



**PAY AS YOU EARN**

**SARS External Guide**

# **GUIDE FOR EMPLOYERS IN RESPECT OF EMPLOYEES' TAX (2027)**

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## 1 QUICK REFERENCE CARD

In his Budget Speech on 25 February 2026, the Minister of Finance announced new tax rates, tax rebates, tax thresholds and other tax amendments for individuals. Details of these proposals are listed below, and employers must update their payroll systems accordingly. The deduction tables and instructions in this guide came into effect on 1 March 2026.

### Tax Tables for Individuals and Special Trusts

#### 2026/2027 Tax Year (1 March 2026 to 28 February 2027)

TAXABLE INCOME (R)	RATES OF TAX (R)
0 – R 245 100	18% of taxable income
R 245 101 – R 383 100	R 44 118 + 26% of taxable income above R 245 100
R 383 101 – R 530 200	R 79 998 + 31% of taxable income above R 383 100
R 530 201 – R 695 800	R 125 599 + 36% of taxable income above R 530 200
R 695 801 – R 887 000	R185 215 + 39% of taxable income above R 695 800
R 887 001 – R 1 878 600	R259 783 + 41% of taxable income above R 887 000
R 1 878 601 and above	R666 339 + 45% of taxable income above R 1 878 600

Tax rebates applicable to individuals	2027
Primary rebate	R 17 820
Secondary rebate (for persons 65 years and older)	R 9 765
Tertiary rebate (for persons 75 years and older)	R3 249

Tax thresholds applicable to individuals	2027
Persons under 65 years	R 99 000
Persons 65 years and older	R153 250
Persons 75 years and older	R171 300

Medical scheme fees tax credit	2027
For the taxpayer	R 376
For the first dependant	R 376
For each additional dependant	R 254

Subsistence allowance (RSA only)	2027
Meals and incidental – day trip	R 184
Only incidental costs per day	R 184
Meals and incidental costs per day	R 595

#### **Official interest rate**

In the case of a debt which is denominated in the currency of the Republic, a rate of interest equal to the South African repurchase rate plus 100 basis points, if the country's repurchase rate is 6%, the official interest rate will be 7% (6% plus 100 basis points).

In the case of a debt, which is denominated in any other currency than the currency of the Republic, a rate of interest will be the equivalent of the country's repurchase rate plus 100 basis points. Where a new purchase rate or equivalent rate is determined, the new rate of interest applies from the first day of the month following the date on which that new purchase rate or equivalent rate came into operation.

## Residential accommodation

Abatement

R99 000

Travelling allowance	
80% of the travel allowance is subject to the deduction of employees' tax, meaning 80% of the travel allowance must be included in the employee's remuneration when calculating employees' tax. Provided that where the employer is satisfied that at least 80% of the use of the motor vehicle for a year of assessment will be for business purposes, then only 20% of the allowance will be subject to employees' tax.	
Travel allowance cost scale table for 2027 tax year (from 01 March 2026)	
Vehicle cost ceiling	R920 000
The simplified rate per kilometer	R4.95

Exempt Bursary	2027
Remuneration proxy	R900 000
Grade R to 12 and NQF level 1 to 4 (relative of employee without disability )	R30 000
Grade R to 12 and NQF level 1 to 4 (family member of employee with disability)	R45 000
NQF level 5 to 10 (relative of the employee without disability)	R90 000
NQF level 5 to 10 (family member of employee with disability)	R130 000

### Fringe benefit: employer - owned provided motor vehicles

With effect from 1 March 2011, the percentage rate for all employers - owned provided vehicles is 3.5 % per month of the vehicle's determined value. However, vehicles with maintenance plans included within the purchase price at the time of purchase will trigger only a 3.25% monthly fringe benefit.

With effect from 1 March 2014, where the vehicle is acquired by the employer under an operating lease concluded at arm's length and that are not connected persons in relation to each other, the value of a fringe benefit is the actual cost to the employer incurred under this lease plus the cost of fuel in respect of that vehicle.

### Retirement Fund Contributions

The tax harmonization reforms for Pension fund, Provident fund and Retirement Annuity fund (retirement funds) have been implemented from 1 March 2016. All individuals who contribute towards a retirement fund after 1 March 2016 will qualify for a tax deduction of the lesser of:

- (a) R430 000; OR
  - (b) 27.5% of the higher of -
    - i. Remuneration as defined in Fourth Schedule (excluding retirement fund lump sum benefit, retirement lump sum withdrawal benefit and severance benefit); or
    - ii. Taxable income **before allowing** any deduction under ss11F, 6quat(1C) and 18A) (excluding retirement fund lump sum benefit, retirement lump sum withdrawal benefit and severance benefit)
- OR
- (c) Taxable income (**before allowing** any deduction under ss11F, 6quat(1C) and 18A) and **before inclusion of any taxable capital gain** (excluding retirement fund lump sum benefit, retirement lump sum withdrawal benefit and severance benefit).

### Period for keeping records

Records need not be retained by the person after a period of five years from the date of the submission of the return and after a period of five years from the end of the relevant tax period.

If the records are relevant to an audit or investigation or a person lodges an objection or appeal against the assessment or decision made, the person must retain the records relevant to the audit, objection or appeal until the audit is concluded or the assessment or the decision becomes final.

## **FURTHER INFORMATION**

For more information

- Visit the SARS website [www.sars.gov.za](http://www.sars.gov.za),
- Call the SARS Contact Centre on 0800 00SARS (7277), or
- Visit your nearest SARS branch.

## **2 PURPOSE**

- The purpose of this document is to assist employers in understanding their obligations relating to Employees' Tax, Skills Development Levy (SDL) and Unemployment Insurance Fund (UIF) contributions.

## **3 SCOPE**

- This basic guide is issued in terms of Paragraph 9(2) of the Fourth Schedule to the Income Tax Act No. 58 of 1962.
- This guide prescribes the:
  - Employees' tax deduction tables as contemplated in Paragraph 9(1) of the Fourth Schedule to the Income Tax Act;
  - Manner in which the tables must be applied by the employer.

## **4 BACKGROUND**

- What is employees' tax**
- Where an employer pays or becomes liable to pay remuneration to an employee, the employer has an obligation to deduct or withhold employees' tax from the remuneration and pay the tax deducted or withheld to the South African Revenue Service (SARS) on a monthly basis. In most instances, the employer is obliged to issue each employee with an employees' tax certificate [IRP5/IT3 (a)] at the end of each tax period which reflects, amongst other details, the employees' tax deducted.
  - These subjects are fully dealt with later in this guide. In addition thereto, the employer is obliged to submit an Employer Reconciliation Declaration (EMP501) to SARS.
  - In terms of Paragraph 3 of the Fourth Schedule, employees' tax receives preference over any other deduction from the employee's remuneration which the employer has a right or is obliged to deduct otherwise than in terms of any law.
  - Any reference to the start date and end date of a tax period is 1 March and 28/29 February. This guide will include the start and end dates of 2nd alternate period. An alternate period is normally determined at the option of the employer which may be exercised in relation to all employees or any class of employee. Where an employer adopts the so-called alternate period, any remuneration paid to an employee during such alternate period is regarded as having been paid to him/her during the corresponding tax year.
- What is SDL**
- This is a compulsory levy scheme for the purposes of funding education and training as envisaged in the Skills Development Act, 1998. This levy came into operation on 1 April 2000 and is payable by employers monthly.
- What are UIF contributions**
- This is a compulsory contribution to fund unemployment benefits. Since 1 April 2002, the contributions deducted and payable by employers monthly have been collected by SARS and are paid over to the UIF which is managed by the UI Commissioner.
- Liability of representative employer**
- The representative employer is not relieved from any liability, responsibility or duty of the employer and is therefore subject to the same duties, responsibilities and liabilities as the employer.
- References to the Act**
- Paragraphs of the Fourth and Seventh Schedules and Sections referred to in this

publication are governed by the Income Tax Act. References to the Skills Development Levies Act (the SDL Act), Unemployment Insurance Contributions Act (the UIC Act) and Tax Administrative Act (the TA Act) are specifically indicated.

## 5 REGISTRATION

### 5.1 REGISTRATION AS AN EMPLOYER

<b>References to the Act</b>	Chapter 3 of the TA Act Paragraph 15(1) of the Fourth Schedule, Sections 4 and 5 of the SDL Act Sections 4 and 10 of the UIC Act
<b>Meaning</b>	<ul style="list-style-type: none"><li>• The employer must apply for registration for employees' tax purposes with SARS within 21 business days after he/she becomes an employer unless none of the employees are liable for normal tax.</li><li>• Where an employer is liable to pay the SDL levy, the employer must register as an employer with SARS and must indicate the jurisdiction of the SETA within which the employer must be classified.</li><li>• Where an employer is liable to pay the UIF contribution, the employer must register with SARS or the UIF office (whichever is applicable to such employer) for the payment of the contributions.</li></ul>
<b>Application to register</b>	<ul style="list-style-type: none"><li>• Application to register as an employer must be made via eFiling or at the SARS Branch.</li></ul>
<b>Employers exempt from paying the SDL levy</b>	<ul style="list-style-type: none"><li>• The following employers are exempt from paying the SDL, any:<ul style="list-style-type: none"><li>▫ Public service employer in the national or provincial sphere of Government.</li><li>▫ Public service employer in the national or provincial sphere of Government.</li><li>▫ National or provincial public entity if 80% or more of its expenditure is paid directly or indirectly from funds voted by Parliament.</li></ul></li></ul> <p><b>Note:</b> These employers must budget for an amount equal to the levies payable for training and education of their employees</p> <ul style="list-style-type: none"><li>▫ Public benefit organisation, exempt from the payment of Income Tax in terms of section 10(1)(cN), which solely carries on certain welfare and humanitarian (paragraph 1 of Part 1 of the Ninth Schedule), health care (limited to paragraph 2(a), (b), (c) and (d) of Part 1 of the Ninth Schedule), religion, belief or philosophy public benefit activities (paragraph 5 of Part 1 of the Ninth Schedule) or solely provides funds to such a public benefit organisation (paragraph 10 of Part 1 of the Ninth Schedule) and to whom a letter of exemption has been issued by the SARS Tax Exemption Unit;</li><li>▫ Municipality in respect of which a certificate of exemption is issued by the Minister of Labour.</li></ul> <ul style="list-style-type: none"><li>• Although the above-mentioned employers are exempt from payment of levy, they are not absolved from registration. An employer is not required to register as an employer for SDL purposes if there are during any month reasonable grounds for believing that total leviable amount paid or payable by that employer to all its employees during the following 12-month period will not exceed R500 000 even though such employer is liable to register with SARS for Employees' Tax purposes.</li></ul>
<b>Registration with the UI Commissioner for UIF purposes</b>	<ul style="list-style-type: none"><li>• The following employers must register with the UI Commissioner:<ul style="list-style-type: none"><li>▫ If employer is not required to register for employees' tax purposes at SARS;</li><li>▫ Employer who has not registered voluntarily as an employer for employees' tax purposes at SARS;</li><li>▫ Employer who is not liable for the payment of SDL.</li></ul></li><li>• Employer/employee is not required to contribute in following circumstances:<ul style="list-style-type: none"><li>▫ An employee and his/her employer, where such employee is employed by the employer for less than 24 hours a month;</li><li>▫ Employees and employers in the national and provincial spheres of Government who are officers or employees as defined in Section 1(1) of the Public Service Act 1994 (Proclamation No. 103 of 1994);</li><li>▫ The President, Deputy President, a Minister, Deputy Minister, member of the National Assembly, a permanent delegate to the National Council of Provinces, a Premier, a member of an Executive Council or a member of a provincial legislature; and</li><li>▫ Any member of a municipal council, a traditional leader, a member of a provincial House of Traditional Leaders and a member of the Council of Traditional Leaders.</li></ul></li></ul>

## 5.2 BRANCHES REGISTERED SEPARATELY

<b>Reference to the Act</b>	Chapter 3 of the TA Act Paragraph 15(1) of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"><li>• Where employer has applied for separate registration of branches of his/her undertaking, each branch shall be deemed to be a separate employer.</li></ul>
<b>Application form</b>	<ul style="list-style-type: none"><li>• Application must be made on an EMP102 form.</li></ul>
<b>Transferring between branches</b>	<ul style="list-style-type: none"><li>• Where an employee is transferred between branches, the branch where the employee has worked until date of transfer must issue an IRP5/IT3(a) for the period 1 March (or date of commencement of employment if such date was after 1 March) up to the day preceding the transfer. The branch to which the employee was transferred must issue a further IRP5/IT3(a) to cover the period from date of transfer up to the end of February (or other date, e.g. where the employee's service was terminated).</li></ul>

## 5.3 CHANGES OF REGISTERED PARTICULARS

<b>Reference to the Act</b>	Chapter 3 of the TA Act
<b>Meaning</b>	<ul style="list-style-type: none"><li>• An employer must inform SARS in writing within 21 business days of any change in registered particulars:<ul style="list-style-type: none"><li>▫ Postal address;</li><li>▫ Physical address;</li><li>▫ Representative taxpayer;</li><li>▫ Banking particulars used for transactions with SARS;</li><li>▫ Electronic address used for communication with SARS; or</li><li>▫ Such other details as the Commissioner may require by public notice.</li></ul></li></ul>

## 5.4 DEREGISTRATION OF AN EMPLOYER

<b>Reference to the Act</b>	Paragraph 15(3) of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"><li>• Every person who is registered as an employer shall within 14 days after ceasing to be an employer, notify the Commissioner in writing of the fact of the employer have ceased to be an employer.</li></ul>

# 6 RECORD KEEPING

## 6.1 EMPLOYER RECORDS

<b>Reference to the Act</b>	Chapter 4 of the TA Act Paragraph 14(1) of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"><li>• The employer must keep a register and must contain personal particulars as well as financial details of each employee and maintained in such a form, including any electronic form, as may be prescribed by the Commissioner.</li><li>• The following records of all employees' needs are to be maintained by the employer, as may be prescribed by the Commissioner.<ul style="list-style-type: none"><li>▫ Amount of remuneration paid;</li><li>▫ Employees' tax deducted/withheld on all remuneration;</li><li>▫ UIF contributions;</li><li>▫ Income Tax reference number of that employee; and</li><li>▫ Such further information as the Commissioner may prescribe.</li></ul></li></ul>
<b>Prescribed period for keeping records</b>	<ul style="list-style-type: none"><li>• The records must be kept for a period of five (5) years from the date of the submission of the return and from the end of the relevant tax period if the person is not required to submit a tax return but has earned some form of taxable income. The employer must retain such records and make them available for scrutiny by the Commissioner.</li><li>• Employers who supply the tax certificate information on an electronic medium or electronically, must also keep such records for the prescribed period.</li></ul>

## 6.2 RECORDS AND INFORMATION TO BE PROVIDED BY THE EMPLOYEE

<b>Reference to the Act</b>	Paragraph 14(1) of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"> <li>• The employee must supply the following particulars to his/her employer to ensure that the employer's records are correct:             <ul style="list-style-type: none"> <li>▫ Surname and full names;</li> <li>▫ Address;</li> <li>▫ South African Identity number or passport number and date of birth;</li> <li>▫ Income Tax reference number (if any);</li> <li>▫ Written declaration where required.</li> </ul> </li> </ul>
<b>Written declaration by employee</b>	<ul style="list-style-type: none"> <li>• An employee is deemed to be in standard employment -             <ul style="list-style-type: none"> <li>▫ Where such employee renders services to the employer for 22 hours or less in every completed week;</li> <li>▫ The employee furnishes the employer with a written declaration stating that he/she does not or will not render services to another employer during the period he/she hold such employment at the relevant employer.</li> </ul> </li> </ul>

# 7 DETERMINING THE EMPLOYEES' TAX, SDL AND UIF LIABILITY

## 7.1 ELEMENTS REQUIRED BEFORE EMPLOYEES' TAX MAY BE DEDUCTED

<b>Reference to the Act</b>	Definitions of employer, employee and remuneration in Paragraph 1 of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"> <li>• The Fourth Schedule requires the presence of the three elements before employees' tax may be deducted, namely, an <b>employer</b> paying <b>remuneration</b> to an <b>employee</b>.             <ul style="list-style-type: none"> <li>▫ The employer must determine the employment relationship to be able to classify the worker correctly in order to determine the rate which must be applied to deduct employees' tax from the remuneration of the specific employee.</li> </ul> </li> </ul>

## 7.2 ANNUAL EQUIVALENT CALCULATION

<b>Reference to the Act</b>	Paragraphs 9(1) and 9(2) of the Fourth Schedule Applicable Tax Deduction Tables
<b>Meaning</b>	<ul style="list-style-type: none"> <li>• An annual equivalent must be determined when an employee's tax period is shorter than a full tax year in order to determine amount of Employees' Tax deductible.</li> </ul>

**Prescribed formula**

- The following formula must be used to determine the annual equivalent:

Total remuneration received/accrued	X	$\frac{\text{Total pay periods in tax year}}{\text{Total pay periods worked}}$
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- Although the annual tax is determined on an annual equivalent, the employee will not be liable for tax on the annual equivalent, but for the pro-rata portion which represents the employees' tax deductible on the remuneration which was actually received or accrued. This is done by dividing it by the ratio which a full year bears to the periods in respect of which the remuneration was received or accrued.

**Determination of annual equivalent**

- An annual equivalent need only be determined when an employee's tax period is shorter than a full tax year.

**Example: Employee's tax period is shorter than a full tax year**

- **A monthly paid employee:** (under 65) worked for 7 full months at one employer and received R110, 000 for the period worked. The annual equivalent must be determined in order to do a final employees' tax calculation.

Calculating annual equivalent: $R110,000 \div 7 \times 12 = R188,571$	
Tax on annual equivalent of R188,571 according to annual tax table	<u>R16 156</u>
Tax on R110,000 for 7 months worked: $R16 156 \div 12 \times 7$	R 9 424,33

**Examples:  
Employee is  
employed for a  
portion of a pay  
period**

- **Weekly paid employee:** A weekly remunerated employee (under 65) starts working on the 5th day of a week. He receives R1 090 for the 3 days worked during the first week. The employee's week consists of 7 days.

Determine the decimal portion of the pay period: $3 \div 7 = 0.4285$		
Calculating annual equivalent: $R1\ 090 \div 0.4285 \times 52 = R132\ 275$		
Tax on annual equivalent of R132 275 according to annual tax	R5 966	
Tax on R1 090 for 3 days worked: $R5\ 966 \div 52 \times 0.4285$		R49

- **Fortnightly paid employee:** A fortnightly remunerated employee (under 65) starts working on the 7th day of a fortnight period. He receives R3 244 for the 8 days worked during the first fortnight period. The employee's week consists of 14 days.

Determine the decimal portion of the pay period: $8 \div 14 = 0.5714$		
Calculating annual equivalent: $R3\ 244 \div 0.5714 \times 26 = R147\ 609$		
Tax on annual equivalent R147 609 according to annual tax table	R8 761	
Tax on R3 244 for 8 days worked: $R8\ 761 \div 26 \times 0.5714$		R193

- **Monthly paid employee:** A monthly remunerated employee (under 65) starts working on the 16th day of the month which consists of 30 days. He receives R6 500 for the 15 days worked during the first month.

Calculating annual equivalent: $R6\ 500 \div 0.5 \times 12 = R156\ 000$		
Tax on annual equivalent R156 000 according to annual tax table	R10 294	
Tax on R6 500 for 15 days worked: $R10\ 294 \div 12 \times 0.5$		R429

## 7.3 DEDUCTION TO DETERMINE THE BALANCE OF REMUNERATION

### 7.3.1 RETIREMENT FUND CONTRIBUTIONS

**Reference to the Act** Paragraph 2(4)(a), (b) and ("bA) of the Fourth Schedule Section 11F

**Meaning**

- The employer must deduct contributions made by the employee to any pension fund, provident fund or/and retirement annuity fund (RAF) which the employer is entitled or required to deduct from the employee's remuneration.
- From 1 March 2016, contributions made or amount paid by the employer of the person on behalf of or for the benefit of that person will be a taxable fringe benefit and a deemed contribution in the hands of the employee. Therefore, **current contributions** = contributions actually made by the employee plus employer contributions / payments (deemed employee contributions).

**Limitation**

- Allowable deduction must be limited to the deduction to which employee is entitled under section 11F having regard to the remuneration and period (e.g. current or arrear contributions) i.r.o. of which it is payable. Provided that at any time during year of assessment, the amount of contribution to be deducted i.t.o paragraphs (a), (b) and (bA) must not exceed an amount that bears to amount stipulated in section 11F(2)(a) same ratio as period during which remuneration was paid by employer to employee bears to a whole year.
- **Current contributions** — The deduction must be limited to the lesser of :
  - R430 000; OR
  - 27.5% of the higher of -
    - Remuneration as defined in Fourth Schedule (excluding retirement fund lump sum benefit, retirement lump sum withdrawal benefit and severance benefit); or
    - Taxable income before allowing any deduction under ss11F, 6quat(1C) and 18A) (excluding retirement fund lump sum benefit, retirement lump sum withdrawal benefit and severance benefit)
- Taxable income (before allowing any deduction under ss11F, 6quat(1C) and 18A) and

before inclusion of any taxable capital gain (excluding retirement fund lump sum benefit, retirement lump sum withdrawal benefit and severance benefit).

**IRP5/IT3(a) details**

- Total current pension fund contributions reflect under code 4001 (current plus arrear contributions).
- Total current provident fund contributions reflect under code 4003.
- Only provident fund contributions made on or after 1 March 2016 are allowable as a deduction. Contributions made pre - 1 March 2016 are not allowed as a deduction.
- Total current retirement annuity fund contributions reflect under code 4006 (current plus arrear contributions).
- A partner in a partnership must be deemed to be an employee of a partnership, and a partnership must be deemed to be the employer to the partners in that partnership with effect from 1 March 2016.

**7.3.2 DONATIONS**

**Reference to the Act**

Paragraph 2(4)(f) of the Fourth Schedule  
Section 18A(2)(a)

**Meaning**

- The employer must deduct so much of any donation deductible from the remuneration of the employee in terms of section 18A(2)(a) and pay such amount to relevant approved organisation on behalf of the employee.

**Limitation**

- Deduction may not exceed 5% of remuneration after deducting pension, provident and retirement annuity fund contributions. The deduction is only allowed if employee has provided employer with receipt which reflects details as prescribed in section 18A(2)(a).

**IRP5/IT3(a) details**

- Reflect under code 4030 and not only the allowable portion deducted from remuneration.

**COVID 19 – Tax Relief :  
Donations to Solidarity  
Fund**

- To alleviate cash flow problems for employees who make donations through the employer, the maximum deduction of 5% is increased. An additional limit of up to a maximum of 33,3% for three months or 16,66% for six months depending on the employee's circumstances available.
- This amendment is effective from 1 April 2020 up until 30 September 2020.

**7.3.3 MEDICAL SCHEME FEES TAX CREDIT**

**Reference to the Act**

Paragraph 9(6) of the Fourth Schedule  
Section 6A,6B(3)(a)(i)(ii)

**Meaning**

- Effective from 1 March 2014, the medical scheme fees tax credit applies to all taxpayers. Visit website [www.sars.gov.za](http://www.sars.gov.za) for a full explanation on the Medical Scheme Fees Tax Credit.

**Medical scheme fees tax  
credit**

- The tax credit applies in respect of fees paid by the taxpayer to a registered medical scheme. The number of persons (dependants) for whom you make contributions to a medical scheme will determine the value of the credit. The amount of the medical scheme fees tax credit for 2027 tax year is:
  - R376 in respect of benefits to the taxpayer;
  - R376 in respect of benefits the taxpayer's first dependant;
  - R254 in respect of benefits to each additional dependant.
- Additional medical expenses tax credit related to medical scheme contributions for taxpayers above age of 65 must be taken into account to calculate monthly PAYE. This is only available from 2017 tax year onwards.
- Where more than one person pay medical fees in respect of the benefits to a person or dependant, the amount allowable in respect of the medical scheme fees tax credit must be apportioned in the same ratio as the amount of the fees paid by that person bears to the total amount of fees payable.
- The Minister of Finance may announce in national annual budget, the amounts allowed to a natural person by way of rebates with effect from a date or dates mentioned in the announcement. If Minister makes an alteration to the amount/s, that alteration comes into effect from the date or dates determined by the Minister in that announcement and continues to apply for a period of twelve (12) months from the date or dates.

#### IRP5/IT3(a) details

- A contribution made by the employer on behalf of employee is a taxable fringe benefit in the hands of an employee. These contributions are deemed to be paid by employee and the same value included as a taxable benefit (code 3810) should be added to value of the contributions made by the employee (code 4005).
- Information relating to medical scheme contributions must be reported as follows:

	Paid contributions	Fringe benefit	Deemed contributions
<b>Employee</b>	Medical Tax Credit = R (IRP5/IT3(a) code = 4474)	Medical Tax Credit = R (IRP5/IT3(a) code = 3810)	Medical Tax Credit = R (IRP5/IT3(a) code = 4005)

## 7.4 EMPLOYEES' TAX DEDUCTION

#### Reference to the Act

Paragraphs 2(1), 2(2), 2(4), 2(5)(c), 3 and 7 of the Fourth Schedule  
Section 7B

#### Meaning

- Must be deducted from any amount that is paid by way of remuneration.

#### Amount on which employees' tax is deductible

- Deduction is calculated on the balance of remuneration after the deduction of all allowable deductions (e.g. Retirement annuity fund contribution, provident fund contribution, pension fund contribution and donations).

#### Voluntary additional employees' tax deduction

- For various reasons, employees may find that they have to pay in fairly large amounts upon receipt of their assessments. To reduce the amount payable on assessment or avoid having to pay an additional amount, such employees may request (in writing) their employers to deduct from their remuneration a greater amount of employees' tax than is required.

#### Agreement between employer and employee

- Employer and employee may under no circumstances conclude an agreement whereby employer undertakes not to deduct or withhold employees' tax or UIF contributions. Such agreement is void in terms of Paragraph 7 of Fourth Schedule.

#### Remittance of employees' tax

- The employer must remit the amount deducted or withheld to SARS with his/her Monthly Employer Declaration (EMP201).

#### IRP5/IT3(a) details

- Reflect under code the following codes —
  - Code 4102 – The PAYE component of the employees' tax deducted / withheld including any voluntary additional employees' tax deducted;
  - Code 4103 – The total of code 4101.

## 7.5 SDL LIABLE AMOUNT

#### Reference to the Act

Sections 3(1) and (4) of the SDL Act  
Paragraph 2(5) of the Fourth Schedule

#### Meaning

- Employer must pay SDL at the following rates:
  - From 1 April 2000, at a rate of 0,5 per cent of the leviable amount, and
  - From 1 April 2001, at a rate of one per cent of the leviable amount.
- If the Minister makes changes to the rate, the new rate will apply with effect from the date announced by the Minister by notice in the Government gazette.

#### Amount on which SDL is determined

- The leviable amount is the total amount of remuneration, paid or payable, or deemed to be paid or payable, by an employer to its employees during any month, as determined in accordance with the Fourth Schedule provisions for purposes of determining the employer's liability for Employees' Tax.
- SDL is therefore determined on the balance of remuneration after the deduction of all allowable deductions (i.e. pension or provident fund contributions, RAF contributions and donations).

**Note:** All remuneration not included in the definition of remuneration for SDL purposes should be excluded from the balance of remuneration result.

**Remuneration excluded for the purposes of SDL**

- Remuneration for the purposes of calculating SDL excludes amounts:
  - Paid or payable as contemplated in paragraphs (c) and (d) of the definition of “employee” in paragraph 1 of the Fourth Schedule, to whom a certificate of exemption has been issued in terms of paragraph 2(5)(a) of that schedule,
  - Paid or payable to any person by way of any pension, superannuation allowance or retiring allowance,
  - In terms of paragraph (a), (d), (e) or (eA) of definition of “gross income” in section 1,
  - Payable to a learner in terms of a contract of employment as contemplated in section 18 (3) of the SDL Act.

**IRP5/IT3(a) details**

- Reflect under code 4142

**7.6 UIF LIABLE AMOUNT****Reference to the Act**

Sections 5 and 6 of the UIC Act

**Meaning**

- The employer and employee must on a monthly basis contribute 1% of the remuneration paid or payable to the relevant employee during any month to UIF.
- Minister of Finance determines UIF contribution threshold and published it in Gazette.

Effective date	Amounts
With effect from 1 April 2002	R 8 099 per month (R97 188 annually)
With effect from 1 April 2003	R 8 836 per month (R106 032 annually)
With effect from 1 October 2005	R10 966 per month (R131 592 annually)
With effect from 1 July 2006	R11 662 per month (R139 944 annually)
With effect from 1 February 2008	R12 478 per month (R149 736 annually)
With effect from 1 October 2012	R14 872 per month (R178 464 annually)
With effect from 1 June 2021	R17 712 per month (R212 544 annually)

**Amount on which UIF contributions is determined**

- Amount on which UIF contribution is based is total amount of remuneration as defined for UIF purposes. All remuneration not included in the definition of remuneration for UIF purposes should be excluded from the remuneration for purposes of determining the UIF liable amount

**Remittance of employees' tax**

- The employer must remit the UIF amount liable to SARS with his/her monthly EMP201 payment.

**IRP5/IT3(a) details**

- Reflect under code 4141.

**8 ESTIMATED ASSESSMENT****Reference to the Act**

Chapter 8 of the TA Act  
Section 9A of the UIC Act

**Meaning**

- Employees' tax must be deducted from any amount that is paid by way of remuneration
- The Commissioner may estimate the amount (based on information readily available) of Employees' tax, SDL or UIF due by employer where employer has:
  - Failed to furnish an EMP201 as required; or
  - Submitted a return or information that is incorrect or inadequate.
- If taxpayer is unable to submit an accurate return, a senior SARS official may agree in writing with taxpayer as to the amount of tax chargeable and issue an assessment accordingly. Assessment is final and cannot be subjected to an objection and appeal.
- Employer shall be liable to the Commissioner for payment of amount of employees' tax, SDL or UIF contributions estimated as if such an amount was deducted / withheld as required by the provisions of the relevant Tax Acts.
- The estimate amount payable by employer is subject to objection and appeal unless both employer and Commissioner in terms of section 95(3) of Tax Administration Act agree in writing to said estimate assessment(s).

## 9 PAYMENTS

### 9.1 PAYMENT OF EMPLOYEES' TAX, SDL AND UIF

<b>Reference to the Act</b>	Chapter 10 of the TA Act Paragraphs 2(1), 5(1) and 14(2) of the Fourth Schedule Section 6 of the SDL Act Section 7(4) and 8 of the UIC Act
<b>Meaning</b>	<ul style="list-style-type: none"><li>• The employees' tax and UIF contributions as well as SDL must be paid over to SARS within seven days after the end of the month during which the amount was deducted or due or such longer period as the Commissioner determines.</li><li>• Where the seventh day falls on a Saturday, Sunday or public holiday, the payment must be made not later than the last business day prior to such day. These cut-off dates apply to SDL and UIF contributions as well.</li></ul>
<b>Monthly declaration</b>	<ul style="list-style-type: none"><li>• The employer must submit such declaration as the Commissioner may prescribe when making any payment. The prescribed EMP201 must be requested by the employer for payment purposes each month.</li><li>• Payments in respect of employees' tax, SDL and UIF contributions must be reflected correctly and separately on the EMP201 to avoid the incorrect allocation of these payments and the unnecessary issue of final demands.</li></ul>
<b>Requesting an EMP201</b>	<ul style="list-style-type: none"><li>• The employer must request EMP201 declaration from SARS:<ul style="list-style-type: none"><li>▫ via eFiling;</li><li>▫ via e@syFile™ Employer; or</li><li>▫ At a SARS Branch.</li></ul></li></ul>
<b>Employer personally liable</b>	<ul style="list-style-type: none"><li>• An employer who fails to deduct or withhold the full amount of Employees' tax and / or UIF contributions is personally liable for the shortfall.</li></ul>
<b>Payments</b>	<ul style="list-style-type: none"><li>• Please refer to SARS Payment Rules – Reference Guide available on the SARS website: <a href="http://www.sars.gov.za">www&gt;sars.gov.za</a></li></ul>
<b>Allocation of payments</b>	<ul style="list-style-type: none"><li>• Where any payment is made by an employer in respect of Employees' Tax, SDL and UIF, such payment will be allocated in the following order:<ul style="list-style-type: none"><li>▫ Penalty;</li><li>▫ Interest, to the extent to which the payment exceeds the amount of penalty;</li><li>▫ Employees' tax or additional penalty, to the extent to which the payment exceeds the amount of penalty and interest.</li></ul></li><li>• Where there is a shortfall after the allocation of penalties and interest and the outstanding tax has not been covered in full, interest will continue to accrue on the outstanding tax. These rules are also applicable to SDL and UIF contribution payments.</li><li>• SARS may allocate any payment against the oldest tax and/or the oldest interest where no designation on an account has been received excluding amount not yet due.</li></ul>

### 9.2 INTEREST AND PENALTY

<b>Reference to the Act</b>	Chapter 15 of the TA Act Paragraph 6(1) of the Fourth Schedule Section 89bis(2) Sections 11, 12(1) and 12(3) of the SDL Act Section 13(1) of the UIC Act
<b>Meaning</b>	<ul style="list-style-type: none"><li>• Interest and penalty may be imposed on late payments or outstanding amounts.<ul style="list-style-type: none"><li>▫ A penalty equal to 10% in addition to the interest will be imposed on late payments or outstanding amounts.</li><li>▫ Interest is payable at the prescribed rate if any amount of Employees' tax, SDL or UIF contributions is not paid in full within the prescribed period for payment of such amount.</li><li>▫ If employer fails to pay an amount with intent to evade his/her obligation, he/she may be liable to pay penalty not exceeding an amount equal to twice amount of employees' tax, SDL or UIF contributions which employer so failed to pay.</li></ul></li></ul>

## 10 OFFENCES

<b>Reference to the Act</b>	Chapters 15, 16 and 17 of the TA Act Paragraph 30(1) of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"><li>• Any person will be guilty of an offence and liable on conviction to a fine or imprisonment where he/she:<ul style="list-style-type: none"><li>▫ Fails to:<ul style="list-style-type: none"><li>○ Deduct employees' tax from remuneration or pay tax to the Commissioner within the prescribed period;</li><li>○ Deliver IRP5/IT3(a) to employees or former employees within the prescribed periods</li><li>○ Apply for registration as an employer;</li><li>○ Comply with a written request for information;</li><li>○ Notify the Commissioner of a change of address; or that he/she has ceased to be an employer;</li><li>○ Comply with the conditions for using a mechanised system for printing IRP5/IT3(a) to be issued to employees or former employees;</li><li>○ Maintain a record of remuneration paid and tax deducted</li><li>○ Comply with any condition prescribed by the Commissioner in regard to the manner in which IRP5/IT3(a) may be used, the surrender of unused stocks of certificates, accounting for used, unused and spoiled IRP5/IT3(a) when required by the Commissioner to do so or to surrender unused IRP5/IT3(a) when ceasing to be an employer;</li><li>○ Comply with an Income Tax directive issued by Commissioner</li></ul></li><li>▫ Uses/applies employees' tax deducted or withheld, for purposes other than the payment of such amount to the Commissioner;</li><li>▫ Permits a false IRP5/IT3(a) to be issued or knowingly is in possession of or uses a false IRP5/IT3(a);</li><li>▫ Alters an IRP5/IT3(a) issued by any other person, purports to be employee named on any IRP5/IT3(a) or obtains a credit for his/her own advantage or benefit in respect of employees' tax deducted or withheld from another person's remuneration;</li><li>▫ Not being an employer and without authority from an employer issues or causes to be issued, any document purporting to be an IRP5/IT3(a);</li><li>▫ Furnishes false information or misleads his/her employer regarding the amount of employees' tax to be deducted in his/her case;</li><li>▫ Defaults in rendering a return.</li></ul></li></ul>
<b>Penalty clause</b>	<ul style="list-style-type: none"><li>• An employer shall be guilty of an offence may be fined or sentenced to imprisonment for a period not exceeding 12 months.</li></ul>

## 11 TAX DIRECTIVES

### 11.1 PURPOSE OF A TAX DIRECTIVE

<b>Reference to the Act</b>	Paragraph 9(3) of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"><li>• A directive is an authorisation issued by SARS to the employer/ fund administrator on how to deduct employees' tax from certain payments.</li><li>• Tax calculations according to the tax directive shall be calculated and be determined by the Commissioner.</li></ul>
<b>Rules related to tax directives</b>	<ul style="list-style-type: none"><li>• The following rules relate to a tax directive:<ul style="list-style-type: none"><li>▫ A tax directive is only valid for the tax year or period stated thereon;</li><li>▫ Employers may not act upon photocopies of directives;</li><li>▫ Employers may under no circumstances deviate from the instructions of the directive;</li><li>▫ Tax directives issued to electronic clients via the SARS Interface are valid directives;</li><li>▫ Employers must apply the percentage of employees' tax as indicated on the directive prior to considering allowable deductions for employees' tax purposes (e.g. pension, retirement annuity fund contributions, etc.).</li></ul></li></ul>

## Application forms

- Application forms have been developed for purposes of applying for a specific tax directive and are available on SARS website [www.sars.gov.za](http://www.sars.gov.za). Form A & D, Form B, Form C and Form E are samples of forms to be used by funds and fund administrators must add their own logo and address when submitting applications forms.
- When applying for a tax directive, the employer/fund administrator must ensure that the correct application form is used according to reason for the exit from fund/employer's service and nature of amount payable to employee/member of fund.
- The forms available are:
  - IRP3(a) - Severance benefit paid by employer (e.g. death/retirement/retrenchment). The form must also be used for share options without obligation, Two Pot Savings withdrawal benefit or other lump sums;
  - IRP3(b) – Employees' tax to be deducted at a fixed percentage (e.g. commission agents/personal service provider);
  - IRP3(c) – Employees' Tax to be deducted at a fixed amount (e.g. Paragraph 11 of the Fourth Schedule (hardship) / assessed loss carried forward);
  - IRP3(s) – Employees' tax to be deducted on any amount to be included under section 8A or 8C of the Income Tax Act.
  - Form A & D – Lump sum benefits paid by pension and/or provident fund. (e.g. death before retirement/retirement due to ill health/retirement);
  - Form B – Lump sum benefits paid by pension or provident fund on resignation/withdrawal/winding up/transfer or payment as defined in Paragraph (eA) of the definition of gross income/future surplus apportionment/unclaimed benefit/divorce payments);
  - Form C – Lump sum benefits paid by a RAF to a member (e.g. death before retirement / retirement due to ill health/transfer from one RAF to another before retirement);
  - Form E – Lump sum benefits payable after retirement (e.g. Death Member/Former Member after Retirement, Par. (c) Living Annuity Commutation, Death - Next Generation Annuitant, Next Generation Annuitant Commutation, Gn16: Existing Annuity).
- To avoid a delay in the issuing of a directive, certain minimum information is required on the relevant application form. For more information refer to Guide for Tax Directives - External on the SARS website: [www.sars.gov.za](http://www.sars.gov.za).
- **Normal termination of service:** The lump sum paid by an employer to an employee is treated as an annual payment (for example, service bonus) and the applicable formula is used for the calculation of employees' tax. A gratuitous payment (leave pay that the employee is not entitled to, but which is paid out voluntarily by the employer) upon termination of employment that is calculated with reference to leave days, does not constitute leave pay and could be included in the severance benefit amount.
- **Leave pay is a payment in respect of services rendered and the amount does not form part of a severance benefit.**

## Employees' tax

- Retrenchment, **retirement** or **death**: A tax directive must be obtained from SARS preferably where employee is registered for Income Tax purposes. The applicable exemption shall be determined by SARS with the processing of tax directive application.
- Normal termination **of service**: PAYE calculation must be done at the end of the tax period to determine the PAYE.

## IRP5/IT3(a) details

- **Retrenchment, retirement or death**: Lump sum amount paid due to retrenchment, retirement, etc. reflect on IRP5/IT3(a) certificate under code 3901.

## 11.2 HARDSHIP DUE TO ILLNESS OR OTHER CIRCUMSTANCES

<b>Reference to the Act</b>	Paragraph 11 of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"><li>• The Commissioner may, having regard to the circumstances of the case, issue a directive authorising the employer to:</li><li>• Refrain from deducting any employees' tax from the remuneration of an employee;</li><li>• Deduct a specified amount of employees' tax from the remuneration of an employee;</li><li>• Deduct an amount of employees' tax determined in accordance with a specified rate or scale.</li></ul>
<b>Reason for directive</b>	<p>This type of directive is issued:</p> <ul style="list-style-type: none"><li>• In order to alleviate hardship to that employee due to circumstances outside the control of the employee;</li><li>• To correct any error in regard to the calculation of employees' tax;</li><li>• In case of remuneration constituting commission (IRP3(b) application form);</li><li>• Where remuneration is paid to a personal service provider (IRP3(b) application form);</li></ul>
<b>Application form</b>	<ul style="list-style-type: none"><li>• Either an IRP3(b) or IRP3(c) application form must be submitted in respect of the above.</li></ul>

## 11.3 TAXATION OF MULTIPLE SOURCES OF INCOME

<b>Reference to the Act</b>	Paragraph 2 (2B) of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"><li>• Where the person or a taxpayer receives remuneration from more than one employer particularly retirement income in a tax year, are often left with a tax debt due to under payment of PAYE.</li></ul>
<b>Reason for directive</b>	<p>This type of directive is issued:</p> <ul style="list-style-type: none"><li>• In order to alleviate the burden, the person that is a pension fund, pension preservation fund, provident fund, provident preservation fund, retirement annuity fund when deducting or withholding employees' tax in respect of any year of assessment, <b>apply the fixed tax rate that the commissioner</b> directs must be used in determining the amount of employees' tax to be withheld where the person to whom that annuity is paid receives an amount of remuneration from more than one employer.</li></ul>

## 11.4 DIVIDENDS I.R.O EMPLOYEE-BASED SHARE SCHEMES

<b>Reference to the Act</b>	Paragraph (g) definition of "remuneration" of the Fourth Schedule Section 10(1)(k)(i): proviso (dd), (ii), (jj) and (kk), section 31(3)(b)(i)
<b>Meaning</b>	<ul style="list-style-type: none"><li>• <b>Effective from 1 March 2017 (2018 year of assessment)</b>, where any dividend is received or accrued to a person by way of dividend contemplated in the following provisos, these amounts must be included in remuneration and employees' tax <b>MUST</b> be deducted.</li><li>• Pre-1 March 2017 these amounts were only taxable on assessment. From 1 March 2018 in terms of paragraph 11A(4) of the Fourth Schedule, the employer must ascertain from the Commissioner the amount of employees' tax to be deducted or withheld. The updated tax directive application</li></ul>
<b>IRP5/IT3(a) details</b>	<p><b>Paragraph (dd) of the proviso to section 10(1)(k)(i)</b></p> <ul style="list-style-type: none"><li>• Dividends received or accrued i.r.o of services rendered or be rendered or i.r.o or by virtue of employment or the holding of any office are taxable as ordinary revenue, <b>unless the:</b><ul style="list-style-type: none"><li>▫ Dividend received i.ro. of restricted equity instrument as defined in s8C;</li><li>▫ Share is held by the employee, or</li><li>▫ Restricted equity instrument constitutes an interest in a trust.</li></ul></li></ul>

- Reflect under code 3719. Code 3769 MUST only be used for local dividends linked to foreign services.

**Paragraph (ii) of the proviso to section 10(1)(k)(i)**

- Exemption in s10(1)(k)(i) will not apply to any dividend received by or accrued to a person i.r.o. services rendered or to be rendered i.r.o. of or by virtue of employment or the holding of any office, other than a dividend received or accrued i.r.o a restricted equity instrument as defined in s8C held by that person or in respect of a share held by that person.
- Reflect under code 3720. Code 3770 MUST only be used for local dividends linked to foreign services.

**Paragraph (jj) of the proviso to section 10(1)(k)(i)**

- Dividends i.r.o. of restricted equity instruments will not be exempt if the value of the underlying shares is liquidated in full or in part by means of a distribution before the restrictions on the shares are lifted.
- The exemption will NOT apply where the dividend is derived directly or indirectly from, or constitutes:
  - Amount transferred/applied by a company as consideration for the acquisition or redemption of any share in that company;
  - Amount received/accrued in anticipation of, or in course of winding up, liquidation, deregistration or final termination of a company; or
  - Equity instrument that is not a restricted equity instrument as defined in s8C, that will, on vesting, be subject to that section.
- Reflect under code 3721. Code 3771 MUST only be used for local dividends linked to foreign services.

**Paragraph (kk) of the proviso to section 10(1)(k)(i)**

- The exemption shall not apply to any amount received as dividend as defined in section 8C that was acquired in circumstances contemplated in section 8C(1) if that dividend is derived directly or indirectly from –
  - An amount transferred or applied by a company as a consideration for the acquisition or redemption of any share in that company;
  - An amount received or accrued in anticipation or in the course of the winding up, liquidation, deregistration or final termination of a company.
- Note:** paragraph (kk) came into operation on **1 March 2017**.
- Reflect under code 3723. Code 3773 MUST only be used for local dividends linked to foreign services.

**12 GAINS MADE I.R.O. RIGHTS TO ACQUIRE MARKETABLE SECURITIES**

**12.1 BROAD-BASED EMPLOYEE SHARE PLAN**

**Reference to the Act** Paragraph 11A of the Fourth Schedule  
Section 8B

**Meaning**

- Employees' tax must be deducted from any amount received by or accrued to the employee during the year from any gain made from the disposal of any qualifying equity share or any right or interest in a qualifying equity share as contemplated in section 8B, which —
  - Was acquired in terms of a broad-based employee share plan;
  - Is disposed of by the employee within 5 years from the date of grant of that qualifying equity share, otherwise than:
    - In exchange for another qualifying equity share;
    - On the death of the employee;
    - On the insolvency of the employee.

- Exchange for other qualifying equity share**
  - If an employee disposes of a qualifying equity share in exchange solely for any other equity share, that other equity instrument in exchange is deemed to be:
    - A qualifying equity share which was acquired by the employee on the date of grant of the qualifying equity share disposed of in exchange;
    - Acquired for a consideration equal to any consideration given for the qualifying equity share disposed of in exchange.
- Acquisition of equity shares**
  - If an employee acquires any equity share by virtue of any qualifying equity share held by the employee, that other equity share so acquired is deemed to be a qualifying equity share which was acquired on the date of grant of the qualifying equity share so held by the employee.
- Employees' tax**
  - Employers must calculate the employees' tax deductible from any amount received by or accrued to the employee during the year from any gain made from the disposal of any qualifying equity share or any right or interest in a qualifying equity share, in the same manner as tax on an annual payment (bonus).
- IRP5/IT3(a) details**
  - Reflect under code 3717 on the certificate.

## 12.2 VESTING OF EQUITY INSTRUMENTS

- |   |  |
|---|--|
| <b>Reference to the Act</b>             | Paragraph 11A of the Fourth Schedule<br>Paragraph 13(1)(a)(iiB) of the Eighth Schedule<br>Paragraphs 64C and 64E of the Eighth Schedule<br>Paragraph 80(1) and 80(2A) of the Eighth Schedule<br>Section 8C   |
| <b>Reference to Interpretation Note</b> | <b>Note:</b> These provisions are only applicable to any equity instrument acquired on or after 26 October 2004. See Interpretation Note 55.   |
| <b>Meaning</b>                          | <ul style="list-style-type: none"> <li>• A gain or loss must be included in or deducted from income for a year of assessment in respect of vesting of any equity instrument during that year, which was acquired by that taxpayer – <ul style="list-style-type: none"> <li>▫ Through his/her employment or holding of office by a director of any company or any associated institution in relation to that company or from any person by arrangement with the taxpayer's employer or by any person employed or is a director of that company or associated institution;</li> <li>▫ By virtue of any restricted equity instrument held by that taxpayer in respect of which section 8C will apply upon vesting.</li> </ul> </li> <li>• An amount (including any taxable benefits) received by or accrued to an employee under a share incentive scheme operated for benefit of employees which was derived: <ul style="list-style-type: none"> <li>▫ Capital distributions that include further restricted equity instruments are treated as non-events, and the new restricted equity instrument is subject to section 8C. (became effective in respect of any capital distribution or dividends received or accrued on or after 1 January 2011);</li> <li>▫ An employer's involvement in swaps of equity instruments is no longer a pre-requisite for rollover treatment. As long as the new instrument is treated as a restricted equity instrument by the employer or associated institution, the new instrument will be subject to the provisions of section 8C and the swap is a non-event. (applies to acquisitions occurring on or after 1 January 2011);</li> <li>▫ An anti-avoidance provision was included to guard against situations where co-employees and directors collude to avoid the deferment of taxation that section 8C achieves. With effect from 1 January 2011, rollover treatment will apply to equity instruments acquired from employees or directors of same employer.</li> </ul> </li> <li>• Any amount received by or accrued to a taxpayer during year of assessment relating to a restricted equity instrument must be included in taxpayer's income, if that amount does not constitute: <ul style="list-style-type: none"> <li>▫ A return of capital or foreign return of capital by way of distribution of a restricted equity instrument; or</li> <li>▫ A dividend or foreign dividend in respect of that equity instrument; or</li> <li>▫ Any amount that must be considered for purposes of calculating a gain or loss for purposes of section 8C.</li> </ul> </li> </ul> |

- Exclusions**
- Any equity instrument which was previously taxed and subsequently acquired by the exercise or conversion of, or in exchange for the disposal of any other equity instrument is excluded.
  - Any capital gain arising from the disposal of an asset by a trust and a trust beneficiary (employee) has a vested right to an amount derived from that capital gain, the trust must exclude any amount which is already included in the income of the trust beneficiary in terms of section 8C. This exclusion is deemed to have come into operation with effect from 1 March 2017.
  - This section in effect, exempts from tax the benefit that is commonly called the stop loss benefit that can accrue in terms of share incentive schemes.
- Disposal**
- An equity instrument acquired is deemed to vest in the case of:
    - An unrestricted equity instrument, when the employee acquires it.
    - A restricted equity instrument, at the earliest of:
      - When all relevant restrictions cease;
      - Immediately
        - Before employee disposes of it (except for disposals discussed hereunder);
        - After it terminates (if it is an option);
        - Before employee dies if all restrictions relating to that equity instrument are or may be lifted on or after death;
      - At the time of disposal where the equity instrument is disposed of for an amount less than the market value or where disposal by way of release, abandonment or lapse of an option or financial instrument occurs.
- Gain**
- The gain to be included in the income of the taxpayer, in the case of:
    - A disposal, the amount received or accrued in respect of that disposal which exceeds the sum of any consideration in respect of that equity instrument;
    - Any other, the sum of:
  - Amount by which the market value of the equity instrument determined at the time that it vests in that employee exceeds the sum of any consideration in respect of that equity instrument;
    - Excess amount (if any) which exceeds the consideration in respect of the restricted equity instrument where the consideration includes an amount other than restricted equity instruments.
- Loss**
- In the case of a disposal - the amount by which the sum of any consideration in respect of that equity instrument exceeds that amount received or accrued in respect of that disposal;
  - In any other case - the amount by which the consideration in respect of the equity instrument exceeds the market value of that equity instrument determined at that time that it vests in that taxpayer.
- Employees' tax**
- Where the taxpayer (employee or director) disposes an acquired restricted equity instrument to any person by either a non-arm's length disposal or the disposal to a connected person this will not be regarded as vesting of the equity instrument and will not attract a taxable gain or loss. The vesting event (i.e. a gain or loss) will continue to remain in the hands of the employee/director.
  - The time of disposal of an equity instrument is the time that the equity instrument vests in the beneficiary as contemplated in section 8C.
- Capital implications**
- gains**
- Any capital gain or loss must be disregarded in respect of any restricted equity instrument where:
    - Restricted equity instrument is replaced with another restricted equity instrument; or
    - Taxpayer disposes the restricted equity instrument to any person by a non-arm's length disposal or a disposal to a connected person.
- No value**
- Where a capital gain/loss is determined in respect of the vesting by a trust of an asset for a resident trust beneficiary, the gain/loss must be disregarded in the trust and must be taken into account in the hands of the beneficiary.
  - When the equity instrument vests in the taxpayer, the gain will be subject to the deduction of employees' tax. The full gain must be shown on the IRP5 certificate. The employer must apply for an IRP3 tax directive in order to ascertain the amount of employees' tax to be deducted or withheld from any gain in respect of the vesting of any equity instrument as defined in section 8C.

- Application form** • An IRP3(a) application form must be submitted in respect of the above.
- IRP5/IT3(a) details** • Reflect under code 3718 on the certificate.

## 12.3 ARBITRATION AWARDS

- Reference to the Act** Paragraphs (c), (d) and (f) of the definition of gross income in section 1 Paragraph 9(3) of the Fourth Schedule
- Meaning** • Awards (e.g. CCMA and labour court awards) are remuneration as defined if it can be established that the award is actually in respect of services rendered.
- Classification**
  - **Unfair dismissals**
    - Amounts awarded in respect of unfair dismissals are remuneration as defined in the Fourth Schedule and are therefore subject to deduction of Employees' Tax.
    - Such amounts are received or accrued in respect of the relinquishment, termination, loss, repudiation, cancellation or variation of any office or employment or of any appointment to any office or employment.
  - **Termination of employment contract prior to its expiry date**
    - Amounts awarded in respect of termination of an employment contract prior to its expiry date are remuneration as defined in the Fourth Schedule and are therefore subject to the deduction of Employees' Tax.
    - Such amounts are received or accrued in commutation of amounts due under a contract of employment or service or in respect of cancellation or variation of any office or employment
  - **Unfair labour practices**
    - Amounts paid or accrued as a result of unfair labour practice, may be included in remuneration as defined.
    - SARS will examine the facts of the case and the nature of amounts awarded when the application for a tax directive is received from the employer.
- Application form**
  - An employer must apply for a tax directive to determine the amount of employees' tax to be deducted in respect of the amount payable to an employee or former employee as a result of any arbitration award.
  - The reason "other" must be used on the directive application and the amount must be entered in the "Arbitration / CCMA Award" amount field.  
**Note:** The source code reflected on the tax directive must be used on the IRP5 certificate to avoid the rejection of the employees' return.
- IRP5/IT3(a) details**
  - The relevant taxable and non-taxable portions of an arbitration award reflect on certificate under:
    - Code 3608 (taxable amount); and
    - Code 3602 (non-taxable amount).

## 12.4 LUMP SUM BENEFIT PAYMENTS

- Reference to the Act** Second Schedule to the Income Tax Act
- Meaning** • The provisions of Paragraphs 2(1) and 9(3) of the Fourth Schedule prescribe that trustees or fund administrators must apply for a tax directive at SARS before a lump sum benefit from a pension, pension preservation, provident, provident preservation or retirement annuity fund may be paid.
- Application form** • The relevant application forms A and D, B, C or E are furnished by the administrators of the relevant funds in accordance with the instructions contained in the Government Gazette No. 22577 (notice no. 1893) dated 24 August 2001.
- Lump sum payments in respect of withdrawal**
  - In respect of withdrawal (e.g. resignation, transfer, future surpluses, divorce, housing loan payments, emigration withdrawal, Visa expiry or discontinued contributions):
  - Lump sum payments with a date of accrual prior to **1 March 2009:**
    - From a Pension, Pension preservation or RAF must reflect under code 3902 on the certificate;

- From a Provident or Provident preservation fund must be reflected under code 3904 on the certificate;
- Due to surplus apportionments after 1 January 2006 and NOT paid in terms of section 15B of the Pension Funds Act of 1956 must be reflected under code 3902 or 3904 (according to the fund type) on certificate;
- Due to a court order in respect of a divorce or housing loan must be reflected under code 3902 or 3904 (according to the fund type) on certificate.

#### IRP5/IT3(a) details

- Lump sum payments with a date of accrual after **1 March 2009**:
  - Withdrawals from a Pension, Pension preservation, Provident, Provident preservation or RAF must be reflected under code 3920 on certificate except for paragraph (eA) of the definition of gross income in section 1;
  - Future surplus paid in terms of section 15C of the Pension Funds Act of 1956 reflect under code 3921 on the certificate;
  - Due to a court order in respect of a divorce orders, reflect under code 3920 on certificate;
  - Due to a withdrawal after retirement from a living annuity in terms of paragraph (c) of the definition of living annuity, where the value of the assets become less than the amount prescribed by the Minister in the Gazette, reflect under code 3921 on certificate.
  - With effect from 1 March 2011, the retirement lump sum rate of tax is applicable to the commutation of a living annuity and source code 3915 with the tax code 4115 must be used on the certificate.
- Lump sum payments prior to 1 October 2007 from a:
  - Pension or RAF reflect under code 3903
  - Provident Fund reflect under code 3905
- Lump sum payments after 1 October 2007 from a Pension, Pension preservation, Provident, Provident preservation or RAF reflect under code 3915
- Lump sum payments by unapproved funds reflect under code 3907
- Unclaimed benefits with date of accrual prior to 1 March 2009 and in terms of the provisions of Interpretation Note 99 reflect under code 3909. This code is applicable from 2007 to 2009 years of assessment.
- Retirement lump sum benefits paid according to paragraph (eA) of the definition of gross income in section 1 reflect under code 3614. These types of benefits include:
  - A member of a public sector fund who transfer from a Pension Fund to a Provident Fund while the member remains effectively in the employment of the same employer;
  - Any amount which has become payable to the member of a public sector fund or is being utilised to redeem a debt while remaining effectively in employment of same employer.
- Lump sum payments accruing after 28 February 2009 from a Pension or Provident Fund in respect of termination of services per subpar. 2(1)(a)(ii)(AA) or (BB) of Second Schedule to Income Tax Act (e.g. retrenchment) reflect under code 3915.
- Lump Sum payments due to retrenchment accruing **before** 1 March 2009 must be dealt with as withdrawal benefit and average rate in terms of section 5(10) of the Income Tax Act is applicable.
  - Either source code 3902 or 3904 must be used.
- The tax portion according to the relevant tax directive must be reflected under:
  - Code 4102 if the lump sum payment reflects under code 3902, 3903, 3904, 3905, 3907, 3908, 3909 or 3614;
  - Code 4115 if the lump sum payment reflects under code 3915, 3920, 3921, 3922, 3923 (to 2024 year of assessment) and 3924.

## 12.5 LUMP SUMS BY EMPLOYERS – SEVERANCE BENEFITS

#### Reference to the Act

Definition of “Severance benefit” in section 1  
 Definition of “Gross income” in section 1  
 Paragraph 9(3) of the Fourth Schedule

#### Meaning

- Severance benefit means any amount (other than a lump sum benefit or an amount contemplated in paragraph (d) (ii) or (iii) of definition of gross income) received by or accrued to a person by way of lump sum from or by arrangement with person’s employer or an associated institution in relation to that employer in respect of relinquishment, termination, loss, repudiation, cancellation or variation of person’s office or employment or of person’s appointment (or right or claim to be appointed) to any office or employment, if such:
  - Person has attained the age of 55 years;
  - Relinquishment, termination, loss, repudiation, cancellation or variation is due to the person becoming permanently incapable of holding the person’s office or employment

- due to sickness, accident, injury or incapacity through infirmity of mind or body;
- Termination or loss is due to:
  - Person's employer having ceased to carry on or intending to cease carrying on the trade in respect of which the person was employed or appointed;
  - Person having become redundant in consequence of a general reduction in personnel or a reduction in personnel of a particular class by the person's employer, unless, where the person's employer is a company, the person at any time held;
  - More than five per cent of the issued share capital; or
  - Members' interest in the company.
- Provided that any such amount which becomes payable in consequence of or following upon the death of a person must be deemed to be an amount which accrued to such person immediately prior to his or her death.

#### **Exclusion**

- Any amount paid/payable due to services rendered should not be included in the severance benefit amount on the tax directive application form,
  - For example, amounts in terms of paragraph (c) or (f) of gross income or bonuses or pro-rata bonus.
- 'Notice pay' should also be excluded from the 'severance benefit' amount on the tax directive application form.
- The amount must be included as normal income on the IRP5 certificate.

#### **Leave payment**

- Please note that leave pay is a payment in respect of services rendered and does not form part of a severance benefit. Normal bonus calculations should be used to calculate the tax. The leave payment amount should not be included in the directive since it must be included in the normal income.

#### **Application form**

- An IRP3(a) application form must be submitted in respect of the above.
- Paragraph 9(3) of the Fourth Schedule prescribes that the employer must submit a directive application before paying out a lump sum to the employee.
- The severance benefit reasons (e.g. severance benefits – retrenchment, severance benefits – death, etc.) must be used.

#### **IRP5/IT3(a) details**

- The severance benefit rates will be applicable where the employer uses the severance benefit reasons on the IRP3(a) directive application form and source code 3901 must be used on the IRP5/IT3(a) certificate.
- The full amount reflects under code 3901 and the tax under code 4115 on the IRP5 certificate. If IT3(a) certificate is issued, reason code 04 must be used.

## **12.6 LUMP SUM COMPENSATION FOR OCCUPATIONAL DEATH**

#### **Reference to the Act**

Section 10(1)(gB)(iii)

#### **Meaning**

- Lump sum payments accruing after 1 March 2011 from a compensation fund in respect of lump sum compensation paid by the employer as a direct result of an occupational death of an employee.
- These payments must be in terms of the Compensation for Occupational Injuries and Diseases Act, 1993 and within the requirements of Section 10(1)(gB)(iii) of the Income Tax Act, as amended.
- Provided that any such amount which becomes payable in consequence of or following upon the death of a person must be deemed to be an amount which accrued to such person immediately prior to his/her death.

#### **Application form**

- An IRP3(a) application form must be submitted in respect of the above.

#### **IRP5/IT3(a) details**

- The tax portion according to the relevant tax directive reflects as follows:
  - Under code 4115 if the lump sum payment reflects under code 3922 on the IRP5/IT3(a) with effect from 2012 year of assessment.

#### **Exemption**

- The death lump sum benefit will be exempt if:
  - The death benefit is paid in terms of the Compensation for Occupational Injuries and Diseases Act;

- The employer must pay this amount;
- A maximum amount of R800 000 will be exempt.

## 12.7 EMPLOYER-OWNED INSURANCE POLICIES

<b>Reference to the Act</b>	Paragraphs 2(e), 2(k) and 12C of the Seventh Schedule Paragraph 2(4) of the Fourth Schedule Sections 10(1)(gH) and 10(1)(gI)
<b>Meaning</b>	<ul style="list-style-type: none"> <li>• Employers enter into insurance policies arrangements for the benefit of employees or directors, or for their dependants and nominees. <ul style="list-style-type: none"> <li>▫ These policies make payment upon the death, disability or severe illness of an employee of such employer.</li> <li>▫ Employer incurs premiums in respect of a policy of insurance that relates to the death, disability or severe illness of employees for direct or indirect benefit of those employees.</li> <li>▫ Employers are entitled to a premium deduction in respect of such policy.</li> <li>▫ However the payment of these insurance premiums shall give rise to a simultaneous fringe benefit inclusion for employees.</li> </ul> </li> <li>• Where the employer is the named beneficiary and has an arrangement with employee to pay over the proceeds to the employees, the tax treatment should be the same as for payments made directly by the insurer to the employee. <ul style="list-style-type: none"> <li>▫ The fringe benefit will arise on a monthly basis in respect of employer- owned insurance policies for the direct and indirect benefit of employees.</li> </ul> </li> <li>• Lump sum payments accruing on or after 1 March 2012 in respect of policy of insurance are exempt from income tax in terms of section 10(1)(gH) – <ul style="list-style-type: none"> <li>▫ If the policy relates to death, disablement or severe illness of an employee or director, or former employee or director of the person that is a policy holder; <b>and</b></li> <li>▫ No amount of premiums payable for that policy was tax deductible with effect from <b>1 March 2012</b> from the income of the policy holder (employer).</li> </ul> </li> <li>• Section 10(1)(gI) exempts any lump sum payment received or accrued in respect of policy of insurance relating to death, disablement, illness or unemployment of the person who is a policy holder or an employee of a policy holder in respect of that policy of insurance to an extent that the benefits from that policy are paid as a result of death, disablement, illness or unemployment, with effect from <b>1 March 2015</b>.</li> </ul>
<b>IRP5/IT3(a) details</b>	<ul style="list-style-type: none"> <li>• Taxable fringe benefit reflects under income source code 3801 on IRP5/IT3(a) certificate.</li> <li>• Lump sum proceeds in respect of the employer-owned insurance policies must be reflected under the income source code 3908 on the IRP5/IT3(a) certificate where the premiums were included as a fringe benefit and the lump sum is not taxable.</li> <li>• Lump sum proceeds in respect of employer-owned insurance policies that should be taxable must be reflected under income source code 3907 on the IRP5/IT3(a) certificate.</li> </ul>
<b>Application form</b>	<ul style="list-style-type: none"> <li>• An employer is required to apply for a tax directive where any lump sum amount in respect of the employer-owned policy proceeds is payable to an employee.</li> </ul>

## 13 CLASSIFICATION OF EMPLOYEES

### 13.1 LABOUR BROKER

<b>Reference to the Act</b>	Labour broker and employee definition in Paragraph 1 of the Fourth Schedule Paragraph 2(5) of the Fourth Schedule Paragraph (cA) of the definition of gross income in Section 1
<b>Meaning</b>	<ul style="list-style-type: none"> <li>• The provision or procurement of workers as opposed to the provision of service is of importance.</li> </ul>
<b>Client</b>	<ul style="list-style-type: none"> <li>• Typically, a labour broker arrangement will involve three parties, namely the client, the labour broker and the worker(s).</li> <li>• The person who specifies the workers required. <ul style="list-style-type: none"> <li>▫ A written or oral service contract would arise between the client and the labour broker where the service conditions of the workers may or may not be stipulated.</li> </ul> </li> </ul>

- Payments for the workers' services are made to the labour broker

**Labour broker**

- The labour broker is a natural person who, for reward, provides and remunerates workers for a client and is either in or not in possession of an exemption certificate (IRP30).
  - The labour broker either makes available his/her own employees to perform work for a client or procures workers for a client.
  - The labour broker pays the workers.

**Workers**

- These workers can be any person, including
  - Members and/or employees of a close corporation;
  - Directors and/or employees of a company;
  - Trustees and/or employees of a trading trust;
  - Proprietors and/or employees of a business;
  - Partners and/or employees of a partnership.

**Exemption certificate (IRP30)**

- Fourth Schedule makes provision for an exemption certificate to be issued by SARS to a labour broker, which will absolve employers from having to deduct Employees' tax from any payments made to such labour brokers.
- SARS shall not issue an exemption certificate if more than 80% of the gross income of labour broker during the tax year consists of amounts received from any one client, unless labour broker employs three or more full-time employees throughout tax year:
  - Who are not connected persons in relation to that labour broker, or
  - Who are on a full-time basis engaged in the business of that labour broker of providing persons to or procuring persons for clients of that labour broker
  - The labour broker provides to any of its clients the services of any other labor broker; or
  - The labour broker is contractually obliged to provide a specified employee of the labour broker to render any service to such client
- An exemption certificate is only valid from the date of issue until the end of the tax year.
- The labour broker must apply annually on an IRP30(a) form for a new exemption certificate at a SARS branch at least two months before the expiring of his/her current exemption certificate.
- If the issue of an exemption certificate is delayed for longer than a calendar month, the date of validity will be altered from the date of issue to the date the application was received.
  - In such cases any employees' tax deducted is refundable by the relevant employer.
- An exemption certificate will only be valid if it:
  - Is not outdated;
  - Bears a labour broker reference number beginning with a 7;
  - Has been computer printed;
  - The labour broker is in possession of the original; and
  - Has not been altered in any way.
- If a labour broker is in possession of a valid exemption certificate and undergoes a change of name, the original certificate must be returned to the relevant SARS branch together with an application for a new certificate, which indicates the changed particulars.
- If an exemption certificate has been lost or misplaced, application for a replacement certificate must be made to SARS Head Office and the replacement certificate will only be issued during the period of validity of the original certificate.
- If a labour broker is not in possession of a valid exemption certificate (IRP30), all payments made to the labour broker will be subject to employees' tax.

**Employees' tax**

- An employer who does not deduct employees' tax from a payment to a labour broker must be in possession of a certified copy of an exemption certificate (IRP30) that must be retained for inspection purposes.
- The deduction is classified in the following categories:
  - Labour broker with exemption certificate - no employees' tax must be deducted;
  - Labour broker without an exemption certificate - employees' tax must be deducted according to the applicable deduction tables;
  - Labour broker with a tax directive - employees' tax must be deducted according to the instructions on the tax directive
- The employees' tax deducted for a labour broker whether calculated according to the deduction tables or a tax directive must be reflected as PAYE.
- The remuneration reflects under code 3619 on the IRP5/IT3(a) certificate in the case of

- a labour broker with exemption certificate.
- IRP5/IT3(a) details**
  - The remuneration reflects under code 3617 on the IRP5/IT3(a) certificate in the case of a labour broker without exemption certificate.
  - The reason code for non-deduction of employees' tax (where applicable) reflects as 07 on the IRP5/IT3(a) certificate.

## 13.2 INDEPENDENT CONTRACTOR

- Reference to the Act** Income earned by an independent contractor is specifically excluded from the definition of remuneration in Paragraph 1 of the Fourth Schedule.
- Meaning**
  - In distinguishing between an employee and an independent contractor / trader one must commence with an analysis of the employment contract.
  - The object of the contract (or the parties' rights and obligations under the contract) must be established.
    - The object of the contract is not a mere indicator but determines the legal nature of the contract.
    - The object to be established is the pre-eminent object, for example, if the object is the surrender of productive capacity (whether capacity to provide a service or to produce things), then the contract is for employment of an employee.
    - The essence of an employee's contract (contract of service) is the placing of one person's services (labour) at the disposal of another, enabling the acquisition of that service itself and not simply the fruits of that productive capacity.
  - If the object is the acquisition of the result of deployed productive capacity (of a produced thing or of a provided service), then the contract is for the employment of an independent contractor. The essence of an independent contractor's contract (contract for services or work) is that the independent contractor only commits himself/herself to deliver the product or end result of that capacity.
- Deemed independent contractor**
  - The person will be deemed to be an independent contractor if he/she throughout the year of assessment employs three or more employees (other than any employee who is a connected person in relation to such person) who are on a full-time basis engage in the business of persons rendering any such service and providing that neither of the above two proviso's under exceptions are applicable
- Exceptions**
  - The Fourth Schedule prescribes that the independent contractor's income will be deemed to be remuneration and will therefore be subject to Employees' Tax, if —
    - The services are required to be performed mainly at the premises of the person by whom the remuneration is paid/payable or of the person to whom such services were or are to be rendered;
    - The person who renders or will render the service is subject to the control and supervision of any other person as to the manner in which his/her duties are performed or to be performed or as to his/her hours of work
- Important**
  - The employer, being a party to the employment contract, is in the best position to determine whether the employee is an independent contractor. SARS has therefore provided certain guidelines to assist the employer with this responsibility.
  - These guidelines are available in Interpretation Note 17 and can be obtained on the SARS website [www.sars.gov.za](http://www.sars.gov.za).
- Employees' tax**
  - The employees' tax deducted for an independent contractor whether calculated according to the deduction tables or a tax directive must be reflected as PAYE.
- IRP5/IT3(a) details**
  - Reflect under code 3616 on the IRP5/IT3(a) certificate.

### 13.3 DIRECTORS OF PRIVATE COMPANIES/MEMBERS OF CLOSE CORPORATIONS

<b>Reference to the Act</b>	Employee definition in Paragraph 1 of the Fourth Schedule Paragraph 2(1) of the Fourth Schedule, Section 7B Definition of a company in Section 1
<b>Meaning</b>	<ul style="list-style-type: none"><li>• The definition of employee includes a director of a private company.<ul style="list-style-type: none"><li>▫ Any remuneration paid or payable to a director of a private company or a member of a close corporation is therefore subject to the deduction of Employees' Tax from 1 March 2002.</li></ul></li><li>• The definition of a company includes a close corporation and therefore, the same rules for the deduction of employees' tax from the remuneration of directors of private companies apply to members of close corporations. This definition includes a person who, in respect of a close corporation, holds any office or performs any functions similar to the functions of a director of a company other than a close corporation.</li><li>• Effective from 01 March 2017, any variable remuneration received by a director will accrue on the date on which it is paid to the director.</li></ul>
<b>Right of recovery</b>	<ul style="list-style-type: none"><li>• The employer has the right to recover the PAYE on the deemed remuneration paid by the company from the director. This recovery may, in addition to any other right of recovery, be recovered from any amount which is or may become payable by the company to the director. The director is not entitled to receive an IRP5/IT3(a) in respect of the amount of employees' tax paid by the company on the deemed remuneration if the company has not recovered the employees' tax from the director.</li></ul>
<b>Director status changes to employee</b>	<ul style="list-style-type: none"><li>• Where the person ceases to be a director but remains an employee of the company, section 7B will no longer be used and PAYE must be deducted from remuneration that is actually paid or is payable to the employee. Only one IRP5/IT3(a) needs to be issued for the year.</li></ul>
<b>Director appointed during tax year</b>	<ul style="list-style-type: none"><li>• Where a person is appointed as a director of a private company during the tax year and the director was not previously an employee of that company, PAYE will be payable on the actual remuneration which is paid or is payable to the director during that tax year.</li><li>• The remuneration shown must be the amount of actual remuneration which is paid / payable to the director for the tax year.</li><li>• The amount of PAYE will be the sum of the PAYE that was deducted from the actual remuneration of the director and the PAYE paid by the company in respect of the deemed remuneration of that director.</li></ul>
<b>IRP5/IT3(a) details</b>	<ul style="list-style-type: none"><li>• Salaries paid to directors reflect under code 3615 (only applicable from 2003 to 2018 years of assessment) and all other components of the remuneration (bonus, allowance, benefits, etc.) must be reflected against the existing codes. Code 3601 must be used from 2019 year of assessment.</li></ul>
<b>Non - Executive Director (NED)</b>	<ul style="list-style-type: none"><li>• The director's fees received by a <b>resident</b> NED are <b>not</b> regarded as remuneration and the employer is not obligated to deduct/withhold employees' tax. The director can request a voluntary deduction of employees' tax.<ul style="list-style-type: none"><li>▫ If voluntary deduction is requested, then this income must reflect under code 3620 on the IRP5/IT3(a) certificate.</li></ul></li><li>• Should the resident NED choose not to voluntarily pay employees' tax (PAYE), the employer should not deduct tax and not issue an IRP5/ IT3 (a) certificate.</li><li>• Where the NED is a <b>non-resident</b>, the directors' fee received is regarded as <b>remuneration</b> and the employer must deduct employees' tax on the amount of directors' fees payable<ul style="list-style-type: none"><li>▫ The remuneration must reflect under code 3621 on the IRP5/IT3(a) certificate.</li></ul></li></ul>

### 13.4 STANDARD EMPLOYMENT

<b>Reference to the Act</b>	Paragraphs 1 and 9(1) of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"><li>• Any employment where an employee (including a scholar or student), is required to render</li></ul>

- services to a single employer for a period of at least 22 hours in every full week provided that:
  - Periods of temporary absence of an employee are due to leave or exceptional circumstances; or
  - Temporary reduction in working hours is due to a reduction in the demand of the company's product where the employer imposes a temporary working week of less than 22 hours.

**Deemed Employment**

**Standard**

- Where an employee does not fall within the definition of standard employment, an employee will be deemed to be in standard employment if the employee:
  - Is required to work for less than 22 hours a week and the employee furnishes a written declaration/affidavit to the employer that he/she will not render services to any other employer, during the period of such employment;
    - Is required to work for at least 5 hours per day and is paid remuneration of less than R394 per day.
- Where the employer conducts business in such a manner that employees render services on a regular or frequent basis for such periods as may be required by the employer, the Commissioner may, after consultation with the employer, anybody or association on which the employer is represented, direct that the employment of such employees shall be standard employment.
- The Commissioner may further instruct the employer as to which manner the Employees' tax must be deducted.

**Non-standard employment**

- Any employment which cannot be classified under Standard or Deemed Standard employment.
  - Workers are employed on a daily basis and are paid daily, for example:
    - Casual commissions paid, such as spotter's fees;
    - Casual payments to casual workers for irregular services rendered or occasional services;
    - Fees paid to part-time lecturers;
    - Honoraria paid to office bearers of organisations, clubs, etc.
- Note:** The list is not exhaustive.

**Employees' tax**

- **Standard Employment income**
  - The weekly, fortnightly and monthly tables, as published each year after the Budget Speech must be used to determine the amount of employees' tax to be withheld from the balance of remuneration for each pay period. The annual table must be used at the end of the tax period or year of assessment to determine the final amount of employees' tax payable for the full year or period of assessment,.
- **Non-standard employment income**
  - The Commissioner prescribes tax deduction tables for such classes of employees as the Commissioner may determine and also prescribe the manner in which they may be applied.
  - Employees' tax must be calculated and deducted at 25% on the balance of remuneration.
- **Tax Directive**
  - Where the employer is in possession of a tax directive in respect of an employee who is in non-standard employment, employees' tax must be deducted in accordance with the directive.

**Summary**

Scenario	Employees' tax
Employee is required to work at least 22 hours a week (standard employment) and earns remuneration which exceeds the annual tax threshold (R99 000 if less than 65 years old / R153 250 if 65 years or older /R171 300 if 75 years or older)	Use tax deduction tables
Employee is required to work at least 22 hours a week (standard employment) and earns remuneration which does <u>not</u> exceed the annual tax threshold (R99 000 if less than 65 years old / R153 250 if 65 years or older / R171 300 if 75 years or older)	No employees' tax to be deducted
Employee is in non-standard employment, required to work at least 5 hours per day and earns less than R394 for that day	No employees' tax to be deducted
Employee is in non-standard employment, required to work at least 5 hours per day and earns more than R394 for that day	25% deduction
Employee is in non-standard employment, required to work less than 5 hours per day and earns less than R394 for that day	25% deduction

- IRP5/IT3(a) details
- Employees' tax deducted reflect under code 4102.

## 13.5 SEASONAL WORKERS

**Reference to the Act** Employee definition in Paragraph 1 of the Fourth Schedule

- Meaning**
- A seasonal worker is a person who is only employed during a peak period for a specific period, for example:
    - Persons employed on a fruit farm during the picking season to pick and pack fruit;
    - Persons employed on a sheep farm to assist with either the lambing or shearing;
    - Factories that require additional help during the canning season.
  - A tax period commences at the date employee was employed and ends on date his/her employment was terminated.
  - If the season extends over the following tax year, the employer must issue two IRP5/IT3(a) in respect of the two tax periods. For example -
    - Employee will have two periods where a season extends from 15 November to 20 May, namely 15 November to 28 February (1st tax year) and 1 March to 20 May (2<sup>nd</sup> tax year). Two IRP5/IT3(a)s must be issued for the two periods as the employee has two tax periods in one service period.

## 13.6 EMPLOYEES BETWEEN 65 AND 74 YEARS

**Reference to the Act** Section 6(2)(b)  
Paragraph 2(4) of the Fourth Schedule

- Meaning**
- Employees' tax deductions for persons between the ages of 65 and 74 years must be made according to tables from the beginning of the tax period (e.g. 1 March) during which the employee turns 65 and not as from the month the qualifying age between the ages of 65 and 74 years is attained.

## 13.7 EMPLOYEES 75 YEARS OR OLDER

**Reference to the Act** Section 6(2)(c)  
Paragraph 2(4) of the Fourth Schedule

- Meaning**
- Employees' tax deductions for persons 75 years or older must be made according to the tables from the beginning of tax period (e.g. 1 march) during which employee turns 75 and not as from the month qualifying age of 75 is attained.

## 13.8 COMMISSION AGENTS

**Employee works for commission only**

- If the employee is in possession of a tax directive, the employer MUST deduct employees' tax according to the instructions on the tax directive and the employees' tax deducted reflect as PAYE on the IRP5/IT3(a).

**Employee works for salary and commission**

- If the employee is in possession of a tax directive, the employer MUST deduct employees' tax according to the instructions on the tax directive and the employees' tax deducted reflect as PAYE on the IRP5/IT3(a).
- If the employee is not in possession of a tax directive, the employer MUST combine the salary and commission and deduct employees' tax according to the applicable tax deduction tables and a PAYE calculation must be done at the end of the tax year or tax period. Under no circumstances may 25% or any other percentage for that matter, be deducted from remuneration, unless the tax directive so directs.

**Application form**

- An employee earning commission may only apply for a tax directive where his/her remuneration consists mainly in the form of commission based on the employee's sales or turnover attributable to him/her.

**IRP5/IT3(a) details**

- Commission income reflect under code 3606 and the salary income under code 3601.

**Example**

- Employees' tax on quarterly commission: An employee (under 65) received a monthly salary and according to the results he also received commission every three months. Remuneration and employees' tax details are as follows:

Month	Salary	Commission	Employees' tax
April	R17 185		R1 605
May	R17 185		R1 605
June	R17 185	R13 500	To be calculated

Divide the quarterly commission by the months in which it was earned (R13 500 ÷ 3)	4 500	
Add: salary for June	17 185	
	21 685	
Tax on R21 685 (salary and commission) according to the monthly tables	2 522	
Less: Tax on R17 185 (monthly salary)	1 605	1 605
Tax on commission for one month	917	
Multiply tax on commission for one month with the months in which it was earned (R917 x 3)		2 751
Employees' tax deductible for June		R4 356

## 14 CLASSIFICATION OF PAYMENTS

### 14.1 BACKDATED (ANTEDATED) SALARIES AND PENSIONS

**Reference to the Act**

Paragraph 9(3)(a) of the Fourth Schedule  
Section 7A

**Meaning**

- Employees' tax (taxable) accrued in the previous year/s
- A settlement agreement or arbitration award or court-order that relates to previous years. This also includes awards granted via settlements out of court and Labour Court disputes. The employer must apply for a tax directive to determine the amount of employees' tax to be deducted.

**Accrued in the current tax year**

- Where the backdated salary/pension relates to periods in the current tax year, the employees' tax must be calculated by adding the backdated salary/pension to the remuneration received. The employer do not have to submit a directive application.

**Accrued in the previous year**

- Employers must submit a directive application.
- SARS will determine the employees' tax to be deducted in the same manner as tax on a bonus, using the current year's tax deduction tables. The employer must ensure the annual income of the application form is correct to ensure SARS is calculating the employees' tax correct.

**IRP5/IT3(a) details**

- Backdated salary (excluding any bonus) reflect on the certificate as follows:
  - Code 3601 - Portion of salary which relates to periods in current tax year;
  - Code 3907 - Portion of salary which relates to periods in previous tax years (a tax directive application **must be submitted** to SARS).
- Employee (under 65) receive salary of R28 000 per month for period July to December.

**Example - the accrual is only in the current year**

An increase of R300 per month (backdated from 1 July) is paid in December.

Increased salary received at the end of December (R28 000 + R300)	28 300	
Add: backdated increased salary for the months July to November (R300 x 5)	1 500	
Total remuneration for December	29 800	
Tax on R28 300 (December salary) according to the monthly tables	4 250	4 250
Less: Tax on R28 000 (salary before increase)	4 171	
Tax on increased salary (R300) per month	79	
Tax on total backdated increased salary of R1 500 (R300 x 5) = R79 x 5		395
Employees' tax deductible for December		4 645

## 14.2 AMOUNTS RECEIVED BY PERSONAL SERVICE PROVIDER

<b>Reference to the Act</b>	Remuneration definition in paragraph 1 of the Fourth Schedule Paragraph (cA) of the definition of gross income in Section 1
<b>Meaning</b>	<ul style="list-style-type: none"> <li>Where a payment was received or accrued to a personal service provider (i.e. personal service company or personal service trust).</li> </ul>
<b>Employees' tax</b>	<ul style="list-style-type: none"> <li>Calculate Employees' tax from such payments in the same manner as tax on a bonus.</li> </ul>
<b>IRP5/IT3(a) detail</b>	<ul style="list-style-type: none"> <li>Payments reflect under code 3601 on the certificate.</li> </ul>

## 14.3 RESTRAINT OF TRADE PAYMENTS

<b>Reference to the Act</b>	Remuneration definition in paragraph 1 of the Fourth Schedule Paragraph (cB) of the definition of gross income in Section 1
<b>Meaning</b>	<ul style="list-style-type: none"> <li>Payments made in respect of a restraint of trade (i.e. sterilisation of a person's income earning capacity) to any natural person must be included in definition of remuneration.</li> <li>The amount received or accrued to a natural person shall be included in the definition of remuneration as restraint of trade if: <ul style="list-style-type: none"> <li>Employment or the holding of any office; or</li> <li>Any past or future employment or the holding of an office.</li> </ul> </li> </ul>
<b>IRP5/IT3(a) details</b>	<ul style="list-style-type: none"> <li>Reflect under code 3613 on the certificate</li> </ul>

## 14.4 LEAVE PAY

<b>Reference to the Act</b>	Definition of "remuneration" in Paragraph 1 of the Fourth Schedule
<b>Meaning</b>	<ul style="list-style-type: none"> <li>Is remuneration as defined and is fully subject to deduction of employees' tax. <ul style="list-style-type: none"> <li>Leave days accrue as an employee works. Employees are allowed to encashment of value of accrued leave without taking leave - this encashment constitutes taxable remuneration.</li> <li>Only when leave is paid it is included in remuneration of the employee. No value is placed on accrued leave until the encashment thereof.</li> <li>Unpaid leave taken or forfeited leave do not constitute remuneration, as there is no value attached thereto.</li> </ul> </li> </ul>
<b>Accrued leave</b>	<ul style="list-style-type: none"> <li>Can be paid to an employee, and thus become taxable remuneration, when: <ul style="list-style-type: none"> <li>Employee dies and accrued leave is paid to the employee's estate;</li> <li>Employment is terminated for any reason, e.g. retirement, resignation;</li> <li>Is encashed for any reason, such as when too much leave has accrued;</li> </ul> </li> </ul>

- Employee becomes insolvent; or
    - It is encashed due to internal arrangements e.g. employee is appointed in a more senior post or promoted.
  - Leave pay is a payment in respect of services rendered and does not form part of a severance benefit
- Unpaid leave**
- The fact that an employee has taken unpaid leave of any type (including maternity leave), has no effect on the employee's tax period.
    - The tax period continues until the end of the tax year, unless the employee resigns or dies before the end of the tax year.
    - When the tax period does end and the final tax calculation is performed to calculate PAYE, it will be found that the employee has probably paid too much Employees' Tax due to he/she being absent without pay during the tax period.
- Employees' tax**
- Must be calculated differently on leave that is taken where an advance is paid and accrued leave that is encashed:
    - Where leave is taken and an advance is paid for leave period, the advance must be treated as advanced salary;
    - Accrued leave that is encashed must be taxed in same manner as a bonus.
- IRP5/IT3(a) details**
- Accrued leave which has been encashed must reflect under code 3605 if it accrued as a result of encashment or resignation.
    - If a tax directive application was submitted, code 3907 on the tax directive must then be reflected on the certificate as well as the tax directive number.

## 14.5 SPECIAL REMUNERATION PAID TO PROTO TEAMS

- Reference to the Act** Remuneration definition in Paragraph 1 of the Fourth Schedule Section 5(9) and 5(10)
- Meaning**
- Amounts paid to proto team members as special remuneration are subject to the deduction of Employees' tax.
  - Special remuneration is defined as any amount received by or accrued to any mineworker over and above his/her normal remuneration and any regular allowance in respect of special services rendered by him/her (otherwise than in the course of his/her normal duties) in combating any fire, flood, subsidence or other disaster in a mine or in rescuing persons trapped in a mine or in performing any hazardous task during any emergency in a mine.
- Employees' tax**
- Employers must calculate the employees' tax deductible from this special remuneration in the same manner as tax on a bonus is calculated.
  - The special remuneration paid to proto teams is subject to the rating formula contained in Section 5(10) which can only be applied on assessment.
- IRP5/IT3(a) details**
- Reflect under code 3906 on the IRP5/IT3(a).

## 14.6 ADVANCE SALARY

- Reference to the Act** Remuneration definition in Paragraph 1 of the Fourth Schedule
- Meaning**
- Advance salary can be seen as an amount of future remuneration paid by the employer prior to actual date on which such remuneration becomes payable.
- Employees' tax**
- An advance payment will be subject to the deduction of employees' tax when it is paid by the employer to the employee.
- IRP5/IT3(a) detail**
- Reflect under code 3601 on the certificate.
- Example**
- A monthly paid employee (below 65) received R84 000 in October in respect of remuneration that is due to accrue to him in October, November and December.

Tax on R28 000 (salary per month) according to the monthly tables	4 171
Employees' tax on the advance salary of R84 000 (R 4 171 x 3) is	R12 513

## 14.7 OVERTIME PAYMENTS

- Reference to the Act** Remuneration definition in Paragraph 1 of the Fourth Schedule
- Meaning**
- Overtime amounts paid to employees are subject to the deduction of employee's tax
- Employees' Tax**
- Employees' tax on overtime payments is not calculated differently from tax on salaries. Any overtime payment must be added to the salary for the specific period and the employees' tax must be determined by using the applicable tax deduction tables.
- IRP5/IT3(a) detail**
- Reflect under code 3607 on the IRP5/IT3(a)
- Example**
- A monthly paid employee (below 65) received R16 000 salary and R900 overtime in June

Tax on R16 900 (salary and overtime) according to the monthly tables	R 1 551
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## 14.8 ANNUAL PAYMENTS/BONUS

- Reference to the Act** Paragraphs 9(1) and 9(2) of the Fourth Schedule  
Applicable Tax Deduction Tables
- Meaning**
- An annual payment is an amount:
    - Of net remuneration that is, in accordance with the employee's conditions of service or the employer's practice, paid in a lump sum to the employee; or
    - That is calculated without reference to a period.
- Examples of annual payments**
- Examples of annual payments or payments made without reference to a period are:
    - Annual bonus;
    - Incentive bonus;
    - Leave pay on resignation;
    - Encashment of leave;
    - Merit awards;
    - Backdated payments in respect of salary / wages (accrued in previous tax years);
    - An amount paid to a mineworker for picking up a diamond;
    - An amount paid to an employee for a proposal to simplify procedures; and
    - A bonus or an incentive amount paid to an employee to retain his/her services for a specific period. Where this amount is repayable by the employee on termination of his/her service prior to the end of the contract period, the Employees' Tax paid on this amount may under no circumstances be refunded to the employee.
- Employees' tax**
- The employees' tax on an annual payment is basically determined by calculating the annual equivalent of the remuneration earned during the tax period by the employee and adding the annual payment to the result.
  - The difference between tax on the total result (annual equivalent plus annual payment) and tax on the annual equivalent will result in employees' tax deductible from annual payment.
- IRP5/IT3(a) details**
- Reflect under code 3605 on the IRP5/IT3(a).
- Example**
- The month **in which the annual payment is paid / accrued**: A monthly paid employee (below 65) received a salary of R28 000 and a bonus of R14 800 in October.

Tax on R28 000 (salary) according to the monthly table		4 171
Annual equivalent of salary (R28 000 x 12)	336 000	
Add: bonus (annual payment)	14 800	

Total remuneration for October	350 800		
Tax on R350 800 (total remuneration) according to the annual tables		53 723	
Less: Tax on R336 000 (annual equivalent) according to annual tables		49 945	
Tax on bonus (R14 800)		3 778	3 778
Employees' Tax deductible for October is			R7 949

- **Tax on annual payment spread over the tax year:** The same figures as in the previous example are used. The employee is for the full year in employment of the employer. The tax on the bonus must be calculated at the beginning of the employee's tax period and then spread over the remainder of the pay periods of the employee for the specific tax year.
- **Production bonus paid in a following pay period:** A monthly paid employee (below 65) earns a production bonus in July but this bonus is only paid in the following pay period (August). The remuneration and Employees' Tax details are as follows:

Month	Salary	Production bonus	Employees' Tax
July	R28 000		4 171
August	R28 000	12 500	To be calculated
Tax on R40 500 (salary and production bonus for July) according to monthly tables			7 954
Less: tax deducted for July according to the monthly tables			4 171
Tax on production bonus of R12 500 (paid in August)			3 783
Add: tax on salary (R28 000) for August according to the monthly table			4 171
Employees' Tax deductible for August			7 954

- **Note:** If the production bonus was paid during the same pay period in which it was earned, it must be added to the salary and employees' tax must be determined according to the appropriate weekly, fortnightly or monthly table. This bonus relates to a specific period (period during which it was earned).
- **Monthly production bonus paid to a weekly remunerated employee:** A weekly paid employee (below 65) earns a monthly production bonus in May but this bonus is only paid in the following month (3rd week of June). May had 4 weeks. The remuneration and Employees' Tax details are as follows:

Month	Week		Production bonus	Employees' Tax
May	4	R13 287		3 189
June	1	R13 287		3 189
	2	R13 287		3 189
	3	R13 287	R1 200	To be calculated
	4	R13 287		3 189

Tax on R13 287 for week 3's wage in June according to the weekly table			R 3 189
Divide the production bonus by the weeks in which it was earned (R1 200 ÷ 4)			300
Add: wage for week 3 in June			13 287
Total remuneration for week 3 in June			13 587
Tax on R13 587 according to the weekly tables			3 295
Less: tax on R13 287 (weekly wage) according to the weekly tables			3 189
Tax on production bonus for one week (R300)			106
Multiply the tax on the bonus for one week with weeks in which it was earned (R106 x 4)			424
Employees' Tax deductible for week 3 in June			R3 613

## 14.9 VARIABLE REMUNERATION

<b>Reference to the Act</b>	Section 7B
	<ul style="list-style-type: none"><li>• The section matches the timing between accrual and payment of various forms of remuneration. Amounts are deemed to have accrued to the employee when they are paid by the employer.</li><li>• The following amounts must be included in the employee's remuneration in the year when it is actually paid to the employee:<ul style="list-style-type: none"><li>From 1 March 2013 -<ul style="list-style-type: none"><li>▫ Overtime pay, bonus or commission contemplated in the definition of "remuneration" in paragraph 1 of the Fourth Schedule;</li><li>▫ Payment for any period of leave not taken by the employee;</li></ul></li><li>From 1 March 2020 -<ul style="list-style-type: none"><li>▫ Allowance or advance paid in respect of motor vehicle expenses;</li><li>▫ Any reimbursement amount paid to the employee in respect of motor vehicle expenses,</li><li>▫ Any night shift allowance;</li><li>▫ Any standby allowance;</li></ul></li><li>From 1 March 2023 -<ul style="list-style-type: none"><li>▫ Performance-based payments.</li></ul></li></ul></li><li>• Where the employee is deceased before the date of payment, the date of accrual is deemed to be the day before the employee's death.</li><li>• <b>Note:</b> For purposes of determining taxable income, the above stated amounts will constitute expenditure for the employer, in the year that the employer pays that amount to the employee. For purposes of determining taxable income, the above stated amounts will constitute expenditure for the employer, in the year that the employer pays that amount to the employee.</li></ul>

## 15 ALLOWANCES AND FRINGE BENEFITS

### 15.1 ALLOWANCES

<b>Reference to the Act</b>	Remuneration definition in Paragraph 1 of the Fourth Schedule Section 8(1)
<b>Meaning</b>	<ul style="list-style-type: none"><li>• Certain amounts must be included in the employee's taxable income and these amounts are normally referred to as allowances.</li></ul>
<b>Types of allowances</b>	<ul style="list-style-type: none"><li>• The following type of allowances may be paid by an employer to an employee:<ul style="list-style-type: none"><li>▫ Travel allowance;</li><li>▫ Subsistence allowance</li><li>▫ Allowance to a holder of a public office; and/or</li><li>▫ Other allowances received by virtue of the employee's office or duties (e.g. uniform allowance, etc.).</li></ul></li></ul>
<b>Other references</b>	<ul style="list-style-type: none"><li>• Special provisions exist for travel, subsistence and public office allowances. Please refer to annexures attached to Guide for Employers in respect of Allowances – External Guide for a detailed explanation in respect of these allowances.</li></ul>

### 15.2 FRINGE BENEFITS

<b>Reference to the Act</b>	Remuneration definition in Paragraph 1 of the Fourth Schedule All paragraphs of the Seventh Schedule
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## Fringe benefits

- A taxable benefit is deemed to have been granted by the employer if, as a benefit or advantage of, or by virtue of such employment or as a reward for services rendered or to be rendered, the employee is granted one of the benefits described in Paragraph 2 of the Seventh Schedule, namely:
  - Acquisition of an asset at less than the actual value (money excluded);
  - Right of use of a motor vehicle;
  - Right of use of an asset (excluding a motor vehicle and residential accommodation);
  - Meals, refreshments or meal and refreshment vouchers
  - Residential accommodation;
  - Free or cheap services;
  - Low or interest free loans;
  - Subsidy in respect of loans (interest or capital repayments);
  - Payment of employee's debt or release of the employee from the obligation to pay a debt;
  - Medical fund contributions paid on behalf of an employee;
  - Medical costs (other than contributions) paid for the benefit of an employee;
  - Contributions to a benefit fund;
  - Contribution to bargaining council;
  - Payment to an insurer under an insurance policy; and/or;
  - Any benefit granted to the relative of employee and others.

## Other references

- Special provisions exist for determining the amount which must be included in the taxable remuneration of an employee due to any of these benefits being granted to the employee. For more information refer to Guide for Employers in respect of Fringe Benefits – External Guide which is available on the SARS website [www.sars.gov.za](http://www.sars.gov.za).

# 16 EXEMPTIONS

## 16.1 UNIFORMS (SPECIAL UNIFORMS)

**Reference to the Act** Section 10(1)(nA)

### Meaning

- Where it is condition of employment that employee is required whilst on duty to wear a special uniform which is clearly distinguishable from ordinary clothing, the value of such uniform given to employee or any allowance made by the employer to the employee in lieu of such uniform as is reasonable, is exempt from tax.

### IRP5/IT3(a) details

- Reflect under code 3714 on the IRP5/IT3(a).

**Note:** The no value rule in paragraph 6(4) will not apply in respect of clothing with effect from 1 March 2018.

## 16.2 TRANSFER COSTS

**Reference to the Act** Section 10(1)(nB)

### Meaning

- Any benefit received by an employee by reason of the fact that his/her employer has borne certain expenditure incurred in consequence of employee's relocation from one place of employment to another or on appointment of the employee or on termination of the employee's employment, will be exempt from tax.
- A transfer that does not necessitate a change of residence does not fall within the ambit of the exemption.
- Where the employer has borne the expenses (costs) set out below (whether the employer paid the creditors directly or reimburses the employee for costs paid), such benefit shall be exempt from employees' tax

### Expenditure from tax exempt

- The following expenses qualifies for exemption:
  - Transportation of employee, members of his/her household and their personal goods and possessions from his/her previous place of residence to his/her new place of residence;
  - Costs incurred by employee in respect of sale of his/her previous residence and in settling in permanent residential accommodation at his/her new place of residence;

- Cost of renting temporary residential accommodation for employee and members of his/her household during a period which ends 183 days after his/her transfer took place or after his/her date of appointment.
- Items exempt from tax if employer reimburses employee for actual expenditure incurred:
  - Bond registration and legal fees paid in respect of a new residence that has been purchased;
  - Transfer duty paid in respect of the new residence;
  - Cancellation fees paid for bond cancellation on previous residence; and
  - Agent's commission paid on sale of previous residence;
  - New school uniforms;
  - Replacement of curtains;
  - Motor vehicle registration fees;
  - Telephone, water and electricity connection.

**Taxable benefit**

- The following shall constitute a taxable benefit if payments are made by the employer and be subjected to the deduction of employees' tax:
  - Payments to reimburse the employee for loss on the sale of a previous residence during transfer; and / or
  - Architect's fees for the design or alteration of a new residence.

**IRP5/IT3(a) details**

- If expenditure is exempt from tax (e.g. reimbursement of actual expenses and settling-in costs) the amount reflect under code 3714.
- In cases where expenditure is taxable, the amount must reflect under code 3713.

**Example**

- The employer transfers his employee from Pretoria to Cape Town.
- The employer has already paid for the transfer of the employee's personal goods and made arrangements for the employee and members of his household to stay in a hotel on the employer's account for the six months during which the employee's new house is being built.
- The employee claims the following expenses for which he was fully reimbursed by the employer:

No	Description	Amount
1	New school uniforms purchased	1 750.00
2	Curtains made for new residence	8 360.00
3	Motor vehicle registration fees	216.00
4	Telephone, water and electricity connections	1 015.00
5	Loss on the sale of the previous residence	12 000.00
6	Architect's fees for the design of the new residence	7 600.00
7	Bond registration and legal fees for the new residence	6 800.00
8	Transfer duty on new residence	25 000.00
9	Agent's fee on sale of previous residence	16 397.00
	<b>TOTAL</b>	<b>R79 138.00</b>

- The employer must deduct employees' tax from items 5 and 6 as they are not exempt from tax and the value of these two items must be reflected under code 3713.
- All other items (except for items 5 and 6) are exempt from the deduction of employees' tax and their total value must be reflected under code 3714.

**16.3 SHARE SCHEMES**

**Reference to the Act**

Section 10(1)(nE)

**Meaning**

- An amount (including any taxable benefits) received by or accrued to an employee under a share incentive scheme operated for the benefit of employees which was derived upon:
  - Cancellation of a transaction under which the employee purchased the shares under the scheme;
  - Repurchase by the employee at a price not exceeding the selling price to him/her of the shares under the scheme.
  - Is exempt from tax if the employee does not receive or become entitled to receive any compensation or a consideration other than the repayment of any portion of the purchase price actually paid by him.
- This section in effect, exempts from tax the benefit that is commonly called the stop loss

benefit that can accrue in terms of share incentive schemes.

- Employees' tax** • Employees' tax must not be deducted from the exempted amount
- IRP5/IT3(a) details** • Reflect under code 3714.

## 16.4 BURSARIES AND SCHOLARSHIPS

### 16.4.1 PERSONS WITHOUT DISABILITY

- Reference to the Act** Section 10(1)(q)(ii)(aa and (bb)  
Paragraphs 1 and 2(h) of the Seventh Schedule
- Meaning** • Any bursary or bona fide bursary or scholarship other than any scholarship or bursary contemplated in paragraph (qA) granted to enable or assist any person to study at a recognised educational or research institution may be exempt in terms of Section 10(1)(q).
- Taxable benefit** • If the bursary or scholarship granted by the employer to the relative of the employee is subject to an element of salary sacrifice, the amount granted by the employer as a bursary or scholarship is taxable in the hands of the employee. However, the employer can still claim the deduction in respect of this bursary or scholarship. The effective date is 01 March 2021.
  - If the scholarship or bursary has been granted to the employee or to a relative of such employee the exemption **shall not apply** if the following conditions are present:
    - In the case of a scholarship or bursary granted to employee to enable or assist any such employee, unless the employee agrees to reimburse the employer for any scholarship or bursary granted to him/her if he/she fails to complete his/her studies for reasons other than death, ill-health or injury;
    - In the case of a scholarship or bursary granted to enable or assist any such relative of an employee to study, if the remuneration proxy derived by the employee during the tax year exceeded R900,000; and
    - To so much of a bursary as in the case of such relative exceeded R30,000 during the year of assessment for:
      - Grade R to grade twelve as contemplated in definition of 'school' in section 1 of South African Schools Act, 1996 (Act No. 84 of 1996); or
      - A qualification to which an NQF level from 1 up to and including 4 has been allocated in accordance with Chapter 2 of National Qualifications Framework Act, 2008 (Act No. 67 of 2008); and
      - R90,000 in respect of higher education (NQF level 5 up to 10).
- Employees' tax** • The taxable benefit of a bursary is regarded as an annual payment for PAYE purposes.
- IRP5/IT3(a) details** • It is only the taxable portion of bursaries that must reflect under codes 3809 for grade R to 12 and NQF level 1 to 4 and 3820 for NQF levels 5 to 10.
  - The non-taxable portion of bursaries must reflect under codes 3815 for grade R to 12 and 3821 NQF levels 5 to 10.
- Exempt from tax** • Expenditure in connection with internal or on-the-job training or courses presented by other institutions on behalf of the employer, does not represent a taxable benefit in the hands of the employees, provided that the training is job-related and ultimately for the employer's benefit.
  - The following are examples of this type of training:
    - Computer and word processing courses;
    - Management and administration courses;
    - Bookkeeping courses;
    - Sales courses;
    - Courses in operating office and technical equipment; and
    - Language courses for employees.

### Bursaries and study loans taxed as a fringe benefit

- To the extent that a bona fide bursary does not qualify for the exemption, it is taxable in the employee's hands.
- The following is an indication of bursaries and study loans that will be taxed as a fringe benefit:
  - Low-interest or interest-free loans granted by the employer to further the employee's studies are not regarded as bursaries, but as low or interest-free loans upon which no value is placed;
  - Where the employee is not required to repay the loan, he/she will have received a taxable benefit in terms of Paragraph 2(h) of the Seventh Schedule (payment of employee's debt or release employee from obligation to pay debt) and employees' tax must be deducted.
  - This taxable benefit is seen as an annual payment for PAYE purposes;
  - Where an employer rewards an employee for obtaining a qualification, successful completion of a study course or reimburses the employee for study expenses, such reward or reimbursement of study expenses will represent, in the case of the reward, taxable remuneration and in the case of the reimbursement of study expenses, a taxable benefit in terms of Paragraph 2(h) of the Seventh Schedule (payment of employees debt or release employee from obligation to pay debt);
  - Only the taxable portion of bursaries paid to an employee or a family member of an employee is subject to the deduction of employees' tax;
  - Any bursary, which is granted subject to the condition of repayment, due to non-fulfilment of conditions stipulated in a written agreement, will be treated as a bona fide bursary until such time as the non-compliance provisions of the agreement are invoked.
  - In the tax year in which such provisions are invoked, the amount of the bursary will be regarded as a loan and any benefit which an employee may have received by way of an interest-free or low-interest loan will constitute a taxable benefit in terms of Paragraph 2(f) of the Seventh Schedule.

### Example

- An employer granted a bursary of R34,000 to each of the employee's two children for their basic education. The employee earns an annual salary of R570 000, a bonus of R18 000 and a housing subsidy of R8 000. The employer does not operate a bursary scheme that is open to the general public.
  - Although the employee's remuneration does not exceed R900,000 per annum, the bursaries are paid in consequence of services rendered by him.
  - The bursaries of R34 000 each exceed the exemption limit of R30,000 per relative, but only the taxable portion of R8 000 (R68,000 less R60,000) is subject to the deduction of employees' tax in the hands of the employee.
  - However, if the employee's remuneration exceeds R900 000 per annum, the bursaries (R68 000) will be taxable in full.

### Other references

- In addition to re-stating the statutory provisions, Interpretation Note 66 was issued. This interpretation note contains the interpretation of words and phrases (e.g. bona fide scholarship or bursary granted, tax implications and other forms of study assistance).

## 16.4.2 PERSONS WITH DISABILITY

### Reference to the Act

Section 10(1)(qA)  
Section 6B(1)  
Paragraph 1 of the Seventh Schedule  
Paragraph 2(h) of the Seventh Schedule

### Meaning

- Any bona fide bursary or scholarship granted to enable or assist any person **who is a person with disability as defined in section 6B(1)** to study at a recognized educational or research institution may be exempt.
- The disability that will qualify, is a disability as defined in s6B(1). Therefore, for the employee to prove this disability, the employee **MUST** submit the signed ITRDD form to the employer to confirm his / her disability is as defined in section 6B(1).
- This bursary or scholarship for a family member is limited to family members whom the employee is liable for family care and support.

## Taxable benefit

- If the bursary or scholarship granted by the employer to the relative of the employee is subject to an element of salary sacrifice, the amount granted by the employer is taxable in the hands of the employee. However, the employer can still claim the deduction in respect of this bursary or scholarship. The effective date is 01 March 2021.
- If the scholarship or bursary has been granted to the employee with disability or to a qualifying family member of the employee, the exemption shall not apply if the following conditions are present:
  - In the case of a scholarship or bursary granted to the employee to enable or assist any such employee, who is a person with disability as defined in section 6B(1) unless the employee agrees to reimburse the employer for any scholarship or bursary granted to him/her if he/she fails to complete his/her studies for reasons other than death, ill-health or injury;
  - In the case of a scholarship or bursary granted to enable or assist any person with a disability who is a family member of an employee whom that employee is liable for family care and support, to study -
    - If remuneration proxy derived by employee during tax year exceeded R900,000; and
    - To so much of a bursary as in the case of such family member exceeded R45,000 during the year of assessment for:
      - Grade R to grade twelve as contemplated in the definition of 'school' in section 1 of the South African Schools Act, 1996 (Act No. 84 of 1996); or
      - A qualification to which an NQF level from 1 up to and including 4 has been allocated in accordance with Chapter 2 of the National Qualifications Framework Act, 2008 (Act No. 67 of 2008); and
    - R130,000 in respect of higher education (NQF level 5 up to 10).

## IRP5/IT3(a) details

- It is only the taxable portion of bursaries that must reflect under codes 3829 for Grade R and NQF level from 1 to 4 and 3831 for NQF level 5 up to 10.
- The non-taxable portion of bursaries must reflect under codes 3830 for Grade R and NQF level from 1 to 4 and 3832 for NQF level 5 up to 10.

## 16.5 EMPLOYMENT INCOME EXEMPTIONS

### Reference to the Act

Section 10(1)(o)

### Meaning

- For the purposes of counting these days, a person will still be regarded as being outside South Africa where the person is in transit through South Africa between two places outside South Africa and he/she does not formally enter South Africa through a port of entry or at any other place, in the case of a person authorised by the Minister of Home Affairs.
- This exemption does not apply in respect of any remuneration derived by the holder of any public office. Further, it is not applicable to any person in respect of services rendered or work or labour performed in terms of section 9(2)(h), that is who are employed in the national, provincial or local sphere of government, any constitutional institution, a public entity or a municipality entity.
- Where remuneration is received by or accrues to any employee during any year of assessment in respect of services in more than one year of assessment, the remuneration is deemed to have accrued evenly over the period that those services were rendered

### Exemptions

- Exempts from tax any remuneration derived by an employee in respect of services rendered outside the Republic for an employer if such person was outside the Republic for :
  - A period or periods exceeding 183 full days in aggregate during any 12 month period; and
  - Continuous period exceeding 60 full days during that period; and those services were rendered during that period or periods.

### Officer or crew member of a ship

- Remuneration derived by an officer or crew member of a ship engaged:
  - In the international transportation for reward of passengers or goods;
  - In the prospecting for, or the mining of, any minerals from the seabed outside the continental shelf of the Republic, where such officer or crew member is employed on

board such ship solely for purposes of the passage of such ship as defined in the Marine Traffic Act;

- Is exempt from tax if such person was outside the Republic for a period or periods exceeding 183 full days in aggregate during the year of assessment;
- Where remuneration is received by or occurs to an officer or crew member of ship as mentioned above during any year of assessment in respect of services rendered by that employee in more than one year of assessment, the remuneration is deemed to have accrued evenly over the period that those services were rendered
- The question of whether an employee will qualify for the exemption or not is a question of fact that can be answered once the requisite number of days has been met.
- Directives are therefore not issued for such taxpayers.
- Where the employer is satisfied that the employee will meet the necessary criteria for the exemption to be granted, the employer is at liberty not to deduct Employees' Tax provided that a copy of each page of the employee's passport and a copy of the relevant contract for the services to be rendered in a foreign country are kept.

Should it transpire that the employee does not qualify for the exemption; the employer will be held personally liable for any losses that SARS may suffer due to the non-deduction of the full amount of employees' tax.

**Other references**

- For more information refer to the applicable Interpretation Notes (numbers 16 and 34) on the SARS website [www.sars.gov.za](http://www.sars.gov.za)

**16.6 EMPLOYER-PROVIDED LONG-TERM INSURANCE**

**Reference to the Act** Paragraph 13(2)(bA) of the Seventh Schedule

**Meaning**

- Including Deferred Compensation Schemes)
- No value shall be placed on the value of any taxable benefit derived by reason of the fact that an employer has paid insurance premiums indemnifying an employee solely against claims arising from negligent acts or omissions on the part of the employee in rendering services to the employer.

**Other references**

- For more information refer to the applicable Interpretation Note on the SARS website [www.sars.gov.za](http://www.sars.gov.za).

**17 REFERENCES**

**17.1 LEGISLATION**

TYPE OF REFERENCE	REFERENCE
<b>Legislation and Rules administered by SARS:</b>	Income Tax Act No. 58 of 1962: Second Schedule, Fourth Schedule, Seventh Schedule. Skills Development Levies Act No. 9 of 1999. Unemployment Insurance Contributions Act No.4 of 2002. Tax Administration Act No. 28 of 2011. The Employment Tax Incentive Act No. 26 of 2013.
<b>Other Legislation:</b>	Companies Act No. 71 of 2008. Skills Development Act No. 97 of 1998. Medical Schemes Act No. 131 of 1998. Public Finance Management Act No.1 of 1999.

## 17.2 CROSS REFERENCES

DOCUMENT #	DOCUMENT TITLE
PAYE-AE-06-G06	Guide for Codes Applicable to Employees Tax Certificates
PAYE-AE-06-G08	Guide for Completion and Submission of Employees Tax Certificates
PAYE-GEN-01-G01	Guide for Employers in respect of Tax Deduction Tables
PAYE-GEN-01-G01-A01	Weekly Tax Deduction Tables
PAYE-GEN-01-G01-A02	Fortnightly Tax Deduction Tables
PAYE-GEN-01-G01-A03	Monthly Tax Deduction Tables
PAYE-GEN-01-G01-A04	Annual Tax Deduction Tables
PAYE-GEN-01-G01-A05	Other Employment Tax Deduction Tables
PAYE-GEN-01-G02	Guide for Employers in respect of Fringe Benefits
PAYE-GEN-01-G03	Guide for Employers in respect of Allowances
PAYE-GEN-01-G03-A01	Rate per Kilometer Schedule
PAYE-GEN-01-G03-A02	Subsistence allowance in respect of Foreign Travel
PAYE-GEN-01-G05	Guide for Employers in respect of Employment Tax Incentive
SDL-GEN-01-G01	Guide for Employers in respect of SDL
UIF-GEN-01-G01	Guide for Employers in respect of UIF

## 18 DEFINITIONS AND ACRONYMS

Link for centralised definitions, acronyms, and abbreviations: [Glossary A-M | South African Revenue Service \(sars.gov.za\)](#)

### DISCLAIMER

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#### 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 tax advisor/tax practitioner
- If calling from within South Africa, contact the SARS Contact Centre on 0800 00 SARS (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).