

# **Tutorial Letter 102/3/2018**

## **TAXATION OF SALARIED PERSONS**

**TAX1501**

**Both semesters**

**Department of Taxation  
STUDY GUIDE 1 OF 2**

**This tutorial letter contains learning units 1 to 4 as well as additional questions to work through.**

Bar code

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**IMPORTANT INFORMATION:**

Please register on myUnisa, activate your myLife e-mail address, and ensure that you have regular access to the TAX1501-18-S1 OR TAX1501-18-S2 module site on myUnisa, depending on which semester you are registered for.

**Note:** This is an **online module**; therefore, your module is available on myUnisa. However, in order to support you with your studies, you will also receive certain study material in printed format.

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## Dear Student

You are receiving this tutorial letter, together with tutorial letter 103 to provide you with insight into the kind of information that is being pre-sented on myUnisa, the official learning management system of the University.

### This document includes the following information:

- welcome message on the home page
- frequently-asked questions (FAQs)
- learning units

Information that is intended to help you getting started with your online studies is available in this document as well as under learning unit 0: "Things to know before commencing with your studies". You should read this learning unit after you have read the **Welcome** message, which you will find below; otherwise, you will miss important information.

The module is delivered online, which means it is available online on myUnisa. myUnisa is an online platform for you to communicate with other students, lecturers, your e-tutor, and administration departments at Unisa. You may also access or download your study material and other resources. However, in order to support you in your learning process, you will also receive some study material in printed format.

Familiarise yourself with myUnisa and the way it functions before commencing with your studies. We provide some guidelines on using myUnisa in learning unit 0.

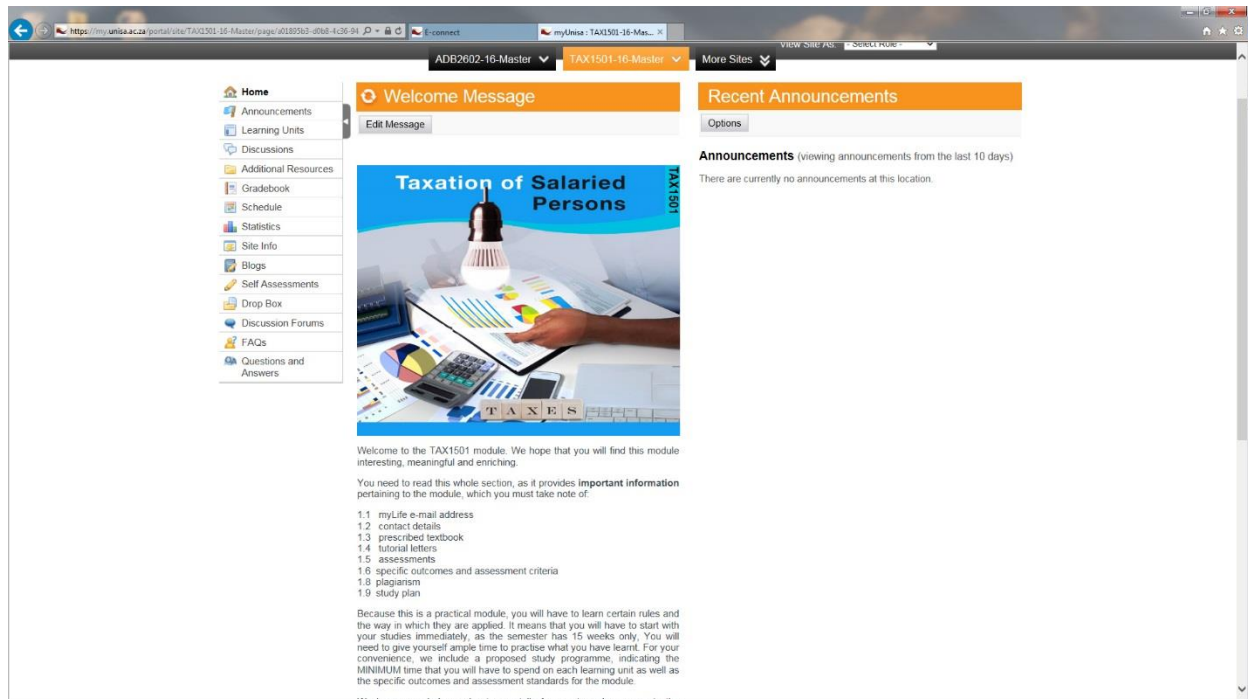
We wish you every success with your studies in taxation. Make the most of your opportunity to learn about this dynamic and practical subject. We know that if you work through the study guide, the selected sections of the prescribed textbook, and all the examples, you will be successful in this module.

Regards

Your TAX lecturers

The following lecturers are available to assist you:	
Ms R Moosa	012 429 2883
Ms MSI Wentzel	012 429 4876
Ms C Stedall	012 429 4301
Ms SC Cass	012 429 8992
Mr A Swanepoel	012 429 4313
Mr MC van Dyk	012 429 4918
Ms I Kretzschmar	012 429 4394
Ms M Bernard	012 429 4002
Ms R Matenche	012 429 4752

## 1. WELCOME MESSAGE ON THE HOME PAGE



**FIGURE 1:** myUnisa welcome home page

Welcome to the TAX1501 module. We hope that you will find this module interesting, meaningful and enriching.

You need to read this whole section, as it provides **important information** pertaining to the module, which you must take note of:

- 1.1 myLife e-mail address
- 1.2 Contact details
- 1.3 Prescribed textbook
- 1.4 Tutorial letters
- 1.5 Assessments
- 1.6 Specific outcomes and assessment criteria
- 1.7 Plagiarism
- 1.8 Study plan

Because this is a practical module, you will have to learn certain rules and the way in which they are applied. It means that you will have to start with your studies immediately, as the semester has 15 weeks only. You will need to give yourself ample time to practise what you have learnt. For your convenience, we include a proposed study programme, indicating the MINIMUM time that you will have to spend on each learning unit as well as the specific outcomes and assessment standards for the module.

We will use the myUnisa module website (for those of you who can go online) and the printed Tutorial letters 102 and 103 (Learning units 1 – 8) to direct you through the various sections of the module content. An electronic version of the tutorial letters is also available under the **Additional Resources** tool on myUnisa. Tutorial letters 102 and 103 do NOT replace any prescribed textbooks!

We urge you to access myUnisa regularly. There you will find additional information, for example on self-assessments, podcasts/vodcasts and, most importantly, announcements. You can access the myUnisa web page using a computer or a smartphone that is linked to the internet. You may also use Unisa's regional offices to access myUnisa from the computer laboratories or by means of a Wi-Fi connection that is available at these regional offices. Apart from Unisa facilities, you can also access the internet at the

telecentres listed in the brochure entitled *Study @ Unisa*. Consult the *Study @ Unisa* brochure for more information.

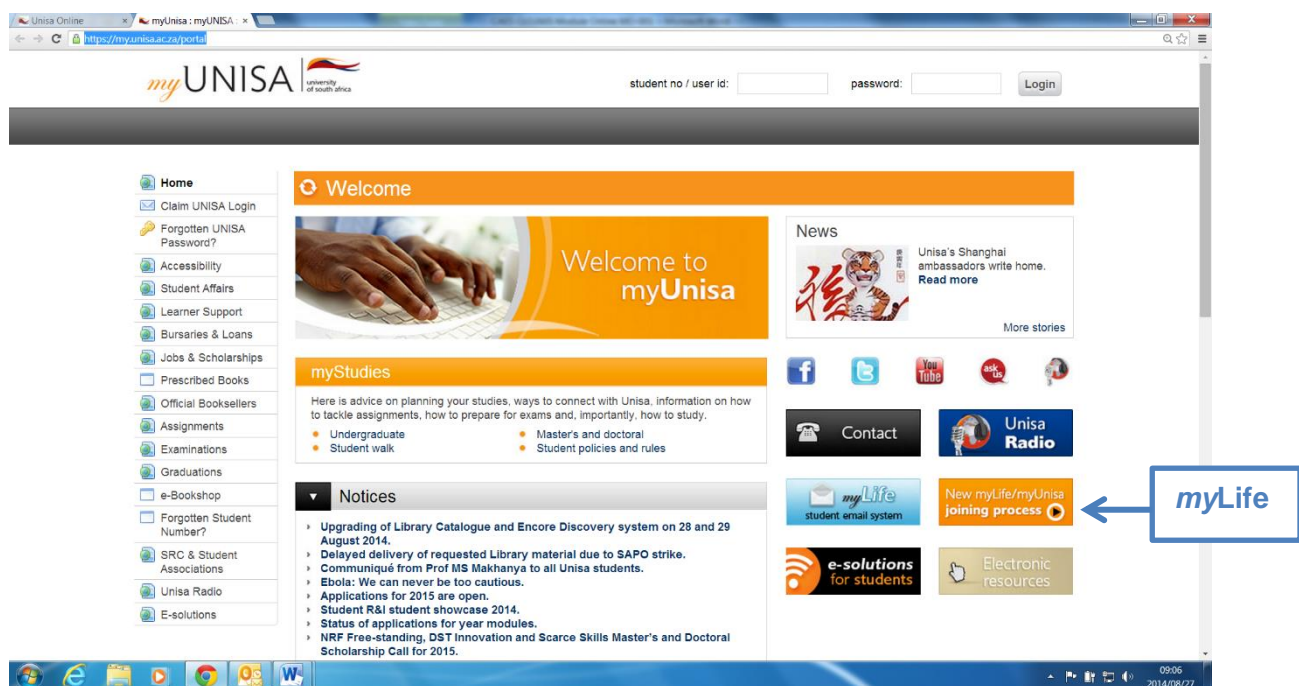
You might also find it helpful to access the following links that are related to studying online:

Get connected before you start to register on myUnisa (6:10)  
<http://www.youtube.com/watch?v=MAGvmgdSkEk&feature=related>

## 1.1 myLife e-mail address

**PLEASE ACTIVATE YOUR myLife E-MAIL ACCOUNT SO THAT WE CAN COMMUNICATE WITH YOU!**

We encourage you to set up your myLife e-mail account at <https://my.unisa.ac.za/portal> and to join the online learning environment, as we will use this medium to communicate with you.



**FIGURE 2:** myUnisa portal

## Redirect your myLife Unisa e-mail address to another e-mail account

Once you have set up your myLife e-mail account, you will be able to direct any e-mails coming to this e-mail account to another e-mail address that you may be using on a more regular basis. This will ensure that you do not miss any communication from your lecturers.

For detailed instructions on how to redirect e-mails, refer to the announcement on the TAX1501 site under **Announcements** on myUnisa.

## 1.2 Contact details

### Administrative queries

Enquiries in connection with administrative matters must be addressed to the relevant administration departments to which the problem applies and NOT to the lecturers.

General administrative enquiries may be directed to the CAS student information hub:

[CASenquiries-Undergraduate@unisa.ac.za](mailto:CASenquiries-Undergraduate@unisa.ac.za) or 012 429 4211

Other administrative enquiries may also be directed to the following:

E-mail addresses	SMS numbers	Use to enquire about
<a href="mailto:econ@unisa.ac.za">econ@unisa.ac.za</a>	n/a	Registration and credit/exemption
<a href="mailto:study-info@unisa.ac.za">study-info@unisa.ac.za</a>	43578	Applications and registrations
<a href="mailto:assign@unisa.ac.za">assign@unisa.ac.za</a>	43584	Assignments (not for submission purposes)
<a href="mailto:exams@unisa.ac.za">exams@unisa.ac.za</a>	43584	Examinations
<a href="mailto:despatch@unisa.ac.za">despatch@unisa.ac.za</a>	43579	Study material
<a href="mailto:finan@unisa.ac.za">finan@unisa.ac.za</a>	31954	Student accounts
<a href="mailto:gaudeamus@unisa.ac.za">gaudeamus@unisa.ac.za</a>	n/a	Graduation ceremonies
<a href="mailto:myUnisaHelp@unisa.ac.za">myUnisaHelp@unisa.ac.za</a>	43582	myUnisa
<a href="mailto:myLifeHelp@unisa.ac.za">myLifeHelp@unisa.ac.za</a>	43582	myLife e-mails

When corresponding with the University in writing, always supply

- your student number
- the module code
- a telephone number where we can contact you

Alternatively, consult the brochure, *Study @ Unisa*, for enquiries concerning administrative matters.

### Academic queries

Direct all queries about the **content** of this module to your lecturers.

You are welcome to contact us by means of the course e-mail address:

- [TAX1501-18-s1@unisa.ac.za](mailto:TAX1501-18-s1@unisa.ac.za) for the first semester, or
- [TAX1501-18-s2@unisa.ac.za](mailto:TAX1501-18-s2@unisa.ac.za) for the second semester

You may also visit your lecturers at their offices on the Muckleneuk Campus, but please make sure that you have made an appointment at least three days in advance.

Telephone calls may be made during office hours (08:00 - 16:00) only to one of the following number:

- 079 365 1124 – Do not send text messages or “please call me” messages, or make missed calls to this number, as it cannot be responded to.

### 1.3 Prescribed textbook

It is essential that you obtain the following prescribed textbook:

De Hart, KL, Smulders, S, Hamel, EH & Steenkamp, L. *Taxation of individuals simplified 2018*. Pretoria: LexisNexis. ISBN 9780409128888

You must obtain the prescribed book as early as possible in the semester. Note that the library does not provide for this book specifically and that copies of this book may not always be readily available at the library.

Please refer to the full list of official booksellers and their addresses in the *Study @ Unisa* brochure.



The prescribed textbook may also be ordered online at <http://www.takealot.com>.

#### 1.4 Tutorial letters

Tutorial letters and documents you can expect to receive for this module are set out below:

<b>Tutorial letter</b>	<b>Content</b>	<b>Learning units to be covered</b>
<b>101</b>	<b>NB:</b> This tutorial letter contains the assignments for both semesters. Assignment 1 – compulsory for examination admission; consists of multiple-choice questions; counts towards year mark Assignment 2 – counts towards year mark	<b>1 to 4</b> <b>1 to 8</b>
<b>102</b>	It contains very important information about the module and it will help you orientate yourself whilst studying online. It also contains the first four learning units for this module.	<b>1 to 4</b>
<b>103</b>	It contains the next four learning units for this module.	<b>5 to 8</b>
<b>201</b>	It contains the questions of and solutions to Assignment 3 (old exam paper with updated solution).	
<b>202</b>	It contains the solution to Assignment 1.	
<b>203</b>	It contains the solution to Assignment 2.	

#### 1.5 Assessments

Refer to Tutorial Letter 101 for all information on how you will be assessed. You will also find Assignment 1 and Assignment 2, together with their due dates, in Tutorial Letter 101.

#### 1.6 Specific outcomes and assessment criteria

The specific outcomes for the module are set out in each of the learning units.

#### 1.7 Study plan

Below is a proposed weekly plan for TAX1501, based on a minimum time spent on the module of 10 hours per week. Keep in mind that you have 15 weeks of study from registration to start of examinations. If you start later, you need to realise that you will have to catch up the time that you have lost.

<b>Study week</b>	<b>Topic</b>	<b>Minimum time needed</b>
1	<ul style="list-style-type: none"> <li>• Read Tutorial Letter 101 and the introduction to Tutorial letter 101.</li> <li>• Purchase your prescribed textbook.</li> <li>• Fill in all schedules for this module.</li> <li>• Plan your studies.</li> </ul>	5 hours
	Learning unit 1: Introduction to taxation (Tut 102)	5 hours
2	Learning unit 1: Introduction to taxation (Tut 102)	1 hours
	Learning unit 2: Introduction to VAT (Tut 102)	9 hours
3	Learning unit 3: Salaried persons and income tax (Tut 102)	10 hours
4	Learning unit 3: Salaried persons and income tax (Tut 102)	5 hours
	Learning unit 4: Calculating taxable income (Tut 102)	5 hours
5	Learning unit 4: Calculating taxable income (Tut 102) <b>Assignment 1 (Tutorial Letter 101)</b>	10 hours

Study week	Topic	Minimum time needed
6	Learning unit 5: Gross income (Tut 103) Learning unit 6: General deduction formula (Tut 103)	8 hours 2 hours
7	Learning unit 6: General deduction formula (Tut 103) Learning unit 7: Fringe benefits (Tut 103)	6 hours 4 hours
8	Learning unit 7: Fringe benefits (Tut 103)	10 hours
9	Learning unit 8: Capital gains tax (Tut 103) <b>Assignment 2 (Tutorial Letter 101)</b>	10 hours
10	Learning unit 8: Capital gains tax (Tut 103) Revision	5 hours 5 hours
11–15	Revision for examination <b>Assignment 3 (Tutorial Letter 201)</b>	10 hours

## Health conditions such as HIV/AIDS

If you are a student with a health-related condition such as HIV/AIDS, or have a close family member with this or another health condition, then you need to take cognisance thereof in planning your studies. It will be unwise to cram tasks as this creates enormous stress, which negatively impacts on your performance as a student, as well as your health. Planning your studies is essential so that you work consistently and make progress.

It would be wise to know your health status (HIV/AIDS, blood pressure, diabetes, cholesterol, etc.). If you are informed by medical tests, with the necessary medical and supportive interventions you can prolong and improve the quality of your life and your success in your studies.

The URL to the Unisa Student Health and Wellness site is included here for your convenience [Unisa Online - Student Health and Wellness](#).

## 2. FREQUENTLY ASKED QUESTIONS (FAQs)

### 2.1 Study material

#### Question 1: Will I receive all my tutorial matter when I register?

##### Answer

Not **all** of your tutorial matter may be available when you register. Tutorial matter, which is not available when you register, will be posted to you as soon as possible.

It is not possible to e-mail or fax outstanding tutorial letters to students. It is, however, possible to download them from the module site on myUnisa under the **Official Study Material** tool. Other resources, like Tutorial letters 102 and 103, may also be downloaded from **Additional Resources** on myUnisa. It is therefore to your benefit to register as an online student so that you can access your study material immediately.

#### Question 2: Must I buy the 2018 prescribed textbook, or can I use a previous version?

##### Answer

The Income Tax Act is amended (changed) each year with the budget speech. This means that old prescribed textbooks will be out of date and you might lose many marks if you use the old legislation. Only use the current version of the prescribed textbook.

**Question 3: If I think that I have found an error in the study material, what should I do?****Answer**

In spite of care taken to ensure that the tutorial letters, assignments and solutions are comprehensible and free from errors, omissions and discrepancies may occur. Should you come across such matters, or matters not clearly expressed, kindly let us know via e-mail to enable us to make the necessary correction. As soon as we discover an error, we will make an announcement on the myUnisa system. Ensure that you register your myLife e-mail account to receive e-mails from the system.

**Question 4: Could I have the answers to the old examination papers that are available on myUnisa?****Answer**

The old examination papers are uploaded automatically on myUnisa under **Official Study Material**. The solutions to the previous examination papers are not made available to you, as they are out of date. We advise you not to focus on old examination papers as a source to learn the content of the modules, but rather to master the content of your study material. You may assume that the type of questions that will be asked in the examination will be similar to those asked in the activities in your study guide and in the assignments.

Assignment 3 is a previous examination paper that has been updated with the legislative amendments, and a new solution is provided for you in Tutorial Letter 201. In addition, in most instances, the other examination questions have been incorporated into your study guide as additional questions to work through.

**Question 5: I received my study material too late to submit Assignment 1 on time. What do I do now?****Answer**

You will have to prove that you indeed received your study material late and submit it with a motivated request for extension to [examadmission@unisa.ac.za](mailto:examadmission@unisa.ac.za).

**2.2 Student support services****Question 1: What support can I expect from my lecturers?****Answer**

Your lecturers will use the myUnisa home page to post messages to guide you through the semester. You will also receive regular announcements to draw your attention to important learning events and assessment tasks. We have also prepared various podcasts and video casts to assist you in mastering the module content. In addition, we will be sending out a DVD for this module.

The DVD is a revision tool and it may therefore only be available later in the semester. The DVD is not a replacement for doing or learning the work – it is merely a tool to assist you in revising for the examination.

**Question 2: What resources will I be able to access via myUnisa?****Answer**

We realise that, as a distance education student, you cannot always visit the **library** when you are searching for information. Therefore, we have included online resources on our module site, which you may access at any time.

On this site, you will find the following material:

- an electronic copy of tutorial letters 102 and the 103 documents, under **Additional Resources**
- module-specific learning materials, under **Learning Units** (as also contained in tutorial letters 102 and 103 documents)
- a study schedule to assist you with your progress during the semester, under **Schedule**
- podcasts and video casts on selected topics, under **Additional Resources**
- self-assessment questions for each learning unit, under **Self-assessments**
- frequently asked questions, under **FAQs**

You can also have direct access to your **e-tutor** via myUnisa by clicking on the **E-tutor** tab to which you have been granted access (for example, TAX1501-18-S1-1E).

### 2.3 Studying in an online learning environment

**Question 1: How important is attitude to achieve success in my studies and in an online learning environment?**

#### Answer

Your attitude is very important to ensure success. We want to encourage you to develop a **positive attitude** towards your studies and the online learning environment. To achieve this you should bear a number of things in mind.

**TIME** is important for a distance education student. You must be in control of your time and manage it effectively. Draw up a study programme at the beginning of the semester. This requires discipline, but it will ensure that you

- have sufficient time to work through all the relevant study material
- are able to submit the relevant tasks and assignments at the due dates
- have sufficient time for revision and preparing for the assignments and examination

We would like to encourage you to follow the guidelines below:

- Do NOT fall behind in your work schedule.
- Work regularly and consistently.
- Make sure that you understand the work as you progress.
- Do NOT give up on difficult work; rather seek help as soon as possible.

We all have different learning styles and preferences. However, consider the following pointers/guidelines:

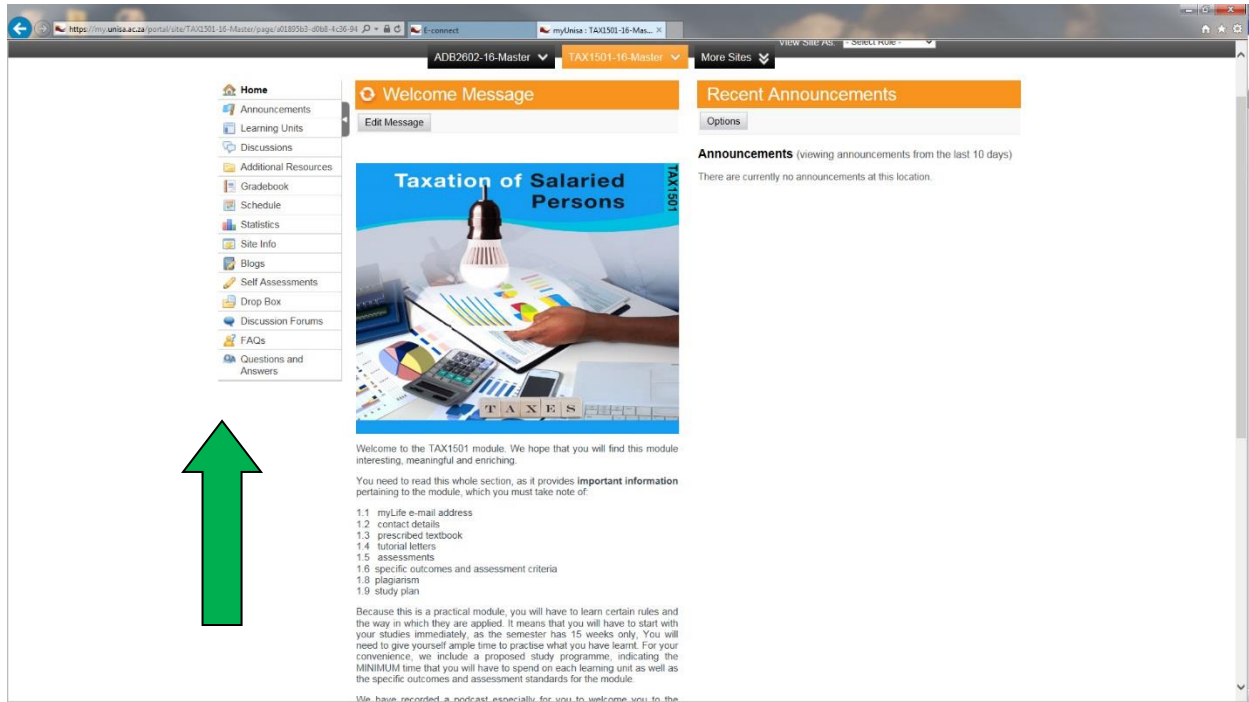
- Allocate time to work through each learning unit and do the activities.
- Allow extra time for work that seems difficult or with which you know you have a problem.
- When you compile a study plan, allow time for personal responsibilities (e.g. family responsibilities, work obligations, social obligations, or leave).
- Make use of your most productive time for study (e.g. late evening, after the children have gone to bed, or early morning, before the rest of the family wake up).
- Remember that it is more effective to study for one hour on a regular basis (e.g. every day) than for ten consecutive hours every two weeks. Decide now how many hours you are going to spend on your studies per week. We recommend that you put one to two hours aside each day.
- Keep a record of your progress. It will be gratifying to see what you have accomplished, and it will inspire you if you fall behind. Be prepared for disruptions to your study programme due to unforeseen circumstances. You should therefore monitor your progress so that you can catch up immediately if you fall behind. Remember that it is easier to catch up one week's lost hours than an entire month's.

## LEARNING UNIT 0: Things to know before commencing with your studies

This learning unit provides you with guidelines on using myUnisa and e-tutors, as well as how to study this subject. It will greatly benefit you to read this information.

### Getting started with your studies on myUnisa

As a registered Unisa student, you will have access to the myUnisa learning portal.



#### EXAMPLE 1: myUnisa portal home page

From here, you may access various online resources to assist you in your studies. Please ensure that you have activated your myLife e-mail account and have familiarised yourself with the *Study @ Unisa* brochure and other guidelines.

Once you have registered and have received your myUnisa login details, you will have access to the module sites of all the modules you have registered for.

#### 0.1 Using myUnisa and the tools on myUnisa

In this brief overview, we refer to those functions of myUnisa that you may encounter and need on a regular basis. Down the left-hand side of your myUnisa module page, you will find a series of options or functions, which are indicated by a green arrow in the graphic above. These options are known as “buttons” because you can click on each of them in order to select and open the “tool” that the button represents. These buttons start with **Home**, then **Assignments**, etc, from the top down.

Now follows a brief overview of some of the myUnisa tools, of how some of them are related to one another and of how they will be useful to you.

#### Announcements

While general announcements may be made under **Home**, you must visit the **Announcements** page regularly to make sure you are not missing an important bit of information. The announcements may relate to a wide range of matters, for example module-specific arrangements, information on assignments, resour-

ces, etc. If you have registered correctly on myUnisa, you will receive an e-mail or SMS notification every time your lecturer posts a new announcement. Always check the list of previous announcements to make sure that you have not missed any important notices.

### ***Discussion Forums***

Online discussion forums are not the same as a chat room. Therefore, the myUnisa discussion forums must not be used for personal messages to your lecturers or to fellow students. The online **Discussion Forum** has an **academic** purpose. For this reason, the discussions will be based on topics related to module outcomes and assessments, and supporting content.

Online discussions taking place in module discussion forums are perhaps more formal than other public discussion forums. Remember that in an online class, discussion forums are used in place of the face-to-face discussions or paper-based correspondence that you may be used to. You should behave online just as you would if you were physically sitting in the room with your lecturer or e-tutor and all your classmates.

### ***Learning Units***

Within the digital space known as **Learning Units**, you should find a collection of topics that together comprise the syllabus for the module that you have enrolled for.

If you are not studying online, then refer to Tutorial letters 102 and 103 to access the learning units (in print format).

## **0.2 E-Tutors**

You will be allocated to an e-tutor who is primarily assigned to give you additional tuition support. You need to participate on the e-tutor pages on myUnisa during the course of the semester.

You will receive information about your e-tutor (and the page to access, for example TAX1501-18-S1-1E) from the University in due course. Please be patient and do not contact your lecturers in this regard, as we will not be able to assist you.

## **0.3 How to study this subject**

The learning units comprise what we call a “wraparound” study guide, which means that we make use of a prescribed textbook to which the learning units serves as a key. Remember that the prescribed textbook is used by many other universities and therefore, it may contain topics that are NOT relevant to your studies. It is therefore very important that you use the study guide when working through the prescribed literature. As we do not always deal with topics in the same order as in the prescribed book, it is important that you use the learning units to guide you through the syllabus.

It is important to note that taxation is an integrated subject:

- Firstly, taxation involves the application of acts. For this module, the relevant acts are the Income Tax Act, Value-added Tax Act and the Tax Administration Act.
- Secondly, court cases assist us in interpreting the provisions of the acts. This means that you will be exposed to case law.
- Thirdly, taxation has practical applications. You will need to learn how to apply the theory to case studies or scenarios.
- Fourthly, the South African Revenue Service (SARS) issues interpretation notes and general binding rulings that also govern the application of tax legislation.
- Lastly, the way in which you answer income tax questions, in a numerical format or in a discussion, is important. In respect of the numerical questions, we assume that you have a fundamental accounting and mathematical knowledge, while communication skills are assumed in respect of the discussion-type questions.

With these parameters in mind, we offer the following suggestions on how to approach this module and how to combine all the documents, tutorial letters and prescribed literature.

### **Suggested approach to the course**

- We suggest that you set specific times aside for study. Depending on how many modules you are enrolled for, you will need to draw up a programme for the semester, allowing a certain amount of time for each subject, as well as a revision period just before the examinations.
- Once you know on which days you will study taxation, decide which learning units you will work through at each date. Remember that you will need to be flexible as some learning units may take longer than others to work through.
- We suggest that you approach each learning unit as follows:
  - Take the learning unit and see which chapter in the prescribed textbook is dealt with in the learning unit that you plan to study; then read the applicable sections of the chapter. By “read”, we mean just read, without taking notes. At this stage, you merely need to get an idea of what is being discussed. If possible, do this reading exercise the night before you are due to study the section.
  - Now follow the specific instructions in the learning unit and work through it, summarising from the prescribed textbook and working through the explanatory examples. Remember that you will take in more if you make notes at the same time. You might want to add to the notes later as you discover what is important, or you might want to make new notes at a later stage; we have found that it helps you stay focused if you write as well as read.

It is important to do the explanatory examples on your own and only then to look at the answer, as this method will help you ascertain what you have understood. Remember to take short breaks from time to time.

- Once you have worked through the entire learning unit, you may attempt answering the longer questions at the end of the learning unit. Remember to attempt answering these questions without looking at the solutions in order to see how much you have understood.
- After you have attempted answering the question, work through the solution by comparing your answer to it. Don't worry if you made mistakes; this is an important part of the learning process. Return to the relevant section of the chapter and restudy the topic to help you understand why and where you went wrong.
- If you don't understand why your solution is wrong or why your solution differs from the one in the prescribed textbook or in the learning units, contact one of your lecturers. Please refer to the welcome page for the contact details of your lecturers.

## NOTES

[illegible]



# LEARNING UNIT 1

# 1

## INTRODUCTION

## STUDY PROGRAMME

## LEARNING OUTCOMES

## PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

## SECTIONS OF THE PRESCRIBED TEXTBOOK WHICH YOU MAY IGNORE

## CONTENTS

- 1.1 Background
- 1.2 National budget
- 1.3 South African Revenue Service (SARS)
- 1.4 Basis for and types of taxation
- 1.5 Interpretation of tax law and legal remedies

## POINT TO PONDER

## WRAP-UP

## E-TIVITY

## SELF-ASSESSMENT QUESTIONS

## ASSESSMENT CRITERIA

# Introduction to taxation

## INTRODUCTION

In South Africa, as in most other countries, government levies tax. The taxes provide government with income, which it uses to provide services, for example health and education services, for the people living in the country. There are different types of taxes that can be levied. Government therefore has to decide which types of taxes to levy and at what rate the taxes should be levied. In order to know how much tax it needs to collect, the first step for government is to determine how much money it will require in order to reach the objectives that have been set. Once it is known how much will be spent, it is possible to determine at what rate tax must be levied in order to raise enough money.

## STUDY PROGRAMME

You should complete this learning unit in **week 1 and week 2** of the programme.

You should spend a minimum of **five (5) hours during week 1 and one (1) hour during week 2** on this learning unit.

## LEARNING OUTCOMES

After completing this learning unit, you should be able to

- understand the role of tax in the budget process of the government
- explain the basis of taxation
- list the different taxes
- classify taxes
- understand the interpretation rules to interpret the meaning of words in the Income Tax Act
- explain the process followed when a difference of interpretation exists between the taxpayer and SARS
- understand the hierarchy of the different courts and the role of the court in tax matters

## PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 1 in the prescribed textbook.

## SECTIONS OF THE PRESCRIBED TEXTBOOK WHICH YOU MAY IGNORE

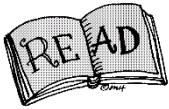
The entire chapter is applicable.

## CONTENTS

### 1.1 Background

*Textbook: section 1.1*

In this learning unit, we will look at the process the government applies to budget for income and expenditure and how it affects the individual in the form of taxation. Taxation may take many forms and we would like to introduce you to these forms of taxation in South Africa.



Read section 1.1 in the prescribed book.

## 1.2 National budget

**Textbook: sections 1.2 to 1.6**

The national budget sets out government's income and expenditure for the fiscal year. The fiscal year is the 12-month period ending on 31 March each year. Each year in February, the Minister of Finance announces on what government will spend money for the next three years and where the money to pay for these expenses will come from. The Minister also announces how much income tax individuals and other entities will pay during the next year of assessment in order to balance the government's budget.

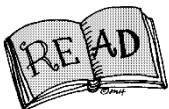


You do not have to be able to describe the steps and cycle of the budget process.

Income tax is levied in terms of the Income Tax Act. This Act changes every year to make provision for the changes to income tax as announced in the Budget Speech. The Commissioner administers the income tax for the South African Revenue Service (SARS).



In your taxation studies, you will have to be a lifelong learner, as the Act changes every year and as a result of this, the rules and calculations change. You will have to update your knowledge every year regarding these changes.



Read sections 1.2 to 1.4 in the prescribed book.



Study section 1.5 in the prescribed book.

## 1.3 South African Revenue Service (SARS)

**Textbook: section 1.7**

SARS carries out the rules contained in the Income Tax Act and collects all the taxes for government.



Study section 1.6 in the prescribed book.

## 1.4 Basis for and types of taxation

**Textbook: section 1.8**

South African residents are taxed on the residence basis, which means that they are taxed on all the income they earn in South Africa as well as on their worldwide income.

The different taxes that government levies and that SARS administers can be grouped in different ways based on

- who is responsible for paying the taxes
- the method used to calculate the taxes
- the ground on which the taxes are levied



Study section 1.7 in the prescribed book.

Based on the above classification and the table provided in the prescribed textbook, make your own mind map or summary of the types of taxation so that you can understand this classification.



In your further studies in taxation, you will come across this classification and terminology often; therefore, it is important to make these concepts your own.

## 1.5 Interpretation of tax law and legal remedies

**Textbook: section 1.9**

When applying taxation laws, there are normally two ways of looking at the wording of a section. Firstly, SARS has a responsibility to levy tax as set out in the Acts; therefore, the wording of a section would be interpreted in order to levy the tax. On the other hand, the taxpayer does not want to pay tax; therefore, he wants to read the wording in order to ensure that he does not pay any tax. This may result in two different interpretations of the same wording.

To resolve these differences a number of processes have been established throughout the years:

- Firstly, SARS issues interpretation rules setting out how these rules will apply to a specific section. Although these interpretation rules are not legislation, they are based on SARS's legal opinion on how the applicable legislation should be interpreted.



Study section 1.8.1 in the prescribed book.

- The second process consists of the legal procedures a taxpayer may follow if he/she disagrees with SARS regarding an assessment of a taxpayer's tax position. During this process, SARS and the taxpayer try to reach an agreement on what the interpretation should be.



Study section 1.8.2 in the prescribed book.

Prepare a diagram setting out the hierarchy of the different courts.



You can find this diagram in section 1.9 in your prescribed book.





If you do not know what the word hierarchy means, you will have to look it up in your dictionary.

### POINT TO PONDER



- Why are there so many types of taxes?

### WRAP-UP

- The government needs money to render services.
- This money is collected mainly in the form of taxes.
- SARS collects taxes.
- There are different types of taxes.
- There may be a difference of interpretation of the law between taxpayers and SARS.
- Different remedies are available to resolve these differences.



Now that you have completed this learning unit, please revise the learning outcomes to make sure that you have attained all of them.



Visit the **Discussion Forum** and complete the online self-assessment questions.

Study the unit on **Introduction to taxation** and discuss any concepts that you do not understand – or if you do understand, then answer those students who have posted questions.

**SELF-ASSESSMENT QUESTIONS**

Solutions are found at the end of this learning unit.

**QUESTION 1.1 (5 marks, 6 minutes)**

- (i) Donations tax is levied in terms of the Income Tax Act.  
True  
False
- (ii) Estate duty is levied in terms of the Income Tax Act.  
True  
False
- (iii) Value-added tax (VAT) is levied in terms of the Income Tax Act.  
True  
False
- (iv) Dividends tax is levied in terms of the Income Tax Act.  
True  
False
- (v) Employees' tax is levied in terms of the Income Tax Act.  
True  
False

**REQUIRED**Indicate if each statement is **true** or **false**.**QUESTION 1.2 (18 marks, 22 minutes)**

The different types of taxes can be classified in three different ways, based on the following:

- the person responsible for the tax
- the method used to calculate the tax
- the basis on which it is levied

Complete the following rubric to indicate how the following taxes can be classified:

Type of tax	Person responsible		Method		Basis			
	Direct tax	Indirect tax	Proportional	Progressive	Income	Consumption	Wealth	Other
Income tax								
VAT								
Estate duty								
Customs and excise duty								
Skills development levy								
Transfer duty								
Donations tax								

**REQUIRED**

Complete the rubric on the classification of taxes.



Go to section 1.10 in the prescribed book and attempt answering questions 1 to 14. The solutions are at the back of the prescribed book.

### ASSESSMENT CRITERIA

We could assess this learning unit in assignments by asking you to

- describe the connection between tax and the annual budget of the government
- describe the basis for taxation for individuals who are resident in South Africa
- list the different taxes collected by SARS
- classify taxes based on the different methods
- state the “rules” for interpreting wording used in the Income Tax Act
- describe how the differences between taxpayers and SARS can be resolved

### Solutions to self-assessment questions in learning unit 1

#### **QUESTION 1.1 (5 marks)**

- |       |                      |     |
|-------|----------------------|-----|
| (i)   | True                 | (1) |
| (ii)  | False (separate act) | (1) |
| (iii) | False (separate act) | (1) |
| (iv)  | True                 | (1) |
| (v)   | True                 | (1) |

#### **QUESTION 1.2 (18 marks)**

Type of tax	Person responsible		Methods		Basis			
	Direct tax	Indirect tax	Proportional	Progressive	Income	Consumption	Wealth	Other
Income tax	X			X	X			
VAT		X	X			X		
Estate duty	X		X				X	
Customs and excise duty		X	X			X		
Skills development levy		X	X					X
Transfer duty	X			X			X	
Donations tax	X		X				X	

Available marks: 21

Maximum: 18

## NOTES

[illegible]



## LEARNING UNIT 2

# 2

### INTRODUCTION

### STUDY PROGRAMME

### LEARNING OUTCOMES

### PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

### SECTIONS OF THE PRESCRIBED TEXTBOOK WHICH YOU MAY IGNORE

### CONTENTS

- 2.1 Background
- 2.2 Registration for VAT purposes
- 2.3 Accounting basis
- 2.4 Administration
- 2.5 VAT framework
- 2.6 Output tax
- 2.7 Input tax
- 2.8 Value of supply
- 2.9 VAT and income tax

### POINT TO PONDER

### WRAP-UP

### E-TIVITY

### SELF-ASSESSMENT QUESTIONS

### ASSESSMENT CRITERIA

## Introduction to VAT

## INTRODUCTION

In this learning unit, the focus will be on the basic principles of value-added tax (VAT), which affects an individual who has a business. As discussed in the previous learning unit, VAT is classified as an indirect tax.

## STUDY PROGRAMME

You should complete this learning unit in **week 2** of the programme.

You should spend a minimum of **nine (9) hours** on this learning unit during **week 2**.

## LEARNING OUTCOMES

After completing this learning unit, you should be able to

- list the requirements of compulsory and voluntarily registration for VAT
- list the requirements of a tax invoice
- calculate the basic VAT payable by a business (vendor)
- describe the difference between taxable and exempt supplies
- list zero-rated supplies
- list exempt supplies
- calculate the tax fraction on an amount which either includes or excludes VAT
- apply the correct deduction of input tax when there are zero-rated and/or exempt supplies
- describe the basic time of supply rule
- list prohibited input tax supplies

## PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Sections 9.1, 9.2, 9.6 and 9.7 (only questions 1, 2, and 15) in the prescribed textbook.

## SECTIONS OF THE PRESCRIBED TEXTBOOK WHICH YOU MAY IGNORE

Ignore sections 9.3, 9.4 and 9.5.

## CONTENTS

### 2.1 Background

***Textbook: sections 9.1 and 9.2***

VAT is an indirect tax that is paid every time a person buys goods or services. Thus, it can be classified as a consumption tax. VAT is paid by the consumer of the goods or services, and the VAT is then paid over to SARS by the seller (business) of the goods or services if the seller (business) is registered for VAT. The business (registered vendor for VAT purposes) acts as an agent for SARS.

VAT is charged at 14% in South Africa and is levied in terms of the Value-Added Tax Act 89 of 1991. This tax is also administered by SARS.





Read sections 9.1 and 9.2 in the prescribed book (just up to 9.2.1).

## 2.2 Registration for VAT purposes

**Textbook: section 9.2.1**

The VAT Act makes provision that a person must register for VAT under certain circumstances (compulsory registration). The Act also provides that a person may register voluntarily for VAT. A person who registers for VAT is called a vendor.

List the requirements for a compulsory registration.	
The solution is available in the prescribed textbook.	

After registration of a vendor, SARS will allocate a tax period for each vendor. This tax period may be from one month to a year, depending on the type of vendor. The vendor has to do the VAT calculation (see 2.5) for each tax period.



Study section 9.2.1 in the prescribed book and work through examples 9.2 and 9.3.



You do not have to know the different categories of the tax periods.

## 2.3 Accounting basis

**Textbook: sections 9.2.2 and 9.2.6**

The accounting basis determines when VAT will be accounted for.



Study section 9.2.2 in the prescribed book and work through example 9.4.



Take note of the three exceptions to the general rules.

## 2.4 Administration

**Textbook: section 9.2.3**

Certain documentation is required to ensure that the VAT a person pays over to SARS on a transaction is the same as the VAT another person claims back from SARS. The vendor may only claim input tax if he or she is in possession of a valid tax invoice.



You only need to know the requirements for a tax invoice. Ignore the second-hand goods requirements (mentioned in section 9.2.3).

The VAT payable in a tax period must be submitted on the VAT201 return within a specified time. Refer to the section on returns, payments and refunds.



Study section 9.2.3 (ignore second-hand goods, debit and credit notes, and penalties and interest) in the prescribed book.



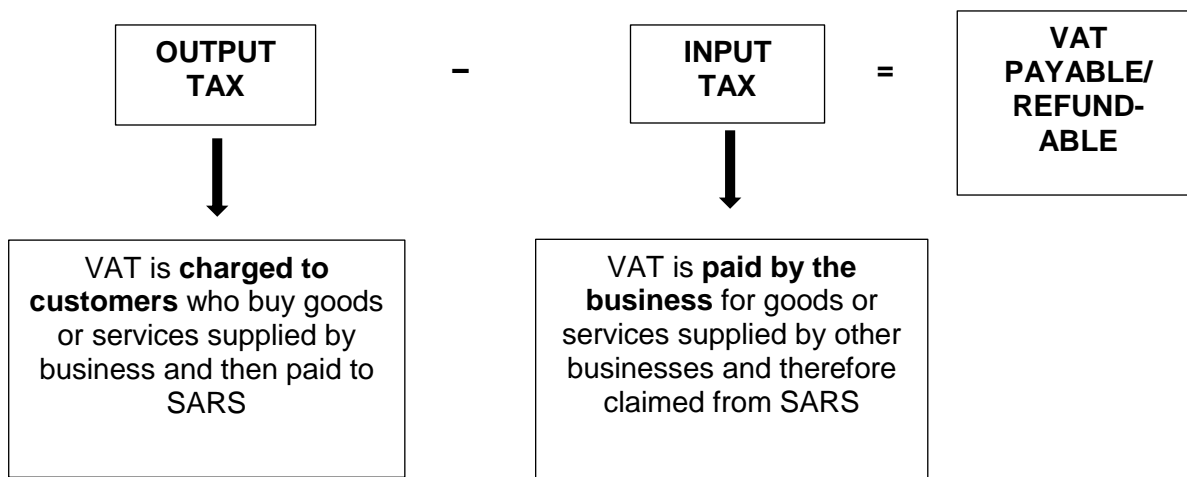
Refer to example 9.5 where the VAT calculation is transferred to the VAT201 return.

Penalties and interest are payable if the vendor does not make the VAT payment within the specified time.

## 2.5 VAT framework

*Textbook: none*

The VAT payable by the business (registered vendor for VAT purposes) is as follows:



The above calculation is done for every tax period, depending on the period that is allocated to the business by SARS. If output tax exceeds input tax, it will be a VAT payable and if input tax exceeds output tax, it will be a VAT refundable.



The above framework is the basic structure of a VAT calculation. In later modules, you will see that certain adjustments can also affect the calculation of VAT payable.

Also, remember that VAT can be refunded to the business if input tax exceeds output tax.

## 2.6 Output tax

*Textbook: sections 9.2.4 and 9.2.5*

Output tax is the VAT that is charged for the **supply** of goods or services. VAT of 14% is added to the selling price of the goods or services. The selling price consists of the cost price plus the gross profit.



Study section 9.2.5 in the prescribed book up to the end of example 9.6.

Work through example 9.6.

Try to do the exercise on your own without looking at the solution.



The solution is available in the prescribed textbook.



Study section 9.2.4 in the prescribed textbook.



Ensure that you know the VAT rules for the different types of supplies. The diagram provides a summary of the different supplies.



Study section 9.2.5 in the prescribed textbook – ignore deemed supplies.



Refer to list of **standard-rated supplies** in the prescribed textbook. You must know which supplies are at the standard rate (14%).





In this module, you have to know that the following supplies are **zero rated**:

- certain basic foods, for example brown bread, maize meal, rice, milk, fresh fruit and vegetables, etc
- petrol and diesel
- exported goods or services
- property rates and taxes charged by municipalities (not the supply of electricity and water)



In this module, you have to know that the following supplies are **exempt**:

- financial services, for example exchange of currency, payment by cheque, payment of interest and premiums paid on long-term insurance (Financial services exclude the supply of a chequebook, internet banking fees, bank charges and transaction costs.)
- residential accommodation (the supply of a house or flat to a person who will rent it to live in the accommodation)
- passengers transported by rail, by bus or by taxi (in other words the bus, train or taxi ticket does not include VAT)
- school fees, tuition fees of universities, technikons or colleges, and boarding fees of these institutions
- membership fees to trade unions
- childcare services by a crèche or after-school care centre

Explain the difference between standard-rated supplies, zero-rated supplies and exempt supplies.	
<p><b>Standard-rated supplies</b> are all supplies that are not exempt or zero-rated. The VAT rate is 14% for standard-rated supplies. Input tax can be claimed on goods or services that were used to make standard-rated supplies.</p> <p><b>Zero-rated supplies</b> are specific supplies (see list above), and the VAT rate is 0%. Input tax can be claimed on goods or services that were used to make zero-rated supplies if the supplier of the goods and services levied VAT on the supply.</p> <p><b>Exempt supplies</b> are specific supplies (see list above) and NO VAT is charged on these supplies. NO input tax can be claimed on goods or services that were used to make exempt supplies.</p>	



The classification between zero-rated supplies and exempt supplies is very important when it comes to the deduction of input tax in order to calculate VAT payable.

To calculate the VAT portion of taxable supplies you have to apply the tax fraction (VAT portion) to the amount of the taxable supply. When calculating the VAT on a transaction, it is important to establish which amount has been provided: It could be the amount *before* VAT is added (the exclusive selling price) or the amount *after* VAT has been added (the inclusive selling price). The following basic structure can be used to calculate the different amounts:

Selling price excluding VAT	R100
Plus: VAT at 14%	<u>R 14</u>
Selling price including VAT	<u>R114</u>



This framework can be used to calculate any amount. For example, if the selling price (including VAT) is R228, the VAT and the selling price excluding VAT can be calculated as follows:

Value (selling price excluding VAT)	R 100	R200 ( $R228/114 \times 100$ )
Plus: VAT at 14%	<u>R 14</u>	<u>R 28</u> ( $R228/114 \times 14$ )
Consideration (selling price including VAT)	<u>R114</u>	<u>R228</u>



When an amount **includes** VAT (i.e. an inclusive amount), the tax fraction will be **4/114** (as shown in the example above:  
 $R228 \times 14/114 = R28$ )

When an amount **excludes** VAT (i.e. an exclusive amount), then the tax fraction will be **14/100** or 14% (as shown in the example above:  $R200 \times 14/100 = R28$ )

<p>Calculate the output tax of the following supplies:</p> <ol style="list-style-type: none"> <li>sales of R285 (VAT included)</li> <li>sales of R1 000 (VAT excluded)</li> </ol> <p>Cover the answer below and first see if you can do the calculations on your own!</p>	
<ol style="list-style-type: none"> <li><math>R285 \times 14/114 = R35</math> (output tax)</li> <li><math>R1\ 000 \times 14/100 = R140</math> (output tax)</li> </ol>	

## 2.7 Input tax





**Textbook: section 9.2.8**

Input tax is the VAT paid by the business for the supply of goods or services by other businesses. Input tax can only be claimed if the goods or services are used in making taxable supplies.



Study section 9.2.8 in the prescribed book; don't work through the example yet.

Let us explain it by way of an example:

Business A sells cellphone accessories, thus making taxable supplies, as it is not listed as an exempt supply. Business A buys stationery to be used for business purposes, and included in the price paid was an amount of R150 VAT.	
Business A will be able to deduct the R150 input tax against the output tax to calculate VAT payable, as it is used to make taxable supplies.	
The same example as above applies, but now Business A supplies child-care facilities.	
This supply is listed as an exempt supply (see 2.6) and for this reason, the input tax of R150 cannot be claimed, as it is not used in making taxable supplies.	

If a business has a mixture of taxable and exempt supplies, the input tax will have to be apportioned between the two supplies and only the input tax relating to taxable supplies will be deducted to calculate the VAT payable.

Input tax on the following expenses cannot be deducted against the output tax, as the input tax is denied (even if it is in respect of taxable supplies):

- entertainment expenses
- club membership fees
- motor vehicles (including a station wagon, minibus and double cab, used mainly for transporting passengers on public roads)

If second-hand goods are purchased from a business that is not registered for VAT, input tax can be claimed if

- the goods are situated in South Africa
- the business is a resident of South Africa

Input tax is calculated at  $14/114 \times \text{purchase price}$  (or market value, if it is less than the purchase price), even though no VAT was included in the purchase price.

This input tax is called notional input tax because VAT was never paid, as the goods were bought from a business not registered for VAT. For purposes of this special type of transaction, it is assumed that VAT is included in the purchase price ( $100\% + 14\%$ ); thus, the VAT portion (tax fraction) will always be  $14/114$ .



When you calculate input tax, remember to make sure whether the amount includes or excludes the VAT portion because you will use a different tax fraction in each case ( $14/100$  or  $14/114$ ).

<p>Work through example 9.8 in the prescribed textbook.</p> <p>Try to complete it on your own without consulting the solution.</p>	
<p>The solution is available in the prescribed textbook.</p>	

## 2.8 Value of supply

**Textbook: section 9.2.7**

The value of the supply will be the money that is received from the customers. We also refer to it as the consideration received. The consideration for the supply is the value of the supply plus VAT.



Study section 9.2.7 in the prescribed book and work through example 9.7.

## 2.9 VAT and income tax

**Textbook: section 9.2.9**

When the taxable income of a business is calculated, the income and expenses should exclude VAT received or paid by the business, as it has been dealt with in the VAT calculation. There is an interaction between VAT and income tax.



Study section 9.2.9 in the prescribed book and work through the example.

## POINT TO PONDER

Should the standard rate of 14% be increased, seeing that it has remained the same for many years?



## WRAP-UP

- There are certain requirements for registration.
- Tax invoices have to comply with certain requirements.
- VAT is an indirect tax.
- Output tax less input tax equals VAT payable/VAT refundable.
- Taxable supplies are levied at 14% or 0%.



- The Act classifies certain supplies as exempt.
- Input tax can only be claimed in respect of taxable supplies of 14% and 0%.
- No input tax can be claimed in respect of exempt supplies.
- Input tax is prohibited in certain cases.
- There is an interaction between VAT and income tax.



Now that you have completed this learning unit, please revise the learning outcomes and make sure that you have attained all of them.



Visit the **Discussion Forum** on myUnisa and complete the online self-assessment questions.

Study the unit on **Introduction to VAT** and discuss any concepts that you do not understand – or if you do understand, then answer those students who have posted questions.

### SELF-ASSESSMENT QUESTIONS

Solutions can be found at the end of this tutorial letter.

#### **QUESTION 2.1** (3 marks, 4 minutes)

Calculate the input tax payable on the following supplies:

- (i) Stationery purchased for R12 000 (VAT included):
  - a. R1 680
  - b. R0
  - c. R1 473,68
- (ii) Entertainment expenses amounting to R3 250 (VAT excluded):
  - a. R0
  - b. R780
  - c. R399,12
- (iii) Salaries and wages paid amounting to R182 500:
  - a. R25 550
  - b. R0
  - c. R22 412,28

**QUESTION 2.2 (7 marks, 8 minutes)**

Thakalani started her own shop in which she sells groceries to her local community. After a visit from a SARS official, she was told that she should register for VAT. She has now received a VAT201 return, but she is not sure how to classify her expenses to be able to complete the following section of the form:

<b>B. CALCULATION OF INPUT TAX</b>	
Input tax in respect of:	
Capital goods or services imported by and / or supplied to you	14
Other goods or services imported by and / or supplied to you (not capital goods and / or services)	15
Tax on adjustments:	
Change in use	16
Bad debts	17
Other	18
<b>TOTAL B</b>	<b>TOTAL INPUT TAX (14 + 15 + 16 + 17 + 18)</b>
	19

REQUIRED	Marks
Help Thakalani by classifying her expenses, as listed below, for VAT purposes. Set out your answer in the same format as the example provided below.	7

Goods	Standard-rated goods	Standard-rated capital goods	Zero-rated goods	Exempt supplies
For example, cigarettes	X			
Telephone				
Shelves for the shop				
Brown bread				
Residential accommodation				
Motor repairs				
Milk				
White bread				

**QUESTION 2.3 (15 marks, 18 minutes)**

Food Buzz is registered on the invoice basis for VAT purposes as a category B vendor. You receive the following information from the manager of Food Buzz for the two months ending 30 April 2017 (all amounts include VAT where applicable):

R

**Income**

Cash sale to RSA clients	205 200
Credit sales to RSA clients	478 800
Cash sales to Mexican clients (the sale complied with the requirements of a direct sale)	241 920
Interest received on bank account	612

**QUESTION 2.3 (continued)****R****Expenditure**

Purchases	588 240
Bank charges	684
Purchase of delivery vehicle for business	342 000
Fuel	4 279
Salaries	93 750

REQUIRED	Marks
Complete part 1 of Food Buzz's VAT201 return using the template of a VAT201 return provided below. Please provide your detailed calculations.	15

NB. Read notes overleaf

Date received: \_\_\_\_\_

See general notes 4, 6 and 7 overleaf for amount due to be deducted by electronic bank transfer

**VAT 201 PART 1**

**A. CALCULATION OF OUTPUT TAX**

Supply of goods and / or services by you:

Standard rate (excluding capital goods and / or services and accommodation)

Standard rate (only capital goods and / or services)

Zero rate

Exempt and non-supplies

Supply of accommodation: TOTAL AMOUNT (EXCLUDING VAT)  × 60%

Exceeding 45 days

Not exceeding 45 days

TOTAL

Adjustments:

Change in use and export of second-hand goods

Other

**TOTAL A TOTAL OUTPUT TAX (4 + 4A + 9 + 11 + 12)**

**B. CALCULATION OF INPUT TAX**

Input tax in respect of:

Capital goods or services imported by and / or supplied to you

Other goods or services imported by and / or supplied to you (not capital goods and / or services)

Tax on adjustments:

Change in use

Bad debts

Other

**TOTAL B TOTAL INPUT TAX (14 + 15 + 16 + 17 + 18)**

**VAT PAYABLE / REFUNDABLE (Total A - Total B)**

Less credit

Add penalty

**AMOUNT PAYABLE (TAX + PENALTY + INTEREST) (20 - 21 + 22)**

This block must be completed

I certify that the particulars in this return are true and correct.

Signature

**QUESTION 2.4 (12 marks, 14 minutes)**

Fix-it (Pty) Ltd (Fix-it) is a vendor for value-added tax (VAT) purposes and is registered on the invoice basis. The company sells motor spares and accessories. Fix-it had the following income and expenditure for the two-month tax period ending on 30 April 2017. All amounts exclude VAT, unless otherwise stated.

**R****Income**

Export sales to Zimbabwe	325 000
Cash sales	585 000
Credit sales	298 000

**Expenditure**

Salaries	200 000
Stock purchases	800 000
Rental of shop premises	55 000
Entertainment	28 000
Interest on loan	5 700
Bank charges	500
Purchase of fuel	3 500

**QUESTION 2.4 (continued)**

REQUIRED	Marks
Calculate the VAT payable by/refundable of Fix-it (Pty) Ltd for the two-month tax period ending 30 April 2017. Should no VAT be applicable, please provide a reason. Also, state the due date of the return and payment (if any).	12



Refer to section 9.7 in the prescribed book and attempt answering questions 1, 2 and 17.

The solutions are at the back of the prescribed book.

**ASSESSMENT CRITERIA**

We could assess this learning unit by asking you to

- list the requirements of compulsory and voluntarily registration
- list the requirements of a tax invoice
- calculate VAT payable by a vendor
- give examples of the different types of supplies
- calculate the VAT portion of an amount
- list prohibited input tax supplies

**Solutions to self-assessment questions in learning unit 2****QUESTION 2.1 (3 marks)**

- |       |   |   |     |
|-------|---|---|-----|
| (i)   | c | (14/114 x R12 000 = R1 473,68)                                  | (1) |
| (ii)  | a | (input tax denied on entertainment expenses)                    | (1) |
| (iii) | b | (not a supply of goods or services, as it is not an enterprise) | (1) |

**QUESTION 2.2 (7 marks)**

Goods	Standard-rated goods	Standard-rated capital goods	Zero-rated goods	Exempt supplies
For example, cigarettes	X			
Telephone	x			
Shelves for the shop		x		
Brown bread			x	
Residential accommodation				x
Motor repairs	x			
Milk			x	
White bread	x			

**QUESTION 2.3 (15 marks)**

<b>Output tax</b>	<b>R</b>	
<u>Standard-rated supplies</u>		
Cash sales to RSA clients	205 200	(1)
Credit sales to RSA clients	478 800	(1)
	<u>684 000</u>	Block 1 (1)
Tax fraction applied to standard-rated supplies	<u>x 14/114</u>	(1)
VAT	<u>84 000</u>	Block 4 (1)
<u>Zero-rated supplies</u>		
Export sales	241 920	Block 2 (1)
<u>Exempt supplies</u>		
Interest received	612	Block 3 (1)
Total output tax	84 000	Block 13 (1)
<b>Input tax</b>		
<u>Capital goods</u>		
Purchase of delivery vehicle	342 000	(1)
Tax fraction	<u>x 14/114</u>	
	<u>42 000</u>	Block 14
<u>Other goods and services</u>		
Purchases	588 240	(1)
Bank charges	684	(1)
Fuel (zero rated)	–	
Salaries (not a supply of goods or services)	–	
	<u>588 924</u>	
Tax fraction	<u>x 14/114</u>	
VAT	<u>72 324</u>	Block 15 (1)
Total input tax	<u>114 324</u>	Block 19 (1)
VAT payable/refundable (R84 000 (block 4) – R114 324 (block 19)) (1)	<u>(30 324)</u>	Block 20 (1)
		<u>15</u>

**QUESTION 2.3 (continued)**

NB. Read notes overleaf

See general notes 4, 6 and 7 overleaf for amount due to be deducted by electronic bank transfer

Date received: \_\_\_\_\_

**VAT 201 PART 1**

A. CALCULATION OF OUTPUT TAX		R		C	
Supply of goods and / or services by you:					
Standard rate (excluding capital goods and / or services and accommodation)	1 684 000	$\times \frac{14}{100 + 14}$	4 84 000 00		
Standard rate (only capital goods and / or services)	1A -	$\times \frac{14}{100 + 14}$	4A -		
Zero rate	2 241 920				
Exempt and non-supplies	3 612				
Supply of accommodation: TOTAL AMOUNT (EXCLUDING VAT)					
Exceeding 45 days 5 $\times 60\%$	6 0				
Not exceeding 45 days	7 0				
TOTAL	8 0				
Adjustments:					
Change in use and export of second-hand goods	9 0	$\times \frac{14}{100}$	9 0		
Other	10 0	$\times \frac{14}{100 + 14}$	11 0		
			12 0		
<b>TOTAL A TOTAL OUTPUT TAX (4 + 4A + 9 + 11 + 12)</b>			13 84 000 00		
<b>B. CALCULATION OF INPUT TAX</b>					
Input tax in respect of:					
Capital goods or services imported by and / or supplied to you	14 42 000				
Other goods or services imported by and / or supplied to you (not capital goods and / or services)	15 72 324				
Tax on adjustments:	16 0				
Change in use	17 0				
Bad debts	18 0				
Other	19 0				
<b>TOTAL B TOTAL INPUT TAX (14 + 15 + 16 + 17 + 18)</b>			19 114 324 00		
<b>VAT PAYABLE / REFUNDABLE (Total A - Total B)</b>			This block must be completed		
Less credit	20 - 30 324				
Add penalty	21 0				
C + interest	22 0				
<b>AMOUNT PAYABLE (TAX + PENALTY + INTEREST) (20 - 21 + 22)</b>			23 - 30 324 00		
I certify that the particulars in this return are true and correct.					
Capacity		Signature			

**QUESTION 2.4 (12 marks)****Output tax**

		R	Marks
Sales to Zimbabwe	Export sales are zero rated	-	(1)
Cash sales	R585 000 x 14%	81 900	(1)
Credit sales	R298 000 x 14%	41 720	(1)
Total output tax		123 620	

**Input tax**

Salaries	Not an enterprise	-	(1)
Stock purchases	R800 000 x 14%	112 000	(1)
Rent	Not residential accommodation R55 000 x 14%	7 700	(1)
Entertainment	Input tax denied	-	(1)
Interest on loan	Financial services – exempt	-	(1)
Bank charges	R500 x 14%	70	(1)
Purchase of fuel	Fuel is zero rated	-	(1)
Total input tax		119 770	

VAT payable	R123 620 – R119 770	3 850	(1)
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The VAT is due on 25 May 2017. (1)

**[12]**

Literature consulted in drawing up this learning unit

A student's approach to income tax: business activities 2017.

## LEARNING UNIT 3

# 3

### INTRODUCTION

### STUDY PROGRAMME

### LEARNING OUTCOMES

### PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

### SECTIONS OF THE PRESCRIBED TEXTBOOK WHICH YOU MAY IGNORE

### CONTENTS

- 3.1 Background
- 3.2 Earning a salary
- 3.3 IRP5 certificate
- 3.4 Persons liable for income tax
- 3.5 Registration as a taxpayer with SARS
- 3.6 Income tax returns
- 3.7 Income tax assessments
- 3.8 Framework for tax calculations

### POINT TO PONDER

### WRAP-UP

### E-TIVITY

### SELF-ASSESSMENT QUESTIONS

### ASSESSMENT CRITERIA

## Salaried persons and income tax

## INTRODUCTION

Income tax is the main source of government income. This income is used by government to fund the cost of providing services to the people of South Africa. Income tax is levied in terms of rules contained in the Income Tax Act. This module deals only with the tax implications for individuals.

## STUDY PROGRAMME

You should complete this learning unit in **week 3 and week 4** of the programme.

You should spend a minimum of **ten (10) hours** in **week 3** and a minimum of **five (5) hours** in **week 4** on this learning unit.

## LEARNING OUTCOMES

After completing this learning unit, you should be able to

- explain the tax implications when a person receives a salary
- explain the deductions that are made from a person's salary
- explain the purpose of and the information on the IRP5/IT3(a)
- explain the tax process from the time that a taxpayer receives his/her IRP5/IT3(a)
- calculate the final tax liability of a salaried person if taxable income is given

## PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 2 in the prescribed textbook.

## SECTIONS OF THE PRESCRIBED TEXTBOOK WHICH YOU MAY IGNORE

Section 2.11

## CONTENTS

### 3.1 Background

*Textbook: section 2.1*

In order for SARS to receive tax income from individuals, certain processes have to take place during the year. Between the date at which a person starts working at the beginning of a year and the date at which their tax for the year is paid to SARS, a number of steps are taking place. In this learning unit, we discuss the different steps that are followed during what is referred to as a tax year or year of assessment.

### 3.2 Earning a salary

*Textbook: sections 2.2 and 2.3*

People working for an employer normally earn a salary or a wage. These amounts may be paid weekly, fortnightly (every two weeks) or monthly. Every time the employee receives a salary, they also receive a salary advice or payslip from the employer. The payslip indicates the income the person earned and the deductions that were made from the person's salary for the week, fortnight or month.



A payslip would normally also contain some deductions. Deductions are amounts that are deducted from an employee's gross salary or wage. The amount a person receives after deductions is referred to as the net salary or net wage.

Individuals can also earn other income, for example rental income, interest or dividends. Tax will also be payable on this income after applying certain exemptions, but neither this income nor the applicable tax will be reflected on the payslip, as it is from another source.

The following deductions are generally made from a person's salary:

- **Income tax**

The employer deducts the tax, which an employee must pay, from the employee's salary and pays the amount over to SARS at the end of each month. This system of deducting tax throughout the year is called the pay-as-you-earn (PAYE) system.

Every year, the employer receives an *Employees' tax guide* from SARS. This guide indicates the amount of tax that must be deducted from a person's salary or wage. There are two sections in the guide. The one gives the tax that must be deducted from weekly wages and the second section deals with the tax that must be deducted from monthly salaries paid.



Visit the SARS website and search for the tax guide for employers (<http://www.sars.gov.za>). Remember, you will need to use this guide when you deal with taxes in a business environment. **Please do not study the details in this guide;** just familiarise yourself with what is available on the SARS website.

- **Pension fund contributions and provident fund contributions**

Most permanent employees of a company belong to the employer's pension fund or provident fund, if the employer has one. The monthly contributions required to be paid to the fund are normally based on a percentage of a person's gross salary, for example 7% of the salary. As a general rule, the employer also contributes to the fund. Except for certain aspects relating to the payout of retirement and taxation, the two funds are very similar in nature.

- **Unemployment insurance fund contributions**

All employees and employers are expected to pay unemployment insurance fund (UIF) contributions. The aim of the UIF is to provide people with some income for a couple of months to enable them to find a new job after they have lost their job. The fund also provides maternity income for women who are not able to work for a while before and after the birth of their baby.

The employer pays the amount over either to SARS or to the UIF commissioner, depending on the employer's tax status. The employee and employer both pay 1% of the employee's gross salary, up to a maximum amount announced from time to time.



Visit the SARS website for the current maximum amount that may be deducted against an employee's salary for UIF.

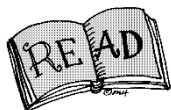
- **Medical aid scheme contributions**

Medical aid scheme contributions are amounts, which an employee belonging to a medical aid fund pays towards his/her medical cover. If an employee belongs to a medical aid scheme, the medical aid scheme will pay certain medical costs on behalf of the member. A person's medical aid fund contribution is a fixed amount that is determined by whether the employee belongs to the fund as a single member, or whether he or she has a dependant or dependants belonging to the fund as well.

Usually, each employee may decide whether he or she wants to belong to a medical aid fund. Some employers subsidise a portion of an employee's total medical aid fund contributions.

- **Membership fees**

Employees may belong to various organisations for which deductions will be made from their salaries, for example, tea clubs, unions and staff associations.



Read sections 2.2 and 2.3 in the prescribed textbook.



View the example of a payslip in your prescribed textbook.

### 3.3 IRP5 certificate

**Textbook: section 2.4**

At the end of each year of assessment (i.e. 28/29 February), the employer must provide the employees with an IRP5/IT3(a) certificate. The IRP5/IT3(a) certificate contains information about the employees' income and the expenses deducted from their salaries. The IRP5/IT3(a) is a summary of the most important information on a person's payslip. The IRP5/IT3(a) is one of the major source documents when completing a tax return.

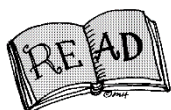
The first section of the IRP5 provides information on a person's types (sources) of income. To standardise the IRP5/IT3(a) certificates SARS uses specific income codes.

The second section of the financial information set out on the IRP5 provides a summary of the income an employee earned, which is used when calculating certain deductions for tax purposes.

In the third section of the financial information, details of deductions that are relevant for tax purposes are provided.

In the last section of the financial information, reference is made to the employee's tax that has been deducted during the year.

The taxpayer uses the above information as well as other information on other revenue earned to complete the income tax return. All this information is used by SARS to calculate the taxpayer's taxable income. The tax payable based on the taxable income is then determined. If the employees' tax deducted during the year is not sufficient, the taxpayer must pay the outstanding amount.



Read section 2.4 in the prescribed textbook.



Refer to example of IRP5/IT3(a) in the prescribed textbook.

### 3.4 Persons liable for income tax

**Textbook: section 2.5**

Taxpayers (depending on their age) do not pay tax up to a certain amount. These amounts are calculated every year on the current year's tax rates and rebates. We refer to these amounts as the tax threshold for the different age categories.



Study section 2.5 in the prescribed textbook and make sure of the annual rebates for the different age groups.

### 3.5 Registration as a taxpayer with SARS

**Textbook: section 2.6**

A person who earns an income (salary or wage) from employment has to register as a taxpayer for income tax purposes. The Act also makes provision for persons, who earn other income, to register for tax in certain circumstances.

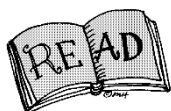


Study section 2.6 in the prescribed textbook, as you need to be able to know who has to register for income tax.

### 3.6 Income tax returns

**Textbook: sections 2.7 and 2.8**

Taxpayers are required to submit an income tax return annually. ITR12 forms (annual income tax returns) are pre-populated by SARS, which means that all the taxpayer's information from the IRP5/IT3(a) already appears on the return when it is downloaded or received from SARS. Each taxpayer needs to answer a set of questions relating to income received, deductions made, etc, and then a unique return is compiled, depending on the answers to the questions.



Read sections 2.7 and 2.8 in the prescribed textbook.

### 3.7 Income tax assessments

**Textbook: sections 2.9 and 2.10**

The information the taxpayer provides in his or her income tax return is used by SARS to calculate the person's **final tax liability**. The result of the assessment process by SARS is the issue of an ITA34 (assessment).



Study section 2.9 in the prescribed textbook, just before section 2.9.1. The diagram and examples will be dealt with later.



Study section 2.10 in the prescribed textbook and take note of the steps that can be taken by the taxpayer if he or she does not agree with the assessment received.

### 3.8 Framework for tax calculations







**Textbook: sections 2.9.1 to 2.9.4**

The first step in calculating a person's final tax liability is to calculate his or her taxable income. In this learning unit, we will focus on the calculation of the final tax liability.



Take note of the diagram in section 2.9. For this learning unit, we will focus on the second part of the diagram

By way of example, we will explain how to use the tax tables.

Refer to Schedule A at the back of your prescribed textbook. The first table on that page is the tax table that applies to salaried persons and it is used to calculate the normal tax of the taxpayer.  Let us assume that taxpayer A's taxable income for the current year of assessment amounts to R120 000.	
In the tax table, we see that it falls within the first category of income, as it is less than R189 880. The tax rate for this category is 18% (we refer to it as the marginal tax rate); thus, the normal tax is $18\% \times R120\,000 = R21\,600$ .	
What is the normal tax if the taxable income is R230 000?	
In the tax table, it falls into the second category of income. The normal tax is R34 178 + 26% (marginal tax rate) above R189 880; thus, $R34\,178 + ((R230\,000 - R189\,880) \times 26\%) = R44\,609$ .	
Work through example 2.1 in your prescribed textbook.  Try to do it on your own without looking at the solution.	
The solution is available in the prescribed textbook.	




Listen to the podcast on using the tax tables under **Additional Resources** on myUnisa.

The next step in the framework is to determine the rebates, which must be deducted from the normal tax. All natural persons qualify for a rebate (reduction) on their normal tax. The person's age at the end of the year of assessment determines for which rebate he or she will qualify. The normal tax less the rebates (both the age rebate and the medical tax credits) gives a person's **net normal tax**.



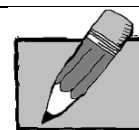
Study rebates in section 2.9.2 in the prescribed textbook.

Make a summary of the rebates for the 2017 year of assessment.	
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You can find the rebates in your prescribed textbook. We will supply them to you in the examination, but you will use them so often that we expect that you will know them by the time you write the examination. You will save time in the examination if you know the rebates, rather than having to look them up.



Work through example 2.2 in your prescribed textbook.  
Try to complete it on your own without consulting the solution.



The solution is available in the prescribed textbook.



**Please note that the REBATE IS DEDUCTED FROM THE NORMAL TAX and that it is NOT a deduction for purposes of calculating the taxable income.**

Persons paying contributions to a medical aid scheme and persons paying their own medical expenses are allowed to deduct medical tax credits from their normal tax. Two types of tax credits are available, namely the medical scheme fees tax credit and the additional medical expenses tax credit. These tax credits are **NOT** deductions, but they form part of the **REBATES** that are deducted from normal tax payable. Age and disability also play a role in how medical tax credits are calculated.

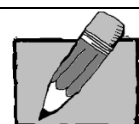


Study section 2.9.2.2 in your prescribed textbook.



We will not expect you to know which expenses are classified as disability or qualifying expenses. In questions, you may assume that the expenses are allowable in terms of the Income Tax Act and can be classified as other qualifying expenses if they were paid by the taxpayer and not refunded by the medical aid fund.

Work through examples 2.3, 2.4, 2.5, 2.6 and 2.7 in the prescribed textbook.  
Try to complete it on your own without consulting the solutions.



The solutions are available in the prescribed textbook.



Cassey is 35 years old and married. Her husband and baby daughter (two years old) are dependants on her medical fund and they are not persons with disabilities as defined. Her taxable income amounted to R234 000.

- Her employer contributed R9 500 to the medical aid fund for the full year.

She made the following payments:

- |   |          |
|---|----------|
|   | <b>R</b> |
| • Medical aid contributions for the full year                           | 14 250   |
| • Qualifying medical expenses paid and not refunded by the medical fund | 20 000   |

Calculate Cassey's medical tax credits for the current year of assessment if you assume that she had no other income or deductions.

Cover the answer below and first attempt the calculation on your own!



### Calculation of Cassey's medical tax credits for the current year of assessment

Determine the medical scheme fees tax credit:

R

Cassey (R303 x 12 months)

3 636

Husband (R303 x 12 months)

3 636

Baby daughter (R204 x 12 months)

2 448

Total medical scheme fees tax credit

9 720

Employer's  
contribution also  
taken into account

Determine the additional medical expenses tax credit:

Medical contributions (R9 500 + R14 250)

23 750

**Less:** 4 x medical scheme fees tax credit (4 x R9 720)

(38 880)

No excess medical contributions

nil

Qualifying expenses

20 000

20 000

**Less:** 7,5% x R234 000

(17 550)

2 450

Multiply by 25%

Additional medical expenses tax credit

613

The medical scheme fees tax credit amounts to R9 720 and the additional medical expenses tax credit amounts to R613. Both will be deducted from the normal tax according to the tax tables. The medical tax credit is similar to a rebate.



Listen to the podcast on medical tax credits under **Additional Resources** on myUnisa.

The last step in the framework is to deduct taxes that have been prepaid by the taxpayer during the year of assessment from the taxpayer's net normal tax.



Study final tax liability in section 2.9.3 and 2.9.4 in the prescribed textbook.

Work through example 2.8 in your prescribed textbook.

Try to complete it on your own without consulting the solution.



The solution is available in the prescribed textbook.



In this module, we will supply the amounts for the prepaid taxes; you do not have to do the calculation for these amounts. Prepaid taxes consist of employees' tax and provisional tax.



Listen to the podcast on the tax framework under **Additional Resources** on myUnisa.

### POINT TO PONDER

Why must salaried persons submit tax returns at the end of the year of assessment, if tax is paid monthly to SARS?



### WRAP-UP

- Salaried persons receive a monthly payslip with detail of their salary and deductions for the month.
- At the end of the year of assessment, each salaried person receives an IRP5/IT3(a) from their employer, which contains a summary of the monthly payslip.
- The salaried person uses this summary (IRP5) to complete the annual income tax return.
- SARS uses the information on the income tax return to calculate the salaried person's taxable income and tax liability for the year of assessment.
- SARS issues the taxpayer with a tax assessment (ITA34). The person has 30 days to check the calculation and if necessary, the person may submit an objection.
- The calculation of taxable income and the tax liability can be summarised by way of a framework.
- This framework forms the basis for your further studies of taxation.



Now that you have completed this learning unit, please revise the learning outcomes and ensure you attained all of them.



Visit the **Discussion Forum** and complete the online self-assessment questions.

Study the unit on **Salaried persons and income tax** and discuss any concepts that you do not understand – or if you do understand, then answer those students who have posted questions.

**SELF-ASSESSMENT QUESTIONS**

Solutions can be found at the end of this tutorial letter.

**QUESTION 3.1 (6 marks, 7 minutes)**

Calculate the normal tax for the current year of assessment if a taxpayer has a taxable income of:

- (a) R625 000
- (b) R484 000
- (c) R750 000

**QUESTION 3.2 (6 marks, 7 minutes)**

Calculate the taxpayer's (40 years old) final tax liability for the current year of assessment if the taxable income amounts to R375 000. Prepaid taxes for the year amounted to:

- (a) R70 000
- (b) R80 000

Indicate whether the amount is owed to SARS or if SARS must refund any prepaid taxes to the taxpayer.

**QUESTION 3.3 (14 marks, 17 minutes)**

You are a SARS public relations officer in the Western Cape. As part of your community outreach programme, you visit local shopping centres and assist people in calculating their final tax liability. During one of these visits, you had to assist the following people:

**Sunita Moodley**

Sunita is 76 years of age and has a taxable income of R169 220. During the current year of assessment, Sunita paid provisional tax of R6 200.

**Regan Jones**

Regan is 35 years of age and provides you with the following information:

	<b>R</b>
Exempt income	21 000
Employees' tax paid	19 271
Gross income	341 610
Deductible expenses	21 050

**Ayanda Zulu**

Ayanda is 66 years of age and works on a full-time basis at a local furniture store.

	<b>R</b>
Taxable income	225 375
Employees' tax paid	43 925

**REQUIRED**

Calculate the final tax liability for each of the persons who visited you.



**QUESTION 3.4 (19 marks, 23 minutes)**

George White is 55 years old and is married out of community of property to Petro. They have two children under the age of 18. His wife and two children are dependents on his medical aid fund. They are not persons with disabilities as defined.

George's taxable income amounted to R200 000.

George's employer contributed R14 000 to the medical aid fund for the full year.

George paid the following medical expenses during the year:

	<b>R</b>
Contributions to a registered medical aid fund (for the full year)	32 000
Hospital expenses (qualifying expenses) not covered by the medical aid	6 800
Pharmacy accounts (qualifying expenses) not covered by the medical aid	3 800

<b>REQUIRED</b>	<b>Marks</b>
(a) Calculate George's medical tax credits.	<b>9</b>
(b) Calculate George's medical tax credits, assuming that George is 66 years old and is married out of community of property, and has four married children who are no longer dependants on his medical aid.	<b>6</b>
(c) Calculate George's medical tax credits, assuming that George is a person with a disability as defined, unmarried and has no children. Neither George nor his employer made any medical aid contributions (he does not belong to a medical aid). He only had hospital expenses of R40 000 and a pharmacy account of R3 800.	<b>4</b>



Refer to section 2.13 in the prescribed book and attempt answering all the questions. The solutions are at the back of the prescribed book.

**ASSESSMENT CRITERIA**

We could assess this learning unit by asking you to

- explain the tax process of a salaried person within a year of assessment
- explain the following terms:
  - “year of assessment”
  - “pay as you earn” (PAYE)
  - “pension fund contributions”
  - “unemployment insurance fund (UIF) contributions”
  - “medical aid scheme contributions”
- explain the information given on an IRP5/IT3(a) certificate
- explain the different ways of submitting an income tax return
- explain the information that is reflected on the income tax assessment
- explain the procedure if the assessment is not correct
- calculate the final tax liability of a salaried person (Taxable income will be given, as this aspect is only dealt with later in the module. It can also be assessed in the examination.)

### Solutions to self-assessment questions in learning unit 3

#### QUESTION 3.1 (6 marks)

- (a)  $R149\,475 + ((R625\,000 - R555\,600) \times 39\%) = R176\,541$  (normal tax) (2)  
 (b)  $R97\,225 + ((R484\,000 - R410\,460) \times 36\%) = R123\,699$  (normal tax) (2)  
 (c)  $R209\,032 + ((R750\,000 - R708\,310) \times 41\%) = R228\,999$  (normal tax) (2)

#### QUESTION 3.2 (6 marks)

- (a)  $R61\,910 + ((R375\,000 - R296\,540) \times 31\%) = R86\,233$  (1) –  $R13\,635$  (1) (rebate) =  
 $R72\,598 - R70\,000$  (1) =  $R2\,598$  (owed to SARS) (1)  
 (b)  $R72\,598$  (see calc in (a)) –  $R80\,000$  (1)) =  $R7\,402$  (owed by SARS [refund]) (1)

#### QUESTION 3.3 (14 marks)

##### Sunita Moodley

	R	
Taxable income	<u>169 220</u>	
Tax on R169 220 (18% x R169 220)	30 460	(1)
<u>Less:</u> Rebate – primary	(13 635)	(1)
– age (R7 479 + R2 493)	<u>(9 972)</u>	(1)
Net normal tax		
<u>Less:</u> Provisional tax	<u>(6 200)</u>	(1)
Final tax liability (owed to SARS)	<u>653</u>	

##### Regan Jones

Gross income	341 610	(1)
<u>Less:</u> Exempt income	<u>(21 000)</u>	(1)
Income	320 610	
<u>Less:</u> Deductible expenses	<u>(21 050)</u>	(1)
Taxable income	<u>299 560</u>	
Tax on R299 560	61 910	
<u>Plus:</u> 31% x (R299 560 – R296 540)	<u>9 36</u>	
Normal tax	62 846	(1)
<u>Less:</u> Rebate – primary	<u>(13 635)</u>	(1)
Net normal tax	49 211	
<u>Less:</u> Employees' tax	<u>(19 271)</u>	(1)
Final tax liability	<u>29 940</u>	

**QUESTION 3.3 (continued)**

<u>Ayanda Zulu</u>	R	
Taxable income	<u>225 375</u>	
Tax	43 407	(1)
On R188 000	<u>34 178</u>	
<u>Plus:</u> 26% x (R225 375 – R189 880)	<u>9 229</u>	
<u>Less:</u> Rebates	(21 114)	
– primary	<u>13 635</u>	(1)
– age	<u>7 479</u>	(1)
Net normal tax	<u>22 292</u>	
Less: Prepaid tax	(43 925)	(1)
Employees' tax	<u>43 925</u>	
Final tax liability (owed by SARS)	<u>(21 632)</u>	

**14****QUESTION 3.4 (19 marks)**

	R	
(a) Medical scheme fees tax credit:		
(R286 x 2 x 12)	7 272	(1)
(R192 x 2 x 12)	4 896	(1)
Total medical scheme fees tax credit	<u>12 168</u>	
Additional medical expenses tax credit:		
Excess ((R14 000 + R32 000) – (4 x R12 168))	0	(3)
Qualifying expenses		
– hospital	6 800	(1)
– pharmacy	<u>3 800</u>	(1)
	10 600	
<u>Less:</u> 7,5% x R200 000	<u>(15 000)</u>	(2)
	0	

Threshold exceeds total expenses; thus, no additional medical expenses tax credit

The total tax credit: R11 472 + R0 = R11 472

(b) Medical scheme fees tax credit:		
(R303 x 2 x 12)	7 272	(1)
Additional medical expenses tax credit:		
Excess ((R14 000 + R32 000) – (3 x R7 272))	24 184	(2)
Qualifying expenses		
– hospital	6 800	(1)
– pharmacy	<u>3 800</u>	(1)
	34 784	
x 33,3%		(1)
Additional medical tax credit	<u>11 593</u>	

Total medical tax credit: R7 272 + R11 593 = R18 865

**QUESTION 3.4** (continued)

- (c) George made no medical aid contributions; therefore, he would not be entitled to a medical scheme fees tax credit for medical aid contributions (1)

Additional medical expenses tax credit:

**R**

Excess – none, as he had no medical aid contributions

### Qualifying expenses

- hospital

40 000 (1)

- pharmacy

3 800 (1)

---

43 800

x 33,3%

(1)

## Medical expenses tax credit

---

14 585

Total medical tax credit: R0 + R14 585 = R14 585

[illegible]

# LEARNING UNIT 4

# 4

## INTRODUCTION

## STUDY PROGRAMME

## LEARNING OUTCOMES

## PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

## SECTIONS OF THE PRESCRIBED TEXTBOOK WHICH YOU MAY IGNORE

## CONTENTS

- 4.1 Background
- 4.2 Taxable income framework
- 4.3 Deductions
- 4.5 Pension fund, retirement annuity fund and provident fund contributions
- 4.6 Donations to public benefit organisations

## POINT TO PONDER

## WRAP-UP

## e-TIVITY

## SELF-ASSESSMENT QUESTIONS

## ASSESSMENT CRITERIA

# Calculation of taxable income

## INTRODUCTION

In the previous learning unit, we referred to the frameworks for calculating the taxable income and the final tax liability of a salaried person. The emphasis in learning unit 3 was on calculating the final tax liability. In this learning unit, you will learn how to calculate the taxable income, which you need to do before you can calculate the normal tax and therefore, the final tax liability.

## STUDY PROGRAMME

You should complete this learning unit in **week 4 and week 5** of the programme.

You should spend a minimum of **five (5) hours** in **week 4** and a minimum of **ten (10) hours** in **week 5** on this learning unit.

## LEARNING OUTCOMES

After completing this learning unit, you should be able to

- reproduce the framework for calculating the taxable income and apply it in a practical scenario
- know the order in which deductions must be deducted and apply it in a practical scenario
- calculate and apply the limitations for income tax purposes in respect of
  - contributions to retirement funds
  - donations to public benefit organisations
- calculate the taxable income of a person receiving a salary

## PRESCRIBED STUDY MATERIAL FOR THIS LEARNING UNIT

Chapter 3 in the prescribed textbook.

## SECTIONS OF THE PRESCRIBED TEXTBOOK WHICH YOU MAY IGNORE

None

## CONTENTS

### 4.1 Background

***Textbook: section 3.1***

This learning unit describes how SARS uses the information declared by a taxpayer in the income tax return (IT12) to calculate taxable income. It is important to know how taxable income is calculated so that you can check whether SARS has done the calculation correctly.



Read section 3.1 in the prescribed book.

## 4.2 Taxable income framework

*Textbook: sections 3.2 and 3.3*

The first step in calculating taxable income is establishing gross income. Individuals can receive different types of income that may be classified as “gross income”, such as salary, commission, bonus and investment income (rental income, interest and dividends). All income that meets the requirements of the definition of gross income is included in gross income. Gross income and exempt income will be discussed in more detail in learning unit 5.

The next step is to exclude any gross income for which the Act provides as exempt. Exempt income will also be discussed in learning unit 5. Fringe benefits are also included in gross income and will be discussed in the next tutorial letter.

The next step is to make general deductions in terms of the general deduction formula, which will be discussed in learning unit 6. In this learning unit, we will focus on the specific deductions that a salaried person may deduct for income tax purposes.



Study sections 3.2 and 3.3 in the prescribed textbook.



Remember that this framework forms the basis for all tax calculations; you will use it throughout your studies in taxation.

## 4.3 Deductions

*Textbook: section 3.4*

Salaried taxpayers qualify for certain deductions of expenses that they have to pay. These deductions reduce taxable income. It is important to note, however, that these amounts must be deducted in a **specific order**.



This order of deductions implies that all other general deductible expenses have been deducted and these are the last items that must be deducted from income for the calculation of taxable income.

Some of the deductions also have **specific limits** that must be applied. To be able to calculate the limits you have to remember to calculate a subtotal after each deduction, as the limits are often based on the subtotal at that point of the calculation.

A golden rule in tax is that you can never deduct more than what you paid. The Income Tax Act is very clear about the deductions that a salaried taxpayer may claim. These expenses are listed in section 23(m) of the Income Tax Act. A salaried taxpayer may claim very few deductions.



Study section 3.4 in the prescribed textbook and take note of the order of the deductions.

## 4.4 Pension fund, retirement annuity fund and provident fund contributions

*Textbook: section 3.4.2 and 8.2.2*

Contributions to retirement funds are deductible for income tax purposes, but the deduction is limited. Any contributions paid by an employer are taxed as a fringe benefit and will be included as part of the total contributions made to funds.



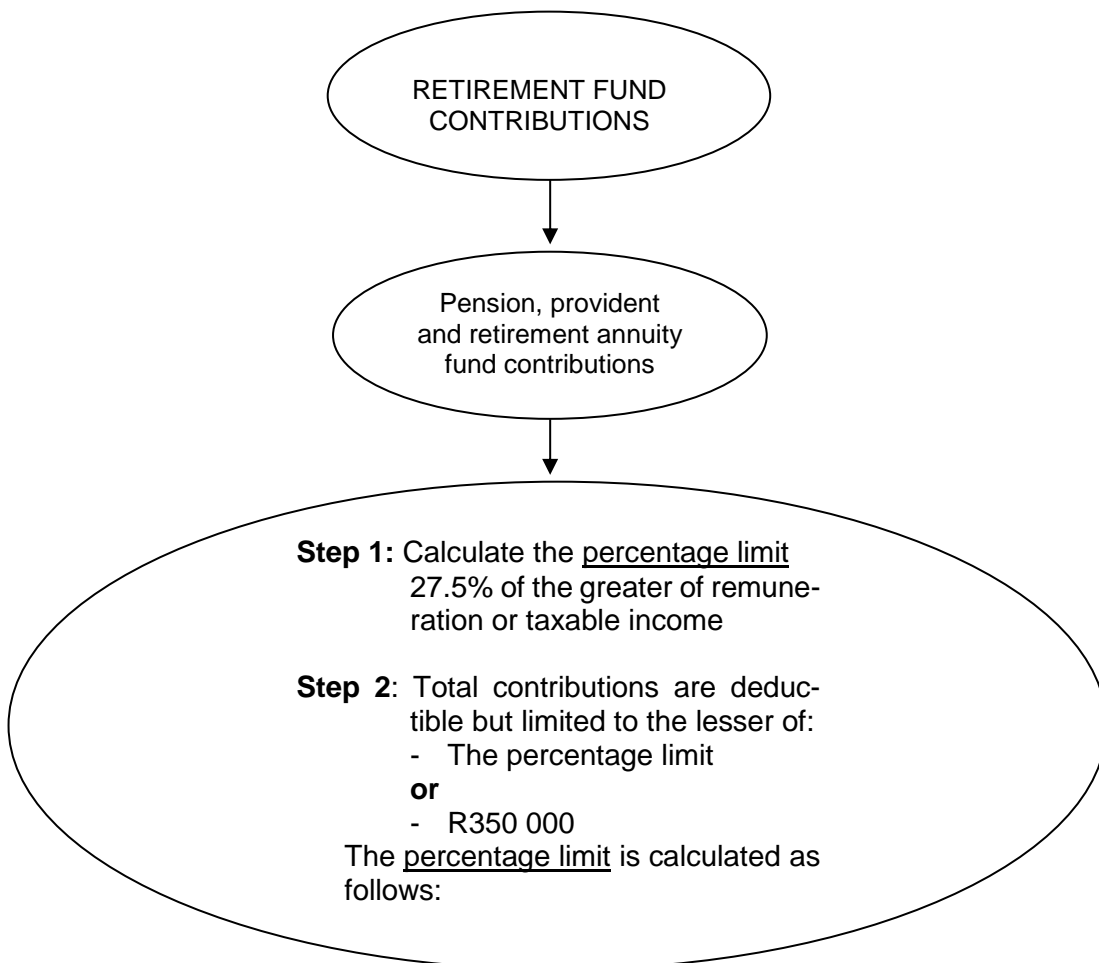
Study section 3.4.2. Don't work through the examples yet.



Did you see the explanation of a pension, retirement and a provident fund in the first paragraphs of section 3.4.2?

Work through example 3.1 in the prescribed textbook. Try to complete it on your own without consulting the solution.	
The solution is available in the prescribed textbook.	

Work through example 3.2 in the prescribed textbook. Try to complete it on your own without consulting the solution.	
The solution is available in the prescribed textbook.	





Remuneration is defined in the Fourth Schedule of the Income Tax Act. Remuneration includes a salary, fee, bonus, gratuity, pension, leave pay-outs, voluntary award, commission, and overtime payments received from the employer and specifically include the following:

- 80% of the travel allowance received from the taxpayer's employer.
- 80% of the taxable value of the right of use of a motor vehicle received from the taxpayer's employer.
- Fringe benefits (medical fringe benefits etc.) received from the taxpayer's employer.

You may refer to 8.2.2 in Chapter 8 under balance of remuneration. Only study the section discussing remuneration and not the remainder discussion on the "balance of remuneration".



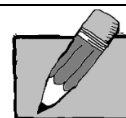
**Remember, after calculating the limitation, to compare it with the contributions – you can never deduct more than what was paid.**

Cassey is 35 years old and unmarried. She received a salary of R390 000 for the current year of assessment. She also received a bonus of R35 000. Other income (not received from her employer) for the current year of assessment amounted to R65 000. She made the following contributions:

	R
• Retirement annuity fund contributions	17 000
• Pension fund contributions	27 300

Calculate Cassey's taxable income for the current year of assessment if you assume that she had no other income or deductions.

Cover the answer below and first attempt the calculation on your own!



#### Calculation of Cassey's taxable income for the current year of assessment

	R
Salary	390 000
Bonus	35 000
Other income	<u>65 000</u>
	490 000

#### **Less: Retirement fund contributions**

Actual contributions: R17 000 + R27 300 = R44 300

**Step 1:** Calculate the percentage limit:

27.5 % of the greater of remuneration or taxable income before this deduction

- Remuneration: R390 000 + R35 000 = R425 000

- Taxable income before this deduction: R490 000

The greater of the two amounts is the taxable income

Thus 27.5% x R490 000 = **R134 750** is the first limit

**Step 2:** Limited to the lesser of:

1) **R134 750** or

2) **R350 000**

The lesser of the two amounts is R134 750 and would be the limitation.

The contributions were however less than the limit and all of the contributions can therefore be deducted

(44 300)

Taxable income	<u><b>445 700</b></u>
----------------	-----------------------





Visit **Additional Resources** on myUnisa to listen to the podcast on retirement benefits.

#### 4.5 Donations to public benefit organisations

**Textbook: section 3.4.3**

If a person makes a donation to a public benefit organisation (PBO) that is registered with SARS (to qualify for section 18A), the person making the donation will qualify for a deduction. However, before the deduction may be claimed, an official section 18A receipt must be obtained.



In a question, we will specify whether the donation was made to a PBO or not. However, if a section 18A receipt was obtained, it will be a PBO, because an entity cannot give a section 18A receipt if it is not a PBO.



Study section 3.4.3 in the prescribed textbook, including examples 3.4 and 3.5.

The solutions for examples 3.4 and 3.5 are available in the prescribed textbook. Did you notice that in both examples the limit has to be compared to the actual allowable donations paid to make sure that the deduction is not more than what was paid?



#### POINT TO PONDER



- Why is there a limit on the deductions with which we dealt in this learning unit?

#### WRAP-UP

- There is a framework to calculate the taxable income of a salaried person.
- There is a specific order to the deductions.
- There are specific limits for each of these deductions.
- A taxpayer cannot deduct more than the amount that was paid.



Now that you have completed this learning unit, please revise the learning outcomes and make sure that you have attained all of them.



Visit the **Discussion Forum** and answer the online self-assessment questions.

Revise the learning unit on **Calculation of taxable income** and discuss any concepts that you do not understand – or if you do understand, then answer those students who have posted questions.

**SELF-ASSESSMENT QUESTIONS**

Solutions can be found at the end of this tutorial letter.

**QUESTION 4.1 (4 marks, 5 minutes)**

- (i) Salary forms part of ...
- (a) exempt income.
  - (b) gross income.
  - (c) specific deductions.
  - (d) general deductions.
- (ii) South African dividends are ...
- (a) deductible.
  - (b) not deductible.
  - (c) exempt.
  - (d) not part of gross income.
- (iii) A salaried person is allowed to deduct ...
- (a) personal expenses.
  - (b) more than he or she has paid.
  - (c) all medical expenses
  - (d) pension fund contributions.
- (iv) The amounts donated to public benefit organisations (PBOs) are ...
- (a) not allowed as a deduction.
  - (b) exempt from tax.
  - (c) allowed as a deduction but limited to a percentage of taxable income before provident fund contributions.
  - (d) allowed as a deduction but limited to a percentage of taxable income before donations to PBOs.

**QUESTION 4.2 (12 marks, 14 minutes)**

Penny Razzle is 35 years old and is unmarried.

Penny received the following gross income during the year of assessment:

	<b>R</b>
Salary	360 000
Bonus	25 000
Penny paid the following expenses during the year of assessment:	
Retirement annuity fund contributions	3 500
Donations to a PBO (received a section 18A receipt)	2 500
Pension fund contributions	28 800

<b>REQUIRED</b>	<b>Marks</b>
Calculate Penny's taxable income for the current year of assessment.	<b>12</b>

**QUESTION 4.3 (20 marks, 24 minutes)**

Jennifer Green is 38 years old. She is married out of community of property and has two children, five and eight years old. She had the following income and expenses for the current year of assessment:

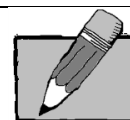
	R
<b>Income</b>	
Salary .....	250 000
Bonus .....	10 000
<b>Expenses</b>	
Contributions made to a retirement annuity fund (note 1).....	?
Contributions made to a medical aid fund (note 2).....	?
Donation made (note 3) .....	15 000
Contributions made to a pension fund (note 4) .....	20 800

**Notes**

- Jennifer contributed R300 per month to a retirement annuity fund for the full tax year.
- Jennifer contributed R2 500 per month to a medical aid fund for the full tax year. Her employer did not make any contribution for the full tax year. She had qualifying medical expenses of R10 200 for the current year of assessment. Her husband and two children are dependants on her medical aid. Neither Jennifer nor any of her dependants are persons with disabilities as defined.
- Jennifer donated R15 000 to the University of Cape Town and received a section 18A receipt.
- Jennifer contributes 8% of her salary and bonus to the pension fund each month and contributed for the entire year.

REQUIRED	Marks
Calculate Jennifer Green's tax payable for the current year of assessment.	<b>20</b>

Refer to section 3.6 in the prescribed book and attempt answering questions 1 and 2.  
The solutions are at the back of the prescribed book.

**ASSESSMENT CRITERIA**

We could assess this learning unit in assignments or in the examination by asking you to

- reproduce and apply the framework for calculating taxable income of a salaried person
- calculate deductions for pension fund, retirement annuity fund and provident fund contributions, using the applicable limitations
- calculate deductions for donations to PBOs, applying the applicable limitation



**Remember to show all calculations of the limits involved in each deduction, as marks are allocated for these calculations.**

## Solutions to self-assessment questions in learning unit 4

**QUESTION 4.1 (4 marks)**

- |       |   |     |
|-------|---|-----|
| (i)   | b | (1) |
| (ii)  | c | (1) |
| (iii) | d | (1) |
| (iv)  | d | (1) |

**QUESTION 4.2 (12 marks)**

	R	
Salary	360 000	(1)
Bonus	25 000	(1)
	385 000	

**Less:** Contributions to retirement funds**STEP1:** Calculate the percentage limit

27.5% of the greater of remuneration or taxable income before this deduction

Remuneration and taxable income is the same: R385 000

 $27.5\% \times R385\,000 = R105\,875$ 

(2)

**STEP 2:** Actual contributions:  $R3\,500 + R28\,800 = R32\,300$ 

Limited to the lesser of :

(2)

- R350 000

(1)

- R105 875

(1)

Thus the limit is R105 875

But the deduction is limited to the contributions

	(32 300)	(1)
	352 700	

**Less:** Donations – R2 500

Limited to  $10\% \times R352\,700 = R35\,270$ : The donation is less than the limit; therefore, the R2 500 donation is deducted.

(2)

	(2 500)	(1)

**Taxable income**

	350 200	

**12**

**QUESTION 4.3 (20 marks)**

	<b>R</b>	<b>R</b>	
Salary		250 000	(1)
Bonus		10 000	(1)
		<hr/> 260 000	
<b>Less: Deductions</b>			
<u>Contributions to retirement funds</u>			
<b>STEP1:</b> Percentage limit			
27.5% x R260 000 (remuneration and taxable income the same)			(2)
= R71 500			
<b>STEP2:</b>			
Actual contributions: (R300 x 12) + R20 800 = R24 400		(24 400)	(3)
Limited to the lesser of			(1)
- R350 000			(1)
- R71 500			
		<hr/>	
<u>Donations</u> – R15 000		235 600	
Limited to 10% x R235 600 = R23 560. The donation is less than the Limit; therefore, the R15 000 donation is deducted.			(2)
		<hr/> (15 000)	(1)
<b>Taxable income</b>		220 600	
		<hr/> <hr/>	
<b>Normal tax</b> (R34 178 + ((R220 600 – R189 880) x 26%))		42 163	(2)
<u>Less:</u> Primary rebate		(13 635)	(1)
<u>Less:</u> Medical tax credit			
– Medical scheme fees tax credit			
(R303 x 12 x 2) + (R204 x 2 x 12)		(11 880)	(2)
– Additional medical expenses tax credit			
Excess (R30 000 – (4 x R11 808))		0	(1)
Other expenses	10 200		(1)
	<hr/> 10 200		
Threshold: 7,5% x R220 600	16 545		(2)
Does not exceed 7,5%; therefore, no additional tax credit			(1)
Net normal tax/tax payable		<hr/> 16 648	

Available marks: 22  
Maximum: **20**

[illegible]

## SCHEDULES

### A. 2018 – TAX TABLES

#### (i) Persons (other than companies and trusts)

Taxable income	Rates of tax
Where the taxable income does not exceed R189 880	18 % of each R1 of the taxable income;
exceeds R189 880 but does not exceed R296 540 ....	R34 178 plus 26% of the amount by which the taxable income exceeds R189 880;
exceeds R296 540 but does not exceed R410 460 ....	R61 910 plus 31% of the amount by which the taxable income exceeds R296 540;
exceeds R410 460 but does not exceed R555 600 ....	R97 225 plus 36% of the amount by which the taxable income exceeds R410 460;
exceeds R555 600 but does not exceed R708 310 ....	R149 475 plus 39% of the amount by which the taxable income exceeds R555 600;
exceeds R708 310 but does not exceed R1 500 000 .	R209 032 plus 41% of the amount by which the taxable income exceeds R708 310;
exceed R1 500 000 .....	R533 625 plus 45% of the amount by which the taxable income exceeds R1 500 000.

#### (ii) Tax on retirement lump sum benefits (or death)

Taxable income from benefit	Rate of Tax
R0 – R500 000.....	0 per cent of taxable income
Exceeding R500 000 but not exceeding R700 000 .....	R0 plus 18% of taxable income exceeding R500 000
Exceeding R700 000 but not exceeding R1 050 000 .....	R36 000 plus 27% of taxable income exceeding R700 000
Exceeding R1 050 000.....	R130 500 plus 36% of taxable income exceeding R1 050 000

#### (iii) Tax on retirement lump sum withdrawal benefits (pre-retirement)

Taxable income from benefit	Rate of Tax
R0 – R25 000.....	0 per cent of the taxable income
Exceeding R25 000 but not exceeding R660 000 ...	18% of taxable income exceeding R25 000
Exceeding R660 000 but not exceeding R990 000..	R114 300 plus 27% of taxable income exceeding R660 000
Exceeding R990 000.....	R203 400 plus 36% of taxable income exceeding R990 000



**B. FRINGE BENEFIT TABLES****(i) Employee-owned vehicles (section 8(1))****SCALE OF VALUES**

Where the value of the vehicle	Fixed cost R	Fuel cost c	Maintenance cost c
does not exceed R85 000.....	28 492	91,2	32,9
exceeds R 85 000 but does not exceed R170 000 .....	50 924	101,8	41,2
exceeds R170 000 but does not exceed R255 000 .....	73 427	110,6	45,4
exceeds R255 000 but does not exceed R340 000 .....	93 267	118,9	49,6
exceeds R340 000 but does not exceed R425 000 .....	113 179	127,2	58,2
exceeds R425 000 but does not exceed R510 000 .....	134 035	146,0	68,4
exceeds R510 000 but does not exceed R595 000 .....	154 879	150,9	84,9
exceeds R595 000	154 879	150,9	84,9

**(ii) Employer owned vehicles (Paragraph 7(4) of the Seventh Schedule)****Scale of values**

Value of private use **per month**, vehicle not subject to maintenance plan = 3,5% x determined value

Value of private use **per month**, vehicle subject to maintenance plan = 3.25% x determined value

**C. REBATES**

Persons under 65 ..... R13 635

Persons 65 and under 75 (R13 635 + R7 479) ..... R21 114

Persons 75 and over (R13 635 + R7 479 + R2 493 ) ..... R23 607

**D. MEDICAL AID TAX CREDITS**

Main member ..... R303

Main member with one dependant (R303 + R303)..... R606

Main member with two dependants (R303 + R303 + R204)..... R810

Each additional dependant qualifies for a further rebate or credit of R204.

**E. FORMULAE****Section 10A** (purchased annuity)

$$Y = A/B \times C$$

Y = the capital element to be calculated

A = the total cash price payable by the purchaser to the insurance company in terms of the annuity contract

B = the sum of all the expected returns over the term of the contract; and

C = the total receipts during the current year of assessment.

**Second Schedule****Formula C**

$$A = \frac{B}{C} \times D$$

A = the portion subject to tax that must be calculated

B = the total completed years of service from 1 March 1998

C = the total completed years of service that are recognised as pension funding

D = the lump sum that is payable.

**F. EXTRACT FROM THE INCOME TAX ACT (ACT 58 OF 1962, AS AMENDED) – EIGHTH SCHEDULE**

**25. Determination of base cost of pre-valuation date assets.** – The base cost of a pre-valuation date asset (other than an identical asset in respect of which paragraph 32 (3A) has been applied), is the sum of the valuation date value of that asset, as determined in terms of paragraph 26, 27 or 28 and the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset.

**26. Valuation date value where proceeds exceed expenditure or where expenditure in respect of an asset cannot be determined.** – (1) Where the proceeds from the disposal of a pre-valuation date asset (other than an asset contemplated in paragraph 28 or in respect of which paragraph 32 (3A) has been applied) exceed the expenditure allowable in terms of paragraph 20 incurred before, on and after the valuation date in respect of that asset, the person who disposed of that asset must, subject to subparagraph (3), adopt any of the following as the valuation date value of that asset–

- (a) the market value of the asset on the valuation date as contemplated in paragraph 29;
- (b) 20 per cent of the proceeds from disposal of the asset, after deducting from those proceeds an amount equal to the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date; or
- (c) the time-apportionment base cost of the asset as contemplated in paragraph 30.

(2) Where the expenditure incurred before valuation date in respect of a pre-valuation date asset cannot be determined by the person who disposed of that asset or the Commissioner, that person must adopt any of the following as the valuation date value of that asset–

- (a) the market value of the asset on the valuation date as contemplated in paragraph 29; or
- (b) 20 per cent of the proceeds from disposal of the asset, after deducting from those proceeds an amount equal to the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date.

(3) Where a person has adopted the market value as the valuation date value of an asset, as contemplated in subparagraph (1) (a), and the proceeds from the disposal of that asset do not exceed that market value, that person must substitute as the valuation date value of that asset, those proceeds less the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset.

**27. Valuation date value where proceeds do not exceed expenditure.** – (1) Subject to subparagraph (2), where the proceeds from the disposal of a pre-valuation date asset do not exceed the expenditure allowable in terms of paragraph 20 incurred both before and after the valuation date in respect of that asset, the valuation date value of that asset must be determined in terms of this paragraph.

(2) This paragraph does not apply in respect of any asset contemplated in paragraph 28 or in respect of which paragraph 32 (3A) has been applied.

(3) Where a person has determined the market value of an asset on the valuation date, as contemplated in paragraph 29, or the market value of an asset has been published in terms of that paragraph, and–

(a) the expenditure allowable in terms of paragraph 20 incurred before the valuation date in respect of that asset–

- (i) is equal to or exceeds the proceeds from the disposal of that asset; and
  - (ii) exceeds the market value of that asset on valuation date,
- is the valuation date value of that asset must the higher of–

- (aa) that market value; or
- (bb) those proceeds less the expenditure allowable in terms of paragraph 20 incurred on or after the valuation date in respect of that asset; or

- (b) the provisions of item (a) do not apply, the valuation date value of that asset must be the lower of—
- (i) that market value; or
  - (ii) the time-apportionment base cost of that asset as contemplated in paragraph 30.

(4) Where the provisions of subparagraph (3) do not apply, the valuation date value of that asset is the time-apportionment base cost of that asset, as contemplated in paragraph 30.

**G. INCOME TAX MONETARY THRESHOLDS SUBJECT TO PERIODIC LEGISLATIVE CHANGE:**

Description	Reference to Income Tax Act, 1962	Monetary amount
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**Exemption for interest and certain dividends:**

In respect of persons 65 years or older, exemption for interest from a source within the Republic which are not otherwise exempt	Section 10(1)(j)(i)	R34 500
In respect of persons younger than 65 years, exemption for interest from a source within the Republic which are not otherwise exempt	Section 10(1)(j)(ii)	R23 800

**Annual donations tax exemption:**

Exemption for donations made by individuals	Section 56(2)(b)	R100 000
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**Capital gains exclusions:**

Annual exclusion for individuals and special trusts	Paragraph 5(1) of Eighth schedule	R40 000
Exclusion on death	Paragraph 5(2) of Eighth schedule	R300 000
Exclusion for the disposal of a primary residence	Paragraph 45(1)(a) of Eighth Schedule	R2 million
Exclusion in respect of disposal of primary residence (based on amount of proceeds on disposal)	Paragraph 45(1)(b) of Eighth Schedule	R2 million
Maximum market value of all assets allowed within the small business definition on disposal when person 55 years or older	Definition of "small business" in paragraph 57(1) of Eighth Schedule	R10 million
Exclusion amount on disposal of small business when person 55 years or older	Paragraph 57(3) of Eighth schedule	R1 800 000

**Retirement savings thresholds:**

<b>Deductible retirement fund contributions:</b> Members of retirement funds may deduct their contributions subject to certain percentage or monetary ceilings		
Monetary ceiling for total contributions to retirement funds	Proviso to section 11(k)(i)	R350 000

Description	Reference to Income Tax Act, 1962	Monetary amount
-------------	-----------------------------------	-----------------

**Deductible business expenses for individuals:**

<b>Car allowance:</b> Individuals receive an annual vehicle allowance to defray business travel expenses, including deemed depreciation on the vehicle.		
Ceiling on vehicle cost	Section 8(1)(b)(iiiA)(bb)(A)	R595 000
Ceiling on debt relating to vehicle cost	Section 8(1)(b)(iiiA)(bb)(B)	R595 000

**Employment-related fringe benefits**

<b>Exempt scholarships and bursaries:</b> Employers can provide exempt scholarships and bursaries to employees and their relatives, subject to annual monetary ceilings.		
Annual ceiling for employees	Paragraph (ii)(aa) of the proviso to section 10(1)(q)	R600 000
Annual ceiling for employee relatives	Paragraph (ii)(bb) of the proviso to section 10(1)(q)	R60 000 & R20 000
<b>Awards for bravery and long service:</b>	Paragraphs (a) and (b) of the further proviso to paragraph 5(2) of Seventh Schedule	R5 000
<b>Employee accommodation:</b>	Paragraph 9(3)(a)(ii) of Seventh Schedule	R75 750
<b>Exemption for <i>de minimus</i> employee loans:</b>	Paragraph 11(4)(a) of Seventh Schedule	R3 000

**Administration**

<b>Exemptions from provisional tax:</b>		
In the case of a natural person not carrying on a business	Paragraph 18(1)(c)(i) of Fourth Schedule	Taxable income below threshold
In the case of a natural person not carrying on a business	Paragraph 18(1)(c)(i) of Fourth Schedule	Taxable income from interest, foreign dividends and rental income does not exceed R30 000