SOUTH AFRICAN REVENUE SERVICE

INTERPRETATION NOTE NO. 18

.
DATE: 31 March 2003

ACT : INCOME TAX ACT, 1962 (the Act)
SECTION : SECTION 6*quat*
SUBJECT : REBATE FOR FOREIGN TAXES: NATURAL PERSONS

1. Background

A resident who is a natural person is subject to normal tax on his or her worldwide income (i.e. income derived from sources within and outside the Republic) as from the 2002 year of assessment. However, any income which is derived by a resident from a foreign source may have been or may be subjected to tax in a foreign country, thus resulting in double taxation. Section 6*quat* of the Act addresses this inequity by way of a rebate for foreign taxes.

The purpose of this note is to explain the provisions of section 6*quat* as it applies to a resident who is a natural person and who derives income from sources outside the Republic.

The provisions of section 6*quat* are, however, not considered insofar as it deals with –

- income in the form of dividends which is derived by a resident from a foreign source (i.e. foreign dividends) as the result of a shareholding of <u>10% or more</u> in a foreign company; and

- an amount equal to a proportionate amount of the net income of a foreign company, which is controlled by residents of South Africa, that is specifically included in the income of a resident in terms of section 9D of the Act ("the controlled foreign company legislation").

This note replaces Practice Note No 9, issued on 26 June 1989, which is no longer applicable.

2. The law and its application

2.1 Introduction

Section 6*quat* grants relief from double taxation by allowing a credit against the South African tax liability for taxes payable to a foreign government. The relief is limited to residents, as defined in section 1 of the Act, and will only apply in respect of income actually derived from a source outside the Republic which is not deemed to be derived from a source within the Republic.

2.2 Conditions governing the granting of a rebate

The sum of foreign taxes payable may qualify for a rebate against the normal tax payable by a resident if the following conditions are met:

2.2.1 The taxes must be taxes payable on income.

Internationally taxes payable on capital gains are regarded as taxes on income. Thus any reference to taxes payable on income includes taxes payable on capital gains. A liability for interest, fines, penalties or any other similar obligation imposed in terms of the laws of a foreign country is not regarded as a tax on income and does not qualify for a rebate.

2.2.2 The taxes must be payable to a foreign government.

A government has many different levels, for example, national, state, provincial, local or any other level of government. Taxes imposed by any level of a foreign government will be regarded as taxes payable to a foreign government.

2.2.3 The taxes should be proved to be payable in respect of an existing foreign tax liability.

The rebate is not only granted for foreign taxes actually paid, but also in respect of taxes in respect of which a legal obligation to pay exists.

2.2.4 The taxes must be payable without any right of recovery by any person.

The taxpayer or any other person must not be able to recover the taxes proved to be payable. An example of a right of recovery is where a resident may claim relief from foreign taxes in terms of an agreement for the avoidance of double taxation/tax treaty ("treaty").

2.2.5 The taxes must be payable in respect of amounts included in that resident's taxable income.

See paragraph 2.3 for further discussions on this topic.

[Section 6*quat*(1A)]

2.3 Qualifying amounts of income derived from foreign sources

2.3.1 In order to qualify for a rebate in terms of section 6*quat* the foreign taxes must be payable in respect of any of the following types of income derived from a foreign source which has been included in the resident's taxable income:

(a) Income, such as professional service income, remuneration, interest, royalties, rentals, pensions, annuities, etc., but excluding foreign dividends. [Section 6*quat*(1)(a)(i)]

(b) An amount equal to a proportionate amount of the net income of a foreign company that is expressly included in the income of a resident in terms of section 9D. [Section 6*quat*(1)(b)]

(c) Income derived by a resident in the form of foreign dividends. [Section 6*quat*(1)(d)]

(d) A taxable capital gain derived by a resident from a foreign source. [Section 6*quat*(1)(e)]

(e) Any amount dealt with in paragraphs (a) to (d) which has accrued to or has been received by a particular person, for example a trust, but which is deemed to be derived by another person (the resident). [Section 6*quat*(1)(f)(i) and (ii)]

(f) An amount dealt with in paragraphs (a) to (d), which forms part of the capital of a trust established in a foreign country, which is regarded to be derived by a resident for either income tax or capital gains purposes. [Section 6*quat*(1)(f)(iii)]

2.3.2 The gross amount (i.e. the taxable amount before the deduction of foreign taxes) in respect of income derived from a foreign source must be included in the taxable income of a resident.

The only exception is in respect of foreign dividends in which case a resident may elect to be taxed on the net amount (amount after the deduction of withholding taxes) rather than being taxed on the gross amount (amount before the deduction of withholding taxes). [Section 9E(6)]

If a resident elects to be taxed on the net amount of a foreign dividend any withholding tax paid in respect of that dividend is forfeited as a foreign tax credit. [Section 6*quat*(1B)(e)]

2.4 Limitation on the amount of the rebate

2.4.1 The amount of foreign taxes which qualify for the section 6*quat* rebate is limited to a *pro rata* amount calculated in accordance with the following formula:

$$\frac{\text{Taxable income derived from all foreign sources (A)}}{\text{Total taxable income derived from all sources (B)}} \times \begin{array}{c}\text{Normal tax}\\ \text{payable on (B)}\end{array}$$

[Section 6*quat*(1B)(a)]

Normal tax is the South African tax calculated on taxable income before the deduction of any rebates.

2.4.2 In determining the taxable income derived from respectively foreign sources and South African sources any deductions sought in terms of sections 11(n), 18 and 18A must be apportioned on a *pro rata* basis between income derived from both sources as determined prior to the deduction of any of the amounts contemplated in sections 11(n), 18 and 18A. [Proviso (i) to section 6*quat*(1B)(a)]

See paragraph 3 for detailed examples.

2.5 The carry forward of an excess amount of foreign tax credits

2.5.1 Where the sum of foreign taxes payable exceeds the amount of the rebate the excess amount may be carried forward to the immediately succeeding year of assessment to rank as a foreign tax credit available for set off against the normal tax payable on foreign income in that year of assessment. [Proviso (ii)(aa) to section 6*quat*(1B)(a)]

2.5.2 The amount of the foreign tax credit which relates to the taxable foreign income derived during a year of assessment must firstly be utilised against the normal tax payable in that year before the balance of excess foreign taxes brought forward from the preceding year may be utilised against the remaining balance of normal tax payable. [Proviso (ii)(bb) to section 6*quat*(1B)(a)]

2.5.3 An excess amount may not be carried forward for more than 7 years calculated from the year of assessment when it was for the first time carried forward. [Proviso (iii) to section 6*quat*(1B)(a)]

2.5.4 Where a determination of an excess amount of foreign taxes is made for more than one year of assessment the excess amount determined for each year of assessment must be recorded separately and applied on a first-in first-out (FIFO) basis against the normal tax payable in future years of assessment.

2.6 The right of a resident to choose between the relief provided for in either section 6*quat* or a treaty

2.6.1 A rebate may be granted in substitution but not in addition to any relief to which a resident is entitled under a treaty concluded with the foreign country concerned. [Section 6*quat*(2)]

2.6.2 Some treaties specifically provide that relief may be granted for foreign taxes. A taxpayer may elect not to claim a rebate in terms of section 6*quat* but rather the relief provided for by the treaty. Where the relief provided for in a treaty is chosen none of the other relief granted in terms of section 6*quat*, for example the carry forward of the excess credit, will be applicable.

2.6.3 If no election is made the provisions of section 6*quat* will be applied.

2.7 The conversion of foreign tax credits to Rand

2.7.1 Section 25D of the Act provides that the taxable income derived by a resident from a source outside South Africa must be determined in a foreign currency (i.e. a currency other than the official currency of the Republic). This section stipulates that the foreign currency that a resident should use in order to calculate the amount of taxable income derived from a foreign source during a particular year of assessment of a resident will depend on the actual circumstances of each specific case.

2.7.2 In instances where the income derived from a foreign source relates to a permanent establishment of that person outside the Republic the taxable income must be determined in the currency used by that establishment for purposes of its financial reporting. Otherwise the calculation must be done in the currency in which the relevant income or expenditure is denominated.

2.7.3 The taxable income calculated in the relevant foreign currency must be translated to Rand at the average exchange rate as determined for that year of assessment.

2.7.4 A resident who derives taxable income from foreign sources in any year of assessment must, in translating the taxable income to Rand, make an election between either –

2.7.4.1 the time-based average rate; or

2.7.4.2 the weighted average of spot rates.

2.7.5 The time-based average rate is determined by using the closing spot rates at the end of the daily, weekly or monthly intervals in a specific tax year.

2.7.6 The weighted average of spot rates is determined by using the spot rates at the end of the daily, weekly or monthly intervals in that tax year, which average must be based on the net amounts of receipts, accruals and deductible expenditure in each such period and the net amount of the capital gains or capital losses determined in respect of any disposal of assets during that period.

2.7.7 The rate chosen for any year of assessment must be applied consistently within that year of assessment.

[Definition of the meaning of the term "average exchange rate" in section 1 of the Act]

2.7.8 The spot rate is the current price at which a particular currency can be bought or sold at a specific time and place, in other words, the price that is quoted if you wish to buy or sell any currency at the present time or within a short period of time.

2.7.9 Any foreign taxes proved to be payable in respect of any income derived from a foreign source which is included in the taxable income of a resident during a particular year of assessment shall be converted to Rand on the last day of that year of assessment by applying the average exchange rate elected by the resident to translate the amount of taxable income derived by him or her from that foreign source for that year. [Section 6*quat*(4)]

2.8 Recalculation of the rebate

2.8.1 In the case where a resident claimed a rebate in terms of section 6*quat* in a previous year of assessment and subsequently it is proved that the actual foreign taxes payable are –

2.8.1.1 more than the amount initially claimed; or

2.8.1.2 less than the amount initially claimed

a revised assessment which takes into account the correct amount may be issued within 6 years from the date of the assessment in terms of which the rebate was first allowed, unless the Commissioner for the South African Revenue Service is satisfied that the amount of tax proved to be payable was incorrectly reflected due to fraud or misrepresentation or non-disclosure of material facts. [Section 6*quat*(5)]

2.8.2 In this case the general prescription periods provided for in sections 79 and 81(5) would not apply. [Section 6*quat*(5)]

3. Examples

3.1 Example 1

A South African couple is married in community of property. Both are residents and 40 years of age. The couple own 5% of the equity share capital of a company in Utopia. The wife is the registered owner of the shares.

During the 2004 year of assessment the company declares a dividend of 10 000 000 Utopia dollar (amount before withholding tax) of which the South African couple's portion amounts to 500 000 Utopia dollar. The withholding tax payable in Utopia in respect of the dividend declared to the couple amounted to 75 000 Utopia dollar. The couple elected to translate the income derived from foreign dividends to Rand by using the time-based average exchange rate for that year of assessment which was UT$100:R4.4. The couple incurred interest expenses of R10 000 in respect of the dividend received.

The wife also received a salary of R100 000 from which an amount of R14 700 was withheld in respect of SITE and PAYE. In addition the couple earned interest income amounting to R18 600 on an investment in a South African Bank.

Solution

1. Appropriation of foreign dividends, interest expenses and withholding taxes for purposes of sections 7(2A) and 7(2B)

	Total (100%) R	Wife (50%) R	Husband (50%) R
Foreign dividends included in gross income [(500 000 UT$ / 100) x R4.4]	22 000	11 000	11000
Deductible interest expenses	10 000	5 000	5 000
Withholding tax	3 300	1 650	1 650

[(75 000 UT$ / 100) x R4.4] = R3 300

2. Tax calculation for the wife

2.1 Taxable income derived from foreign dividends (foreign sources)

		R
Foreign dividends included in gross income		11 000
Less: Section 10(1)(i)(xv)(aa) exemption		1 000
Income derived from foreign dividends		10 000
Less: Section 9E(5A) deduction:		
lesser of -	R	
actual expenditure	5 000	
or		
income derived from foreign dividends	10 000	5 000
Taxable income derived from foreign dividends		5 000 (A)

2.2 Taxable income derived from South African sources

Remuneration income		100 000
Plus:		
Local interest income (R18 600 / 2)	9 300	
Less: Section 10(1)(i)(xv)(bb) exemption	9 000 *	300
Taxable income derived from South African sources		100 300 (B)

* Calculation:

Total amount available for the section 10(1)(i)(xv) exemption	10 000
Less: Amount allowed in terms of section 10(1)(i)(xv) (aa)	1 000
Balance available for the section 10(1)(i)(xv) (bb) exemption	9 000

2.3 Total taxable income derived from all sources

(A) + (B)	105 300

2.3.1 Tax calculation for the wife on R105 300

(a) Calculation of normal tax payable before rebates

Normal tax payable: (Rates of tax - 2004 year of assessment)

	R
on R70 000	12 600.00
on R35 300 (25%)	8 825.00
Total	21 425.00

(b) Calculation of foreign taxes which relates to exempt foreign income

$$= \frac{R\ 1\ 000}{R11\ 000} \times R1\ 650$$

$$= R150$$

This amount is forfeited and cannot be carried forward to the 2005 year of assessment to be utilised as a foreign tax credit because it relates to exempt income.

(c) Calculation of foreign taxes payable in respect of taxable foreign dividends

	R
Foreign taxes payable in respect of gross foreign dividends	1 650.00
Less:	
Foreign taxes payable in respect of exempt foreign dividends	150.00
	1 500.00

(d) Calculation of the section 6*quat* rebate

Amount of foreign taxes that qualifies for the rebate	1 500.00
Limited to	1 017.33

Calculation of the R1 017.33 limitation:

$$\frac{\text{Taxable income derived from all foreign sources}}{\text{Total taxable income derived from all sources}} \times \text{Normal tax payable}$$

$$= \frac{R\ 5\ 000}{R105\ 300} \times R21\ 425$$

$$= R1\ 017.33$$

Note:
R1 017.33 of the qualifying withholding tax of R1 500.00 is deductible in full. The balance of R482.67 (R1 500.00 – R1 017.33) may be carried forward to the 2005 year of assessment to be utilised as a foreign tax credit.

(e) Calculation of the normal tax payable after taking into account rebates

	R
Normal tax payable before rebates	21 425.00
Less: Primary rebate	5 400.00
	16 025.00
Less: Section 6*quat* rebate	1 017.33
Less: SITE and PAYE	14 700.00
Amount payable (refundable)	307.67

3. Tax calculation for the husband

3.1 Taxable income derived from foreign dividends (foreign sources)

	R	R
Foreign dividends included in gross income		11 000
Less: Section 10(1)(i)(xv)(aa) exemption		1 000
Income derived from foreign dividends		10 000
Less: Section 9E(5A) deduction:		
lesser of -		
actual expenditure	5 000	
or		
income derived from foreign dividends	10 000	5 000
Taxable income derived from foreign dividends		5 000 (A)

3.2 Taxable income derived from South African sources

Local interest income (R18 600 / 2)	9 300
Less: Section 10(1)(i)(xv)(bb) exemption	9 000 *****
Taxable income derived from South African sources	300 (B)

***** Calculation:

Total amount available for the section 10(1)(i)(xv) exemption		10 000
Less:	Amount allowed in terms of section 10(1)(i)(xv)(aa)	1 000
Balance available for the section 10(1)(i)(xv)(bb) exemption		9 000

3.3 Total taxable income derived from all sources

(A) + (B) 5 300

3.3.1 Tax calculation for the husband on R5 300

(a) Calculation of normal tax payable before rebates

Normal tax payable: (Rates of tax - 2004 year of assessment)

	R
R5 300 X 18%	954.00

(b) Calculation of foreign taxes which relates to exempt foreign income

$$= \frac{R\ 1\ 000}{R11\ 000} \times R1\ 650$$

$$= R150$$

This amount is forfeited and cannot be carried forward to the 2005 year of assessment to be utilised as a foreign tax credit because it relates to exempt income.

(c) Calculation of foreign taxes payable in respect of taxable foreign dividends

	R
Foreign taxes payable in respect of gross foreign dividends	1 650.00
Less:	
Foreign taxes payable in respect of exempt foreign dividends	150.00
	1 500.00

(d) Calculation of the section 6*quat* rebate

Amount of foreign taxes that qualifies for the rebate	1 500.00
Limited to	900.00

Calculation of the R900.00 limitation:

$$\frac{\text{Taxable income derived from all foreign sources}}{\text{Total taxable income derived from all sources}} \quad X \quad \text{Normal tax payable}$$

$$= \quad \frac{R\ 5\ 000}{R\ 5\ 300} \quad X \quad R954$$

$$= \quad R900$$

Note:
The amount of the qualifying foreign taxes of R1 500 exceeds the limitation amount of R900. The balance of the excess of R600 (R1 500 – R900) may be carried forward to the 2005 year of assessment to be utilised as a foreign tax credit.

(e) Calculation of the normal tax payable after taking into account rebates

	R
Normal tax payable before rebates	954.00
Less: Primary rebate	5 400.00
Amount payable (refundable)	NIL

Note:

As the amount of the primary rebate exceeds the amount of normal tax payable no portion of the qualifying foreign tax credit of R900 may be utilised against the normal tax payable. This foreign tax credit is forfeited. It may not be utilised as a rebate against normal tax payable and may also not be carried forward to the 2005 year of assessment to be utilised as a rebate against normal tax payable.

3.2 Example 2

Mr. A, age 30 and single, is a South African resident. For the 2004 year of assessment he earned a pensionable salary from a South African source of R100 000 from which an amount of R12 825 was withheld in respect of SITE and PAYE.

In addition he received the following investment income:

	Dividends R	Interest R
South African sources	50 000	24 000
Foreign sources Withholding taxes	55 000 20 000	44 000 8 800

In terms of his conditions of employment he is obliged to contribute 8% of his monthly salary to a pension fund. He contributed R10 000 to a retirement annuity fund while his medical expenses and contributions to a medical scheme amounted to R16 000. He also donated R1 500 to a public benefit organisation which has been approved for section 18A purposes.

<u>Solution</u>

(a) <u>Calculation of taxable income</u>

	SA source R	**Foreign sources R**	**Total R**
Gross income:			
Salary income	100 000	nil	100 000
Dividend income	50 000	55 000	105 000
Interest income	24 000	44 000	68 000
	174 000	99 000	273 000
<u>Less</u>:			
Exempt income:	59 000	1 000	60 000
General dividend exemption Sect. 10(1)(k)(i)	50 000	nil	50 000
Basic investment income exemption			
Sect. 10(1)(i)(xv)(aa)	nil	1 000	1 000
Sect. 10(1)(i)(xv)(bb)	9 000	nil	9 000
Income	115 000	98 000	213 000
<u>Less</u>:			
Pension fund contributions			
Sect. 11(k) -			
Actual contribution: R8 000 (R100 000 X 8%)			

Limited to: 7.5 % X R100 000 = R7 500	7 500 107 500	nil 98 000	7 500 205 500
Less: Retirement annuity fund contributions Sect. 11(n) - [(R50 000 + R24 000 + R55 000 + R44 000) - (R50 000 + R9 000 + R1 000)] X 15% = R16 950 Limited to actual contributions of R10 000 Apportionment of R10 000 (107 500 / 205 500 X R10 000) = R5 231 (98 000 / 205 500 X R10 000) = R4 769	5 231	4 769	10 000
Taxable income before donations and medical expenses	102 269	93 231	195 500
Less: Donation to public benefit organisation Sect. 18A - Actual contribution: R1 500 Limited to greater of: - 5% of R195 500 = R9 775; or - R1 000 Thus the full R1 500 may be deducted Apportionment of R1 500 (107 500 / 205 500 X R1 500) = R785 (98 000 / 205 500 X R1 500) = R715	785	715	1 500
Taxable income before the deduction of medical expenses	101 484	92 516	194 000
Less: Medical expenses Sect. 18 - Actual expenses: R16 000 Less: 5% X R194 000 R 9 700 R 6 300			

Apportionment of R6 300			
(107 500 / 205 500 X R6 300) = R3 296			
(98 000 / 205 500 X R6 300) = R3 004	3 296	3 004	6 300
Taxable income	98 188	89 512	187 700

(b) Calculation of normal tax payable before rebates

Normal tax payable: (Rates of tax - 2004 year of assessment)

	R
on R180 000	45 600.00
on R7 700 (38%)	2 926.00
Total	48 526.00

(c) Calculation of foreign taxes which relates to exempt foreign income

$$= \frac{R\ 1\ 000}{R55\ 000} \times R20\ 000$$

$$= R363.64$$

This amount is forfeited and cannot be carried forward to the 2005 year of assessment to be utilised as a foreign tax credit because it relates to exempt income.

(d) Calculation of foreign taxes payable in respect of taxable foreign income

	R
Foreign taxes payable in respect of gross foreign dividends	20 000.00
Less:	
Foreign taxes payable in respect of exempt foreign dividends	363.64
	19 636.36
Plus:	
Foreign taxes payable on foreign interest	8 800.00
	28 436.36

(e) Calculation of the section 6*quat* rebate

	R
Amount of foreign taxes that qualifies for the rebate	28 436.36
Limited to	23 141.50

Calculation of the R23 141.50 limitation:

$$\frac{\text{Taxable income derived from all foreign sources}}{\text{Total taxable income derived from all sources}} \times \text{Normal tax payable}$$

$$= \frac{R\ 89\ 512}{R187\ 700} \times R48\ 526.00$$

$$= R23\ 141.50$$

Note:

The amount of the limitation is less than the sum of the foreign taxes of R28 436.36 as calculated above. Thus the section 6*quat* rebate for the 2004 year of assessment is limited to R23 141.50 while the balance of R5 294.86 may be carried forward to the 2005 year of assessment to be utilised as a foreign tax credit.

(f) Calculation of the normal tax payable after taking into account rebates

	R
Normal tax payable before rebates	48 526.00
Less: Primary rebate	5 400.00
	43 126.00
Less: Section 6*quat* rebate	23 141.50
Less: SITE and PAYE	12 825.00
Amount payable (refundable)	7 159.50

3.3 Example 3

Mr. B, age 72 and single, is a South African resident. For the 2004 year of assessment he earned a pension of R24 000 from a South African source.

In addition he received the following income:

	Dividends R	Interest R
South African source	50 000	15 000
Foreign sources	55 000	44 000
Withholding taxes	5 000	-

His medical expenses and contributions to a medical scheme amounted to R38 000, and he made a donation of R5 000 that qualifies for deduction in terms of section 18A of the Act. An unutilised foreign tax credit of R5 500 was brought forward from the 2003 year of assessment.

<u>Solution</u>

(a) <u>Calculation of taxable income</u>

	SA sources	Foreign sources	Total
Gross income:	**R**	**R**	**R**
Pension	24 000	nil	24 000
Dividend income	50 000	55 000	105 000
Interest income	15 000	44 000	59 000
	89 000	99 000	188 000
<u>Less</u>:			
Exempt income:			
Dividend exemption			
Sect. 10(1)(k)(i)	50 000	nil	50 000
Basic investment income			
Sect. 10(1)(i)(xv)(aa)	nil	1 000	1 000
Sect. 10(1)(i)(xv)(bb)	14 000	nil	14 000
Taxable income before medical expenses and donations	25 000	98 000	123 000
<u>Less</u>:			
Donations			
Sect. 18A -			
Donation amounts to R5 000			
Limit to greater of:			
- 5 % of R123 000 = R6 150; or - R1 000			

Thus the total amount is deductible			
Apportionment of R5 000			
(25 000 / 123 000 X R5 000) = R1 016			
(98 000 / 123 000 X R5 000) = R3 984	1 016	3 984	5 000
Taxable income before medical expenses	23 984	94 016	118 000
Less:			
Medical expenses Sect. 18 - Medical expenses amount to R38 000			
Apportionment of R38 000			
(25 000 / 123 000 X R38 000) = R7 724			
(98 000 / 123 000 X R38 000) = R30 276	7 724	30 276	38 000
Taxable income	16 260	63 740	80 000

(b) Calculation of normal tax payable before rebates

Normal tax payable: (Rates of tax - 2004 year of assessment)

	R
on R70 000	12 600.00
on R10 000 (25%)	2 500.00
Total	15 100.00

(c) Calculation of foreign taxes which relates to exempt foreign income

$$= \frac{R\ 1\ 000}{R55\ 000} \times R5\ 000$$

$$= R90.91$$

This amount is forfeited and cannot be carried forward to the 2005 year of assessment to be utilised as a foreign tax credit because it relates to exempt income.

(d) Calculation of foreign taxes payable in respect of taxable foreign income

	R
Foreign taxes payable in respect of gross foreign dividends	5 000.00
Less:	
Foreign taxes payable in respect of exempt foreign dividends	90.91
	4 909.09

(e) Calculation of the section 6*quat* rebate

Amount of foreign taxes that qualifies for the rebate	4 909.09
Limited to:	12 030.93

Calculation of the R12 030.93 limitation:

$$\frac{\text{Taxable income derived from all foreign sources}}{\text{Total taxable income derived from all sources}} \times \text{Normal tax payable}$$

$$= \frac{R63\ 740}{R80\ 000} \times R15\ 100$$

$$= R12\ 030.93$$

Note:
The amount of the qualifying foreign taxes of R4 909.09 is less than the amount of the limitation of R12 030.93 and is therefore allowable in full against normal tax payable.

(f) Calculation of the normal tax payable after taking into account rebates

		R	R
Normal tax payable before rebates			15 100.00
Less:	Primary rebate		5 400.00
	Secondary rebate		3 100.00
			6 600.00

Less:	Section 6*quat* rebate for this year		4 909.09
			1 690.91
Less:	Excess foreign taxes brought forward from the 2003 year of assessment	5 500.00	
	Limited to	1 690.91	1 690.91
Amount payable (refundable)			0.00

The excess foreign tax credit of the 2003 year of assessment of R3 809.09 (R5 500.00 – R1 690.91) which was not utilised in the 2004 year of assessment as a foreign tax credit may be carried forward to the 2005 year of assessment to be utilised as a foreign tax credit.

Law Administration
SOUTH AFRICAN REVENUE SERVICE