



# TAX Guide

## 2015/2016

### *for Individuals*

#### **Income Tax & other taxes for Individuals**

South Africa has a hybrid tax system – i.e. residents are taxed on their world-wide income (residence-based system of taxation) and non-residents are taxed on the source of their income (source-based system of taxation).

The tax thresholds, tax rates and rebates applicable to individual taxpayers are set out below. Also included are certain exemptions and deductions that individual taxpayers may qualify for.

#### *Tax Thresholds, Tax Rates & Tax Rebates*

<b>Income tax rates for natural persons and special trusts</b>	
<b>Year of assessment ending 29 February 2016</b>	
<b>Taxable income</b>	<b>Taxable rates</b>
R0 to R181 900	18% of each R1
R181 901 to R284 100	R32 742 + 26% of the amount above R181 900
R284 101 to R393 200	R59 314 + 31% of the amount above R284 100
R393 201 to R550 100	R93 135 + 36% of the amount above R393 200
R550 101 to R701 300	R149 619 + 39% of the amount above R550 100
R701 301 and above	R208 587 + 41% of the amount above R701 300



	Tax rebate (cumulative)	Tax Thresholds (point at which tax becomes payable)	
		Taxable income	
	2016	2015	2016
Persons under 65	R13 257	R70 700	R73 650
Persons 65 and under 75	R20 664	R110 200	R123 350
Persons 75 and above	R23 130	R114 800	R128 500

## Medical Deductions

### Persons younger than 65 years

The medical scheme fees tax credit for monthly medical contributions for the 2016 tax year is R270 (2015: R257) per person, R540 (2015: R514) for the taxpayer him/herself + spouse, and a monthly tax credit for all other dependants set at R181 (2015: R172) per dependant. The credit (known as the section 6A credit) is non-refundable and must be deducted from the taxpayer's normal tax liability at the tax year-end.

Taxpayers are also eligible for an additional medical expenses tax credit (section 6B credit) in respect of their excess medical scheme contributions and out-of-pocket medical expenses. This additional medical expenses tax credit is 25% of medical scheme contributions in excess of four times the total allowable tax credits, plus out-of-pocket medical expenses, which is in excess of 7,5% of the taxpayer's taxable income.

### Persons 65 years and older or a person or his/her spouse or child with a disability

The medical scheme fees tax credit is calculated the same as for taxpayers younger than 65 years. The additional medical expenses tax credit is, however, 33.3% of medical scheme contributions in excess of three times the total allowable tax credits, plus 33.3% of out-of-pocket medical expenses.

## Certain Exemptions

**Dividends** – local dividends (i.e. dividends from SA entities) are normally exempt from income tax (note that there may be dividends tax implications – refer below).

**Interest** (basic interest exemption – section 10(1)(i) of the Income Tax Act) – applies to individuals who earn interest from a SA source:

Annual interest exemption for:	2015 & 2016
Persons under 65	R23 800
Persons 65 and above	R34 500



## *Tax-free investment products*

To encourage household savings, tax-preferred savings and investment accounts have been introduced and are effective 1 March 2015. These accounts will allow investments in bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds and any income (e.g. interest) and capital growth will not be subject to tax. The accounts will have an annual contribution limit of R30 000, with a lifetime contribution limit of R500 000.

## **Allowance**

### *Subsistence Allowance*

If an employee is required to spend at least one night away from his/her usual place of residence for business purposes and the allowance is granted to pay for:

- meals and incidental costs, R353 (2015: R335) per day is deemed to have been expended;
- incidental costs only, R109 (2015: R103) per day is deemed to have been expended.

### *Travel Allowance*

An employee who receives a monthly travel allowance to cover his expenses incurred in respect of his motor vehicle used, may claim the portion of the allowance that is expended for business purposes as a deduction from the allowance. The cost scale below is used to calculate the portion of the allowance that is tax-free. It is important to note that the deduction can only be claimed if a log book was kept for the business kilometres.

<b>Scale of Values (2016 year of assessment)</b>			
<i>Where the value of the vehicle is (including VAT)</i>	<i>Fixed cost (Rand)</i>	<i>Fuel cost (c/km)</i>	<i>Maintenance cost (c/km)</i>
R0 - R 80 000	26 105	78.7	29.3
R80 001 - R160 000	46 505	87.9	36.7
R160 001 – R240 000	66 976	95.5	40.4
R240 001 – R320 000	84 945	102.7	44.1
R320 001 – R400 000	102 974	109.9	51.8
R400 001 – R480 000	121 886	126.1	60.8
R480 001 – R560 000	140 797	130.4	75.6
Exceeding R560 000	140 797	130.4	75.6

## Retirement Funds

### Deductions

#### *Current pension fund contributions*

The greater of 7,5% of remuneration from retirement funding employment, or R1 750. Any excess may not be carried forward to the following year of assessment.

#### *Current retirement annuity fund contributions*

The greater of 15% of taxable income other than from retirement funding employment, R3 500 less current deductions to a pension fund, or R1 750. Any excess may be carried forward to the following year of assessment.

#### *Current provident fund contributions*

No deductions allowed for contributions made by the individual.

### Benefits

#### *Retirement fund lump sum withdrawal benefits*

If a lump sum is received on resignation from a fund or withdrawal from a fund (including assignment in terms of a divorce order), the first R25 000 of the taxable portion is tax-free and the remainder is taxed as follows:

Taxable income	Rate of tax
R0 – R25 000	0% of taxable income
R25 001 - R660 000	18% of taxable income above R25 000
R660 001 - R990 000	R114 300 + 27% of taxable income above R660 000
R990 001 and above	R203 400 + 36% of taxable income above R990 000

#### *Retirement fund lump sum benefits*

If a lump sum is received from a fund on retirement or death, the first R500 000 of the taxable portion is tax-free and the remainder is taxed as follows:

Taxable income	Rate of tax
R0 – R500 000	0% of taxable income
R500 001 - R700 000	18% of taxable income above R500 000
R700 001 – R1 050 000	R36 000 + 27% of taxable income above R700 000
R1 050 001 and above	R130 500 + 36% of taxable income above R1 050 000

#### *Retirement reform now with a 1 March 2016 effective date*

A retirement reform has been proposed to encourage South Africans to save for retirement. Employer contributions to retirement funds will become a fringe benefit in the hands of employees for

tax purposes. Therefore, employee and employer contributions to pension, provident and retirement annuity funds will be tax deductible in the hands of the individual employee as follows:

- The deduction of the contributions will be limited to 27.5% of the higher of employment income or taxable income; limited to an annual maximum deduction of R350 000.
- Contributions exceeding the annual limit may be rolled forward to the subsequent year.
- Provident funds and retirement annuity funds will no longer be allowed to distribute the full retirement benefit as a lump sum. Current vested rights will be protected. Members of funds, who are 55 years or older on 1 March 2015, will still be allowed to withdraw their full retirement benefits as a lump sum.
- Employees will no longer be allowed to withdraw benefits upon resignation from employment.

From 1 March 2015, a retirement fund member may defer the drawing of his or her retirement income until after retirement date (if the retirement fund allows, subject to a, to be determined, maximum age). This will provide greater flexibility for retirement fund members and encourage the preservation of retirement assets.

### Ring-Fenced Assessed Losses

Subject to certain exceptions, an individual taxpayer's loss arising from a certain trade is ring-fenced and will thus not be available for set-off against income from another trade (other than the first-mentioned trade) carried on by him/her. Ring-fencing applies to so-called "suspect" trades (e.g. farming) where the individual taxpayers have incurred assessed losses from these trades in at least 3 years of assessment during any 5-year period and the taxpayers are taxed at the maximum marginal tax rate (i.e. 41%).

### Capital Gains Tax

Capital gains tax (CGT) is triggered on the disposal (much wider definition than merely selling) of an asset.

	2015 & 2016
<b>Inclusion rate in taxable income</b>	33,3%
<b>Certain important exclusions from capital gains tax</b>	R
Annual exclusion	30 000
Exclusion in year of death	300 000
Primary residence exclusion	2 000 000

Other exclusions from capital gains tax include personal-use assets (such as furniture, paintings etc – i.e. assets used mainly for private purposes).

## Provisional Tax

Persons earning non-remuneration income (e.g. rental and business income) may be subject to provisional tax. Provisional tax payments are made in 2 compulsory instalments during the year of assessment, i.e. the first is made on/before 31 August of each year and the second is made by no later than 28/29 February of each year. A third top-up payment can be made voluntarily 7 months after year-end (i.e. 30 September), to avoid any interest raised on underpayment of taxes.

## Trusts

The tax rate on trusts (other than special trusts which are taxed at rates applicable to individuals) increased from 40% to 41%.

## Fuel levies

The general fuel levy will increase by 30.5 cents per litre and the Road Accident Fund levy increases by 50 cents per litre on 1 April 2015. The total increase is 80,5 cents per litre.



## Donations Tax

Payable in respect of a gratuitous (free) disposal of property (certain deemed donations). Both donations tax and CGT can be payable in respect of the same asset.

Donations tax rate	20%
Annual exemption for individuals	R100 000

Note that donations between spouses will be exempt from donations tax.

## Estate Duty

Is a direct tax on the value of a deceased's assets at the date of death.

Estate duty rate	20%
Standard exemption on net value of each estate	R3.5 million

A mismatch of provisions in the Acts resulted in people avoiding estate duty on certain lump-sum payments, this mismatch will be corrected.

## Transfer duty

Transfer duty is payable at the following rates on transactions in respect of acquisition of property on or after 1 March 2015 which are not subject to VAT.

Value of property	Rate
R0 – R750 000	0%
R750 001 – R1 250 000	3% of the value above R750 000
R1 250 001 – R1 750 000	R15 000 + 6% of the value above R1 250 000
R1 750 001 – R2 250 000	R45 000 + 8% of the value above R1 750 000
R2 250 001 and above	R85 000 + 11% of the value above R2 250 000

## Small Businesses

### Tax rates

The monetary tax thresholds for micro businesses (most businesses with a turnover under R1 million) and small business corporations (most businesses with a turnover under R12 million) were increased, to the following

MICRO BUSINESSES		SMALL BUSINESS CORPORATIONS	
Taxable turnover	Rate of tax	Taxable income	Rate of tax
R0 – R335 000	0% of taxable turnover	R0 – R73 650	0% of taxable income
R335 001 – R500 000	1% of taxable turnover above R335 000	R73 651 – R365 000	7% of taxable income above R73 650
R500 001 – R750 000	R1 650 + 2% of taxable turnover above R500 000	R365 001 – R550 000	R20 395 + 21% of taxable income above R365 000
R750 001 and above	R6 500 + 3% of taxable turnover above R750 000	R550 001 and above	R59 245 + 28% of the amount above R550 000

Entities like companies and close corporations have a 66.6% inclusion rate for CGT, resulting in an effective rate of 18.65% compared to individuals' maximum effective rate of 13.65%.

### Employment Tax Incentive

An employment tax incentive for first-time job seekers was introduced on 1 January 2014. This incentive serves as an encouragement to employers to hire young people. Excess amounts of the incentive can be set off against future PAYE liabilities.

### *Unemployment Insurance Fund contributions*

A one-year relief measure in respect of Unemployment Insurance Fund contributions is proposed. It is proposed that the contribution threshold should be reduced to R1 000 a month for the 2015/16 year. This means that employers and employees will each pay R10 a month during the year ahead.

### **Excise Duties**

#### *Tobacco and alcohol*

Product	Increased by	Increased by
Fortified wine (e.g. brandy)	R0.25/litre	4.8%
Sparkling wine	R0.64/litre	7.0%
Spirits	R11.69/litre of absolute alcohol	8.5%
Cigarettes	R0.91/ 20 cigarettes	7.0%

#### *Tyre levy*

Government proposes a tyre levy, with effect from the last quarter of 2015, to be implemented through the Customs and Excise Act and collected by SARS. The levy will be allocated to the Department of Environmental Affairs for the recycling of waste tyres and other waste streams programs.

#### *Electricity levy*

The electricity levy will increase from 3.5c / kWh to 5.5c / kWh as a temporary measure until carbon tax is introduced.

This concise booklet has been compiled by the following CAS personnel:

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The information in this brochure is based on the budget speech delivered by the Minister of Finance in Parliament on Wednesday, 25 February 2015. Note that the budget proposals are still subject to approval by Parliament.

The information in this brochure focuses on some of the more pertinent issues that may be relevant to individual taxpayers. Note, however, that the tax issues mentioned are by no means comprehensive and should not be relied on solely as a substitute for tax advice. No responsibility will be accepted for any actions taken by persons as a direct result of the information contained in this brochure.

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