

# **Income Tax and the Individual**

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## **FOREWORD**

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

This document is not meant to go into the precise technical and legal detail that is often associated with tax. It should, therefore, not be used as a legal reference.

Should you require additional information, you may –

- Contact any SARS branch;
- Visit SARS online at <http://www.sars.gov.za>; and/or
- Contact your own adviser.

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**1. WHEN IS AN INDIVIDUAL LIABLE FOR INCOME TAX?**

Every individual who receives taxable income in excess of a specific amount (known as the “threshold” amount) in a year of assessment is liable for income tax. The threshold amount for the 2007 year of assessment is R40 000 if you are under 65 years or R65 000 if you are 65 years and older. Once these thresholds have been exceeded, the specific rates at which individuals are taxed depend on the amount of taxable income received. The applicable rates for the 2007 year of assessment are enclosed in Annexure A.

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

A year of assessment for an individual consists of twelve months commencing on 1 March and ending on the last day of February of the following year. The 2007 year of assessment therefore commences on 1 March 2006 and ends on 28 February 2007.

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

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

- Income from employment e.g. salaries, wages, bonuses, overtime, fringe benefits, and certain lump sums
- Income from a business or trade
- Investment income, e.g. interest, rental income, and foreign dividends
- Annuities
- Pensions
- Certain capital gains

**4. DO ALL INDIVIDUALS HAVE TO COMPLETE INCOME TAX RETURNS?**

No. Only certain categories of taxpayers must complete and submit income tax returns.

The following individuals have to complete an income tax return:

- Anyone who receives income from employment (salary, wages, etc.) that

exceeds a specified annual equivalent [R60 000 for the 2007 year of assessment (i.e. R5 000 per month)]. However, all employees who receive commission or a travel allowance must complete an income tax return, irrespective of whether the annual equivalent is more than R60 000 or not.

- Anyone who receives interest and foreign dividends during the 2007 year of assessment worth more than R16 500 if you are under 65 years or R24 500 if you are 65 years and older. Foreign interest and dividends will only be exempt up to R2 500 out of the total exemption. An individual whose income consists only of interest and dividends will not be required to submit a tax return where the sum of these amounts is less than the thresholds mentioned in paragraph 1.

For example, a taxpayer who is under the age of 65 receives R1 500 foreign dividends, R1 100 foreign interest and R2 000 local interest. These amounts will be exempt in the following order –

- foreign dividends;
- foreign interest; and
- local interest.

- Anyone who receives income from his/her own business (irrespective of what the taxable income or assessed loss is).
- Anyone who receives an income tax return must complete and return it irrespective of the amount of income of the person.

It follows that an individual who only receives salaries or wages that do not exceed the specified annual equivalent for a year of assessment (R60 000 for the 2007 year of assessment), does not have to complete an income tax return.

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

Any individual who has to complete an income tax return must register for income tax at their local SARS branch by completing an IT 77 form. SARS then posts income tax returns to all individuals who are on its register. Where a

registered individual has not received an income tax return, he/she must obtain one from their local SARS branch.

#### **6. TO WHOM IS THE INCOME TAX PAYABLE?**

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

#### **7. WHEN IS INCOME TAX PAYABLE?**

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

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

#### **The methods that are currently used by SARS are:**

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

#### **8. WHAT IS EMPLOYEES' TAX?**

Employees' tax is the tax that employers must deduct from the employment income of employees (salaries, wages, bonuses, etc.) and pay over to SARS on

a monthly basis. It is withheld when these amounts are paid or become payable to the employees, i.e. daily, weekly, monthly, etc.

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

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

### **8.1 What is SITE?**

SITE stands for Standard Income Tax on Employees. Employees' tax that is deducted from the full-time employment income below the specific threshold for a year of assessment (R60 000 for 2006/7) is classified as SITE

The main objective of SITE is to ensure that the sum of the tax deductions made by the employer is equal to the final income tax liability of the individual for the year of assessment. Accordingly, an individual need not submit an income tax return if he/she receives no income other than income from full-time employment below R60 000 for the 2007 year of assessment.

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

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

- Pension fund contributions
- Retirement annuity fund contributions
- Medical aid contributions to a registered medical scheme if the individual is

65 years and older

- Medical aid contributions to a registered medical scheme which does not exceed the capped amounts (R500 for employee, R1 000 for employee and one dependant or R1 000 for employee and one dependant plus R300 for additional dependants thereafter) less any contributions by the employer which was not included in the employee's remuneration as a taxable fringe benefit.
- Any premium paid in terms of an insurance policy to the extent that it covers the employee against the loss of income as a result of illness, injury, disability or unemployment and in respect of which all amounts payable in terms of that policy constitute or would constitute income as defined.

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

## **8.2 What is PAYE?**

PAYE stands for Pay-As-You-Earn.

PAYE is the employees' tax that is deducted by the employer from the amount of full-time employment income in excess of the SITE threshold for a year of assessment (R60 000 for the 2007 year of assessment).

Commission, travel allowances and employment income of a person who works on a part-time basis are subject to PAYE irrespective of the amount received.

(Part-time employment is where a person works for an employer for less than 22 hours in a full week)

Where any of the employment income of an individual is subject to PAYE, the final determination of the employee's income tax liability is done when SARS processes the income tax return that the employee must submit.

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

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

An employer must issue an employee with a receipt known as an employees' tax certificate (IRP 5 certificate) where SITE and/or PAYE was deducted from the earnings of the employee. This certificate discloses, amongst other things, the total employment income earned for the year of assessment and the total SITE and/or PAYE that was deducted by the employer and paid to SARS. The IRP 5 certificate must be submitted together with the income tax return to SARS.

#### **10. WHAT IS PROVISIONAL TAX?**

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

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

### **10.1 Who is a provisional taxpayer?**

- Any individual who earns business income or farming income.
- Any director of a private company if that director is a resident.
- Any member of a close corporation if that member is a resident.
- Any company.
- Any person who is notified by the Commissioner that he/she is a provisional taxpayer.
- Any individual who derives **taxable** interest, dividends and rental income in excess of a specified total (R10 000 for the 2007 year of assessment). An individual who is 65 years and older will be exempt from paying provisional tax if his/her taxable income does not exceed a specified total (R80 000 for the 2007 year of assessment) and which is only derived from employment (e.g. salaries and wages), interest, dividends or rental of fixed property.

The taxable amount of interest and dividends is determined by deducting a specified exempt amount from the total amounts derived. The specified exemption for the sum of interest and taxable dividends for the 2007 year of assessment is R16 500 where the individual is under 65 years and R24 500 where the individual is 65 years and older. Foreign interest and dividends will only be exempt up to R2 500 out of the total exemption.

This means that an individual under 65 years who only receives a salary and interest from a South African bank will only qualify as a provisional taxpayer for the 2007 year of assessment if the total interest received exceeds R26 500 (R16 500 + R10 000) for the year of assessment.

## 10.2 When is provisional tax due?

- First payment - 6 months after the commencement of the year of assessment, i.e. 31 August 2006.
- Second payment - not later than the last day of the year of assessment, i.e. 28 February 2007.
- A voluntary third or “top up” payment - 7 months after the end of the year of assessment, i.e. 30 September 2007. This will only become necessary where the taxable income is in excess of R50 000 for individuals. This payment can be made to avoid the liability for interest that will arise due to the final income tax not being settled within seven months of the end of the tax year.

## 10.3 How much provisional tax must be paid?

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

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

The tax that is payable on the estimated taxable income for the year of assessment must be determined by applying the rate of normal tax applicable to that amount of taxable income or by using the tables (IRP 12) that are sent to all provisional taxpayers by SARS. Employees' tax (SITE and PAYE), any **foreign**

**taxes** paid or proved to be payable by the provisional taxpayer to the government of another country, and any provisional tax already paid for that year of assessment can be deducted from the estimated provisional tax that is payable for the relevant provisional tax period.

## **11. WHAT HAPPENS ON ASSESSMENT?**

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

Processing includes the following steps:

- All of the income (including employment income, business income, interest, rental income and taxable capital gain) received by a South African resident from all over the world are added together.
- Amounts that are exempt from income tax are excluded.
- Allowable tax deductions such as medical expenses, donations to approved public benefit organisations and wear and tear allowances are taken into account (all these deductions are subject to certain limitations).
- The resultant taxable income is used to determine the final income tax liability by applying the relevant tax rates.
- The final income tax liability of an individual is reduced by a primary rebate, and in the case of an individual who is 65 years and older by an additional age rebate which may reduce the tax liability to zero. This means that these rebates or portions of these rebates cannot be paid to taxpayers in cash if they exceed/are more than the tax liability. These rebates for the 2006 year of assessment are R7 200 (primary) and R4 500 (age).
- The SITE, PAYE and provisional tax paid by the taxpayer during the year of assessment are deducted from the final income tax liability of the taxpayer which will result in a net amount that is due by the taxpayer or a net amount that is refundable to the taxpayer.

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

An example of the assessment process is included in Annexure A.

## **12. INTEREST**

Interest at the prescribed rate may be charged where:

- A taxpayer is late in paying the income tax that is due on assessment
- The provisional tax paid in respect of a year of assessment is not sufficient to offset the assessed final income tax liability of the taxpayer in full
- The provisional tax is not paid on time

The prescribed rate of interest is fixed from time to time by the Minister of Finance and is currently 10,5% per annum.

## **13. ADDITIONAL TAX**

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

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

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

- the estimated taxable income for the year of assessment for the second provisional tax payment (payable on 28 February 2007) is less than 90% of the actual taxable income for the year of assessment and the taxable income for the previous year of assessment; and/or
- this estimate is not submitted before the last day of the year of assessment.

## **14. PENALTIES**

Penalties may also be charged where provisional tax returns are submitted late.

Penalties are levied at a rate of 10%.

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

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

- failure to pay income tax that he/she is supposed to pay, i.e. tax evasion
- the failure to complete an income tax return that he/she is supposed to
- the failure to disclose all of his/her income in an income tax return

## **16. CONCLUSION**

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

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

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

## ANNEXURE A

### Tax rates for the year of assessment ending 28 February 2007

(2007 Year of Assessment):

Taxable Income (Rand)		Rates of Tax	
0	–	100 000	18% of each R1
100 001	–	160 000	R18 000+25% of the amount above R100 000
160 001	–	220 000	R33 000+30% of the amount above R160 000
220 001	–	300 000	R51 000+35% of the amount above R220 000
300 001	–	400 000	R79 000+ 38% of the amount above 300 000
400 001 and above		R117 000+40% of the amount above 400 000	

#### Rebates

Primary Rebate	R 7 200
Age Rebate	R 4 500

#### Tax thresholds

Below 65 years	R40 000
65 year and older	R65 000

#### Interest exemptions

Persons under 65 years	R16 500
Persons 65 years and older	R24 500

## EXAMPLE

An employee who is not yet 65 years of age received the following income for the period 1 March 2006 to 28 February 2007 (i.e. the 2007 year of assessment):

Salary	R120 000
Overtime	R 8 000
Bonus	R 10 000
Interest from South African Banks	R 18 000
Dividends from South African companies	R 1 200
Dividends from foreign companies	R 3 000
Net rental	<u>R 17 000</u>
<b>TOTAL INCOME RECEIVED</b>	<b><u>R177 200</u></b>

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

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

SITE	R 3 600
PAYE	R 13 815
Provisional tax payments for the year of assessment	R 6 010

### Calculation of taxable income:

Total income received	R177 200
Less: Exempt income:	
Dividends from South African companies	(R 1 200)
Foreign dividends (limited to R2 500 or	

the actual amount where less than R2 500)	(R 2 500)
South African interest (limited to R14 000, i. e. R16 500 less	
R2 500 foreign dividend exemption)	( <u>R 14 000</u> )
	R159 500
Less: Deductions	
Pension fund contributions	( <u>R 9 000</u> )

**TAXABLE INCOME** **R150 500**

The income tax payable on the taxable income of R150 500 is calculated by applying the tax rates for the year of assessment ending 28 February 2007 (see table in Annexure A) as follows:

The taxable income of R150 500 falls within the bracket of R100 001 – R160 000 in the table.

Therefore the tax on the first R100 000 is	R 18 000
And the tax on the amount R50 500 (R150 500 - R100 000) is	
25% R50 500	<u>R 12 625</u>
Normal tax payable	R 30 625
Less: Primary rebate	( <u>R 7 200</u> )
Net normal tax payable	R 23 425
Less: SITE	( <u>R 3 600</u> )
PAYE	( <u>R 13 815</u> )
Provisional tax paid	( <u>R 6 010</u> )
<b>TAX PAYABLE ON ASSESSMENT</b>	<u><b>R NIL</b></u>