SOUTH AFRICAN REVENUE SERVICE

GUIDE ON INCOME TAX AND THE INDIVIDUAL (2007/08)

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

GUIDE ON INCOME TAX AND THE INDIVIDUAL

Foreword

The purpose of this guide is to inform individuals who are South African residents about their income tax commitments.

This guide does not attempt to reflect on every scenario that could possibly exist, but does attempt to provide clarity on the majority of issues that are likely to arise in practice. If it does not address a specific issue, it must be taken up with the SARS branch office.

This guide is not meant to deal with the precise technical and legal detail that is often associated with taxation and should, therefore, not be used as a legal reference. It is not a binding general ruling in terms of Part IA of Chapter III of the Income Tax Act, No. 58 of 1962 (the Act).

This guide is based on legislation as at 1 October 2007.

Should you require additional information, you may –

- contact your local South African Revenue Service (SARS) branch;
- visit SARS website at **www.sars.gov.za**;
- contact your own tax advisors;
- if calling locally, contact the SARS National Call Centre on 0860 12 12 18; or
- if calling from abroad, contact the SARS National Call Centre on +27 11 602 2093.

Comments and/or suggestions regarding this guide may be sent to the following e-mail address: **policycomments@sars.gov.za**.

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SOUTH AFRICAN REVENUE SERVICE
Date of 1st issue: 20 March 2002
Date of 2nd issue: 11 April 2005
Date of 3rd issue: March 2006
Date of 4th issue: March 2007
Date of 5th issue: March 2008

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1. WHEN IS AN INDIVIDUAL LIABLE FOR INCOME TAX?

Every individual who receives taxable income in excess of a specific amount (known as the "tax threshold" amount) in a year of assessment is liable for income tax. The tax threshold amount for the 2008 year of assessment is R43 000 if you are under 65 years of age and R69 000 if you are 65 years of age and older. Once the tax threshold has been exceeded, the specific rates at which individuals are taxed depend on the amount of taxable income received. The applicable rates for the 2008 year of assessment are enclosed in **Annexure A**.

2. WHAT IS A YEAR OF ASSESSMENT FOR AN INDIVIDUAL?

A year of assessment for an individual consists of 12 months commences on 1 March of a specific year and ends on the last day of February of the following year. The 2008 year of assessment therefore commenced on 1 March 2007 and ended on 29 February 2008.

3. WHAT ARE SOME OF THE DIFFERENT KINDS OF INCOME THAT AN INDIVIDUAL CAN BE TAXED ON?

Examples of income which an individual can be taxed on include –

- income from employment, such as, salaries, wages, bonuses, overtime, fringe benefits, and certain lump sums;
- income from a business or trade;
- investment income, such as, interest, rental income, and foreign dividends;
- annuities;
- pensions; and
- certain capital gains.

4. DO ALL INDIVIDUALS HAVE TO REGISTER AS A TAXPAYER AND SUBMIT AN INCOME TAX RETURN?

An individual must register as a taxpayer and submit an income tax return in the following circumstances:

- If the individual receives income from employment (salary, wages etc) that exceeds a specified annual equivalent [R60 000] during the 2008 year of assessment (that is, R5 000 per month). However, all employees who receive commission and/or a travel allowance must register as a taxpayer irrespective of what the amount of the annual equivalent is.
- If the individual receives foreign dividends and/or foreign interest and the aggregate amount exceeds R3 000 during the 2008 year of assessment.
- If the individual receives local interest that exceeds R18 000 if he/she is under 65 years or R26 000 if he/she is 65 years and older. If he/she also receives foreign dividends and or foreign interest (referred to above), the aggregate amount thereof, up to R3 000 which is exempt from income tax is deducted from the R18 000 or the R26 000, whichever is applicable.

For example, a taxpayer who is under the age of 65 years received R1 600 foreign dividends, R2 100 foreign interest and R22 000 local interest. The foreign dividends, foreign interest and local interest will be exempt in the following order –

- foreign dividends R1 600 less exemption of R1 600;
- foreign interest R2 100 less exemption of R1 400 (R3 000 – R1 600); and
- local interest R22 000 less exemption of R15 000 (R18 000 – R3 000) ,

- If the individual receives income from his/her own business (irrespective of what the taxable income or assessed loss is).

All individuals required to register as taxpayers must register at their SARS branch offices by completing an IT77 form (also available on the SARS website).

5. WHERE CAN AN INCOME TAX RETURN BE OBTAINED FROM?

If you are a registered taxpayer SARS will provide you with an income tax return. If you are not a registered taxpayer and you have to submit an income tax return you must first register as a taxpayer and obtain an income tax return from your local SARS branch office.

6. TO WHOM IS THE INCOME TAX PAYABLE?

The income tax is payable to SARS which is responsible for collecting taxes from taxpayers on behalf of the Government. SARS also makes use of agents such as employers (who deduct employees' tax) to collect the income tax on SARS's behalf and pay the employees' tax over to SARS on a monthly basis.

7. WHEN IS INCOME TAX PAYABLE?

The final income tax payable by a taxpayer can only be calculated once the total taxable income earned by the individual for the full year of assessment has been determined. This is normally only done after the end of the year of assessment once a taxpayer's income tax return has been processed and an assessment is issued.

As the Government requires cash on an ongoing basis to fund services such as education, health, security and welfare, it cannot rely on the collection of income tax from each individual only once a year. It is, therefore, necessary to make use of methods to collect the income tax as soon as the taxpayer has earned the income and to offset the taxes collected against the final income tax that is due on assessment.

The methods that are currently used by SARS are –

- employees' tax (SITE and PAYE) which is collected on a monthly basis; and
- provisional tax, which is collected on a six-monthly basis.

8. WHAT IS EMPLOYEES' TAX?

Employees' tax is the tax that employers must deduct from the employment income of employees (salaries, wages, bonuses, etc) and pay over to SARS on a monthly basis. Employees' tax is withheld when these amounts are paid or become payable to the employees, that is, daily, weekly, monthly, etc.

Employees' tax is therefore a withholding tax on employment income and will be set off against the final income tax liability of the employee for the year of assessment.

Employees' tax consists of two components, namely, SITE and PAYE.

8.1 What is SITE?

SITE is the Standard Income Tax on Employees that is deducted from the full-time employment income below the SITE threshold for a year of assessment (R60 000 for 2007/8).

The main objective of SITE is to ensure that the sum of the tax deductions made by the employer is equal to the final income tax liability of the individual for the year of assessment. Accordingly, an individual does not need to submit an income tax return if he/she receives no income other than income from full-time employment below R60 000 for the 2008 year of assessment.

SITE is deducted from the daily, weekly, or monthly earnings payable to an employee and paid over by the employer to SARS on a monthly basis. Examples of earnings from which SITE is deducted include salaries, wages, bonuses, overtime pay and fringe benefits.

The following amounts **may be deducted from earnings** before SITE is calculated –

- pension fund contributions;
- retirement annuity fund contributions;
- medical aid contributions to a registered medical scheme if the individual is 65 years and older;
- medical aid contributions to a registered medical scheme which does not exceed the capped amounts (R530 for each month for an employee, R1 060 for each month for an employee and one dependant or R1 060 for each month for an employee and one dependant plus R320 for every additional dependant for each month); and
- any premium paid in terms of an insurance policy to the extent that it covers the employee against the loss of income as a result of illness, injury, disability or unemployment and in respect of which all amounts payable in terms of that policy constitute or would constitute income as defined.

The final determination of SITE is done at the end of the year of assessment when the employer has to reconcile the SITE that was deducted during the year of assessment with the final income tax that is payable by the employee on his/her earnings for the year of assessment. The employer must recover or refund SITE where too little or too much was deducted during the year of assessment. The employee does not have to register for income tax purposes if he/she only receives full-time employment income below the SITE threshold of R60 000 for the 2008 year of assessment . This means that he/she does not have to complete an income tax return that has to be assessed by SARS.

8.2 What is PAYE?

PAYE stands for Pay-As-You-Earn and is the employees' tax deducted by the employer from the amount of full-time employment income in excess of the SITE threshold for a year of assessment (R60 000 for the 2008 year of assessment).

Commission, travel allowances and employment income of a person who works on a part-time basis are subject to PAYE irrespective of the amount received. (Part-time employment is where a person works for an employer for less than 22 hours in a full week.)

Where any of the employment income of an individual is subject to PAYE, the final determination of the employee’s income tax liability is done when SARS processes the income tax return that has been submitted by the employee.

It must be noted that where any portion of an employee's earnings is subject to PAYE, he/she must complete and submit a tax return even if the total earnings for the year of assessment does not exceed R60 000.

9. WHAT PROOF DOES AN EMPLOYEE HAVE OF TAX DEDUCTED FROM HIS/HER EARNINGS?

An employer must issue an employee with a receipt known as an employees' tax certificate (IRP5) where SITE and/or PAYE was deducted from the earnings of the employee. This certificate discloses, amongst other things, the total employment income earned for the year of assessment and the total SITE and/or PAYE deducted by the employer and paid over to SARS.

10. WHAT IS PROVISIONAL TAX?

Where an individual earns **taxable** income that is not subject to SITE or PAYE deductions (for example, interest, rental or business income), he/she must pay provisional tax on this income on a six-monthly basis. Provisional tax is intended to assist taxpayers in meeting their tax liabilities on an on-going basis as opposed to paying a large amount once a year on assessment. The provisional tax paid (as in the case of PAYE and SITE) will be offset against the final income tax that the individual has to pay for the year of assessment.

Note: Every provisional taxpayer must apply at their SARS branch office for registration as a provisional taxpayer within 30 days after the date on which he/she qualifies as a provisional taxpayer.

10.1 Who is a provisional taxpayer?

A provisional taxpayer is –

- any individual who earns business income or farming income;
- any company/close corporation;
- any person who is notified by the Commissioner for SARS that he/she is a provisional taxpayer;
- any individual who derives **taxable** interest, dividends and rental income in excess of a specified total (R10 000 for the 2008 year of assessment); and

an individual who is 65 years of age or older will be exempt from paying provisional tax if his/her taxable income for the 2008 year of assessment –

- does not exceed R80 000;
- will not be derived wholly or in part from the carrying on of any business; and
- will not be derived otherwise than from employment income (e.g salaries and wages), interest, dividends or rental of fixed property.

The taxable amount of interest and dividends is determined by deducting a specified exempt amount from the total amounts derived. The specified exemption for the sum of interest and taxable dividends for the 2008 year of assessment is R18 000 where the individual is under the age of 65 years and R26 000 where the individual is 65 years of age and older. Foreign dividends and foreign interest will only be exempt up to an amount R3 000 (see **4**).

This means that an individual under 65 years who only receives a salary and interest from a South African bank will only qualify as a provisional taxpayer for the 2008 year of assessment if the total interest received exceeds R28 000 (R18 000 + R10 000) for the year of assessment.

10.2 When is provisional tax due?

Provisional tax is due as follows:

- First payment - six months after the commencement of the year of assessment, that is, 31 August 2007.

- Second payment - not later than the last day of the year of assessment, that is, 29 February 2008.
- A voluntary third or "top up" payment - seven months after the end of the year of assessment, that is, 30 September 2008. This will only become necessary where the taxable income is in excess of R50 000 for individuals. Payment can be made to avoid the liability for interest that will arise due to the final income tax not being settled within seven months after the end of the year of assessment.

10.3 How much provisional tax must be paid?

A provisional tax return must be completed by estimating the total taxable income (which includes employment income, business income, interest and rentals) of the individual for the year of assessment and determining the tax payable on the estimate.

The estimate may not be lower than the taxable income (as assessed by SARS) of the individual for the previous year of assessment, unless permission is obtained from SARS. Where an individual has no assessed taxable income in respect of a previous year of assessment, the individual must estimate his/her taxable income for the current year of assessment as accurately as possible. SARS may request the individual to justify any estimate submitted and may increase the amount of the estimate if the individual is unable to justify the estimate.

The tax payable on the estimated taxable income for the year of assessment must be determined by applying the rate of normal tax applicable to that amount of taxable income or by using the tables (IRP12) that are sent to all provisional taxpayers by SARS. Employees' tax (SITE and PAYE), any **foreign taxes** paid or proved to be payable by the provisional taxpayer to the government of another country and any provisional tax already paid for that year of assessment, can be deducted from the estimated provisional tax that is payable for the relevant provisional tax period.

11. WHAT HAPPENS ON ASSESSMENT?

All income tax returns that are completed and submitted to SARS are processed. The assessment shows the final income tax liability on all of the taxable income (including employment income, business income, interest, and rental income) earned by the taxpayer for the year of assessment.

Processing includes the following steps:

- All of the income (including employment income, business income, interest, rental income and taxable capital gain) received by a South African resident from all over the world are added together.
- Amounts that are exempt from income tax are excluded.
- Allowable tax deductions such as medical expenses, donations to approved public benefit organisations and wear and tear allowances are taken into account (all these deductions are subject to certain limitations).
- The resultant taxable income is used to determine the final income tax liability by applying the relevant tax rates.
- The final income tax liability of an individual is reduced by a primary rebate, and in the case of an individual who is 65 years of age or older by an additional age rebate which may reduce the tax liability to zero. This means that these rebates or portions of these rebates cannot be paid to taxpayers in cash if they exceed/are more than the tax liability. These rebates for the 2008 year of assessment are R7 740 (primary) and R4 680 (age).
- The SITE, PAYE and provisional tax paid by the taxpayer during the year of assessment are deducted from the final income tax liability of the taxpayer which will result in a net amount that is due by the taxpayer or a net amount that is refundable to the taxpayer.

- Foreign tax credits may also be deducted from the tax payable by an individual, but they may not be refunded.

See page 9 for: **Example how tax is calculated**

12. INTEREST

Interest at the prescribed rate may be charged where –

- a taxpayer is late in paying his/her income tax that is due on assessment;
- the provisional tax paid in respect of a year of assessment is not sufficient to offset the assessed final income tax liability of the taxpayer in full; and/or
- the provisional tax is not paid on time.

The prescribed rate of interest is fixed from time-to-time by the Minister of Finance and is 14% per year with effect from 1 March 2008.

13. ADDITIONAL TAX

Additional tax of up to **200%** of the tax payable may be levied where –

- the income tax return is not submitted on time;
- all of the income is not disclosed in the income tax return; and/or
- a false statement or declaration is made in the income tax return.

Additional tax amounting to 20% may also be levied where –

- the estimated taxable income for the year of assessment for the second provisional tax payment (payable on 29 February 2008) is less than 90% of the actual taxable income for the year of assessment and the taxable income for the previous year of assessment; and/or
- this estimate is not submitted before the last day of the year of assessment.

14. PENALTIES

In addition to interest charged, penalties may be charged where provisional tax returns are submitted late. Penalties are levied at a rate of 10%.

15. WHEN MAY AN INDIVIDUAL BE LIABLE FOR A FINE OR IMPRISONMENT IF CONVICTED?

An individual may be liable for a fine or imprisonment if convicted –

- failure to pay income tax that he/she is supposed to pay, that is, tax evasion
- failure to complete an income tax return that he/she is supposed to do; and/or
- failure to disclose all of his/her income in an income tax return.

16. CONCLUSION

As was noted in the previous Budget speeches of the Minister of Finance, the income tax payable by individuals can be reduced if everyone pays their fair share of income tax – the more of us that pay, the less we all have to pay!

It is therefore important that all individuals meet their income tax obligations and that cases of non-compliance are reported to SARS.

As a tax-compliant South African, you are responsible for everything good about our country. The income tax you pay enables Government to meet a host of economic and social development needs of our country and its people, ensuring a better life for everyone.

It is hoped that this guide will contribute to greater clarity regarding the application and interpretation of the provisions of the Act pertaining to income tax and the individual.

ANNEXURE A

The statutory rates of tax in respect of the 2008 tax year are:

TAXABLE INCOME			RATES OF TAX				
R		R	R				R
0	-	112 500			18%	of each R1	
112 500	-	180 000	20 250	+	25%	of the amount over	112 500
180 000	-	250 000	37 125	+	30%	of the amount over	180 000
250 000	-	350 000	58 125	+	35%	of the amount over	250 000
350 000	-	450 000	93 125	+	38%	of the amount over	350 000
450 000	-	and over	131 125	+	40%	of the amount over	450 000

Rebates

Primary rebate R7 740

Additional rebate (Persons of 65 years of age or older) R4 680

Tax thresholds

The tax thresholds at which liability for normal tax commences, are:

- Persons under 65 years of age R43 000
- Persons 65 years of age or older R69 000

Interest exemptions

- Persons under 65 years of age R18 000
- Persons 65 years of age or older R26 000

EXAMPLE HOW TAX IS CALCULATED

An employee who is not yet 65 years of age received the following income for the period 1 March 2007 to 29 February 2008 (that is, the 2008 year of assessment):

	R
Salary	120 000
Overtime	8 000
Bonus	10 000
Interest from South African Banks	18 000
Dividends from South African companies	1 200
Dividends from foreign companies	3 000
Net rental	17 000
TOTAL INCOME RECEIVED	**177 200**

The employee contributed R9 000 to a South African pension fund during the year of assessment.

Employees' tax was deducted during the year of assessment as follows:

	SITE	3 060
	PAYE	13 575
Provisional tax payments for the year of assessment		5 000

Calculation of taxable income:

Total income received		177 200
Less:	Exempt income:	
	Dividends from South African companies	(1 200)
	Foreign dividends (limited to R3 000 or the actual amount where less than R3 000)	(3 000)
	South African interest (limited to R18 000, i. e. R18 000 less R3 000 foreign dividend exemption)	(15 000)
Income		158 000
Less:	Deductions	
	Pension fund contributions	(9 000)
TAXABLE INCOME		**149 000**

The income tax payable on the taxable income of R149 000 is calculated by applying the tax rates for the year of assessment ending 29 February 2008 (see table in **Annexure A**) as follows:

The taxable income of R149 000 falls within the bracket of R112 500 - R180 000 in the table.

Therefore the tax on the first R112 500 is		20 250
And the tax on the amount R36 500 (R149 000 – R112 500) is 25% X R36 500		9 125
Normal tax payable		29 375
Less: Primary rebate		(7 740)
Net normal tax payable		21 635
Less:	SITE	(3 060)
	PAYE	(13 575)
	Provisional tax paid	(5 000)
TAX PAYABLE ON ASSESSMENT		**R NIL**