

# Tax Deductible Donations

Basic Principles for S18A Approved Tax Exempt Institutions

Tax Exempt Institutions (TEI) Segment



*South African Revenue Service*

5 October 2023

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# High Level Overview of Section 18A Approval

# Introduction

## What are Section 18A Tax Deductible Receipts?

- A section 18A tax deductible receipt is an official document issued by a Section 18A-approved institution to a donor who makes a qualifying donation. It serves as evidence of the donation made and potentially enables the donor to claim a tax deduction from their taxable income on submission of the income tax return.

## Eligibility and Conditions:

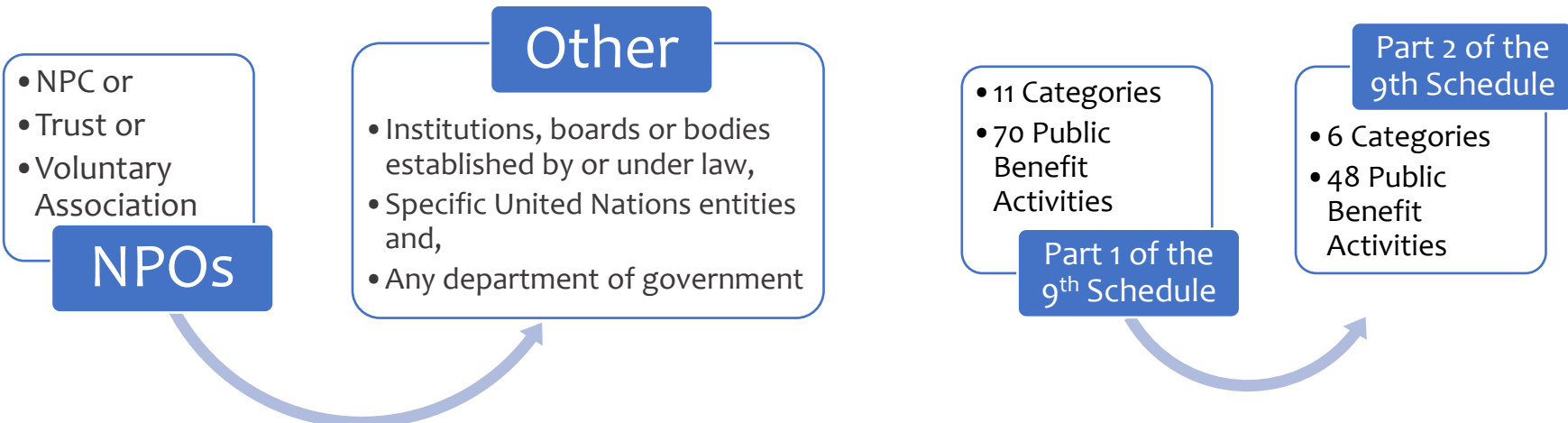
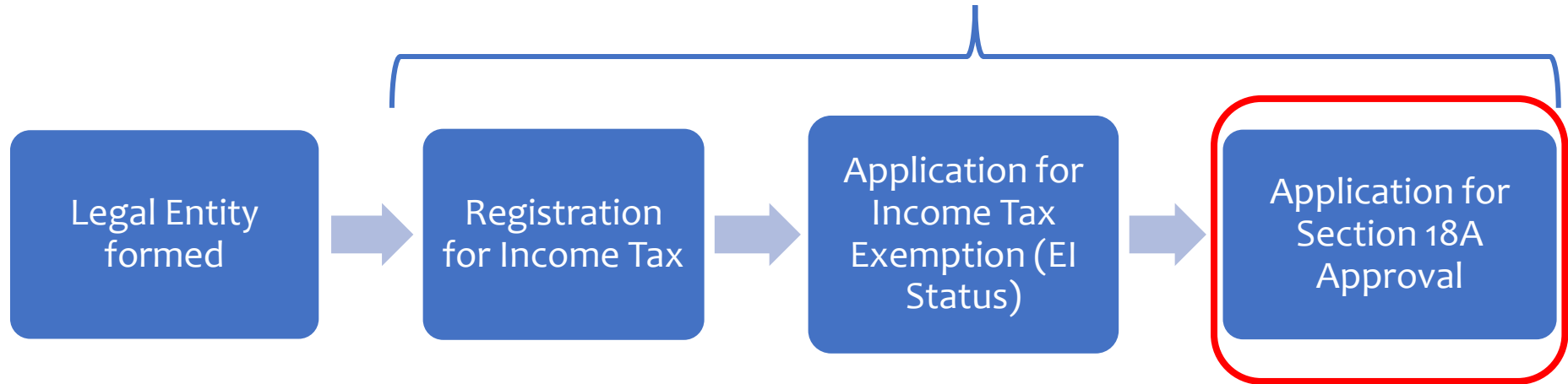
- To issue section 18A tax deductible receipts, the section 18A-approved institution must be approved by the South African Revenue Service (SARS) for purposes of section 18A of the Income Tax Act. The donation made by the donor, which includes an individual or business, may be in cash or in-kind and must not have any conditions attached for personal benefit.

## Importance of Section 18A Tax Deductible Receipts:

- For donors, obtaining a section 18A tax deductible receipt potentially enables them to reduce their taxable income. This incentivises charitable giving and encourages greater support for worthy causes. For section 18A-approved institutions, issuing section 18A tax deductible receipts can enhance transparency, build trust with donors, and promote their fundraising efforts.

# Application Process

Registration for income tax purposes and application for approval and exemption from income tax and approval under section 18A can be done simultaneously



# Different Types of S18A Approval

Category	Descriptor	Description
Section 18A(1)(a)(i)	“Doers”	PBOs and institutions, boards or bodies that conduct qualifying PBAs
Section 18A(1)(b)	“Conduit” / “Funder”	PBOs providing funds or assets to other approved exempt entities conducting qualifying PBAs - Limited to the provision of funds or assets; Does NOT include the provision of services or other resources
Section 18A(1)(a) and (b)		May have both types of S18A approvals
Section 18A(1)(c)		Various spheres of government that are approved and conduct qualifying PBAs
Section 18A(1)(bA)		Specialised UN Agencies that are approved and conduct qualifying PBAs
Ringfenced Section 18A Status		PBOs that carry on dual activities, both Part 1 and Part 2 PBAs Additional reporting requirements given the complexity of managing this approval

# Qualifying Public Benefit Activity Categories

Welfare and Humanitarian  
Paragraph 1

Health Care  
Paragraph 2

Education and  
Development  
Paragraph 14

Conservation, Environment  
and Animal Welfare  
Paragraph 4

Land and Housing  
Paragraph 5

Provision of Funds / Assets  
by **Conduit PBOs**  
Section 18A(1)(b)

# Section 18A Qualifying and Non-Qualifying Donations



# What Are Qualifying Donations For Purposes Of S18A



In the context of the Income Tax Act in South Africa, Section 18A donations refer to donations made to specific Public Benefit Organizations (PBOs) or entities that are eligible to issue Section 18A tax deductible receipts. These receipts enable donors to claim tax deductions on their contributions in their income tax returns. There are different types of Section 18A donations based on the nature of the contributions and how they qualify for tax benefits



To qualify as a valid (*bona fide*) donation

Gratuitous disposal by the donor out of liberality or generosity

No quid pro quo, no reciprocal obligations and no personal benefit for the donor

# Different Types Of Section 18A Donations

## Cash Donations:

- Cash donations are the most common type of Section 18A donations. These include monetary contributions made by individuals or businesses directly to registered PBOs. The PBO issues a Section 18A tax deductible receipt for the donated amount, which the donor can use to claim a tax deduction on their income tax return.

## In-Kind Donations:

- In-kind donations refer to non-cash contributions, such as goods or assets, provided to a registered PBO. These can include food, clothing, equipment offered to support the organization's charitable activities. When properly valued and verified, in-kind donations can qualify for Section 18A tax deductions, and the PBO issues a receipt for the estimated value of the donated items.

## Payroll Giving:

- Payroll giving, also known as workplace giving or employee giving, allows employees to contribute to PBOs through regular deductions from their salaries. The employer deducts the specified amount from the employee's salary and donates it to the chosen PBO on their behalf. If the PBO is eligible to issue Section 18A tax deductible receipts, employees can claim tax deductions for their contributions. The section 18A-approved institution issues the section 18A tax deductible receipt to the employer and the employer must take these donations into account when determining the monthly employees' tax to be deducted from the employees' remuneration.

# In Kind Donations Value Determination

## Examples and how to determine the value

### Immovable Property (e.g. building)

- Lower of the fair market value on the date of donation; or
- Cost of such property (less any allowance) deducted from the income of that taxpayer for that asset

### Financial Instrument (e.g. shares in a listed company)

Lower of fair market value on the date of the donation or the cost

### Trading Stock (e.g. food, furniture, medical supplies, motor cars)

Cost of the trading stock (as per section 22(8)(C) of the ITA)

# In Kind Donations Value Determination

## Examples and how to determine the value

### Assets Used In Trade (e.g. computers, vehicles, equipment)

- Lower of the fair market value on the date of donation; or
- Cost of such property (less any allowance) deducted from the income of that taxpayer for that asset

### Personal Assets (furniture, computers, sport equipment)

- Lower of the fair market value on the date of the donation; or
- Cost to the taxpayer of such asset less depreciation using the 20% reducing balance method

# Non-Qualifying Donations

- × Donation of services rendered such as a professional person renders a skill free of charge.
- × An amount paid for attending a fundraising dinner, dance or charity golf day.
- × The amount paid for the successful bid of goods auctioned to raise funds by an institution and Memorabilia, paintings, etc., donated to be auctioned to raise funds
- × Amounts paid for raffle or lottery tickets.
- × Amounts paid for school fees, entrance fees for school admittance or compulsory school levies.
- × Value of free rent, water and electricity provided by a lessor to the lessee which is an approved PBO.
- × Payments in respect of debt due

# Management and Administration of S18A Approval

# Management and Administration of S18A Status

## Ensure All Legal Requirements Are Met When Issuing A S18A Receipt

- Understand the type of S18A approval and different legal requirements for each
- The recipient PBO must use the funds or assets for carrying on any section 18A Activities in South Africa only

## Account And Record Keeping

- Issue a receipt that meets all the legal requirements
- Keep full and proper records
- Generally required to be kept and retained for five years from the date of submission of the income tax return for the year of assessment to which it relates

## Reporting

- Meet existing legal requirements
- SARS may request the information of all S18A receipts issued for a particular year (including preceding or existing years)
- Prepare to meet new automated reporting requirements

# Management and Administration of S18A Status

## Registered Details

- SARS must be informed within 21 days of any changes to the institutions registered details.
- This includes the institutions founding documents, office bearers / board members / fiduciary officers, registered representative.

## S30 Requirements

- Approved S18A institutions are required to meet all the S30 requirements all the time to retain S18A status

## Supporting documentation

- Submit supporting documentation to SARS when requested within 21 working days
- This includes, but not limited to, Audit certificate, if requested by SARS

## Wilful and without cause failure or neglect to retain records

- A person who wilfully and without cause fails or neglects to retain records as required is guilty of an offence.
- On conviction is subject to a fine or imprisonment for a period not exceeding two years



# Filing: Income Tax Return (IT 12EI)

- **All** PBO's and exempt institutions must submit **annual** income tax returns (IT12EI), notwithstanding the exemption which may result in no tax liability.
- **No incomplete (blank)** are accepted
  - If the institution has had no income for the year, a declaration must be made on the return by answering “Y” to the question “Is the institution dormant?” and selecting an appropriate to the question “Does the institution have any assets and / or reserves?”.
- Note that a declaration made on the return is legally binding and SARS may audit the institution (including all information declared)
- **Date for submission:**
  - **Companies & Association of Persons** – as per their Financial Year end (FYE) date
  - **Trusts** – as per SARS filing season deadline

# Section 18A Declaration: Annual Income Tax Return (IT 12EI)

Tax Exempt Institutions that have been granted Section 18A approval **must complete** this section in full.

## Tax Deductible Receipts Issued i.r.o. Donations (Section 18A)

Number of section 18A tax deductible receipts issued

20



Total rand value of donations for which section 18A tax...

R

500000




Were funds expended on both section 18A approved and non section 18A approved activities? Y  N

Where the fund is approved i.t.o. section 18A(1)(b), was the required percentage of the donations received, for which tax deductible receipts were issued, distributed? Y  N

If Yes, do you have the required audit certificates? Y  N

# Example of Receipt - Enhanced Reporting Requirements

 <b>ABC HOUSE OF SAFETY</b> Oxford Street, Pretoria, 0001 – Telephone (00) 000 0000 Exemption Reference Number: 930000000			
RECEIPT NUMBER		0001	
<b>DONOR INFORMATION</b>			
NAME			
PHYSICAL ADDRESS			
E-MAIL ADDRESS			
CONTACT NUMBER			
NATURE	INDIVIDUAL	RSA IDENTIFICATION NUMBER	
		PASSPORT NUMBER	
		COUNTRY ISSUED	
	COMPANY/ TRUST	REGISTERED NAME	
		TRADE NAME	
		REGISTRATION NO	
INCOME TAX REFERENCE NUMBER			
<b>DONATION INFORMATION</b>			
AMOUNT OF DONATION (IF CASH)		R	
NATURE AND VALUE OF DONATION (IF PROPERTY IN KIND)			
DATE RECEIVED	DONATION		
<p>The receipt is issued for the purposes of section 18A of the Income Tax Act 58 of 1962 (the Act). The donation received has been or will be used solely in carrying on public benefit activities listed in Part II of the Ninth Schedule to the Act.</p>			
DETAILS AND SIGNATURE OF PERSON IN A FIDUCIARY CAPACITY RESPONSIBLE FOR THE MANAGEMENT OR CONTROL OF THE INCOME AND ASSETS OF THE PBO			
DATE RECEIPT ISSUED			

# Section 18A Enhanced Reporting Benefits

## 1.Accuracy

- Will ensure donor taxpayers claim a deduction for donations made only to an entity approved by the SARS for purposes of S18A

## 2.Ease

- Will ensure that the S18A receipt claimed by a donor taxpayer matches information provided by a PBO issuing S18A receipts

## 3.Mitigation

- Will ensure that a PBO's number and S18A status is not unknowingly abused.

# Responsibility of Donors

# What You Need To Know As a Taxpayer Making Or Claiming A S18A Donation (Donor)

- Ensure that you are making a donation to an institution approved for Section 18A purposes (SARS publishes a list of approved S18A entities)
- When you make a donation in cash or kind to a S18A approved institution the **taxpayer** is entitled to a deduction from taxable income if the donation:
  - Does not exceed ten percent of the taxable income of the taxpayer, calculated before allowing any deductions – (a roll-over provision provides for additional amounts to be claimed in subsequent financial years); and
- Donations must be supported by the necessary receipt issued by the institution (which needs to meet certain legal requirements prescribed).
  - Receipts that do not meet the legal requirements will be disallowed in the hands of taxpayers claiming it.
  - Receipts supporting claims submitted must be made available upon request by SARS during verification or audit processes.

**Please provide all your information to the institution when making a donation if you intend to claim a tax deduction**

**Please Note: Anonymous donations cannot be claimed without a valid tax deductible receipt.**

# Developments in S18A Reporting obligations

## Prior to March 2023

- Issue a receipt that meets all the requirements for a valid receipt
- Submit an Annual Income Tax Return and disclose S18A information (incl. number and value of all S18A receipts issued)
- Make available upon request a list of all S18A receipts issued

## 1 March 2023

- Issue a receipt that meets all the requirements for a valid receipt (**additional requirements from 1 March 2023**)
- Submit an Annual Income Tax Return and disclose S18A information (incl. number and value of all S18A receipts issued)
- Make available upon request a list of all S18A receipts issued
- Participate in section 18A third-party reporting [IT3(d)] pilot as early adopters (voluntary)

## May 2024

- Issue a receipt that meets all the requirements for a valid receipt (**including additional requirements**)
- Submit information on all S18A receipts issued at regular intervals as indicated on the SARS website in a prescribed format using the IT3(d) on
  - eFiling
  - HTTPS
  - Connect Direct

# Consequences of Non-Compliance



# Impact of Non-Compliant Receipts

Negative impact on reputation of S18A approved PBO



Inability to match S18A data to donor taxpayers



Greater chances for donors being flagged for verification or audit

# Consequences of Non-Compliance with S18A Requirements

## Donor Recipient - S18A Approved Entity

- Donation may be **deemed to be taxable income** the hands of the section 18A approved entity if it:
  - Failed to ensure that section 18A funds were applied to objects of the entity or applied such funds for purposes not covered by such objects
  - Issued or allowed a receipt to be issued in respect of fees or emoluments payable to that entity
  - Ring-fenced section 18A approvals – applied section 18A funds on part I activities
  - Conduit PBOs providing funds for both part I and II PBAs – provided section 18A funds to entities conducting part I activities
  - Ring-fenced section 18A approvals and Conduit PBOs providing funds for both part I and II PBAs – failed to obtain and retain an audit certificate as required
  - Any section 18A-approved department of government – failed to obtain and retain an audit certificate as required
- Continued non-compliance may lead to S18A and tax exempt status being revoked by SARS

## Donor - Claiming Invalid S18A Receipt

- Donation will be disallowed
- Appropriate enforcement action – such as understatement penalties

# Tips to Taxpayers

S18A receipts may only be issued once an institution has been approved by SARS for the purpose of S18A

S18A approval is never granted retrospectively

There are different types of Section 18A approval, each with its own set of requirements

Donations must be paid or transferred during the year of assessment

S18A donations can only be used in carrying on any S18A public benefit activities in South Africa

Ensure that correct values are placed on S18A receipts issued for donations of properties made in kind

# Conclusion

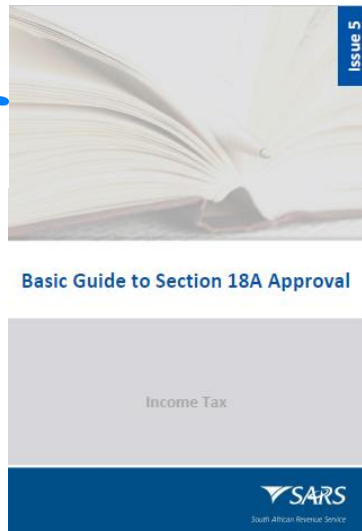
# Conclusion

- Protect the integrity of the S18A system – we all need to work together to prevent 18A receipts issued :
  - By non qualifying PBOs
  - For non-qualifying PBAs
  - For incorrect “donations” such as fundraising events/services rendered
  - For incorrect valuations for in kind donations such as trading stock
  - Overstatement of donation deductions
  - Claiming of Fictitious S18A receipts
- Integrity and reputation of sector is priceless
  - Don’t allow “shopping around” by Donors for best S18A “deals”
  - Report unethical behaviour
  - Loss is not only to the fiscus but to the broader sector in dire need of funding
- Make it easier for donors to claim receipts, without compromising risk mitigations
- New approach places responsibility on both donors and issuing institutions

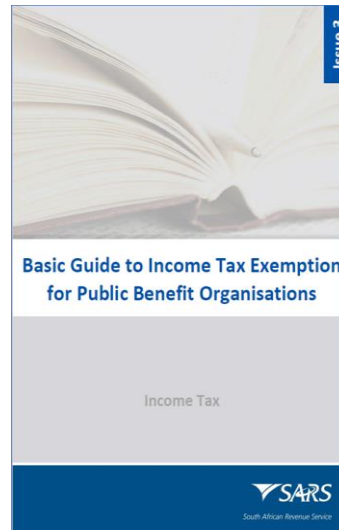
# Tax Exempt Institutions (TEI) Segment Resources and Contact Details

# Resources

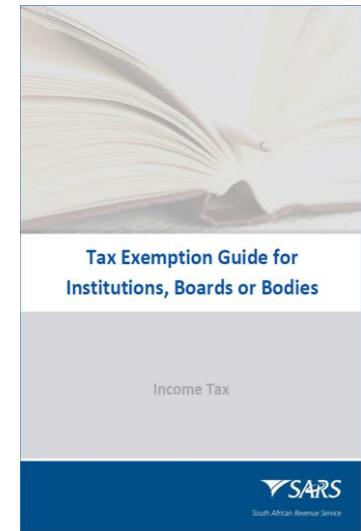
## SARS Publications available on website



**Basic overview, which includes all institutions that qualify for section 18A approval**



**Includes approval as PBO under section 30, income tax exemption under section 10(1)(cN) & approval under section 18A(1)(a)(i)].**



**Includes approval and income tax exemption under section 10(1)(cA)(i) and approval under section 18A(1)(a)(ii)]**



**A Guide to Section 18A Approval of a Department in the National, Provincial and Local Sphere of Government [includes the exemption under section 10(1)(a) and approval under section 18A(1)(c)]**

# Tax Exempt Institutions (TEI) Segment

## Contact Details

E-Mail: [TEISegment@sars.gov.za](mailto:TEISegment@sars.gov.za)

Webpage on SARS Website: [Tax Exempt Institutions | South African Revenue Service \(sars.gov.za\)](#)

IT3(d): [IT3 Data Submission | South African Revenue Service \(sars.gov.za\)](#)



# Go Digital

## Remember our Digital Channels

- We've made it easier for you

  - Go Digital!

    - Download the SARS MobiApp via your app store
    - Register for eFiling
    - SARS Online Query System

- Visit us on our Social Media platforms

  - LinkedIn





  - Facebook





  - Twitter (X)



- For more information, visit the:

  - SARS YouTube channel: [www.youtube.com/sarstv](https://www.youtube.com/sarstv)

  - SARS website [www.sars.gov.za](https://www.sars.gov.za)



Thank you  
Re a leboha  
Re a leboga  
Ndza Khensa  
Dankie  
Ndi a livhuwa  
Ngiyabonga  
Enkosi  
Ngiyathokoza