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**SOUTH AFRICAN REVENUE SERVICE**

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**GUIDE  
ON  
INCOME TAX  
AND  
THE INDIVIDUAL  
(2008/09)**

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



# GUIDE ON INCOME TAX AND THE INDIVIDUAL

## Foreword

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

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

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

This guide is based on legislation as at 1 January 2009.

Should you require additional information, you may –

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

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

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Date of 1<sup>st</sup> issue: March 2002

Date of 2<sup>nd</sup> issue: April 2005

Date of 3<sup>rd</sup> issue: March 2006

Date of 4<sup>th</sup> issue: March 2007

Date of 5<sup>th</sup> issue: March 2008

Date of 6<sup>th</sup> issue: May 2009

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

All individuals who receive taxable income in excess of a specific amount (known as the “tax threshold” amount) in a year of assessment (tax year) are liable for income tax. The tax threshold amount for the 2009 year of assessment is R46 000 for individuals below the age of 65 and R74 000 for individuals of 65 years and older. Once the tax threshold has been exceeded, the specific rates at which individuals are taxed depend on the amount of taxable income received. The applicable rates for the 2009 year of assessment are enclosed in **Annexure A**.

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

A year of assessment for an individual consists of 12 months which begins on the first day of March of a specific year and ends on the last day of February of the following year. The 2009 year of assessment therefore started on 1 March 2008 and ended on 28 February 2009.

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

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

- income from employment, such as, salaries, wages, bonuses, overtime, fringe benefits, and certain lump sums;
- income from a business or trade;
- income or profits as a beneficiary from a trust;
- director’s fees from companies or close corporations;
- investment income, such as, interest, rental income, and foreign dividends;
- income from royalties;
- annuities;
- pensions; and
- certain capital gains.

## 4. DO ALL INDIVIDUALS HAVE TO REGISTER AS TAXPAYERS AND SUBMIT INCOME TAX RETURNS?

### 4.1 Registration

Any individual who becomes liable for income tax must register as a taxpayer with SARS within 60 days after becoming liable for tax by completing an IT 77 registration form, which is available from any SARS office or from the SARS website [www.sars.gov.za](http://www.sars.gov.za).

An employee whose net remuneration, [that is, the balance of remuneration after the deduction of employee’s pension contributions, retirement annuity fund, income protection policy premiums and employee medical aid contributions (where applicable)] or the annual equivalent thereof, is less than R60 000 per year of assessment, and the employee is not in receipt of travel or certain other

allowances, additional part-time employment income, investment income, rental income and/or business income, does generally not have to register for income tax purposes. However, employees who receive commission must register as taxpayers irrespective of what the amount of the annual equivalent is.

Individuals who are required to register as taxpayers, but who have not yet done so, must complete an IT 77 registration form immediately.

## 4.2 Submission of income tax returns

An individual must submit an income tax return if, during the 2009 year of assessment, he or she receives –

- income from employment (salary, wages etc) that exceeds a specified annual equivalent (R60 000 for the year or R5 000 per month);
- foreign dividends and/or foreign interest and the aggregate amount exceeds R3 200;
- local interest in excess of R19 000 if he or she is below the age of 65 and R27 500 if he or she is 65 years and older. If he or she also receives foreign dividends and/or foreign interest (referred to above), the aggregate amount thereof, up to R3 200 which is exempt from income tax is deducted from the R19 000 or the R27 500, whichever is applicable.

### Example

#### *Facts:*

A taxpayer below the age of 65 received R1 600 foreign dividends, R2 100 foreign interest and R22 000 local interest.

#### *Result:*

The foreign dividends, foreign interest and local interest will be exempt in the following order:

- Foreign dividends R1 600 less exemption of R1 600.
- Foreign interest R2 100 less exemption of R1 600 (R3 200 – R1 600).
- Local interest R22 000 less exemption of R15 800 (R19 000 – R3 200).
- If the individual receives income from his or her own business (irrespective of what the taxable income or assessed loss is).

**Note:** Every year, the Commissioner for SARS (the Commissioner) will give public notice by way of the *Government Gazette*, indicating all persons who are personally or in a representative capacity liable to taxation under the Income Tax Act, No. 58 of 1962 (the Act) or who are required by the Commissioner to furnish returns for the assessment of tax. The notice will also prescribe the period within which returns must be furnished for the purposes of assessments for the year of assessments specified in that notice.

### 4.3 Filing an income tax return

The filing season for the submission of income tax returns (ITR 12) for the 2009 year of assessment opens in July 2009. The deadline dates for the submission of ITR 12 returns are –:

- **18 September 2009** for manual submission of returns; and
- **20 November 2009** for electronic submission of returns (eFiling).

### 4.4 How to obtain an income tax return?

An employee, who is required to submit an income tax return, must request the return which can be tailored to the employee's specific needs, from SARS. In this regard SARS will mail a **Request for Income Tax Return** to the employee for completion, together with a quick guide on how to request an income tax return. (It will be important to update address particulars with SARS where applicable.). The **Request for Income Tax Return** must be completed and returned to the local SARS office.

If the employee wishes to file electronically or make use of a tax practitioner, the return may be obtained from the SARS eFiling website [www.sarsefiling.co.za](http://www.sarsefiling.co.za) and can be personalised to suit specific tax requirements by way of completing a "wizard". The return can also be requested by visiting any SARS office.

An individual who earns less than R120 000 a year, who has a single employer and no additional income to declare or deductions to claim, will not be required to submit an income tax return for the 2009 year of assessment.

### 4.5 Pre-populated return

Once a **Request for Income Tax Return** has been received, SARS will –

- customise the ITR 12 according to the complexity of your tax affairs (that is, an income tax return will only contain the relevant fields for the completion of the return to suit your specific needs); and
- pre-populate the ITR 12 with the information contained in your IRP 5 or IT 3(a) certificate(s) (for example, employment income, pension fund contributions, tax deducted etc).

On receipt of the pre-populated tax return, you must –

- verify the pre-populated information on the ITR 12 against your IRP 5/IT 3(a) certificate(s);
- complete the remaining relevant fields (for example, additional income and deductions);
- request a revised tax return either *via* eFiling, a local SARS branch or the SARS Contact Centre on 0800 00 SARS (7277) if the return does not make provision for all the fields required; and/or
- submit the return electronically to SARS.

**Note:**

- (1) Your tax return (if submitted manually) must be signed by you.
- (2) You will require the following documentation to verify the pre-populated information in the return and to complete any remaining portions on your tax return:
  - IRP5/IT3(a) certificate(s).
  - Certificates you received for local interest income earned.
  - Any other documentation relating to income received or accrued.
  - Details of medical expenses paid and medical scheme contributions made.
  - The relevant certificates stating your retirement annuity fund contributions made.
  - A logbook and other documents in support of business travel expenses (if in receipt of a travel allowance).
  - Any other documentation relating to the deductions you wish to claim.

You are required to retain **ALL** relevant documents for a period of five years from the date upon which your tax return was received by SARS and produce them should your tax return be subject to an inspection or audit.

You must please visit your local SARS branch or alternatively contact 0800 00 7277 if you have requested a tax return and have not received it two months before the closing date,.

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

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

## **6. 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 use 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 currently used by SARS to collect income tax are –**

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

## 7. 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. The tax is withheld when these amounts are paid or become payable to the employees, for example, daily, weekly, monthly etc.

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

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

### 7.1 What is SITE?

SITE is the Standard Income Tax on Employees that is deducted from the full-time employment income below the SITE threshold for a year of assessment (R60 000 for 2009).

The main objective of SITE is to ensure that the sum of the tax deductions made by the employer is equal to the employee's final income tax liability for the year of assessment. Accordingly, an individual does not need to submit an income tax return if he or she receives no income other than income from full-time employment below R60 000 for the 2009 year of assessment.

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

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

- Pension fund contributions.
- Retirement annuity fund contributions.
- Medical aid contributions to a registered medical scheme if the individual is 65 years and older.
- Medical aid contributions to a registered medical scheme which does not exceed the capped amounts (R570 for each month for an employee, R1 140 for each month for an employee and one dependant or R1 140 for each month for an employee and one dependant plus R345 for every additional dependant for each month).
- 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 for which all amounts payable in terms of that policy constitute or would constitute "income" as defined in the Act.

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 or her earnings for the year of assessment. The employer must recover or refund SITE where too little or too much was deducted during the year of assessment. The employee does not have to register for income tax purposes if he or she only

receives full-time employment income below the SITE threshold of R60 000 for the 2009 year of assessment. This means that the employee does not have to complete an income tax return that has to be assessed by SARS.

## 7.2 What is PAYE?

PAYE stands for Pay-As-You-Earn and is the employees' tax deducted by the employer from the amount of **full-time** employment income in excess of the SITE threshold for a year of assessment (in other words, employment income above R60 000 for the 2009 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.)

In instances where any of an employee's employment income is subject to PAYE, the employee's final tax liability is determined when SARS processes the income tax return that has been submitted by him or her.

**Note:** In the event that any portion of an employee's earnings is subject to PAYE, he or she must complete and submit a tax return even if the total earnings for the year of assessment do not exceed R60 000.

## 8. WHAT PROOF DOES AN EMPLOYEE HAVE OF TAX DEDUCTED FROM HIS OR HER EARNINGS?

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

## 9. WHAT IS PROVISIONAL TAX?

An individual who earns **taxable** income that is not subject to SITE or PAYE deductions (for example, interest, rental or business income), 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:** Provisional taxpayers must apply at their SARS branch office for registration as provisional taxpayers within 30 days after the date on which they qualify as provisional taxpayers.

## 9.1 Who qualifies to be a provisional taxpayer?

A provisional taxpayer is –

- any individual who earns business income or farming income;
- any company or close corporation;
- any person who is notified by the Commissioner that he or she is a provisional taxpayer; and
- any individual who derives **taxable** interest, dividends and rental income in excess of a specified total (R20 000 for the 2009 year of assessment).

An individual who is 65 years of age or older will be **exempt** from paying provisional tax if his or her taxable income for the 2009 year of assessment –

- does not exceed R80 000;
- will not be derived wholly or in part from the carrying on of any business; and
- will not be derived otherwise than from employment income (that is, 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 2009 year of assessment is R19 000 where the individual is below the age of 65 and R27 500 where the individual is 65 years of age and older. Foreign dividends and foreign interest will only be exempt up to an amount R3 200 (see 4.2).

This means that an individual younger than age 65 who only receives a salary and interest from a South African bank will only qualify as a provisional taxpayer for the 2009 year of assessment if the total interest received exceeds R39 000 (R19 000 + R20 000) for the 2009 year of assessment.

## 9.2 When is provisional tax due?

Provisional tax is due as follows:

- First payment – six months after the beginning of the year of assessment, that is, 31 August 2008.
- Second payment – not later than the last day of the year of assessment, that is, 28 February 2009.
- A voluntary third or “top up” payment – seven months after the end of the year of assessment, that is, 30 September 2009. This is only necessary if the individual's taxable income is in excess of R50 000. Payment can be made to avoid liability to pay interest that will arise due to the final income tax not being settled within seven months after the end of the year of assessment.

## 9.3 How much provisional tax must be paid?

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

The estimate for the first payment must be half of the total estimated liability.

The estimate may not be lower than the individual's taxable income (as assessed by SARS) for the previous year of assessment, unless permission is obtained from SARS. In the event that an individual has no assessed taxable income in respect of a previous year of assessment, the individual must estimate his or 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 estimated amount if the individual is unable to justify the estimate.

The estimate for the second payment must be equal to the total liability for the year of assessment. Should the total estimated liability for the year of assessment be less than 80% of the final tax liability, as determined on assessment, additional tax may be levied (see **11** for detail).

The tax payable on the estimated taxable income for the year of assessment must be determined by applying the rate of normal tax applicable to that amount of taxable income or by using the tables (IRP 12) that are sent by SARS to all provisional taxpayers. 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 during that year of assessment, can be deducted from the estimated provisional tax that is payable for the relevant provisional tax period.

## 10. WHAT HAPPENS ON ASSESSMENT?

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

Processing includes the following steps:

- All of the income (including employment income, business income, interest, rental income and taxable capital gain) received by a South African resident from all over the world are added together.
- Amounts that are exempt from income tax are excluded.
- Allowable tax deductions such as medical expenses, donations to approved public benefit organisations and wear and tear allowances are taken into account (all these deductions are subject to certain limitations).
- The resultant taxable income is used to determine the final income tax liability by applying the relevant tax rates (see **Annexure A**).
- The final income tax liability of an individual is reduced by a primary rebate, and in the case of an individual who is 65 years of age or older by an additional age rebate which could 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 or are more than the tax liability. These rebates for the 2009 year of assessment are R8 280 (primary) and R5 040 (age).
- The SITE, PAYE and provisional tax paid by the taxpayer during the year of assessment are deducted from the taxpayer's final income tax liability which will

result in a net amount that is due by the taxpayer or a net amount that is refundable to the taxpayer.

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

See **Annexure B** for an **example on how tax is calculated**.

## 11. ADDITIONAL TAX

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

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

Additional tax amounting to **20%** may also be levied if –

- the estimated taxable income for the year of assessment for the second provisional tax payment (payable on 28 February 2009) is less than 80% of the actual taxable income for the year of assessment; and/or
- this estimate is not submitted before the last day of the year of assessment.

## 12. INTEREST

Interest at the prescribed rate may be charged if –

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

The prescribed rate of interest is fixed from time-to-time by the Minister of Finance and is 15% a year with effect from 1 September 2008.

## 13. PENALTIES

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

## 14. WHEN MAY AN INDIVIDUAL BE LIABLE FOR A FINE OR IMPRISONMENT?

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

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

## 15. CONCLUSION

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

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

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

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

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## Annexure A – Scale of rates of tax for the 2009 year of assessment

The statutory rates of tax in respect of the 2008/09 tax year are –

TAXABLE INCOME			RATES OF TAX			
R		R	R			R
0	–	122 000		18%	of each R1	
122 001	–	195 000	21 960	+	25%	of the amount over 122 000
195 001	–	270 000	40 210	+	30%	of the amount over 195 000
270 001	–	380 000	62 710	+	35%	of the amount over 270 000
380 001	–	490 000	101 210	+	38%	of the amount over 380 000
490 001	–	and over	143 010	+	40%	of the amount over 490 000

<b>Rebates</b>	Primary rebate	R8 280
	Secondary rebate (Persons of 65 years or older)	R5 040

<b>Tax thresholds</b>	The tax thresholds at which liability for normal tax commences, are –	
	• persons below 65 years	R46 000
	• persons 65 years or older	R74 000

<b>Interest exemptions</b>	• Persons below 65 years	R19 000
	• Persons 65 years or older	R27 500

### Retirement fund lump sum benefits

The taxable amount of a lump sum benefit derived upon retirement or death on or after 1 October 2007 is taxable as set out in the table below. The taxable amount is determined after taking into account a once-off standard deduction of R300 000.

TAXABLE INCOME	RATES OF TAX
Not exceeding R300 000	18% of the taxable income
Exceeding R300 000 but not exceeding R600 000	R54 000 plus 27% of the taxable income exceeding R300 000
Exceeding R600 000	R135 000 plus 36% of the taxable income exceeding R600 000

The above rates apply to lump sum benefits derived from a pension, provident or retirement annuity funds upon retirement or death.

## Annexure B – Example how tax is calculated

An employee who is not yet 65 years of age received the following income for the period 1 March 2008 to 28 February 2009 (that is, the 2009 year of assessment):

	R
Salary	120 000
Overtime	8 000
Bonus	10 000
Interest from South African Banks	19 000
Dividends from South African companies	1 200
Dividends from foreign companies	3 200
Net rental	<u>17 000</u>
<b>TOTAL INCOME RECEIVED</b>	<b><u>178 400</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	3 060
PAYE	13 575
Provisional tax payments for the year of assessment	5 000

### Calculation of taxable income:

Total income received	178 400
Less: Exempt income:	
Dividends from South African companies	(1 200)
Foreign dividends (limited to R3 200 or the actual amount where less than R3 000)	(3 200)
South African interest (limited to R19 000, i.e. R19 000 less R3 200 foreign dividend exemption)	(15 800)
<b>Income</b>	<b>158 200</b>
Less: Deductions	
Pension fund contributions	<u>(9 000)</u>
<b>TAXABLE INCOME</b>	<b><u>149 200</u></b>

The income tax payable on the taxable income of R149 200 is calculated by applying the tax rates for the year of assessment ending 28 February 2009 (see table in **Annexure A**) as follows:

The taxable income of R149 200 falls within the bracket of R122 001 - R195 000 in the table.

Therefore the tax on the first R122 000 is	21 960
And the tax on the amount R27 199 (R149 200 – R122 001) is	
25% x R27 200	<u>6 800</u>
Normal tax payable	28 760
Less: Primary rebate	<u>(8 280)</u>
Net normal tax payable	20 480
Less: SITE	(3 060)
PAYE	(13 575)
Provisional tax paid	<u>(5 000)</u>
<b>TAX REFUNDABLE ON ASSESSMENT</b>	<b><u>1 155</u></b>