‘N’**

**‘State the total number of members (including yourself) per month’**

- Insert the number of members/dependants as reflected on the medical tax certificate that you received from the medical scheme at the end of February.
- Note: Where you have solely made the contributions towards the medical scheme of a family member for whom you are liable for family care and support, you **must include** this person(s) when completing this field on the return.

**‘State any medical scheme contributions made by yourself and not reflected on your IRP5/IT3(a) (4040)’**

- You should only complete an amount in this field of the return if you, in your private capacity, contributed to a medical scheme during the year of assessment and the payment of the contributions were made by you (example paid via a bank account). In this instance, no amount should appear next to the source codes **4005** and/or **4474** on your IRP5/IT3(a) certificate
- If the contributions were paid over to the medical scheme by your employer, the amount will reflect next to the code **4005** and/or **4474** on your IRP5/IT3(a) certificate. Do **not** complete this amount again next to code **4040**. Insert a zero in the amount field next to source code **4040**.

**‘State any medical expenses not recovered from your medical scheme (other than physical impairment or disability expenses)’ – source code 4020**

- The **sum** of the following amounts must be inserted next to the source code **4020** on your return:
  - The amount that appears as *‘claims not covered by scheme’* on your medical tax certificate.
  - The amounts for qualifying medical expenses actually paid by you and such expenses were not claimed from your medical scheme.
- You must have the necessary proof of payment for both of the above amounts claimed.

**‘State any physical impairment expenses not recovered from your medical scheme not included above’ – source code 4022**

- The necessary proof of payment of such expenditure must be retained for a period of five years after submission of your return.
- Please also retain details of how the amount was calculated; as well as the nature of the physical impairment suffered by you, your spouse, your qualifying children, any family member who is dependent on a you for family care and support; and any person who is recognised as a dependant in terms of a medical scheme.

**‘Are you, your spouse or any of your qualifying children a person with a disability?’**

- Indicate this by marking the applicable field on the return with an ‘X’.
- If ‘Yes’ was selected, indicate if this disability has been confirmed by a duly registered

medical practitioner as prescribed, by marking applicable field with an 'X'.

**'State any disability expenses not recovered from your medical scheme – not included above' – source code 4023**

- If (based on the definition of a person with a disability) you, your spouse or child are considered to be a person with a disability, the expenses incurred due to the disability can be claimed in full (inclusive of VAT). The necessary proof of payment of such expenditure must be retained for a period of five years from date of submission of the income tax return.

## **8.2 RETIREMENT CONTRIBUTIONS**

You may not claim retirement contributions made on behalf of a third party (e.g. for a spouse or child).

The institution to which your contributions were made will issue a certificate (e.g. an IT3(f) income tax certificate) confirming the total contributions made for the tax year.

- You must retain proof of your retirement annuity contributions for a period of five years after the date of submission of your return.
- On the retirement annuity certificates issued by Old Mutual the contributions are broken down into 'retirement plan' and 'max investments' contributions. This breakdown merely confirms that the individual has two different policies, namely a group scheme retirement annuity and a pension fund retirement annuity within the same fund. Both these amounts are added to obtain the total retirement annuity contributions (4006 amount) for the year of assessment

SARS will programmatically calculate the allowable deduction. Any excess contributions are carried forward to the following year of assessment and are taken into account when calculating the allowable deduction for that year of assessment

### **8.2.1 CONTRIBUTIONS FROM THE 2017 YEAR OF ASSESSMENT ONWARDS**

As from 1 March 2016, retirement contribution deduction includes pension, provident and retirement annuity contributions. There are two important changes that took place from 1 March 2016:

- Provident fund contributions are now allowed as a deduction; and
- The employer's contribution is a taxable fringe benefit in the hands of the employee (this fringe benefit in return becomes a deemed contribution in the hands of the employee).

The contributions are reflected under the following source codes:

- **4001** : Total current pension fund contributions (includes current plus arrear contributions)
- **4003** : Total current provident fund contributions (note only available from 1 March 2016).
- **4006** : Total current retirement annuity fund contributions (includes current plus arrear contributions).

The formula to determine the allowable retirement fund contributions is set out in Section 11F of the Income Tax Act. (Note: Section 11(k) was repealed and replaced with section 11F which is deemed to be in effect from 1 March 2016).

The allowable deduction is the **lesser of**:

- R350 000;
- 27.5% of the greater of -

- Remuneration (excluding retirement lump sum benefits, withdrawal lump sum benefits and severance benefits); or
  - taxable income (including passive income and taxable capital gains) but excluding retirement lump sum benefits, withdrawal lump sum benefits and severance benefits and before any s11F and s18A deduction; **or**
- the taxable income (excluding any taxable capital gain and retirement lump sum benefits, withdrawal lump sum benefits and severance benefits) and before any s11F and s18A deduction.

**Example:**

A taxpayer receives the following income:

Remuneration	R	35,000	Pension contributions	R	10,000
Taxable rental income	R	1,000	RAF contributions	R	40,000
Taxable capital gain	R	100,000			
<b>Taxable Income</b>	<b>R</b>	<b>136,000</b>	<b>Total contributions</b>	<b>R</b>	<b>50,000</b>

The total deduction to be allowed is the **lesser of:**

- a) **R350 000.00** **R350 000**
- b) **greater of 27.5% of:**
  - remuneration as defined in Fourth Schedule (excluding lump sums)  
*R35 000 x 27.5% = R 9 625* **R37 400**
  - taxable income, including capital gains but excluding lump sums and before s11F and s18A deduction  
*R136 000 X 27.5% = R37 400*
- c) **taxable** income, excluding capital gains, lump sums and before s11F and s18A deduction. **R36 000**

Therefore, the allowable deduction will be **R36 000**.

The balance of R14 000 (R50 000 less R36 000) will be carried forward to the subsequent tax year

**COMPLETING THE RETURN**

From the 2020 YOA, the retirement annuity details will be prepopulated with data received from the third party. This information cannot be deleted from the return. If the details are incorrect, you must contact the third party to rectify and resend the correct data to SARS.

Please complete the applicable fields if not prepopulated.

**‘To how many Retirement Annuity policy(ies) did you or your employer contribute during this year of assessment?’**

- Please ensure that this value is in respect of all retirement annuity policies that you and/or your employer contributed towards for the year of assessment (this includes the policy for the amount represented on the employees’ tax certificate).
- The number of policies that SARS has prepopulated on the return cannot be changed to a lower number. The value in this field can however be increased if you have more policies to declare.

**‘Total contributions for this year assessment’** – source code (4006)

- Please ensure that the amount entered is the total amount in respect of all retirement annuity policies that you will derive a benefit from, including the amount represented on your employees’ tax certificate.
- This amount will be auto-calculated on the electronic return.

**‘Details of Policy’**

Complete the following details for each policy as reflected on the certificate received from the institution:

- ‘Name of the Fund’
- ‘Policy Number’
- ‘Contributions made to the policy’

**8.2.2 CONTRIBUTIONS FOR 2016 YEAR OF ASSESSMENT AND PRIOR YEARS**

The maximum deduction permitted per year of assessment is limited to the greater of:

- 15% of your taxable income (excluding income from retirement-funding employment). When determining taxable income, the following deductions must NOT be taken into account:
  - Capital development expenditure (farming)
  - Donations
  - Retirement annuity fund contributions
  - Medical and dental expenses
  - Expenditure in respect of soil erosion work
- R3 500 less allowable pension fund contributions
- R1 750.

**‘Retirement Annuity Fund Contributions’**

- Please ensure that the amount inserted next to source code 4006 is the total amount in respect of all retirement annuity policies that you will derive a benefit from, including the amount represented on your employees’ tax certificate.

**‘Arrear Pension Fund Contributions’** – Section 11(k)(ii)

- This refers to amounts for arrear pension fund contributions that were purchased during the year of assessment and can be claimed. You must have relevant material to support this claim.
- Any arrear pension fund contributions amounts reflected on your IRP5/IT3(a) Certificate (source code 4002) must not be completed in this section of the return.
- Amounts that were paid in prior years and not granted as a deduction in full will programmatically be taken into consideration in the current year of assessment, to a maximum of R1 800 (which is the maximum deduction per person per year of assessment). Any excess amounts will be carried forward to the subsequent year of assessment.

**‘Arrear Retirement Annuity Fund Contributions’** – Section 11(n)(i)(bb)

- A member of a retirement annuity fund who has discontinued his contributions prematurely is entitled to be reinstated as a full member of the fund provided that contributions in arrears are made under conditions prescribed in the rules of the fund and the current contributions to the fund have been paid in full.
- For arrear retirement annuity contributions insert the total amount of your actual contributions made during the year of assessment next to source code 4007.
  - A maximum of R1800 can be claimed for the year of assessment.
  - The maximum of R1800 applies to the total of arrear contributions made in the

- current year and those contributions paid in the previous years and not taken into account for a deduction because they exceeded R1800 in that year.
- Any excess will be carried forward to the following year of assessment.

### 8.3 INCOME PROTECTION INSURANCE CONTRIBUTIONS

Deductions for Income Insurance Protection Contributions can no longer be claimed from the 2016 year of assessment.

For the 2015 year of assessment and prior years: a deduction will be considered in respect of policies where it covers you against the loss of income as a result of illness, injury, disability or unemployment and the amount payable in terms of the policy constitutes (or will constitute) income as defined.

There are two dispensations applicable to the treatment of contributions to Income Protection Insurance Policies in an employer/employee relationship. The treatment depends on who owns the policy – the taxpayer (employee) or the taxpayer's employer.

#### **Employer Owned Policy**

- Contributions are paid by an employer for the benefit of an employee (including spouse, child, etc.) resulting in a taxable fringe benefit in the hands of the employee (taxpayer).
  - This benefit will be reflected next to source code 3801 on the IRP5/IT3(a) certificate.
  - The taxable fringe benefit is deemed to be contributions made by an employee and will qualify as a deduction in the hands of the employee. This deduction will be reflected next to source code 4018 on the IRP5/IT3(a) certificate.
- The amount for this deduction must be entered next to source code **4018** in the '**Retirement and Income Protection Contributions**' section of your return in order for it to be taken into account during the assessment process.
- Where the amount for source code **4018** is equal to or less than the amount of the fringe benefit reflected on the IRP5 certificate, relevant material (supporting documents) will not be required. However, where the amount for code 4018 is greater than the amount of the fringe benefit reflected on the IRP5 certificate, relevant material (supporting documents) for the difference will be required.

#### **Employee Owned Policy**

- The contribution paid by a taxpayer qualifies as a deduction.
- An employer may on request of an employee, based on proof of payment provided by the employee, take such contributions into account for PAYE purposes. In these cases, no fringe benefit will be applicable. The contributions taken into account by the employer will be reflected next to source code **4018** on the IRP5/IT3(a) certificate.
  - Where the employer did not take such contributions into account for PAYE purposes, no code **4018** will be reflected on the IRP5/IT3(a) certificate.
- The amount for this deduction must be entered next to source code 4018 in the '**Retirement and Income Protection Contributions**' section of your return in order for it to be taken into account during the assessment process. You must have the relevant material to support the deduction claimed on your return.

### 8.4 TRAVEL CLAIM AGAINST ALLOWANCE - SECTION 8(1)(b)

All taxpayers are required to keep records (logbook) of actual business kilometres travelled when claiming against a travel allowance for the year of assessment. A logbook is available to all taxpayers, free of charge on the SARS website.

A travel allowance or advance is deemed to have accrued (under section 7B) to the taxpayer in the year of assessment in which it is paid. The distance travelled for business purposes in

respect of that travel allowance or advance shall also be deemed to have been travelled during the year of assessment in which that allowance or advance is paid.

- This is effective from 1 March 2020 and applies in respect of amounts accrued or expenditure incurred on or after this date
- Example: An employee travelled for business purposes in the 2021 YOA and kept a logbook. The reimbursement related to the business travel between Jan 2021 - Feb 2021 was paid by the employer only in April 2021 at a rate that exceeds the prescribed rate per km.
  - In this scenario, the travel for business purposes is deemed to have taken place during the 2022 YOA since the allowance/advance was only paid by the employer in the 2022 YOA
  - The reimbursement will reflect on the 2022 IRP5 certificate and travel expenses must be claimed on the 2022 ITR12 return
  - The taxpayer must reduce the kilometres travelled linked to this reimbursement and carry it over to the subsequent year of assessment (this will mean an adjustment to the closing kilometres on the logbook for the 2021 YOA).

If you received a travel allowance it will display next to source codes 3701, 3702, 3722, 3772, 3751 or 3752 on your IRP5/IT3(a) certificate.

The amount next to source code **3703** on the IRP5/IT3(a) certificate refers to a non-taxable reimbursive allowance. You cannot claim any deductions against this allowance. It is a reimbursement for business kilometres not exceeding the prescribed kilometres and the prescribed rate per kilometre per tax year.

The table below describes the travel source codes and the rules applicable:

Source Code	Description
3701 3751	<ul style="list-style-type: none"> <li>• Taxable travel allowance</li> <li>• This allowance or advance paid to an employee in respect of travelling expenses for business purposes – including fixed travel allowances, petrol, garage and maintenance cards</li> <li>• 3751 is used in the case of foreign travel.</li> </ul>
3702 3752	<ul style="list-style-type: none"> <li>• Taxable reimbursive travel allowance</li> <li>• This is for reimbursement of business kilometres exceeding the prescribed business kilometres for the tax year or exceeding the prescribed rate per kilometre for the tax year or where the employee receives any other form of compensation for travel</li> <li>• For the 2017 YOA and prior years the prescribed business kilometres is 8 000km</li> <li>• For the 2018 YOA the prescribed business kilometres is 12 000km</li> <li>• No business kilometre limit is applicable from the 2019 YOA. From 1 March 2018, if an employee is reimbursed at a rate above the prescribed rate per kilometre, the employee will be taxed on the portion exceeding the prescribed rate per kilometre (para (cC) definition of “remuneration” of Fourth Schedule).</li> <li>• 3752 is used in the case of foreign travel.</li> </ul>
3703 3753	<ul style="list-style-type: none"> <li>• Non-taxable reimbursive travel allowance</li> <li>• This is for reimbursement of business kilometres not exceeding the prescribed business kilometres for the tax year or exceeding the prescribed rate per kilometre for the tax year and where the employee does not receive any other form of compensation for travel</li> <li>• If source code 3703 exceeds the prescribed business kilometres or exceeds the prescribed rate per kilometre or is used together with source code 3701 or 3702, the allowance will become taxable during the assessment process</li> <li>• From the 2019 YOA, no business kilometre limit is applicable.</li> <li>• 3753 is used in the case of foreign travel</li> </ul>



3722 3772	<ul style="list-style-type: none"> <li>• Taxable reimbursable travel allowance above prescribed rate per kilometre (effective from the 2019 YOA)</li> <li>• From 1 March 2018, if an employee is reimbursed at a rate above the prescribed rate per kilometre, the employee will be taxed on the portion exceeding the prescribed rate per kilometre (para (cC) definition of “remuneration” of Fourth Schedule)</li> <li>• 3772 is used in the case of foreign travel</li> </ul>
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## LOGBOOK OF BUSINESS KILOMETRES TRAVELLED?

On the return select ‘Y’ or ‘N’ for the question **‘Did you use a logbook to determine your business kilometres travelled?’**

Your claim must be supported by a logbook which must be retained for a period of five years after the date of submission of the return, should SARS request it. The following minimum information relating to business kilometres travelled should be reflected:

- Opening kilometres (at the beginning of the tax year or when you starting using the vehicle for business purposes during the tax year)
- Closing kilometres (at the end of the tax year)
- Date on which the travel took place
- The destination to and from
- The kilometres travelled
- The reason for the travel.

Expenses incurred for travel between your place of business and your residence are considered private expenses and are not deductible. If you conduct your business from home, your home should (with regard to your travels from there) be treated as your place of business. This means that kilometres travelled when travelling from your home to perform business would be considered as business kilometres.

## DETAILS OF YOUR VEHICLE(S)

**‘Indicate with an “X” below whether the vehicle was acquired by way of: Purchase Agreement or Lease Agreement’**

- This question is only applicable from the 2017 year of assessment. If the agreement type is ‘Purchase Agreement’ the date of purchase must be completed
- The amount allowed as a deduction will be calculated programmatically by SARS. This calculation can only be done if you supply the following information for each vehicle that you are claiming a travel deduction for the year of assessment:
  - **‘Vehicle registration no.’**
  - **‘Car make’** (e.g. BMW or Audi)
  - **‘Car model’** (e.g. *125i* for BMW or *R8* for Audi)
  - **‘Date of Purchase’**
  - **‘Cost price or cash value’**

## DETAILS OF KILOMETRES TRAVELLED

For each of the vehicle indicate the following:

- **‘Starting date’** – this is the beginning of the year of assessment or the date you started using the vehicle for business purposes during the year of assessment.
- **‘Closing date’** – this is the end of the year of assessment or the date you stopped using the vehicle for business purposes during the year of assessment
- **‘Opening kilometres’** – odometer reading as at the starting date
- **‘Closing kilometres’** – odometer reading as at the closing date
- **‘Total kilometres’** – total kilometres travelled with this vehicle, i.e. difference between

- opening and closing kilometres
- **'Business kilometres'** – this will be the actual business kilometres according to your logbook.

## TRAVELLING EXPENSES

Travelling expenses may be claimed based on one of the following methods of calculation:

- Actual expenses: If you have kept record of your actual expenses, use the receipts in respect of these actual expenses to complete the line items as provided for in the return.
- Fixed cost rate: If you have not kept records of your actual expenses, SARS will programmatically apply the fixed cost rate to calculate your travel claim.

## TRAVELLING EXPENSES BASED ON ACTUAL EXPENSES

If you kept record of you actual expenses, complete the total amount for each of expense that you have incurred during the period 1 March to 28/29 February. The following actual expenses can be claimed:

- **'Fuel and oil'**
- **'Maintenance and repairs'**
- **'Insurance and license fees'**
- **'Wear and tear' or 'Lease Payment'**
- **'Finance Charges'**
- **'Other'**

Remember to retain all proof of your expenses for a period of five years after the date of submission of your return.

If you claim actual expenses (and can furnish accurate data) there is a limitation on the amount that you may claim for lease payments, finance charges and wear and tear. However, this limitation is only applicable if you received an allowance. You may only claim either lease payments or wear and tear on the same vehicle.

### Wear and Tear - Section 8(1)(b)(iiiA)(bb):

If you claim actual expenses for travel purposes, you are also entitled to claim wear and tear on the vehicle if you actually **own** the vehicle (i.e. it is not leased). Where a vehicle was acquired during the year of assessment, wear and tear will only be allowed pro rata. The value of the vehicle (when calculating wear and tear) is *usually* the cost price, including VAT and excluding finance charges/interest.

The wear and tear allowance must be determined over a period of seven years from the date of original acquisition, and the cost of the vehicle is limited to R560 000 as from 1 March 2014.

### **Example: Wear and Tear**

Mr Taxpayer purchased a motor vehicle on 1 March 2014 for R650 000. He is claiming actual costs incurred for business travel purposes. He is entitled to claim wear and tear on his vehicle as he receives an allowance from his employer.

The wear and tear, which the taxpayer is entitled to for the 2015 year of assessment, must be calculated as follows:

- The cost of the vehicle is limited to R560 000 in terms of S8(1)(b)(iiiA)(bb).
- The wear and tear is calculated as:
  - $R560\ 000 / 7\ \text{years} = R80\ 000\ \text{per annum}$

### Lease payments - Section 8(1)(b)(iiiA)(aa):

If you are leasing a vehicle and have not actually purchased it, the lease payments for the period that you have used the vehicle for business may also be allowed as a deduction.

However, there is a *limitation* here too. Section 8(1)(b)(iiiA)(aa) provides that the lease payments may not, in any year of assessment, exceed an amount of the fixed cost for the category of vehicle used.

Finance charges:

The vehicle's value excludes finance charges, but you may claim the applicable amount separately. However, a limitation has been placed on the finance charges that may be claimed. The finance charges are limited to an amount which would have been incurred had the original debt (cost of the vehicle) been R560 000.

Other expenses:

Any other expenses not specifically addressed above must be declared in this section.

**TRAVELLING EXPENSES BASED ON THE KILOMETRE RATE**

If you have not kept record of your actual expenses incurred related to traveling, the fixed cost scale will programmatically be applied in the calculation of your travel claim. This calculation is based on the information declared in your Income Tax Return. The following cost scale tables are applicable:

- Cost scale table for the years of assessment ending 29 February 2020:

VALUE OF THE VEHICLE (R)	FIXED COST (R)	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
more than 595 000	153 850	158.4	88.9

- Cost scale table for the year of assessment ending 29 February 2021:

VALUE OF THE VEHICLE (R)	FIXED COST (R)	FUEL COST (c/km)	MAINTENANCE COST (c/km)
0 - 95 000	31 332	105.8	37.4
95 001 - 190 000	55 894	118.1	46.8
190 001 - 285 000	80 539	128.3	51.6
285 001 - 380 000	102 211	138.0	56.4
380 001- 475 000	123 955	147.7	66.2
475 001- 570 000	146 753	169.4	77.8
570 001- 665 000	169 552	175.1	96.6
more than 665 000	169 552	175.1	96.6

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.

- The amount for the fixed cost (as per the value of your vehicle) must be divided by the total kilometres that you travelled during the year of assessment. If the vehicle was used for business purposes for a period shorter than a year, the fixed cost component must be reduced pro rata. Fuel and maintenance cost rates are read from the schedule
- The scale per kilometre in the above table is based on the **value** of the vehicle. The following guidelines can be used to determine the value of your vehicle:
  - Where you acquired the vehicle under a bona fide agreement of sale or exchange: **the original cost** (including any VAT) paid but **excluding** any finance charges or interest payable in respect of the acquisition thereof.

- Where you are leasing the vehicle (**financial lease**), as the recipient of an allowance, or was leased and you acquired ownership on termination of the lease: the **cash value** as determined for VAT purposes plus any VAT paid by you
- In any other case: the **market value** of the motor vehicle at the time you, as the recipient of an allowance, first obtained the vehicle or the right of use thereof, plus any VAT payable on that value.

### Example 1 – One vehicle for the full year

A taxpayer owns a vehicle with a **value** of R62 000 and receive a travelling allowance of R4 000 per month for the **full tax year**. During the year of assessment, he travelled 30 000 kilometres and maintained a logbook for business kilometres of 15 000km travelled.

- *The amount of the claim will be calculated programmatically as follows for **2018**:*

Total distance travelled	30 000 km
Business kilometres travelled	15 000 km
Total allowance received for the year	R48 000
Fixed cost as per fixed cost schedule	R28 492

- *Apply the formula:*

$$\frac{\text{Fixed Cost as per schedule}}{\text{Total distance travelled}} \times \frac{\text{No. of days used}}{365}$$

- =  $\frac{R\ 28\ 492}{30\ 000\text{km}} \times \frac{365\ \text{days}}{365} \times 100$

- = 87.02c

Fixed cost per kilometre	=	94.97c
Add fuel cost element (per schedule)	=	91.2c
Add maintenance cost (per schedule)	=	<u>32.9c</u>
<b>Total cost per kilometre</b>	=	<b>219.07c</b>

- Multiply the business kilometres by the total cost per kilometre:

$$(15\ 000\ \text{km} \times 219.07\text{c}) / 100 = \underline{R\ 32860.50}$$

- This amount will be automatically calculated and will be considered as the travel claim. If the calculated amount exceeds the allowance received, the claim will be limited to the amount of the allowance.

### Example 2 – Two vehicles for part of the year

All the details are the same as in example 1, except that the taxpayer used the vehicle for six months (183 days), during which he travelled 18 500 km. Thereafter, he purchased a new vehicle for R55 000, and travelled 12 000km during the six months (183 days) following the purchase (i.e. the balance of the year). The taxpayer maintained a logbook for business kilometres travelled:

- Vehicle 1 – 15 000 km
- Vehicle 2 – 7 000 km

- The amount of the claim will be calculated programmatically as follows for **2016**:

- **VEHICLE 1**

Total distance travelled	18 500 km
Business kilometres travelled	15 000 km
Total allowance received for the year	R48 000
Fixed cost as per fixed cost schedule	R28 492

- *Apply the formula:*

- $= \frac{R28\,492}{18\,500\text{km}} \times \frac{183\text{ days}}{366} \times 100$
  - $= 77.01\text{c}$

Fixed cost per kilometre	=	77.01c
Add fuel cost element (per schedule)	=	91.2c
Add maintenance cost (per schedule)	=	<u>32.9c</u>
<b>Total cost per kilometre</b>	=	<b>201.11c</b>

- *Multiply the deemed business kilometres by the total cost per kilometre:*

$$(15\,000\text{ km} \times 201.11\text{c}) / 100 = \underline{R301\,66.50}$$

- The taxpayer is entitled to claim a deduction of R301 66.50 on the first vehicle. This claim will be added to the amount calculated in respect of vehicle two. Only then can it be determined whether or not the total claim exceeds the allowance received for the particular year of assessment.

- **VEHICLE 2**

Total distance travelled	12 000 km
Business kilometres travelled	7 000 km
Total allowance received for the year	R48 000
Fixed cost as per fixed cost schedule	R28 492

- *Apply the formula*

- $\frac{R28\,492}{12\,000\text{km}} \times \frac{183\text{ days}}{366} \times 100$
  - $= 118.72\text{c}$

Fixed cost per kilometre	=	118.72c
Add fuel cost element (per schedule)	=	91.2c
Add maintenance cost (per schedule)	=	<u>32.9c</u>
<b>Total cost per kilometre</b>	=	<b>242.82c</b>

- *Multiply the deemed business kilometres by the total cost per kilometre:*

- $(7\,000\text{ km} \times 242.82\text{c}) / 100 = \underline{R16\,997.40}$

- The taxpayer is entitled to claim a deduction of R16 997.40 for the second vehicle.

- Total deduction claimed in respect of the full year:

- $R30\,166.50 + R16\,997.40 = R47\,163.90$

- As the total amount of the claim does not exceed the allowance received (i.e. R48 000) the full amount will be considered as a deduction.

## 8.5 EMPLOYER PROVIDED VEHICLES

Employers often provide their employees with a travel allowance to meet the cost of business-related car travel expenses. Some employers alternatively provide their employees with the use of a company-owned motor vehicle for the same purpose. The right of use of a motor vehicle provided by an employer to an employee for **private or domestic** purposes is regarded as a taxable benefit in the hands of the employee

The value to be placed on the private use of a motor vehicle is determined for each month or part of a month during which an employee was entitled to use the motor vehicle for private purposes

The employer provided motor vehicle can either be that such motor vehicle:

- was acquired by the employer under a bona fide agreement of sale or exchange concluded at arm's length
- held by the employer under a lease (excluding 'operating lease')
- Was held by the employer under a lease (excluding 'operating lease') and ownership was acquired by the employer on termination of the lease
- In any other case, where the employer first obtained the vehicle or the right of use

The value of the taxable fringe benefit is included in gross income and is equal to the '**value of private use**' less any consideration paid by the employee to the employer for the private use of the vehicle.

- For employer provided vehicles under an operating lease the value of private use is:  
*Actual cost incurred under the operating lease + cost of fuel incurred on the same vehicle*
- For employer provided vehicles other than an operating lease the value of private use is:  
*Fixed percentage per month x the determined value of the motor vehicle*
- Note: the fixed percentage per month depends on whether or not the vehicle is subject to a maintenance plan

### Reduction of the fringe benefit value (i.e. value of private use):

- The calculation for '**value of private use**' (i.e. fixed % per month x determined value of the motor vehicle or actual costs incurred under an 'operating lease' plus fuel) is based on the assumption that the motor vehicle is only used for private purposes (i.e. the employee does not use it for any business purposes) and that the employer bears all of the operating expenses.
- The Act, however, recognises that employees may use the motor vehicle for business purposes and may bear some of the costs associated with the motor vehicles.
- The fringe benefit value may be reduced if accurate records are kept of distances travelled for business purpose. The fringe benefit is reduced on assessment. It cannot be reduced by the employer.

### 8.5.1 EMPLOYER PROVIDED VEHICLE: OTHER THAN OPERATING LEASE

The provisions for employer related vehicles: other than operating lease are applicable to years of assessment commencing on or after 1 March 2011. Effective from 1 March 2011, you are required to maintain a logbook and keep accurate record of travelling costs incurred when claiming a deduction for the kilometres travelled against taxable amount on right of use of motor vehicles for the year of assessment. A logbook is available to all taxpayers, free of charge on the SARS website.

For more detailed information on this taxable fringe benefit, please refer to 'Interpretation Note: No. 72 - Right of Use of Motor Vehicle' on the SARS website

This section of the return must be completed if your employer granted you the benefit to use a motor vehicle(s) for business purposes. The cash equivalent of the taxable benefit will reflect on your IRP5/IT3(a) Employee Tax Certificate next to the codes **3802** and/or **3852**.

This section must be completed separately for each vehicle that was used for business purposes.

The value of the taxable fringe benefit is included in gross income and is equal to the **'value of private use'** less any consideration paid by the employee to the employer for the private use of the vehicle.

Value of private use:

- The **'value of private use'** is calculated as:  
*Fixed percentage per month x the determined value of the motor vehicle*

Fixed percentage:

- The fixed percentage is generally 3,5% per month. However, the fixed percentage may be reduced to 3,25% of the determined value per month if the motor vehicle was the subject of a maintenance plan when it was acquired by the employer. In order for the fixed percentage to be reduced, the maintenance plan must commence at the same time that the motor vehicle is acquired by the employer.

Determined value of motor vehicle:

- Where the motor vehicle was acquired under a bona fide agreement of sale or exchange, it will be the original cost to the employer;
- Where the motor vehicle is held by the employer under a lease (other than an operating lease), it will be the retail market value at the time the employer first obtained right of use of the vehicle.
- The cash value of the motor vehicle if the motor vehicle is or was held under a lease as contemplated paragraph (b) of definition of 'instalment credit agreement' in the Value Added Tax Act.
- In any other case, it will be the market value of the motor vehicle at the time when the employer first obtained the motor vehicle or the right of use thereof.
- A reduction in the determined value of the vehicle will apply where the employer acquired the vehicle or the right of the use of the vehicle not less than 12 months before the employee was granted the right of use. A depreciation allowance of 15% must be calculated using the reducing balance method.
- Where an employee who had the right of use of a motor vehicle is transferred with the same motor vehicle from an associated institution to a new employer, the determined value will be the value as at the date on which the employee was first granted the right of use of the vehicle.

Reduction for business use:

- On assessment, the value of the taxable fringe benefit will be reduced if the taxpayer has kept accurate records of the distances travelled for business purposes (i.e. a log book) for that year of assessment.
- The amount of the business use reduction is calculated as:  
*Value of Private Use x (Business Mileage / Total Mileage)*

Reduction when the employee incurs expenditure in relation to the motor vehicle:

- Note: the reductions discussed below are not applicable if the vehicle is held by the employer under an 'operating lease'.
- A taxpayer who bears the **full** cost of the licence, insurance or maintenance of the motor vehicle or the **full** cost of the fuel for the private use of the motor vehicle, is entitled to a reduction of the fringe benefit value provided that the taxpayer has kept accurate records of the distances travelled for business purposes (e.g. a log book) for that year of assessment.
- For licence or insurance or maintenance costs, the reduction is calculated as:
  - *(Private mileage / total mileage) x full cost of licence or insurance or maintenance cost*
- For fuel costs, the reduction is calculated as:
  - *Private mileage x deemed fuel rate per kilometre as per the Gazette.*
  - The gazette referred to above is the 'Fixing of Rate per Kilometre in respect of

Motor Vehicles for the Purposes of Section 8(1)(b)(ii) and (iii) of the Income Tax Act, 1962' and is published on the SARS website.

**Example: 1**

Employer DEF purchased a motor vehicle for R300 000 (VAT inclusive) for the sole use by Mr Taxpayer as from 1 March 2014. Mr Taxpayer maintains a logbook which indicates a total of 40 000 km travelled, of which 10 000 km are business kilometres. The employer pays all costs. Mr Taxpayer pays his employer R1 000 per month for the use of the motor vehicle. The employer was not entitled to an input tax claim for VAT.

The value of the taxable benefit for Mr Taxpayer will be determined as follows:

Monthly value of private use (taxable fringe benefit) (R300 000 x 3,5% less monthly consideration of R1 000 paid by Mr Taxpayer)	9 500
Annual value of private use (R9 500 x 12)	114 000
<b>Less:</b> Business use reduction = <i>value of private use x business km / total km</i> = (R114 000 x 10 000 km / 40 000 km)	(28 500)
<b>Cash equivalent of the value of the taxable benefit</b> (i.e. subject to income tax on assessment)	<b>R 85 500</b>

**Example: 2**

Mr Taxpayer, an employee of Company ABC, has been granted the right to use Company ABC's motor vehicle. The motor vehicle was acquired by Company ABC at a cost of R400 000 (including VAT) and included a maintenance plan. Mr Taxpayer maintains a logbook which proves that a total of 36 000 km were travelled during the year of assessment, of which 17 000 km are business kilometres. Mr Taxpayer is responsible for full cost of licence, insurance and fuel costs incurred on the motor vehicle, which amounted to R650, R16 200 and R30 000, respectively. Mr Taxpayer also pays Company ABC R1 000 per month for the use of the motor vehicle. Company ABC is not entitled to an input tax claim for VAT. Mr Taxpayer had the use of the motor vehicle for the full 2015 year of assessment

The value of the taxable benefit for Mr Taxpayer will be determined as follows:

Monthly value of private use (taxable fringe benefit) (R400 000 x 3,25% less monthly consideration of R1 000 paid by Mr Taxpayer)	12 000
Annual value of private use (R12 000 x 12)	144 000
<b>Less:</b> Business use reduction = <i>value of private use x business km / total km</i> = (R144 000 x 17 000 km / 36 000 km)	(68 000)
<b>Less:</b> Licence cost reduction = <i>actual cost x private km / total km</i> = (R650 x 19 000 km / 36 000 km)	(343)
<b>Less:</b> Insurance cost reduction = <i>actual cost x private km / total km</i> = (R16 200 x 19 000 km / 36 000 km)	(8 550)
<b>Less:</b> Maintenance cost reduction = <i>not applicable as Mr Taxpayer does not bear the full maintenance costs</i>	(0)
<b>Less:</b> Fuel cost reduction	(28 101)



= private km x fuel rate per km for 2015 as per  
Gazette  
= (19 000 km x R1.479)

**Cash equivalent of the value of the taxable benefit (i.e. R 39 006**  
subject to income tax on assessment)

## LOGBOOK TO DETERMINE BUSINESS KILOMETRES TRAVELLED

On the return select 'Y' or 'N' for the question '**Did you use a logbook to determine your business kilometres travelled?**'

Your claim must be supported by a logbook which must be retained for a period of five years after the date of submission of the return, should SARS request it. The following minimum information relating to business kilometres travelled should be reflected:

- Opening kilometres (at the beginning of the tax year or when you starting using the vehicle for business purposes during the year of assessment)
- Closing kilometres (at the end of the tax year)
- Date on which the travel took place
- The destination to and from
- The kilometres travelled
- The reason for the travel.

Expenses that you incurred for travelling to and from your place of business and your residence are considered private expenses and are therefore not deductible.

Effective from 1 March 2011 if you are a 'judge' or a 'Constitutional Court judge', paragraph 7(8A) of the Seventh Schedule makes an exception in respect of the private kilometres travelled. The kilometres travelled between your place of residence and the courts over which you preside are deemed to be kilometres travelled for business purposes.

## DETAILS OF YOUR VEHICLE(S)

The amount allowed as a deduction will be calculated programmatically by SARS. This calculation can only be done if you supply the following information on your return for each vehicle that you are claiming a deduction for the year of assessment:

- '**Vehicle registration no**'.
- '**Car make**' (e.g. BMW or Volkswagen)
- '**Car model**' (e.g. 125i (for BMW) or Polo (for Volkswagen))
- '**Year manufactured**' (i.e. which is the year of initial registration of the vehicle)
- '**Cost price or cash value**'
- '**Fringe Benefit Value**'
  - Insert the amount reflected on your IRP5/IT3(a) certificate next to source codes **3802** (use of motor vehicle) or **3852** (foreign use of motor vehicle)
  - If you have used more than one employer provided vehicle during the year of assessment, your employer should provide you with a letter specifying the value of the fringe benefit for each motor vehicle that was used during that period.

## DETAILS OF KILOMETRES TRAVELLED

For each vehicle that you are claiming a deduction for, indicate the following:

- '**Starting date**' – this is the beginning of the year of assessment or the date you started using the vehicle for business purposes during the year of assessment.
- '**Closing date**' – this is the end of the year of assessment or the date you stopped using the vehicle for business purposes during the year of assessment
- '**Opening kilometres**' – odometer reading as at the starting date

- **'Closing kilometres'** – odometer reading as at the closing date
- **'Total kilometres'** – total kilometres travelled with this vehicle, i.e. difference between opening and closing kilometres
- **'Business kilometres'** – this will be the actual business kilometres according to your logbook.

### FULL COST INCURRED BY THE EMPLOYEE (NO REIMBURSEMENT BY THE EMPLOYER)

If your employer fully or partially reimburses you (the employee) for the amounts paid for licence, insurance, maintenance or private cost of fuel, you **may not** deduct any private expenses for the items so reimbursed.

On the return select 'Y' or 'N' to indicate if you were fully or partially reimbursed by the employer for each of the following:

- **'Insurance'**
- **'License Fees'**
- **'Maintenance'**
- **'Fuel'**

Insert the amount for the following expenses:

- **'Insurance'**
- **'License Fees'**
- **'Maintenance'**

Select 'Y' or 'N' to indicate if a maintenance plan was included in the purchase price of the vehicle provided by your employer?

- **Note:** The maintenance expense will not be allowed if the maintenance plan was included in the purchase price of the vehicle provided by the employer.

**Adjustment to the cash equivalent benefit** - The cash equivalent benefit received will be reduced as follows on assessment:

- **Business kilometres travelled:** cash equivalent x business kilometres/total kilometres
- **Private kilometres travelled:**

Full cost paid by employee	Reduce cash equivalent benefit with
Cost of licence	Cost x private kilometres/total kilometres
Cost of insurance	Cost x private kilometres/total kilometres
Cost of maintenance	Cost x private kilometres/total kilometres
Cost of fuel for private use	Private kilometres x fuel rate per kilometre per Gazette

### 8.5.2 EMPLOYER PROVIDED VEHICLE: OPERATING LEASE

This legislative change to employer-provided motor vehicles (company cars) is effective from 1 March 2013.

You can only claim deductions for an employer provided vehicle - under an operating lease if your IRP5/IT3(a) certificate reflects income for either source codes **3816** and/or **3866**

This section must be completed separately for each vehicle that was used for business purposes

The lease agreement must satisfy the following conditions to be defined as an operating lease:

- The employer must lease the vehicle from a lessor in the ordinary course of the lessor's business (not being a banking, financial services or insurance business);
- The vehicle must be available to lease to the general public for a period of less than a month;
- The costs of maintaining the vehicle (including any repairs due to normal wear and tear)

- must be borne by the lessor; and
- Subject to the claim a lessor may have against a lessee (e.g. employer) for failing to take proper care of the vehicle, the risk of loss or destruction of the vehicle must not be assumed by the lessee (e.g. employer).

Where the above-mentioned lease requirements are not met (e.g. lease is defined as a finance lease), the fixed percentage per month of determined value method must be used to calculate the 'value of private use'

The '**value of private use**' is calculated as: '*Actual cost incurred under the operating lease*' + '*cost of fuel incurred on the same vehicle*'

The business use reduction for each vehicle is calculated as the: '*Fringe Benefit Value*' x  $[Business\ km / Total\ km]$ .

- See example in the table above.
- The deduction for each vehicle is limited to the fringe benefit value for that specific vehicle

### **LOGBOOK TO DETERMINE BUSINESS KILOMETRES TRAVELLED**

On the return select 'Y' or 'N' for the question '**Did you use a logbook to determine your business kilometres travelled?**'

Your claim must be supported by a logbook which must be retained for a period of five years after the date of submission of the return, should SARS request it. The following minimum information relating to business kilometres travelled should be reflected:

- Opening kilometres (at the beginning of the tax year or when you starting using the vehicle for business purposes during the year of assessment)
- Closing kilometres (at the end of the tax year)
- Date on which the travel took place
- The destination to and from
- The kilometres travelled
- The reason for the travel.

Please note that without all the information required in this section, SARS will not be able to calculate your reduction claim and will therefore not consider any reduction claim.

### **DETAILS OF YOUR VEHICLE(S)**

The amount allowed as a **deduction** will be calculated programmatically by SARS. This calculation can only be done if you supply the following information for each vehicle that you are claiming a deduction for the year of assessment:

- '**Vehicle registration no.**'
- '**Fringe Benefit Value**'  
Insert the amount reflected on your IRP5/IT3(a) certificate next to source codes **3816** (use of motor vehicle acquired by employer under operating lease) or **3866** (foreign use of motor vehicle acquired by employer under operating lease).  
If you have used more than one employer provided vehicle during the year of assessment, your employer should provide you with a letter specifying the value of the fringe benefit for each motor vehicle that was used during that period.

### **DETAILS OF KILOMETRES TRAVELLED**

For each vehicle indicate the following:

- '**Starting date**' – this is the beginning of the year of assessment or the date you started using the vehicle for business purposes during the year of assessment.
- '**Closing date**' – this is the end of the year of assessment or the date you 'stopped using the vehicle for business purposes during the year of assessment'

- **Opening kilometres** – odometer reading as at the starting date
- **Closing kilometres** – odometer reading as at the closing date
- **Total kilometres** – total kilometres travelled with this vehicle, i.e. difference between opening and closing kilometres
- **Business kilometres** – this will be the actual business kilometres according to your logbook.

### 8.5.3 USE OF MOTOR VEHICLE FOR 2011 YEAR OF ASSESSMENT AND PRIOR YEARS

For the 2011 year of assessment and prior years the following applies to the use of motor vehicle:

- The taxable benefit which arises from the private use of a motor vehicle supplied by an employer is based on the assumption that the distance covered for private use (including travel between home and work) amounts to 10 000 km for the year. If the taxpayer travelled less than 10 000 km and has kept accurate records in the form of a logbook, a deduction may be claimed and the amount must be reflected in the 'Other deductions' section of the return next to code **4046**
- A copy of the logbook must be retained for a period of five years after the date of submission of the return and must be available should SARS request it.
- The reduction in the value of the benefit will not apply where more than one vehicle was made available to the taxpayer at the same time and only the benefit of the more expensive vehicle has been taken into account as a fringe benefit. This principle will apply unless less than 10 000 km have been travelled with both vehicles individually.

## 8.6 DONATIONS

### 8.6.1 DONATIONS TO THE SOLIDARITY FUND

Contributions made by a taxpayer to the Covid-19 Solidarity Fund during the period 1 April 2020 – 30 September 2020 qualify for a tax deduction

- For individuals the deduction will only be applicable to the 2021 year of assessment.
- The existing donation deduction of 10% is applicable to the donation to the Solidarity Fund (source code 4055).
- If the excess donation amount, after allowing an amount under code 4011, is attributable to a donation to the Solidarity Fund, that portion is granted an additional 10% deduction (new source code 4055).
- Any further excess will be consolidated and carried forward to the subsequent year of assessment under source code 4011. The deductible donation amount in the subsequent year of assessment reverts to 10%.

On the return:

- Insert the **'Total amount donated during the period 1 April 2020 to 30 September 2020'** – source code **4055**.
  - The amount entered in the above field must exclude amounts already on the IRP5 certificate and any other allowable donations made (described in the section below).
- Complete the **'PBO number'**.

### 8.6.2 DONATIONS ALLOWABLE IN TERMS OF S18A

In terms of Section 18A the deduction for the year of assessment will be limited to 10% of taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit and severance benefit), and before taking into account any deduction in terms of this section. This limitation will be done programmatically by SARS. From the 2015 year of assessment, the excess amount (if any) will be carried forward programmatically to the

following year of assessment for possible deduction in subsequent years of assessment.

### Example 1

Taxpayer A's taxable income for the 2021 year of assessment is R500 000.  
On 30 May 2020 Taxpayer A donated R70 000 to the Covid-19 Solidarity Fund. Assume this was the only donation for the year of assessment

#### Calculation of allowable deduction

##### Step one: Code 4011

Donation to Solidarity Fund	R70 000
Less: Deduction allowed (limited to 10% of taxable income)	<u>(R50 000)</u>
<b>Excess donations</b>	<b><u>R20 000</u></b>

##### Step Two: Code 4055

If the excess donation is attributable to Solidarity Fund, allow further 10%

Excess	R20 000
Less: Additional deduction (limited to 10% of taxable income before any s18A deduction)	<u>(R20 000)</u>
<b>Excess donation carried forward to subsequent YOA</b>	<b><u>R0</u></b>

Note: the full amount of R70 000 donated to the Solidarity Fund will be allowed as a deduction on Taxpayer A's 2021 year of assessment.

### Example:2

Taxpayer B's taxable income for the 2021 year of assessment is R500 000.  
On 30 May 2020 Taxpayer B donated R70 000 to the Covid-19 Solidarity Fund. On 1 November 2020 he donated R100 000 to an approved organisation and was issued a section 18A receipt.

#### Calculation of allowable deduction

##### Step one: Code 4011

Donation to approved organisation	R100 000
Donation to Solidarity Fund	<u>R70 000</u>
Total donations	R170 000
Less: Deduction allowed (limited to 10% of taxable income)	<u>(R50 000)</u>
<b>Excess donations</b>	<b><u>R120 000</u></b>

##### Step Two: Code 4055

If the excess donation is attributable to Solidarity Fund, allow further 10%

Excess	R120 000
Less: Additional deduction (limited to 10% of taxable income before any s18A deduction)	<u>(R50 000)</u>
<b>Excess donation carried forward to subsequent YOA</b>	<b><u>R70 000</u></b>

The balance of R70 000 will be carried forward to the following year of assessment and will be reflected against source code 4011.

### Example:3

Taxpayer C's taxable income for the 2021 year of assessment is R500 000.  
On **30 October 2020** Taxpayer C donated R70 000 to the Covid-19 Solidarity Fund. On 1 November 2020 he donated R100 000 to an approved organisation and received a section 18A receipt.

### **Calculation of allowable deduction**

#### **Step one: Code 4011**

Donation to approved organisation	R100 000
Donation to Solidarity Fund	<u>R70 000</u>
Total donations	R170 000
Less: Deduction allowed (limited to 10% of taxable income)	<u>(R50 000)</u>
<b>Excess donations</b>	<b><u>R120 000</u></b>

#### **Step one: Code 4011**

If the excess donation is attributable to Solidarity Fund, allow further 10%. This is only applicable for donations made from 1 April to 30 Sept 2020. As the donation was made after 30 Sept 2020, it cannot qualify for the additional 10% deduction.

The balance of R120 000 will be carried forward to the following year of assessment and will be reflected against source code 4011

The donation amount will only qualify as a deduction if the receipt/certificate issued by the donee states that it is issued in terms of section 18A of the Income Tax Act.

Insert the **'Total amount donated during the year of assessment'** next to source code 4011

Complete the following fields for each PBO:

- **'PBO number'** – this is the reference number as indicated on the receipt received from the organisation.
- **'Amount donated to this organisation'**
  - The amount entered in this field must exclude any Solidarity Fund Donations made during the period 1 April 2020 to 30 September 2020.

From the 2017 year of assessment if you made donations to more than ten Public Benefit Organisations (PBO's), then only the details of the top ten PBO's must be completed on the return.

### **8.6.3 EXAMPLES**

## **8.7 OTHER DEDUCTIONS/EXEMPTIONS**

In terms of the Income Tax Act, only certain deductions are allowed if a taxpayer earns a salary. Some of these deduction, such as pension fund and retirement annuity fund contributions, have already been addressed in this guide. The remaining deductions that may qualify are discussed below.

### **8.7.1 EXPENSES AGAINST LOCAL AND/OR FOREIGN TAXABLE SUBSISTENCE ALLOWANCE**

If you received local subsistence allowance reflected under source code 3704, the amount claimed must be based on the actual expenses or the deemed expenses in terms of section 8(1)(c)(ii) of the Income Tax Act. The expenses claimed must be inserted next to code **4017** in the 'Other deductions' section of the return.

If you received a foreign subsistence allowance it will reflect under code 3715 or 3754 on the IRP5/IT3(a) Employee Tax Certificate. The expenses claimed must be inserted next to code

**4019** in the 'Other Deductions' section of the return.

A schedule detailing the following must be prepared to substantiate the claim:

- The period in respect of which the expenses were claimed
- The destination where the money was spent
- The total number of days for which expenses were claimed
- Specify whether local or foreign expenditure.

Proof of payment to support the expenses claimed must be retained for a period of five years.

### **8.7.2 DONATIONS ALLOWABLE IN TERMS OF SECTION 18A TO APPROVED PUBLIC BENEFIT ORGANISATIONS**

This field will display in this section of the return for the 2014 year of assessment and prior years.

The deduction amount must be the same as the amount reflected on the receipt that was received. The donation amount will only qualify as a deduction if the receipt states that it is issued in terms of section 18A of the Income Tax Act. Enter the amount on the receipt next to code **4011**.

### **8.7.3 DEPRECIATION - SECTION 11(e)**

Section 11(e) makes provision for the taxpayer to claim an amount representing the diminishing value of an asset which is owned by the taxpayer and used for the purpose of his/her trade.

If you own an asset (for example a computer) and used the asset for the purpose of trade, you will be entitled to claim depreciation on the asset. The amount calculated must be reflected next to the code **4027** in the 'Other Deductions' section of the return.

For more information refer to Interpretation Note: No. 47: Wear-and-Tear or Depreciation Allowance. Provision is made for 'small items' (an item that normally functions on its own and does not form part of a set) that are acquired and the cost thereof does not exceed R7 000 to be written off in full in the year in which the asset is acquired.

Receipts or proof of purchase and payment of such items must be retained for a period of five years to substantiate the claim, should it be requested by SARS.

### **8.7.4 HOME OFFICE EXPENSES - SECTION 11(a)**

The deduction of any expenses in respect of any residence/domestic premises is prohibited, except where a part of the residence/premises is occupied for purposes of trade. Such part of the premises will only be regarded as being used for trade if:

- It is specifically equipped for purposes of the taxpayer's trade
- It is used regularly and exclusively for such purposes.

If the income against which the deduction is claimed flows from the holding of employment or an office, no deduction is allowed unless:

- The income from such employment or office is derived mainly from commission or other variable payments which are based on work performance, and duties are mainly performed otherwise than in an office which is provided by an employer
- The taxpayer's duties are mainly performed in that part of the private residence occupied for purposes of his/her work (e.g. a study).

The following guidelines are given with regard to a claim for a study at home:

- There must be a direct relationship between the incurring of the expenses and the production of income
- The taxpayer must, in terms of the requirements of a service contract with his/her employer, maintain a study at his/her private residence
- The study may be used only for business purposes
- A schedule detailing the following must be prepared and retained for a period of five years should SARS request it:
  - What is the nature of the occupation and why is it necessary to maintain a study at home?
  - A copy of the service contract, service regulations or personnel code
  - Does the employer place an office at his/her disposal at the workplace? Full details of any restrictions in the use of this office are to be furnished, as well as a letter of confirmation from the employer
  - Is the work of such a nature that he/she is expected to work at home after hours? Full details of how frequently the home study is used as well as a statement confirming the use thereof is required from the employer
  - Is the taxpayer required to use the home study to interview or supply information to clients or employees after hours?
  - Is the home study specifically equipped for purposes of the trade?
  - Is the study used regularly and exclusively for his/her work?
  - To what extent is the study indispensable to the proper carrying out of his/her tasks?

Should the taxpayer qualify for a deduction, the amount must be calculated on the following basis: **A / B x total costs**, where

- A = the area in m<sup>2</sup> of the area specifically equipped and used regularly and exclusively for trade
- B = the total area in m<sup>2</sup> of the residence (including any outbuildings and the area used for trade in the residence)
- Total costs = the costs incurred in the acquisition and upkeep of the property (excluding expenses of a capital nature).

Repairs specifically made to the study will not be apportioned but allowed in full. Repairs to the building in general must not be included in total costs.

For more information refer to Interpretation Note: No. 28: Deductions of Home Office Expenses Incurred by Persons in Employment or Persons Holding an Office.

Enter the expense amount calculated next to the code **4028** on your return.

### **8.7.5 TRAVEL EXPENSES (NO ALLOWANCE E.G. COMMISSION INCOME)**

If you did not receive a travel allowance but you incurred travel expenses in the production of your income, you may claim a deduction based on a logbook that you kept. This must be retained for a period of 5 years after the date of submission of the return and must be available on request from SARS. The amount of your claim must be completed next to code **4015**.

### **8.7.6 AMOUNTS REFUNDED IN TERMS OF SECTION 11(nA) AND 11(nB)**

Certain amounts that were received from the employer and taxed in a previous year of assessment and then subsequently refunded to the employer during the current year of assessment (possibly due to resolute conditions attached to the obligation to pay), can be claimed as a deduction. Examples of these are:

- Maternity leave payments
- Bursaries
- Restraint of trade



The refund to the employer must be reflected next to the source code **4042**.

**Example:**

A taxpayer received a taxable fringe benefit for a bursary to the amount of R10 000 from his employer during the 2018 year of assessment and was taxed on the amount in the 2014 year of assessment. The conditions in the contract with the employer stated that the taxpayer must remain an employee for the duration of two years following receipt of the bursary. One year after receiving the bursary (2019), the taxpayer resigns. Since the taxpayer fails to fulfil his conditions of the contract, he must refund the R10 000 to the employer. As this amount was fully taxed at the time of receipt, the taxpayer can now claim a deduction for the amount paid back to the employer.

### **8.7.7 ALLOWABLE ACCOUNTANCY FEES – SECTION 11(a)**

The deduction for Accountancy / Administration Fees for the completion of Income Tax returns will be allowed when business income or any of the following income sources are applicable:

- Commission
- Local Interest
- Royalties
- Other Receipts and Accruals
- Foreign Dividends
- Foreign Interest
- Other Foreign Income
- Pension annuity
- Retirement Annuity
- Purchased annuity

Only professional fees which were actually paid or are payable for the completion of the Income Tax return can be considered as a deduction. No deduction will be allowed against remuneration in the form of salary or wages.

Investment income will only be considered if the amount was taxable. Since interest income up to R23 800 for persons under 65 years and up to R34 500 for persons over 65 years is exempt from Income Tax from the 2015 year of assessment onwards, fees paid will only be allowed as a deduction to the extent that it does not create a loss.

Note that annuity income is not considered to be investment income for the purpose of the deduction in respect of allowable accountancy fees.

In the case of a pensioner whose financial affairs (pensions, annuities, investment income, etc.) are administered by a banking institution, board of executors or similar institution, the administration fees paid to the institution including any fees for the completion of tax returns will qualify for deduction

The amount paid or payable must be completed next to source code **4043**.

For more information refer to Practice Note: 37 on the SARS website.

### **8.7.8 LEGAL COSTS - SECTION 11(c)**

You may claim legal costs incurred if it is directly related to a salary package. Examples:

- A CCMA case where the claim (resulting from a court order) is included in income; or
- An out of court settlement in respect of labour disputes that will result in the taxpayer receiving an amount that is taxable.

All documents and proof supporting the claim must be available on request. The legal costs claimed must be completed next to source code **4044**.

### **8.7.9 BAD AND DOUBTFUL DEBT - SECTION 11(i) and (j)**

You are entitled to claim a deduction in respect of bad debt and/or doubtful debt up to the time when you regard the debt as bad or doubtful and provided this amount was included in your income for the current or previous year of assessment. The determination of when a debt is bad/doubtful must be made at the time when the deduction is claimed.

The facts and circumstances must be determined for each debt and debtor.

When claiming this deduction the following information must be retained for a period of five years and must be available on request:

- The name of the debtor
- The date when the debt was incurred
- The reason for writing the debt off
- The circumstances under which the debt was incurred
- Circumstances of the debtor (e.g. loss of employment, economic factors, etc.).

The amount claimed must be completed next to the source code **4045**.

### **8.7.10 SECTION 8C LOSSES**

Section 8C makes provision for any loss incurred by a director or an employee as a result of the vesting of any equity instruments during a year of assessment. All documents to support your claim must be kept for a period of 5 years after the date of submission of the return and must be made available to SARS should it be requested.

The loss amount must be completed next to source code **4031**.

### **8.7.11 HOLDERS OF A PUBLIC OFFICE - SECTION 8(1)(d)**

Any allowance granted to a holder of a public office to pay expenses incurred relating to his/her office, is deemed to have been expended to the extent that he/she has incurred the following expenses for his/her office:

- Secretarial services, telephone, stationery, office accommodation, postage, traveling or hospitality extended at any official or civic function which the holder of such office is by reason of such office normally expected to arrange
- Subsistence and incidental costs while away from his/her usual place of residence.

The amount must be completed next to the source code **4047**.

### **8.7.12 REMUNERATION TAXED ON IRP5 BUT COMPLY WITH EXEMPTION IN TERMS OF SECTION 10(1)(o)(i)**

In terms of s10(1)(o)(i) remuneration is exempt from normal tax for any officer or crew member of a ship who is a RSA resident engaged in the international transportation (for reward) of passengers or goods or in the prospecting, exploration or mining for, or production of, any minerals from the seabed outside the Republic, if such officer or crew member is employed on board such ship solely for purposes of the 'passage' of such ship, for a period or periods exceeding 183 full days (in aggregate) during the year of assessment.

The amount that qualifies as an exemption will reflect as foreign income on your IRP5/IT3(a) Employee Tax Certificate. This exempt amount must be inserted as a deduction next to source

code **4033** in the 'Other deductions' section of the return.

For the 2017 year of assessment onwards, if an amount is entered next to source code 4033, the section '**Qualifying criteria for s10(1)(o)(i)**' will display. Please complete the following information in this section:

- '**Are you a SA resident as defined in the Income Tax Act?**' – Select Y or N
- '**Were you employed as an officer or crew member to render services on a ship outside SA?**' – Select Y or N
- '**If yes, please state the total number of full days you were outside SA to render services during this year of assessment**'
- Insert the '**Remuneration receive/accrued in respect of foreign services rendered**'.

#### **8.7.13 REMUNERATION FOR FOREIGN EMPLOYMENT SERVICES THAT QUALIFIES FOR SECTION 10(1)(o)(ii) EXEMPTION (EXCLUDING S8A/8C GAINS & DIVIDENDS)**

Refer to the section on 'Residence basis of taxation' above.

Where remuneration (e.g. salary, leave, bonus, commission, allowance or an amount referred to in section 8, 8B or 8C) is received for services rendered to an employer outside South Africa such income received could be exempt in terms of section 10(1)(o)(ii) if the employee was:

- Outside South Africa for a period exceeding 183 days in any twelve month period, and
- Outside South Africa for a continuous period of 60 days during the twelve month period and the services were rendered during the period.

If a South African tax resident who is an employee renders services outside South Africa on behalf of an employer, and the "days" requirements (described above) are met:

- The **entire portion** of the remuneration relating to the services rendered abroad will qualify for exemption if the year of assessment is prior to 1 March 2020
- The **first R1.25 million** of foreign employment income earned will qualify for exemption if the year of assessment is on or after 1 March 2020. Any foreign employment income above R1.25 million will be taxed in South Africa, applying the normal tax tables for that particular year of assessment
- For more information refer to Interpretation Note No. 16 : Exemption from Income Tax - Foreign Employment Income

If foreign income is reflected on your IRP5/IT3(a) Employee Tax Certificate, the amount considered as exempt must be inserted as a deduction next to source code **4041** in the 'Other deductions' section of the return. Note that proof of entries and exits from the South Africa could be requested to prove compliance with the provisions as set out in section 10(1)(o)(ii).

- This provision does not apply to employees of national, provincial or local governments and to employees of certain public entities.
- From the 2017 year of assessment, exclude section 8A/8C gains and dividends from this amount.

Source code 4041 may not be claimed against the following income sources, which may appear on the IRP5/IT3(a):

- 3602 – Income non-taxable
- 3652 – Foreign income non-taxable
- 3703 – Reimbursive travel allowance non-taxable
- 3753 – Foreign reimbursive travel allowance non-taxable.

Please ensure that the following is also completed on your return:

- The corresponding field in the 'Amounts considered Non-Taxable' section;

- The 'Residency' section (for years prior to the 2017 year of assessment).

For the 2017 year of assessment onwards, if an amount is entered next to source code 4041, the section **'Qualifying criteria for s10(1)(o)(ii) exemption (excluding s8A/8C gains and dividends)'** will display. Please complete the following information in this section:

- **'Are you a SA resident as defined in the Income Tax Act?'** – Select Y or N
- **'Confirm that the remuneration against which this exemption is claimed was not derived i.r.o. the holding of a public office as contemplated in s9(2)(g), or from services rendered/ work/ labour performed for the SA government/municipality/ constitutional institution/ SA public entity as contemplated in s9(2)(h) of the Income Tax Act'** – Select Y or N
- **'Were you employed to render services outside SA?'** – Select Y or N
- **'If yes, please state the total number of full days you were outside SA to render services during any 12 month qualifying period'**
  - **'Start date of the 12 month qualifying period (CCYMMDD)'**
  - **'End date of the 12 month qualifying period (CCYMMDD)'**
  - **'Total number of full days outside SA during the 12 month qualifying period'**
  - **'Did you within the period indicated above spend a continuous period exceeding 60 full days outside SA?'**
- **'Total number of work days during the above qualifying period relating to this year of assessment'**
- **'Total number of work days outside South Africa during the above qualifying period relating to this year of assessment'**
- **'Total remuneration received/accrued in this year of assessment in respect of foreign services rendered'**
- **'Remuneration Exempt'**
- **'Foreign Tax Credit on income received from foreign employment services not reflected on a South African IRP5/IT3(a) certificate, subject to tax outside RSA and the s10(1)(o)(ii) exemption applies'**
  - Applicable from the 2021 YOA
  - This field will be prepopulated and cannot be edited
- **'Foreign Tax Credit on income received from foreign employment services reflected on a South African IRP5/IT3(a) certificate, subject to tax outside RSA and the s10(1)(o)(ii) exemption applies'**
  - Applicable from the 2021 YOA
- **'Total Foreign Tax on foreign employment services' – source code 4123**
  - Applicable from the 2021 YOA
  - This field will auto calculated

Please ensure that the following sections are also completed on the return:

- The corresponding field in the 'Amounts considered Non-Taxable' section;
- The 'Residency' section (only applicable to the 2016 and prior years of assessment).

#### **8.7.14 REMUNERATION (s8A/8C GAINS) TAXED ON IRP5 BUT COMPLY WITH EXEMPTION IN TERMS OF SECTION 10(1)(o)(ii)**

This section is only applicable to the 2017 and 2018 years of assessment.

The amount claimed is restricted to s8A/8C gains and excludes dividends. Section 8A refers to gains made by directors of companies or by employees in respect of rights to acquire marketable securities. Section 8C refers to the taxation of directors and employees on vesting of equity instruments.

If income is reflected next to source codes 3707, 3757, 3718 and/or 3768 on the IRP5/IT3(a) Employee Tax Certificate, the amount considered as exempt in terms of section 10(i)(o)(ii) must be inserted as a deduction next to code **4032** in the 'Other deductions' section of the return.

If an amount is entered next to source code 4032, the section **'Qualifying criteria for**

**s10(1)(o)(ii) exemption relating to s8A/8C gains (excluding dividends)** will display. Please complete the following information in this section:

- **'Are you a SA resident as defined in the Income Tax Act?'** – Select Y or N
- **'In respect of section 10(1)(o)(ii) exemption claimed, how many s8A/8C gains are applicable during this year of assessment?'**
- Complete the following details for each gain indicated above:
  - **'Start date of the source period (when this shares were allocated) (CCYYMMDD)'**
  - **'End date of the source period (date of vesting) (CCYYMMDD)'**
  - **'For how many years of assessment during this source period did you qualify for the s10(1)(o)(ii) exemption?'**
  - **'Indicate the relevant year(s) of assessment'**
  - **'Total number of working days during the source period'**
  - **'Number of working days outside SA during the source period'**
  - **'Gross value of the gain'**
  - **'Exempt amount of the gain'**

**Note:** As from the 2019 year of assessment, this section of the return has moved to the tax directive form (IRP3(s)). The employer will complete this form and apply for tax the directive on behalf of the employee. When the ITR12 is assessed, the SARS system will take the exemption granted on the tax directive (s8A/8C) into account. For more information please refer to 'IT-AE-41-G01 - Completion Guide for IRP3(a) & IRP3(s) Form' on the SARS website.

#### **8.7.15 DEDUCTION OF INTEREST REPAID TO SARS (IN TERMS OF SECTION 7F) THAT WAS PREVIOUSLY TAXED IN TERMS OF SECTION 7E**

This field is only applicable from the 2020 year of assessment.

In terms of section 7F if a taxpayer declared SARS interest in his/her taxable income in the year of assessment in which it was received and then in a subsequent year repays that interest to SARS, the portion that is actually paid back (limited to the amount that was included in a prior year's taxable income) can be claimed as a deduction.

Insert the interest repaid next to source code **4052**.

#### **8.7.16 DEDUCTION ITO S6quat (1C) FOR FOREIGN TAXES PAID OR PROVED TO BE PAYABLE TO A FOREIGN GOVERNMENT OF ANY COUNTRY ON ANY SA SOURCED TRADE INCOME**

This field is only applicable from the 2019 year of assessment.

You can only claim this deduction if one or more of the following income was declared on the return:

- IRP5 Income
- Local Rental Income
- Local Business, Trade & Professional Income
- Other Taxable Receipts & Accruals
- Local Farming Income
- Trust Income (local remuneration / local rental / local business & trade / local farming / other local income).

Insert the amount next to source code **4053**.

If an amount is entered next to source code 4053, complete the fields in the following section: **'Qualifying criteria for the deduction of foreign taxes paid or proved to be payable to a foreign government of any country on any South African sourced trading income (including salary income)'**

- ‘Did you have a right of recovery other than a right of recovery i.t.o a mutual agreement procedure or any entitlement to carry back losses arising during any previous year of assessment?’ – select Y or N.
- ‘Was this foreign tax amount refunded to you during this year of assessment?’ – select Y or N.
- ‘Taxable income from SA sourced trade income (including salary income) taxed outside the RSA (before taking into account any allowable deductions i.t.o. s11F, s18A and s6quat(1C), as these deductions will be calculated by SARS)’

#### 8.7.17 COMMISSION INCOME EXPENDITURE - SECTION 11(a)

If you earned remuneration mainly in the form of commission and if you incurred expenses that are not specifically addressed in the sections above:

- Such expense items (excluding travel expenses) must be consolidated and the total amount inserted in the field ‘Other’ next to the code **4016**
- A description of these expenses must be provided.

All calculations, receipts and other supporting documentation must be retained for a period of five years after the date of submission of the return and must be made available to SARS on request.

### 8.8 INVESTMENTS IN VENTURE CAPITAL COMPANIES (VCC): S12J

In order to assist small and medium-sized businesses and junior mining exploration companies in terms of equity finance, government implemented a tax incentive for investors in such enterprises through a Venture Capital Company (VCC) regime.

- Section 12J came into effect on 1 July 2009.
- Investors can claim income tax deductions in respect of the expenditure incurred in exchange for the issue of VCC shares.
- On request from SARS, the investor must verify a claim for a deduction by providing a VCC Certificate that has been issued by an approved VCC, stating the amount of the investment and the year of assessment in which the investment was made.
- Except in the case of VCC shares held by a taxpayer for a period **longer than five years** (effective January 2015), the deduction is recouped (recovered) if the taxpayer disposes of the VCC shares to the extent of the initial VCC investment (under the general recoupment rules of section 8(4) of the Act).
- Effective 21 July 2019, investments made by a natural person in a VCC will be capped at R2.5 million per tax year. This deduction will not be subject to recoupment if the VCC shares are held for longer than five years.
- For more information on VCC’s refer to the external guide: ‘Venture Capital Companies’ published on the SARS website.

#### COMPLETING THE RETURN

**‘Total amount invested in Venture Capital Companies in exchange for shares during the year of assessment before 21 July 2019’**

- If the ‘Date of issue of VCC shares’ captured on the return is before 21 July 2019, the total investment amount will be auto calculated and inserted next to source code **4051**.

**‘Total amount invested in Venture Capital Companies in exchange for shares during the year of assessment on or after 21 July 2019’**

- If the ‘Date of issue of VCC shares’ captured on the return is after 21 July 2019, the total investment amount will be auto calculated and inserted next to source code **4054**.

Complete the following details of each investment:

- **'Name of SARS approved VCC'**
- **'VCC number'**
- **'Date of issue of VCC shares (CCYYMMDD)'**
- **'Amount invested in a Venture Capital Company in exchange for shares during the year of assessment'**

From the 2020 YOA, if you invested in more than 20 venture capital companies, only the details of the top 20 investments must be completed on the return (for the 2019 YOA and prior years, the details of the top 10 investments must be completed).

Insert the total amount recouped in respect of VCC shares sold and for which a tax deduction was allowed next to source code **4245**.

## **9 STATEMENT OF LOCAL AND FOREIGN ASSETS AND LIABILITIES**

The statement of assets and liabilities (local and foreign) is mandatory if you answered 'Yes' to any of the following questions:

- Did you receive any foreign income apart from foreign Interest and foreign dividend income and excluding foreign capital gain transactions?
- Did you participate in any local farming operations?
- Did you receive local business, trade or professional income (including rental income)?

The statement of assets and liabilities is optional if the source code in the trading schedule is 4210 and 4211

All local asset and liability items must be listed individually.

The foreign currency value of the assets and liabilities must be converted to rand using the exchange rate as at the end of the year of assessment

## **10 VOLUNTARY DISCLOSURE PROGRAMME (VDP)**

The purpose of the VDP is to allow taxpayers an opportunity to regularise their tax affairs with SARS. Taxpayers must voluntarily apply to SARS to disclose their defaults or non-compliance. A VDP application number will be allocated by SARS. Once the VDP application has been evaluated by the VDP Unit, and where voluntary disclosure relief is granted, a written agreement will be concluded between the taxpayer and SARS in order to effect the necessary assessments.

Should you require more information, a Comprehensive Guide concerning VDP is available on the SARS website [www.sars.gov.za](http://www.sars.gov.za).

If you have applied for voluntary disclosure, please insert the VDP application number in the field provided on your return.

Note: When completing your return, remember include all income and expenditure applicable for the tax year as per the VDP agreement concluded with SARS.

## 11 STATUTORY RATES OF TAX APPLICABLE TO INDIVIDUALS

### 11.1 RATES FOR THE 2019 YEAR OF ASSESSMENT

Taxable income	Rate of tax
0 – 195 850	18% of taxable income
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
305 851 – 423 300	63 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

Rebates	
Primary rebate	R14 067
Secondary rebate (for persons 65 years and older)	R7 713
Tertiary rebate (for persons 75 years and older)	R2 574

### 11.2 RATES FOR THE 2020 YEAR OF ASSESSMENT

Taxable income	Rate of tax
0 – 195 850	18% of taxable income
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
305 851 – 423 300	63 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

Rebates	
Primary rebate	R14 220
Secondary rebate (for persons 65 years and older)	R7 794
Tertiary rebate (for persons 75 years and older)	R2 601

### 11.3 RATES FOR THE 2021 YEAR OF ASSESSMENT

Taxable income	Rate of tax
0 – 205 900	18% of taxable income
205 901 – 321 600	37 062 + 26% of taxable income above 205 900
321 601 – 445 100	67 144 + 31% of taxable income above 321 600
445 101 – 584 200	105 429 + 36% of taxable income above 445 100
584 201 – 744 800	155 505 + 39% of taxable income above 584 200
744 801 – 1 577 300	218 139 + 41% of taxable income above 744 800
1 577 301 and above	559 464 + 45% of taxable income above 1 577 300

Rebates	
Primary rebate	R14 958
Secondary rebate (for persons 65 years and older)	R8 199
Tertiary rebate (for persons 75 years and older)	R2 736

## 12 CONCLUSION

- Should you require any further information which might not be addressed in this brochure, visit the SARS website [www.sars.gov.za](http://www.sars.gov.za) or contact your nearest SARS branch or the SARS Contact Centre on 0800 00 7277 for assistance.



## **DISCLAIMER**

The information contained in this guide is intended as guidance only and is not considered to be a legal reference, nor is it a binding ruling. The information does not take the place of legislation and readers who are in doubt regarding any aspect of the information displayed in the guide should refer to the relevant legislation, or seek a formal opinion from a suitably qualified individual.

### **For more information about the contents of this publication you may:**

- Visit the SARS website at [www.sars.gov.za](http://www.sars.gov.za)
- Visit your nearest SARS branch
- Contact your own registered tax practitioner
- If calling from within South Africa, contact the SARS Contact Centre on 0800 00 7277
- If calling from outside South Africa, contact the SARS Contact Centre on +27 11 602 2093 (only between 8am and 4pm South African time).