IT12BU

Information on Income Tax

2006

At Your Service

RENDERING OF RETURN

Your return must be rendered by the date indicated on the return.

- If you are unable to render the return within the prescribed period, you must apply for an extension on the SARS website www.sars.gov.za or submit a written request to your local SARS office.
- If you have already rendered a return for this year, return this form stating your income tax reference number and the SARS office to which you sent the previous return.
- If there is insufficient space for any item on the return, a separate schedule giving the required details must be attached to your return.

NOTE:
If you have received a return it must be rendered. Do not include any payments or correspondence (not relating to the return) with your return. Trusts and Special Trusts should complete an IT 12TR return of income.

BACKGROUND

Your return has been divided into three sections, namely;

- **Section 1**, comprising of pages 1 to 6, in which you need to verify personal particulars, declare all income received as indicated on an IRP 5 / IT 3(a) certificate, claim all relevant deductions and provide the additional information as requested on pages 3 to 5 of the return. Page 6 makes provision for the calculation of your travelling claim.
- **Section 2** comprises of the following Schedules:
  - Investment income;
  - Local business, trade and / or profession (including rental and farming);
  - Capital gain / loss;
  - Total taxable foreign income;
  - Other local receipts and accruals not elsewhere declared;
  - Receipts and accruals which you consider non-taxable; and
  - Income from farming activities.

  These Schedules are located on pages 7 to 11 of your return.
- **Section 3** calls for a statement of assets and liabilities and additional information.

COMPLETION OF YOUR RETURN

You are obliged to ensure that a full and accurate disclosure is made of all relevant information as required in the income tax return. Misrepresentation, neglect or omission to furnish such return, or furnishing false information, is liable to penalties and / or additional assessments (together with interest) and / or prosecution, as prescribed.

Your signature

The return must be signed by you, as an unsigned return could be considered as not having been received, resulting in the levying of penalties for the late rendition of a return.

Objection to an assessment

An objection to an assessment must be substantiated in writing and must reach the SARS branch office shown on the assessment notice within 30 working days after the date of assessment.

NOTE:
The obligation to pay tax or interest on unpaid tax is not suspended by an objection or appeal.

PART 1: PERSONAL PARTICULARS

The return has been pre-printed with your details. Check to ensure that they are correct. If they have changed, are incorrect, or omitted, please complete the white areas in part 1.

Change of address details

In terms of Section 67 of the Income Tax Act you are compelled to notify your local SARS office within a 60 day period of any change of address details in respect of the address used by the Commissioner for correspondence. Failure to do so could result in penalties being levied in terms of Section 75 of the Income Tax Act.

PART 1.14 BANKING DETAILS

It is vital that your banking details reflected on the return be correct in order to prevent refunds being made into incorrect bank accounts. Indicate any changes to banking details in the white blocks in part 1.14.

NOTE:
No refund will be paid into the bank account of a third party or agent.

PART 2: RENTAL INCOME: INFORMATION BROUGHT FORWARD FROM 2005

Based on the information supplied in the rental schedule in your previous income tax return submitted to SARS a unique identifier was created and allocated to each individual property / asset. For easy identification of the unique identifier relating to a specific property / asset, the information previously received has been pre-printed in this section of the return to assist you in the completion of the rental schedule on pages 8 and 9 of your current return.

Please ensure that the description / address details relating to the unique identifier created is correct. If not, update the rental schedule on pages 8 and 9 of your current income tax return with the correct details relating to the unique identifier number created by SARS. Should you have incurred a loss in the previous year and the loss was disregarded (ring-fenced) in the calculation of your taxable income, the loss will be indicated as a "0" in the profit / loss column of this section. Please note that the profit / loss column will also indicate "0" if no profit / loss was derived in respect of the trade relating to a specific unique identifier number.

PART 3: INCOME SOURCES

PART 3.1 TYPE OF INCOME

Indicate the sources of income received or accrued and complete the relevant sections / schedules of your return.

PART 3.2 MAIN INDUSTRY SOURCE CODE

This is the principal activity practised by you. Determine the applicable code by using the table below and insert the applicable code in part 3.2.

PART 3.3 MAIN SOURCE OF INCOME

This is the source of income from which the highest gross income is generated and is not necessarily the principal activity practised by you. Determine the applicable code by using the source code booklet available on the SARS website www.sars.gov.za.

Source code table in respect of Main Industry Source Codes (for ease of reference the table has been arranged alphabetically):

DESCRIPTION	SOURCE CODE	DESCRIPTION	SOURCE CODE
Agencies and other services	34	Metal products (except machinery and equipment)	13
Agriculture, forestry and fishing	01	Mining and quarrying	02
Bricks, ceramics, glass, cement and similar products	11	Other manufacturing industries	18
Catering and accommodation	23	Paper, printing and publishing	08
Chemicals and chemical, rubber and plastic products	09	Personal and household services	32
Clothing and footwear	05	Recreation and cultural services	31
Coal and petroleum products	10	Research and scientific institutes	28
Construction	20	Retail trade (including mail order)	22
Educational services	27	Scientific, optical and similar equipment	17
Electricity, gas and water	19	Social and related community services	30
Employment (Director of a Company / Member of CC)	35	Specialised repair services	33
Financing, insurance, real estate and business services	25	Textiles	04
Food, drink and tobacco	03	Transport equipment (excl. vehicles, parts and accessories)	16
Leather, leather goods and fur (excl. footwear & clothing)	06	Transport, storage and communication	24
Long-term insurers	26	Vehicles, parts and accessories	15
Machinery and related items	14	Wholesale trade	21
Medical, dental and other health and veterinary services	29	Wood, wood-products and furniture	07
Metal	12		

PART 3.4 ALL INCOME ITEMS SHOWN ON YOUR IRP 5 AND / OR IT 3(a) CERTIFICATE(S)

Examples of income / benefits which must be included in your return:

- Receipts and accruals for services rendered / to be rendered
- Director's fees
- Allowances
- Incentive awards
- Options / Rights to purchase shares, etc.
- Gratuities / Lump sum payments
- Restraint of trade payments
- Annuities
- Commission
- Service and fringe benefits
- Overtime
- Wages and salaries
- Pensions
- Bonuses
- Tips

All IRP 5 and IT 3(a) certificates must be attached to your return.

Gross retirement-funding income

Should the section on your IRP 5 certificate that relates to gross remuneration have an amount indicated next to code 3697 (gross retirement-funding income) - you need to fill this amount in next to the code 3697 reflected in part 3.4 of your return.

Example of the gross remuneration section of an IRP 5 certificate		
CODE	**DESCRIPTION**	**AMOUNT**
3695	Gross taxable annual payments	
3696	Gross non-taxable income	
3697	Gross retirement funding income	XXXXXXX
3698	Gross non-retirement funding income	
3699	Gross remuneration	

This amount must be reflected next to the code 3697 in part 3.4 of your return.

GENERAL INFORMATION ON SOURCES OF INCOME

(a) Pensions

A pension from the private sector must be declared if the services in respect thereof were rendered in the Republic of SA for at least two years out of the ten years immediately preceding the date on which the pension became payable for the first time.

If the pension was awarded for services rendered within and outside the Republic of SA only that portion of your pension in respect of services rendered in the Republic will be deemed to be from a source in and subject to tax in the RSA. If you are entitled to such apportionment, furnish particulars of your periods of service in the Republic, as well as the total period of service in respect of which the pension is paid.

Pensions awarded by the Government, Transnet, Provincial administrations and local authorities are taxable in full.

(b) Exempt pensions

The following pensions are exempt from tax:

- War veteran's pensions;
- Compensation paid under any law in respect of diseases contracted by persons employed in the mining industry;
- Disability pensions paid under Section 2 of the Social Assistance Act;
- Any compensation paid in terms of the Compensation for Occupational Injuries and Diseases Act;
- Amounts received under the social system of another country; and
- Pensions from a source outside the Republic which are not deemed to be from a RSA source as described under pensions above.

(c) Restraint of trade payments

Any payment received on or after 23 February 2000 in respect of restraint of trade will constitute income of the person to whom it is paid. This would apply to any person who -

- is a natural person; or
- is or was a labour broker, other than a labour broker in respect of which a certificate of exemption has been issued.

(d) Options / Rights to acquire marketable securities

Gains made by a director or employee in respect of the exercise, cession or release of a right to acquire marketable securities, i.e. securities, stock, debentures, shares, options or other interests capable of being sold on a stock exchange or otherwise (this also includes shares, etc. in private companies), must be declared as income if that right was awarded either in the capacity as a director or former director or in respect of services which have been rendered or are still to be rendered by him / her as an employee to an employer. Full particulars must be furnished on a separate schedule.

(e) Insurance policies ceded

If the ownership of an insurance policy was transferred to you by your employer, the taxable value must be declared here. A valuation certificate must be submitted.

(f) Marriages in community of property

Income received or accrued from carrying on any trade (excluding the letting of fixed property), will be deemed to be the income of the spouse who is carrying on the trade. Where the spouses are trading in partnership, the income will, subject to the anti-avoidance provisions, accrue in the agreed profit-sharing ratio. Any benefit paid by a pension, provident or retirement annuity fund is deemed to be trade income and will be taxed in the hands of the member or past member of the fund. Any annuity received as a result of a purchased annuity, as defined in Section 10A of the Income Tax Act, is also deemed to be trade income and will be taxed in the hands of the person to whom the annuity is payable.

Income received or accrued otherwise than from the carrying on of any trade (e.g. interest), including rental from the letting of fixed property, in respect of assets forming part of the communal estate, is deemed to accrue to the spouses in equal portions. Where the income doesn't accrue to the communal estate, it will be included in the income of the spouse who owns the asset (this income must be clearly identified).

Where any spouse's income is deemed to be the income of the other spouse, any deductions or allowances relating to that income will be allowed in the same proportion in which the income is taxed.

(g) Income of minor children

- You are liable for the payment of tax on any income which has been received by or accrued to or in favour of any of your minor children, if such income arises from a donation, settlement or other disposition by - yourself or any other person, if you made a donation, settlement, or other disposition or gave some other consideration directly or indirectly in favour of the other person or his / her family. Your minor child will, however, be liable for tax on income which is received by or accrues to him / her independently of yourself in his / her own right, for example, bona fide salary and investment income derived from his / her own funds. Should your child's taxable income be sufficient to render him / her liable for tax, you, as the legal guardian, must obtain and submit an income tax return on his / her behalf.

(h) Annuities

- Income received from retirement annuity funds must be shown as income and the relevant certificate received from the institution attached to the return.

- Annuities from ex-employers, insurance policies, trusts, estates and purchased annuities must be declared. The capital content of a purchased annuity is exempt from income tax.

NOTE:
A certificate from the insurance company, reflecting the capital content, must be attached.

(i) Lump sum benefits

- Lump sum benefits from pension, provident and retirement annuity funds must be declared. If tax was deducted, the IRP 5 certificate must be attached to your return.

- SARS will determine the taxable portion of the benefit and the applicable rate of tax.

(j) Gratuities

- Any amount received from your employer in the form of a gratuity, including amounts received as a result of the termination of your services, must be declared.

- SARS will determine the taxable portion and the applicable rate of tax.

The circumstances under which all such awards were made, must be mentioned and the amount shown in the space indicated in the return.

(k) Proto-teams

- Income received by or accrued to a mineworker, over and above his / her normal remuneration and allowances, as a member of a proto-team for performing any hazardous task during an emergency in a mine, must be declared here.

- SARS will determine the applicable rate of tax.

PART 4: TAX CREDITS AND REASONS FOR NON-DEDUCTION

If you are in receipt of more than one IRP 5 and / or IT 3(a) certificate, the information in respect of each certificate must be recorded.

Information required in respect of an IRP 5

Record the IRP 5 number, employer's (PAYE) reference number, gross remuneration (3699) and the Standard Income Tax on Employees (SITE) and Pay As You Earn (PAYE).

Information required in respect of an IT 3(a)

Complete the IT 3(a) number, employer's (PAYE) reference number and gross remuneration (3699). Instead of employees tax please complete the reason code for non-deduction of employees tax, e.g. 02.

Claim all tax credits in respect of foreign dividends, foreign interest, other foreign income and / or foreign CGT transactions next to codes 4111, 4112, 4113 and / or 4114 in part 4 of your return.

Proof of payment of foreign tax

The undermentioned serve as examples of proof which will be accepted as proof of payment in respect of foreign taxes paid:

- Where foreign tax has been withheld at source, the original documentation issued by the applicable institution, and
- Where foreign tax has not been withheld at source, an assessment or receipt issued by the relevant tax authority.

For further information contact the local SARS office or visit the SARS website at www.sars.gov.za.

NOTE:
Foreign tax credits will be limited to the South African tax payable in relation to the foreign income received by applying the following formula:

$$\frac{\text{Foreign taxable income} \times \text{Normal tax payable}}{\text{Total taxable income}}$$

NOTE:
Provisional payments made by yourself will be credited to your account programmatically and **must not** be reflected in part **4** of your return.

PART 5: DEDUCTIONS

5.1 MEDICAL AND DENTAL EXPENSES

PART 5.1.1 MEDICAL AND DENTAL CONTRIBUTIONS

Claim the contributions made to your medical scheme. The amount will normally be reflected next to code 4005 on your IRP 5 certificate.

PART 5.1.2 - 5.1.3 NON-RECOVERABLE MEDICAL EXPENSES

Claim the following amounts ACTUALLY PAID BY YOURSELF and not recovered from your medical aid in respect of yourself, your spouse and your qualifying children or stepchildren:

- Services rendered and medicines supplied by a registered medical practitioner, dentist, optometrist, homeopath, naturopath, osteopath, herbalist, physiotherapist, chiropractor or orthoptist;
- Hospitalisation in a registered hospital or nursing clinic;
- Home nursing by a registered nurse;
- Medicines prescribed by a registered physician and acquired from a registered pharmacist; and
- Medical expenses incurred and paid outside the Republic.

PART 5.1.4 PHYSICAL DISABILITY

Claim the amount of expenses incurred and not recovered from your medical aid and supply details of how the amount was calculated. Please specify the nature of the disability suffered by yourself, your spouse or qualifying children (e.g. glasses, diabetes, etc.).

PART 5.1.5 HANDICAPPED PERSON

A "HANDICAPPED PERSON" is a blind person, a deaf person, a person who as a result of a permanent disability requires a wheelchair, calliper or crutch to assist him / her to move from one place to another or a person who requires an artificial limb. It also includes a person who suffers from a mental illness as defined in the Mental Health Act, 1973 (Act No. 18 of 1973).

In order for the medical expenses to be classified as expenses in respect of “handicapped” the following documentation must be submitted:

Blind person - A letter on a letterhead confirming the diagnosis and classification of the taxpayer signed by a professional person trained to use a Snellen chart.

Deaf person - Four categories are statistically kept by DEAFSA (Deaf Federation of South Africa), namely persons who are profoundly deaf, persons who are severely hard of hearing, persons who are moderately hard of hearing and persons who have a mild hearing loss. For purposes of the Income Tax Act a person who is profoundly deaf or a person who is severely hard of hearing, as tested without a hearing aid, will be a person whose hearing is impaired to such an extent that hearing cannot be used as primary means of communication. Confirmation of the severity of deafness from DEAFSA or a similar institution must be submitted.

Mental illness - Confirmation is required, by way of a medical report, from either a psychiatrist or a registered psychologist, clearly stating that such person is mentally ill as defined by the Mental Health Act. This confirmation must be done on a yearly basis.

The allowable medical deduction is subject to the following limitations:

- **Taxpayers under the age of 65 years**
  That portion of the expenses referred to above which exceeds 5% of your taxable income, before deducting medical expenses, will qualify as a deduction.

- **Taxpayers 65 years of age and older**
  If you are 65 years of age or older, you are allowed to deduct all expenses referred to above without any limitation.

- **Handicapped persons**
  Where you, your spouse, qualifying child or stepchild is a “handicapped person”, that portion of the expenses referred to above which exceeds R500 qualify as a deduction. In other words, the first R500 does not qualify as a deduction.

To prove your claim you need to furnish the following:

- Proof of contributions paid to your medical fund: If this is indicated on your IRP 5 certificate additional proof thereof does not have to be attached.

- Medical fund statement in respect of expenses not recovered: Please attach the statement received from your medical fund during February 2006, indicating the accumulative amount in respect of the amount paid by you, for claims submitted and not recovered from the medical fund.

- Other amounts not submitted to / recovered from your medical fund: Complete the schedule of expenditure on page 37 of this brochure and attach to page 13 of your return.

If the benefits allocated by your medical fund in respect of certain medical procedures are exhausted you must submit proof from the medical fund in this regard.

NOTE:

(i) Your claim will not be considered if the above-mentioned documentation is not attached to your return to substantiate your claim.

(ii) The total amount i.r.o. medical, dental and physical disability expenditure must be filled in next to code 4008. In the case of a handicapped person, as described in the above paragraph, the total amount i.r.o. medical, dental and handicap expenditure must be filled in next to code 4009.

(iii) Receipts must be available on request to substantiate your claim.

(iv) Claim all the qualifying expenses. The limitation will be calculated by SARS.

PART 5.2 DONATIONS

Donations claimed should be listed and the original receipts as prescribed by Section 18A of the Income Tax Act must be submitted. The deduction is limited to 5% of the taxable income of the taxpayer as calculated before allowing any deduction in respect of medical expenses and donations. This calculation will be done by SARS.

Receipts must be attached to page 13 of your return.

PART 5.3 CURRENT CONTRIBUTIONS TO AN APPROVED PENSION FUND

Maximum deduction per person is the greater of -

- R1 750; or

- 7,5% of your remuneration from retirement-funding employment for the year of assessment.

Claim your actual contributions, as the calculation will be done by SARS.

PART 5.4 ARREAR CONTRIBUTIONS TO AN APPROVED PENSION FUND

- Should you have made any arrear pension contributions, the amount must be claimed in this section of your return and proof of such amount claimed must be attached to enable SARS to consider such claim.

PART 5.5 CURRENT CONTRIBUTIONS TO AN APPROVED RETIREMENT ANNUITY FUND

The maximum deduction permitted per year of assessment is limited to the greater of -

- 15% of taxable income, excluding income from retirement-funding employment. When determining taxable income, the following deductions must NOT be taken into account:
  - capital development expenditure (farming);
  - donations;
  - retirement annuity fund contributions;
  - medical and dental expenses;
  - expenditure in respect of soil erosion works; or

- R3 500 less allowable pension fund contributions; or

- R1 750.

Claim your actual contributions, as the calculation will be done by SARS.

Any excess will be carried forward to the succeeding year of assessment.

NOTE:
Only contributions made by you as a member of a retirement annuity fund will be considered as a deduction, i.e. you may not claim contributions made on behalf of a third party, e.g. your wife or child.

PART 5.6 ARREAR CONTRIBUTIONS TO AN APPROVED RETIREMENT ANNUITY FUND

- Claim your actual contributions (maximum amount allowed per year of assessment is R1 800). Any excess will be carried forward to the succeeding year of assessment.

PART 5.7 MEMBERS OF A PROVIDENT FUND

If you contributed to a provident fund, furnish the following information:

- Name of provident fund of which you are a member (contributory or non-contributory); and

- The amount of your contributions, as indicated on your IRP 5 certificate (code 4003).

The contributions made to a provident fund will not be considered as a deduction. The aggregate amount of contributions not taken into account as a deduction will, however, be incorporated in the calculation of the taxable benefit on exit from such fund.

PART 5.8 INCOME PROTECTION CONTRIBUTIONS

Use the amount reflected on the certificate received from the applicable institution to complete part 5.8.

NOTE:
Deductions will be considered in respect of policies where it covers you against the loss of income as a result of illness, injury, disability or unemployment and the amount payable in terms of the policy constitutes or will constitute income as defined.

PART 5.9 TRAVELLING EXPENSES

Page 6 of your return can be used to assist you in calculating your travelling claim. Enter the result of your calculation in part 5.9 of your return. For more details refer to page 13 of this brochure.

PART 5.10 SUBSISTENCE

Should your allowance be reflected as code 3704 (local) and / or 3754 (foreign) you need to determine the amount claimed based on the actual amounts expended or the amount deemed to be expended in terms of Section 8(1)(c)(ii) of the Income Tax Act.

Claim the amounts expended in part 5.10 of your return and attach a schedule to page 13 of your return detailing the following:

- The period in respect of which expenses are claimed;
- The destination where the money was spent;
- The total number of days in respect of which expenses are claimed; and
- Specify whether local or foreign expenditure.

Receipts for the amounts must be available to prove your claim, if requested by SARS.

Should your allowance be reflected as code 3705 (local) and / or 3755 (foreign), on assessment, it will be considered a non-taxable allowance and no claim will be allowed. Should this be so, it will not be necessary for you to calculate your claim.

If the allowance received by you pertains to local as well as foreign subsistence allowance and you claim against such allowance, you need to claim separately in respect of local and foreign expenditure. The amount claimed must be reflected next to code 4017 for local and / or 4019 for foreign expenditure in part 5.10.1 and / or 5.10.2 respectively on your return.

PART 5.11 OTHER EXPENSES

All expenses not specifically addressed in the 'Deduction' section of your return must be claimed here, describing the amount claimed in detail. The limitations in terms of Section 23(m) (see paragraph (c) below) must, however, be taken into account.

(a) Entertainment expenses

AGENTS OR REPRESENTATIVES who derive their remuneration, wholly or mainly, in the form of commission based on sales or turnover are entitled to deduct entertainment expenditure actually incurred in the production of their income. The following information must be furnished before such a claim will be considered:

- Position held;
- Nature of income;
- Name of person entertained and his / her employer; and
- Nature of entertainment and cost thereof.

(b) Study at private residence

The deduction of any expenses relating to any residence or domestic premises is prohibited except in respect of such part as may be occupied for purposes of trade. Such part of the premises will only be regarded as being used for trade if:

- It is specifically equipped for purposes of your trade; and
- It is used regularly and exclusively for such purposes.

If the income against which the deduction is claimed flows from the holding of employment or an office no deduction is allowable unless:

- Your income from such employment or office is derived mainly from commission or other variable payments which are based on your work performance and your duties are mainly performed otherwise than in an office which is provided to you by your employer; or

- Your duties are mainly performed in the study at your private residence.

The following guidelines are given with regard to a claim for a home study. Full details in support of your claim must be submitted with your return. Documentation in substantiation of the claim is to be kept and only submitted on request.

- There must be a direct relationship between the incurring of the expenses on a study and the production of income.

- You must, in terms of the requirements of a service contract with your employer, be required to maintain a study at your private residence.

- The study may be used only for business purposes.

- To enable SARS to decide whether you are entitled to a deduction for a study or not, the following questions are to be answered / details supplied:

  - What is the nature of your occupation and why is it necessary to maintain a study at your home?
  - A copy of your service contract, service regulations or personnel code.
  - Does your employer place an office at your disposal at your workplace? Full details of any restrictions in the use of this office are to be furnished, as well as a letter of confirmation from your employer.
  - Is your work of such a nature that you are expected to work at home after hours? Full details of how frequently you use the home study as well as a statement confirming the use thereof is required from your employer.
  - Are you required to use the home study to interview or supply information to clients or employees after hours?
  - Is your home study specifically equipped for purposes of your trade?
  - Is your study used regularly and exclusively for your work?
  - To what extent is the study indispensable to the proper carrying out of your tasks?

- Should you qualify for a deduction the amount will be calculated on the following basis:

  $$\frac{A}{B} \times \text{Total Cost}$$

  Where A = The area in m² of the area specifically equipped and used regularly and exclusively for trade;

  B = The total area in m² (including any outbuildings and the area used for trade of the residence), and

  Total costs = The costs incurred in the acquisition and upkeep of the property (excluding expenses of a capital nature).

  Repairs specifically made to the study will not be apportioned, but allowed in full. Repairs to the building in general are not included in total costs.

(c) Limitation of deductions (Section 23(m) of the Income Tax Act)

General deductions in the determination of your taxable income, Section 11 of the Income Tax Act, will only be considered if your remuneration (income from employment) consists mainly or wholly from commission based on sales. "Wholly or mainly" meaning more than 50% of your gross remuneration (salary-type of income).

The only expenditure items that will be considered as a deduction are the following:

- Contributions to a pension or retirement annuity fund;

- Legal expenses actually incurred in respect of any claim, dispute or action arising in the course of the ordinary operations undertaken by you;

- Depreciation (wear and tear) of an asset owned by you or aquired in terms of an instalment credit agreement;

- Bad debts;

- Provision for bad debts; or

- Premiums paid in terms of an insurance policy that covers you solely against the loss of income as a result of illness, injury, disability or unemployment and in respect of which the amounts payable in terms of that policy will constitute income as defined.

Example 1

A taxpayer received pensionable salary of R40 000 and commission income of R130 000 on sales. The taxpayer contributed R3 000 to an approved pension fund and incurred commission-related business expenses of R70 000. Since more than 50% of the taxpayer's remuneration consists of commission, the restrictions of Section 23(m) do not apply. The R70 000 commission-related expenses might, therefore, be considered. The pension fund contribution is unaffected by the introduction of Section 23(m) and remains deductible.

Example 2

A taxpayer received pensionable salary of R60 000 and commission of R60 000 on sales. The taxpayer contributed R4 500 to a pension fund and incurred commission-related expenses of R10 000. Since not more than 50% of the taxpayer's remuneration consists of commission, the restrictions of Section 23(m) will apply and the commission-related expenditure will not be considered. The pension fund contribution is unaffected by the introduction of Section 23(m) and remains deductible.

For further information in this regard please refer to the Interpretation Note No. 13 on the SARS website www.sars.gov.za or contact your local SARS office.

(d) Restraint of trade

Refer to the paragraph dealing with restraint of trade in part 8 on page 10 of this brochure.

(e) Reduction in value of benefit in respect of the private use of your employer's motor vehicle

The taxable benefit which arises from the private use of a motor vehicle supplied by an employer is based on the assumption that the distance covered for private use (including travel between home and work) amounts to 10 000 km for the year. If you have travelled less than 10 000 km and have kept accurate records in the form of a logbook, a copy of which must be submitted with your tax return, you may claim a deduction under “other ”.

The reduction in the value of the benefit will not apply where more than one vehicle was made available to you at the same time and only the benefit of the more expensive vehicle has been taken into account as a fringe benefit, unless less than 10 000 km have been travelled with both vehicles individually.

(f) Holders of a public office

Any allowance granted to the holder of a public office to enable him / her to defray expenditure incurred by him / her in connection with his / her office is deemed to have been expended to the extent that he / she has actually incurred expenses for the purpose of his / her office in respect of -

- secretarial services, telephone, stationery, office accommodation, postage, travelling or hospitality extended at any official or civic function which the holder of such office is by reason of such office normally expected to arrange; and
- subsistence and incidental costs while away from his / her usual place of residence. Refer to subsistence on page 9 of this brochure.

NOTE:
Travelling must be claimed based on the actual cost (expenses incurred in the production of income).

PART 6: RESIDENCE BASIS OF TAXATION

With effect from years of assessment commencing on or after 1 January 2001, the income tax system in South Africa changed from a source based system to a residence basis of taxation. Residents are subject to tax on world-wide income, subject to certain exemptions and non-residents remain taxable on South African source income or deemed source income.

Resident, in respect of an individual, means:

- A person who is ordinarily resident in South Africa. The term “ordinarily resident” means the country to which a person would naturally and as a matter of course return from his or her travels; or

- A person who has been present in South Africa for more than 91 days in the current tax year and in each of the five preceding tax years and who has been present in South Africa for more than 915 days over the five preceding tax years, in which case that person will be a resident with effect from the first day of the relevant year of assessment. For this purpose a day includes a part of a day. Where such person is continuously outside South Africa for a period of 330 full days the person will no longer be regarded as a resident.

Foreign income received by or accrued to a resident individual is taxable. The following income types are, however, exempt from tax in terms of Section 10(1)(o)(ii) of the Income Tax Act:

- Remuneration derived in respect of services rendered for an employer outside South Africa if the employee is outside South Africa for a period exceeding 183 days in any 12 month period and is outside South Africa for a continuous period of 60 days during the 12 month period and the services were rendered during the period. This provision does not apply to employees of national, provincial or local governments and to employees of certain public entities;

- Any amount received or accrued under the social security system of another country;

- Any pension received or accrued from a source outside South Africa that is not deemed to be from a South African source.

PART 7: ALLOWANCES AND DEDUCTIONS CLAIMED

Reflect the amount claimed in respect of the allowances and deductions listed in this part next to the applicable source codes.

SECTION 11(cA) - Restraint of trade

From 23 February 2000 a deduction may be claimed in respect of any amount actually incurred by a taxpayer in the course of carrying on his / her trade as compensation in respect of any restraint of trade imposed on any other person who -

- Is a natural person; or

- Is or was a labour broker, other than a labour broker in respect of which a certificate of exemption has been issued.

The amount incurred will be allowed to be deducted over the number of years, or part thereof, during which the restraint of trade applies or three years, whichever period is longer.

SECTION 11A - Pre-trade expenditure or losses

A deduction will be allowed for qualifying expenses incurred before the commencement of a trade. The following requirements must be met for these pre-trade expenses to qualify as a deduction in terms of Section 11A.

- A trade must be carried on.

- The expenses must have been incurred before the commencement of that trade.

- The expenses must have been incurred in the preparation of that trade.

- The expenses must qualify as a deduction in terms of Section 11.

- The expenses must not previously have been claimed or allowed as a deduction.

SECTION 11B - Research and development expenses

A deduction will be allowed for expenditure incurred in respect of research and development undertaken in the Republic in the course of creating or attempting to create an intangible asset / intellectual property. The provision allows the deduction of operating or non-capital expenditure incurred during a year of assessment, provided that:

- The expenditure is incurred in respect of research and development;

- It relates to devising, developing or creation of the intellectual property;

- Payment is made only for the discovery of new information; and

- The taxpayer retain full ownership and control of the research and development.

In addition, an allowance is granted (in terms of subsection (3)) in respect of the cost of any building, machinery or plant, implements, utensils and articles of a capital nature used for the purpose of research and development. The allowance is granted on a 4-year-period, calculated as follows:

- 40% of the cost in the year that the asset is being used for the first time; and
- 20% of the cost for each of the following three years.

SECTION 12H - Learnership agreements

A deduction will be considered where a registered learnership agreement is entered into with a learner in the course of any trade carried on by an employer. The deduction will be considered in respect of the registration and completion of such registered learnership agreement as defined in Section 12H of the Income Tax Act.

Where a registered learnership agreement or contract of apprenticeship is terminated prior to the completion of such agreement or contract as defined in Section 12H(5) of the Income Tax Act, the amount allowed as a deduction shall be deemed to have been recovered or recouped by the employer.

SECTION 13*quat* - Urban development zone

A deduction will be allowed as an allowance in respect of the cost of the erection, extension, addition or improvements of any commercial or residential building within an approved urban development zone, to be used solely for the purpose of that trade. The deduction will cease where the building ceases to be used solely for the purpose of trade or it was sold. The allowable amount will be calculated as follows:

1. Refurbishment of a building - 20% straight-line depreciation allowance over a 5-year-period (where the existing structural or exterior framework is preserved).
2. Construction of a new building - 17 year write-off period (20% in the first year and 5% per annum thereafter for the next 16 years).

A deduction will also be allowed to first buyers who buy from a bona-fide developer. The first buyer, although not having incurred the actual cost of construction of refurbishment, could qualify for the tax incentive and be able to claim an allowance on a percentage of the purchase price as prescribed in Section 13*quat* which is deemed to be attributable to the buyer's construction or refurbishment costs.

No deduction shall be allowed under this section unless a certificate from the municipality confirming that the building is located within an approved urban development zone within that municipality is attached to the tax return for the year of assessment in which the deduction is claimed.

Where a building or part of a building is purchased from a developer the following will be required:

- The purchase price of that building or part thereof;
- The amount of the purchase price deemed to be the cost incurred i.t.o. subsection (3A); and
- A certificate from the developer confirming that the requirements i.t.o. Section 13 *quat* have been met.

PART 8: CALCULATION OF TRAVELLING EXPENSES

Travelling expenses may be claimed based on one of the following methods:

- WHERE ACCURATE RECORDS OF EXPENSES HAVE BEEN KEPT (complete part 4 of this Schedule). Note must be taken of the specified write off period and cap on the cost of the vehicle relating to the claim of actual motor vehicle expenditure. In respect of the 2006 year of assessment the amount will be capped at R360 000.

- WHERE NO RECORDS OF EXPENSES HAVE BEEN KEPT (complete part 3 of this Schedule). Should you calculate your travel claim based on actual kilometres travelled, such kilometres must be substantiated by way of a log book. The following minimum information relating to business kilometres travelled should be reflected to enable SARS to consider the claim:
  - Date on which you travelled.
  - The destination to and from.
  - The kilometres travelled.

- It is essential in all cases to furnish accurate odometer readings of the relevant motor vehicles as on 1/3/2005 and 28/2/2006 (part 2 of this Schedule) as required in the travel Schedule of your return.

- Unless accurate records of kilometres travelled both for business and private purposes have been kept, the first 16 000 km travelled will be deemed to be for private purposes. Business kilometres are deemed to be equal to the difference between total kilometres travelled and 16 000 km provided that it does not exceed 16 000 km.

- If the vehicle was used for business purposes for a period of less than 12 months, the distances of 16 000 km and 16 000 km, respectively, must be reduced pro rata in respect of the period the vehicle was used for business purposes.

- Travelling between your residence and place of employment is private.

- If you received a travelling allowance the deduction may not exceed the allowance received.

- Where you used more than one motor vehicle interchangeably during the year of assessment primarily for business purposes, you must prove by way of a logbook that each vehicle was primarily used for business purposes to prevent the deemed 16 000 km for private use being applied to each vehicle. Primary use means more than 50% of the total use.

- If you receive a travelling allowance in respect of a vehicle that is made available to you by your employer, only actual expenditure may be claimed.

It must be noted that where the recipient of an allowance has, during the whole or any portion of the year of assessment, interchangeably used more than one vehicle for business purposes and one or more of such vehicles were not used primarily for business purposes, the 16 000 / 32 000 km will be applied separately to each motor vehicle which was not used primarily for business purposes.

TRAVELLING EXPENSES BASED ON ACTUAL EXPENDITURE

- The wear and tear allowance of the vehicle used must be determined over a period of seven years form the date of original acquisition and the cost of the vehicle must be limited to R360 000.

- Where a motor vehicle was acquired during the year, wear and tear will only be allowed pro rata.

- If the motor vehicle was disposed of during the year of assessment the loss suffered or profit made must be taken into account in the calculation of your claim. Such profit or loss must not be taken into account where the travelling expenditure is claimed against a travelling allowance.

- In the case of a vehicle that is being leased: the total amount of lease payments may not exceed in any year of assessment an amount equal to the fixed costs for the category of the vehicle used as determined by the Minister of Finance as contemplated in Section 8(1)(b)(ii) of the Income Tax Act.

- The finance charges in respect of any debt incurred in respect of the purchase of the vehicle must be limited to an amount which would have been incurred had the original debt been R360 000.
  Example: If you purchase a vehicle for R360 000 and the finance charges on that vehicle amounts to R60 000 and the repayments of the vehicle is over five years, the finance charges of R12 000 (R60 000/5) could be allowed as a deduction for a period of five years.

TRAVELLING EXPENSES BASED ON THE KILOMETRE RATE

Where a travelling allowance was received, the amount of the deduction to be claimed may be based on the kilometre rate established in accordance with the tariffs set out below. The fixed, fuel and maintenance costs are based on the “value” of the vehicle.

“Value” in relation to a motor vehicle means -

- the original cost thereof to you, but excluding any finance charges or interest payable by you; or

- in any other case the market value of the motor vehicle at the time you first obtained the vehicle or the right to use it, plus any sales / value-added tax which would have been payable on the market value.

Where expenses for more than one vehicle are claimed, reasons must be furnished why more than one vehicle was used.

If the vehicle was used for business purposes for a period of less than 12 months, the fixed cost component must be reduced pro rata on a day-to-day basis.

SCALE OF COSTS IN RESPECT OF MOTOR VEHICLES

Scale of costs in respect of motor vehicles			
WHERE THE VALUE OF THE VEHICLE -	**FIXED COST R**	**FUEL COST c**	**MAINTENANCE c**
Does not exceed R40 000	14 489	34,5	21,6
exceeds R40 000 but does not exceed R60 000	19 869	36,2	22,4
exceeds R60 000 but does not exceed R80 000	25 068	36,2	22,4
exceeds R80 000 but does not exceed R100 000	30 893	40,7	27,8
exceeds R100 000 but does not exceed R120 000	35 578	40,7	27,8
exceeds R120 000 but does not exceed R140 000	40 732	40,7	27,8
exceeds R140 000 but does not exceed R160 000	46 157	45,0	37,7
exceeds R160 000 but does not exceed R180 000	51 930	45,0	37,7
exceeds R180 000 but does not exceed R200 000	57 332	51,1	41,6
exceeds R200 000 but does not exceed R220 000	63 287	51,1	41,6
exceeds R220 000 but does not exceed R240 000	68 697	51,1	41,6
exceeds R240 000 but does not exceed R260 000	74 287	51,1	41,6
exceeds R260 000 but does not exceed R280 000	78 992	53,9	49,8
exceeds R280 000 but does not exceed R300 000	83 744	53,9	49,8
exceeds R300 000 but does not exceed R320 000	88 854	53,9	49,8
exceeds R320 000 but does not exceed R340 000	94 322	53,9	49,8
exceeds R340 000 but does not exceed R360 000	99 240	59,8	65,5
exceeds R360 000	99 240	59,8	65,5

EXAMPLE

You own a vehicle with a "value" of R47 250 and receive a travelling allowance of R2 000 per month for the full year. During the year of assessment you travelled 45 000 km and have not kept accurate records of business and private trips.

The claim in respect of travelling expenses is determined as follows:

Total kilometres are limited to	32 000
Less: Kilometres deemed to be private use	<u>16 000</u>
Kilometres deemed to be business use	16 000

Fixed cost element (see table of scales) R 19 869

The fixed cost element per kilometre is therefore:

$$\frac{19\,869}{45\,000} \times \frac{365}{365} = 44.1 \text{ cents}$$

The fuel cost element per kilometre is	36.2
The maintenance cost per kilometre is	<u>22.4</u>
Total cost per kilometre	102.7

Total cost of business travel: Business km x total cost per km (i.e. 16 000 km x 102.7 cents) = R16 432. This amount must be reflected next to code 4014 in part 5 of the return.

SCHEDULE 1: INVESTMENT INCOME

PART 1: INCOME FROM INVESTMENTS

Investment income constitutes any income primarily derived from an investment with any financial institution / company, such as the banking and unit trust administrations. Dividends received in respect of local investments, **excluding** dividends derived from property trusts, are not taxable. Dividends received from foreign investments are taxable and must be declared in parts 2.3 and 3 of Schedule 1 on page 7 of your return.

NOTE:
Dividends received from investments in unit trusts could be indicated as foreign dividends, local dividends, foreign interest or local interest. This information will be reflected on the certificate received from the relevant institution and must be recorded next to the applicable reference in part 2 of Schedule 1.

PART 2: GROSS AMOUNTS RECEIVED FROM INVESTMENT INCOME

The gross amounts received must be reflected on the schedule, as the exemptions will be applied programmatically by SARS.

All investment income received by or accrued to you or your minor children must be declared (including investment income which has not been paid to you but has been utilised, accumulated or re-invested for you or your minor children's benefit). Where interest is claimed as a deduction against investment income received, full particulars (i.e. amounts invested / borrowed, interest rates, date of each loan and investment) must be furnished.

All income from foreign and local interest received must be listed in part 1 of Schedule 1. If you are married OUT OF community of property or UNMARRIED, the total income from foreign and local interest received must be reflected in part 2 of Schedule 1. If you are married IN community of property, only 50% of the income must be declared in part 2 of Schedule 1. The other 50% is taxable in the hands of your spouse.

If you received income from foreign dividends you must complete parts 2.3 and 3 of Schedule 1. An income advice in respect of any investment must be obtained from the institution where your funds are invested and attached to page 13 of the return.

The exemption applicable to the 2006 year of assessment is R15 000 if you are under the age of 65 years and R22 000 if you are 65 years of age and older.

The interest exemption will be offset against foreign dividends, foreign interest and local interest received. The exemption on foreign investments, i.e. foreign dividends and foreign interest, is however limited to R2 000 and will be offset in the following order: foreign dividends, foreign interest and local interest, as illustrated in the following example in respect of a taxpayer under the age of 65 years.

NOTE:
The exemption will be applied programmatically by SARS.

Should you have received R6 100 investment income that is made up of R1 600 in respect of foreign dividends, R900 in respect of foreign interest and R13 600 in respect of local interest, the interest exemption will be applied as illustrated in the following example.

Example	Gross	Taxable
FOREIGN DIVIDEND INCOME RECEIVED The R1 600 foreign dividend income received will be exempt, as it is less than R2 000. The balance of R400 (R2 000 – R1 600) will be offset against the foreign interest received.	R1 600	
FOREIGN INTEREST RECEIVED R900 foreign interest has been received, of which R400 will be exempt (the balance not offset against foreign dividends). R500 will therefore be included in taxable income.	R900	R500
LOCAL INTEREST RECEIVED The total exemption in respect of investment income is R15 000 of which R2 000 has already been utilised against foreign investment income. The balance of R13 000 will now be offset against the R13 600 received in respect of local interest, leaving a balance of R600 which will be included in taxable income.	R13 600	R600
RESULT OF CALCULATION In the determination of tax liability an amount of R1 100 will be included as taxable investment income. The R500 not exempt on foreign investment income plus the R600 in respect of local investment income.		R1 100

PART 3: FOREIGN DIVIDENDS

Foreign dividends have been taxable in South Africa as from 23 February 2000. A foreign dividend means any dividend received or accrued to a person from a foreign entity or, in the case of a resident company, a dividend to the extent that it is declared from profits derived before it became a resident.

Amount to be included in gross income

The following choice can be made:
- Whether to be taxed on the net foreign dividend, i.e. the gross dividend minus the foreign tax paid; or
- To be taxed on the gross dividend income, in which case the foreign tax paid can be claimed and will be considered as a tax credit.

Any amount of interest actually incurred in the production of foreign dividend income will be allowed as a deduction against such income. The amount of interest to be deducted is limited to the amount of foreign dividends included in gross income. Where the allowable interest exceeds taxable foreign dividends, it is reduced by any foreign dividends that are not included in taxable income and the remaining balance carried forward to the next year of assessment. The amount carried forward may be offset against future foreign dividends.

For further details refer to the Interpretation Note No. 18 on the SARS website www.sars.gov.za or contact your local SARS office.

SCHEDULE 2: LOCAL BUSINESS, TRADE OR PROFESSION (INCL. RENTAL & FARMING)

RENTAL INCOME

All local rental income must be declared in Schedule 2 of your return. Only 50% thereof must be carried forward to part 2 if you are married **IN** community of property. The other 50% will be taxable in the hands of your spouse.

All foreign rental income must be declared in Schedule 4 (Total taxable foreign income).

If you occupied a portion of a property let by you, or if someone else occupied it rent free, state the portion of the expenses claimed against rental income, which relates thereto.

Please ensure that you answer the questions in this schedule.

NOTE:
Rent pending the exercise of an option to purchase (irrespective of the fact that such rent may be set off against the eventual purchase price) is taxable.

FARMING INCOME

Farming income / loss as calculated on page 11, Schedule 7 part 1, must be carried forward to Schedule 2 on your return. Refer to page 26 of this brochure for more information and on how to complete the farming schedule.

OTHER TRADES

The information required refers to the activities in respect of local business, trade and / or profession carried on by yourself for your own account and not as an employee.

Submit complete financial statements in respect of each local business, trade or profession carried on by yourself.

DUAL PURPOSE EXPENDITURE

- Some of the expenses you incurred may be partly personal and partly business. These may include amounts paid for fuel and oil, rent, electricity, telephone, car maintenance, repairs, insurance, interest and overseas travelling expenses. The personal portion of these expenses is not deductible as business expenditure and must be allocated accordingly. Full details of your calculations must accompany your return.

- Reasonable allocation - It's not easy to determine what portion of dual purpose expenditure should be allocated to the business and what portion to non-business activities. No rule can be prescribed, but the allocations must be reasonable.

- As regards travelling expenses, an apportionment according to distances actually travelled for private and business purposes must be made.

CAPITAL EXPENDITURE

In general, capital expenditure is an amount paid or a debt incurred for the acquisition, improvement or restoration of an asset. However, capital expenditure is not necessarily confined to assets - expenditure designed to extend the scope of a business, as distinct from maintenance or expenditure incurred to create or to protect a source of income or to acquire an enduring advantage for the benefit of trade, is regarded for tax purposes as expenditure of a capital nature.

Examples of capital expenditure:

- Land and building (including transfer costs);
- Additions, alterations and improvements to any assets used by the business, for example: buildings, plant, machinery, furniture and fittings, etc.;
- Cost of material, labour and installation of capital assets;
- Goodwill;
- Expenditure to eliminate competition;
- Expenditure to protect capital or assets, including rights; and
- Legal expenses referring to capital or assets.

TRADING STOCK TAKEN FOR PRIVATE USE

If such goods have already been accounted for in your books, this adjustment must not again be taken into account in the determination of your taxable income. A note must be made on the statement indicating the value of the goods and how this was accounted for.

LEGAL EXPENSES

Any expenses, other than those of a capital nature, in respect of any dispute or action at law, which were actually incurred in the production of income or which arose in the course of or by reason of the ordinary operations undertaken by you in the carrying on of your trade, may be claimed as a deduction. Details must be furnished.

GENERAL EXPENSES

General or sundry expenses claimed in your accounts must be detailed in a separate statement and expenses contained therein, which are not allowable, must be reflected in your computation of taxable income.

PRIVATE USE OF BUSINESS PREMISES

If you or any member of your family occupied, free of charge, part of the premises from which your business or profession is carried on, only the expenditure in respect of the portion used for business purposes can be claimed.

RECOUPMENT OF WEAR AND TEAR

Section 11(o) provides for an election in respect of the deduction of any loss incurred as a result of the alienation, loss or destruction of any asset that qualified for a capital allowance or deduction provided that the expected useful life of that asset for tax purposes did not exceed ten years. The deduction must be equal to the difference between the amount received or accrued from the disposal and the cost price of the asset.

Where an asset was brought into use during a non-taxable period, that period must be taken into account in the determination of the deduction provided for in terms of Section 11(o).

NOTE:
Cognisance must be taken of the provisions of paragraph 65 and paragraph 66 of the Eighth Schedule to the Act that came into operation on 22/12/2003.

EXPIRED LEASE AGREEMENTS

If, at the expiry of a lease agreement in respect of moveable assets, such assets -

- were sold and the proceeds paid to you;
- were transferred to you free or for some consideration; or
- any other benefit accrued to you in these circumstances, full details must be furnished.

Copies of documentation from the relevant financial institution must be submitted.

RECOUPMENT OF EXPENDITURE

Any items of expenditure or losses which were allowed as deductions in the determination of your taxable income for the current or a previous year of assessment and recovered or recouped during this year of assessment must be reflected, if not already accounted for in your financial accounts.

RESERVES

Details of all reserves which were not disclosed as such in your balance sheet must be furnished showing the amounts transferred to reserve during the year of assessment and indicating where those amounts were debited in the accounts.

INTEREST PAID

If interest has been paid, indicate the purpose for which the capital on which it is payable, was utilised.

FINANCE CHARGES

These must not, for wear and tear purposes, be added to the cost price of assets purchased, but must be shown separately.

COST OF TRIPS ABROAD

If the amount claimed as travelling expenses includes the cost of trips abroad, indicate who undertook the trip and the purpose thereof and furnish details of the expenses and itinerary.

DRAWINGS AND CAPITAL ACCOUNTS

Furnish details of the sources and amounts credited to these accounts.

BAD AND DOUBTFUL DEBTS

Disclose full details with regard to source, amounts, dates, nature of debt and reasons for regarding debt as bad.

In the case of doubtful debts a similar list must be furnished and the amount claimed as an allowance in respect of such debts must be shown.

RING-FENCING OF ASSESSED LOSSES OF CERTAIN TRADES

With effect from the 2005 year of assessment Section 20A provides that, subject to certain tests, an assessed loss incurred by a natural person may not be set off against any income derived by the person otherwise than from carrying on that trade. The effect is that trading losses will in certain circumstances and / or in respect of certain identified trades, be subject to potential ring-fencing unless the “facts and circumstances test” provided for in subsection (3) indicates that the trade constitutes a business in respect of which there is a reasonable prospect of deriving taxable income within a reasonable period of time.

A pre-requisite for the application of Section 20A is that, in the year in which the ring-fencing is applied, the taxpayer’s taxable income (before taking into account the set off of any assessed loss incurred in carrying on any trade during that year of assessment and the balance of an assessed loss carried forward from the previous year) equals or exceeds the amount at which the maximum marginal tax rate chargeable in respect of individuals becomes applicable. In respect of the 2006 year of assessment the maximum marginal tax rate will apply to taxable income in excess of R300 000.

In the case of certain identified trades listed in Section 20A (2)(b) of the Income Tax Act, the potential ring-fencing will be applied in the 2005 year of assessment, unless the “facts and circumstances test” indicates that the particular activity constitutes a business which has a reasonable prospect of deriving taxable income within a reasonable period of time.

The potential ring-fencing can be applied in respect of losses from all the identified trades or other trades, in terms of the three-out-of-five-year-rule, and ring-fencing of any trade loss (excluding farming activities) will occur in terms of the six-out-of-ten-year-rule.

Identified trades Section 20A (2)(b)

The identified trades listed in Section 20A (2)(b) are as follows:

- Any sport practised by the taxpayer (or relative);
- Dealing in collectibles by the taxpayer or any relative;
- The rental of residential accommodation, unless at least 80% of the residential accommodation is used by persons who are not relatives of that person for at least half of the year of assessment;
- The rental of vehicles, aircraft or boats, unless at least 80% of the vehicles, aircraft or boats are used by persons who are not relatives of that person for at least half of the year of assessment;
- Animal showing by the taxpayer or any relative;
- Farming or animal breeding (unless the taxpayer carried on the farming or animal breeding on a full time basis);
- Any form of performing or creative arts; and
- Gambling or betting.

The three-out-of-five-year-rule

The three-out-of-five-year-rule applies to any trade that is not included in the list of identified trades mentioned above. The current year must be taken into account in determining the three-out-of-five-year-rule. Losses incurred in respect of other trading activities not listed above could, therefore, be subject to potential ring-fencing as from the 2007 year of assessment in terms of Section 20A (2)(a). This would occur if the specific trading activity has realised a loss for three consecutive years, commencing with the 2005 year of assessment. Should any trading activity realise a profit in any one of the three years mentioned above, the potential ring-fencing is delayed, as illustrated in the following example:

Year of assessment	Trading activity	Profit / Loss realised
2005	Rental property A	Loss realised
2006	Rental property A	Profit realised
2007	Rental property A	Loss realised
2008	Rental property A	Loss realised

Due to the fact that the trading activity (rental income is considered to be trading income) has realised a loss in three-out-of-five-years (where that person has, during the five year period ending on the last day of that year of assessment, incurred an assessed loss in at least three years of assessment), ring-fencing could be applied in the 2008 year of assessment. Should the taxpayer realise a profit in the 2008 year of assessment and a loss in 2009, the ring-fencing would only apply as from the 2009 year of assessment.

The trades in respect of which the three-out-of-five-year-rule applies includes;

- rental of residential accommodation **where** at least 80% of the residential accommodation is used for at least half of the year of assessment by persons who are not relatives;
- the rental of vehicles, aircraft or boats **where** at least 80% of the vehicles, aircraft or boats are used by persons for at least half of the year of assessment who are not relatives of that person;
- farming or animal breeding carried on, on a full time basis; and
- any other trade not specifically identified.

Facts and circumstances

In respect of both the identified trades, as well as the other trades listed above, ring-fencing can be avoided in terms of subsection (3) of Section 20A. This section provides an escape route in terms of which the taxpayer can prove that the particular activity constitutes a business which has a reasonable prospect of deriving taxable income within a reasonable period of time. The factors to which special regard must be had, are the following:

- The proportion of the gross income derived from that trade in relation to the amount of allowable deductions incurred in carrying on that trade.

- The level of activities carried on by the person or the amount of expenses incurred by the person in respect of advertising, promoting or selling, in carrying on that trade.

- Whether that trade is carried on in a commercial manner, taking into account-
  - The number of full time employees appointed to that trade;
  - The commercial setting of the premises where the trade is carried on;
  - The extent of the equipment used exclusively for the purpose of carrying on the trade; and
  - The time the person spends at the premises conducting that business.

- The number of years of assessment in which assessed losses were incurred in relation to the total number of years that the specific trade was carried on, taking the following into account -
  - Any unexpected events giving rise to the losses; and
  - The nature of the business involved.

- The business plans and any changes thereto to ensure that the business will in future derive taxable income.

- The extent to which any asset attributable to the trade is available for recreational use or personal consumption by the person or any relative of the person.

The six-out-of-ten-year-rule

Where losses have been realised in at least six-out-of-ten-years of assessment the “facts and circumstances test” will, in terms of subsection (4), no longer be available to prevent the ring-fencing of a loss in respect of the trades identified in subsection (2)(b). This means that where a loss pertaining to an identified trade was not ring-fenced after having applied the “facts and circumstances test”, the loss will, however, be ring-fenced where the specific trade has incurred a loss in at least six-out-of-ten-years of assessment. The “facts and circumstances” escape route will, therefore, no longer be available to prevent the ring-fencing of the specific trade loss. Although this provision applies to all identified trades, subsection (7), however, specifically provides that this rule will not be applicable to farming activities. This is in recognition of the fact that many forms of legitimate farming activities entail long-term losses before the expectation of profit can be realised.

Losses to be taken into account

In the application of both the three-out-of-five-year-rule and the six-out-of-ten-year-rule any losses incurred on or before 29 February 2004 will not be taken into account.

For further details refer to the Brochure on Section 20A, which is available on the SARS website www.sars.gov.za or contact your local SARS office.

Completion of the rental schedule

The rental schedule on page 8 and 9 of your return comprises of 3 parts:

1. Determination of profit / loss in the letting of property / asset

Please complete this part in full. This part comprises of the minimum information used to calculate the rental profit / loss.

Please note that each trading activity is evaluated separately for the application of the potential ring-fencing. Financial statements must therefore be drawn up separately and the profit or loss declared separately in respect of each property / asset (rental income).

In certain circumstances where more than one property / asset is let, the letting of such properties / assets could be considered as a single trade. Should this be the case the profit / loss must be declared as a single entry in which case a combined set of financial statements can be prepared and submitted. To enable SARS to consider rental income as a single trade, the information requested in part 2 of the schedule must be submitted.

Married in community of property

If you are in receipt of rental income and you are married in community of property you must declare 50% of the profit / loss of such income. The other 50% will be included in the taxable income of your spouse.

2. Information required in respect of the letting of property / asset

Complete this part in full. Refer to the information in the paragraph 1 above.

In the case of the renting of residential property as well as vehicles, aircraft or boats, cognisance must be taken of the exclusion from the "identified trade" of any rental trade where at least 80% of the rental accommodation or assets were used for at least half the year of assessment by persons who are not related to the taxpayer.

3. Local income received in the letting of property / asset

This part comprises of 6 sections namely:

- **Address of property / Description of Asset**

  Use the pre-printed details on part 2 of your return to complete the rental schedule. If the address of the property / description of asset is incorrect as reflected in the pre-printed detail, please complete the schedule with the correct detail.

- **Unique Identifier**

  The unique identifier in part 2 of your return was created by SARS and allocated to each property / asset as per information received on your previous return. When completing the rental schedule on pages 8 and 9 of your return the unique identifier number on part 2 **must** be used in the unique identifier column.

  Should you have acquired a property / asset during the year of assessment please make sure that you complete the address of the property / description of the asset to enable SARS to create a unique identifier number that will relate to the specific asset. This means that **you do not have to** complete the unique identifier column if the property / asset were acquired in the current year of assessment.

  Where you declared rental income in the 2005 income tax return and the assessment in respect of the relevant return has not yet been finalised a unique identifier number will not be available as yet. Should this be the case this column must not be completed on the income tax return.

- **Gross Income**

  The gross rental income must be completed in the gross income column. Please note that income accrued from various properties / assets must be reflected separately as specific motivation must be submitted to SARS to consider such income as derived from a single trade.

- **Profit / Loss**

  The net rental profit / loss must be completed in the profit / loss column.

- **Yes / No Indicator**

  Please read the question carefully and tick the yes or no block to indicate whether you want the loss to be ring-fenced or not. Should you indicate "yes" the loss, if incurred, will not be taken into account in the determination of your taxable income. Should you indicate that the loss should not be ring-fenced you will have to substantiate the decision by submitting the documentation referred to in the paragraph dealing with "facts and circumstances" (escape clause), refer to page 21 of this brochure, to support the claim. The documentation must be based on the factors specifically mentioned in the relevant paragraph. If no supporting documentation is supplied a loss in respect of a trade listed in Section 20A(2)(b) could be ring-fenced.

- **Source Code**

  Use the following list of source codes to complete this section. Should you be unsure as to which codes to use leave this field blank for SARS to complete.

Identified trade source codes			
Profit: Sporting	4280	Loss: Renting of boats	2429
Loss: Sporting	4281	Profit: Local - Rental	4210
Profit: Collectables	4282	Loss: Local - Rental	4211
Loss: Collectables	4283	Profit: Renting of trucks / cars / etc.	2408
Profit: Animal showing	4284	Loss: Renting of trucks / cars / etc.	2409
Loss: Animal showing	4285	Profit: Author / composer / artist	3110
Profit: Gambling	4286	Loss: Author / composer / artist	3111
Loss: Gambling	4287	Profit: Renting of aircraft	2416
Profit: Renting of boats	2428	Loss: Renting of aircraft	2417

Foreign rental income

As rental income is considered to be trading income, any foreign rental income must be declared in the schedule dealing with "Total taxable foreign income" and should thus not be declared in the "Rental Schedule".

SCHEDULE 3: CAPITAL GAIN / LOSS

In order to give effect to the proposals relating to Capital Gains Tax (CGT), an Eighth Schedule was added to the Income Tax Act. The Schedule determines a taxable gain or assessed loss and Section 26A of the Act provides that a taxable gain is included in taxable income. The CGT provisions became effective from 1 October 2001.

Determining a capital gain or a capital loss

A CGT event is triggered by the disposal of an asset. Unless such disposal or deemed disposal occurs, no gain or loss arises. CGT applies to all assets disposed of on or after 1 October 2001 (valuation date). Only the gain or loss accruing from 1 October 2001 to date of disposal will fall within the CGT regime.

- An **asset** is defined as widely as possible and includes any property of whatever nature and any interest therein.
- A **disposal** covers any event, act, forbearance or operation of law, which results in a creation, variation, transfer or extinction of an asset. It also includes certain events treated as disposals, such as the change in the use of the asset. (Paragraphs 65 and 66 of the Eighth Schedule to the Income Tax Act make provision for the election of tax relief in respect of reinvestment and involuntary disposals in respect of assets disposed off on or after 22 December 2003. For more information refer to the Explanatory Memoranda on the Revenue Laws Amendment Bill (71 of 2003), which is available on the SARS website www.sars.gov.za.).
- Once an asset is disposed of the amount which is received or which accrues to the seller of the asset constitutes the **proceeds** from the disposal.
- The **base cost** of the asset is generally the expenditure actually incurred in acquiring the asset together with expenditure directly related to its improvement and direct costs in respect of its acquisition and disposal and certain holding costs. The base cost does not include any amounts otherwise allowed as a deduction for income tax purposes.

What is the base cost of an asset held on 1 October 2001?

In order to exclude the portion of the gain relating to the period before 1 October 2001 any one of the following methods may be used:

- 20% of the proceeds upon realisation can be deemed to be the cost (no records, market value cannot be determined); **OR**
- Market value of the asset as at 1 October 2001 (the "valuation date"); **OR**
- Time apportionment method.

THE ACT LAYS DOWN VARIOUS REQUIREMENTS THAT APPLY WHEN THE MARKET VALUE METHOD IS USED:

Time limit for performing valuations

All valuations must have been done by 30 September 2004. Valuations must be performed as if done on 1 October 2001.

Who may perform valuations?

The Act is not prescriptive and the onus of substantiating a valuation rests with the person / entity.

Requirements for the submission of valuation certificates

Should the market valuation of base cost method be adopted a copy of the valuation certificate must be lodged with the relevant return of income when the asset is disposed of. Certain valuations must, however, be lodged sooner, with the first return of income required to be submitted after 30 September 2004. These categories of assets are set out in the table below:

Type of asset	Applies	Where market value exceeds
Intangible shares	Per asset	R1 million
Unlisted shares	All assets held by the shareholder in the company	R10 million
All other assets	Per asset	R10 million

Loss and gain limitation rules

Certain rules, which are beyond the scope of this brochure, are in place to limit losses and gains when the market value is used. These rules prevent the creation of fictitious losses from inflated valuations and prevent hardship when assets are sold above market value on 1 October 2001, but below original cost.

Time apportionment method

This method may be used when a person / entity has records of the date of acquisition and the cost of the asset. The following formula is used to determine the time apportionment base cost of the asset:

$$\text{Original cost} + \left[\frac{\text{Gain} \times \text{Period held before valuation date}}{\text{Period held before and after valuation date}} \right]$$

Improvements or additions made before 1 October 2001 are assumed to have taken place when the asset was acquired. The period before 1 October 2001 is limited to 20 years. Additions to an asset after valuation date are added to base cost (not apportioned). Where no additions or improvements have taken place prior to valuation date, the 20-year limit does not apply.

More information can be obtained from the CGT Guide pages 188 to 200 available on the SARS website (www.sars.gov.za).

EXCLUSIONS

Primary residence exclusion

The first R1 million capital gain or loss of a primary residence will, in the case of an individual or special trust type A (as defined in Section 1 of the Income Tax Act), be disregarded for CGT purposes. In other words, where a capital gain or loss exceeds R1 million, the excess would be subject to CGT.

In order for a residence to qualify as a primary residence :

- The interest must be held by a natural person or a special trust type A;
- That person, beneficiary or spouse of either such persons must ordinarily reside therein as their main residence; and
- The residence must be used mainly for domestic purposes.

A primary residence includes the land upon which it is actually situated and may include other adjacent land which is used mainly for domestic or private purposes in association with that residence. The total of all the land may, however, not exceed two hectares. This could also include unconsolidated adjacent land, provided that, upon disposal of the primary residence, any unconsolidated land is disposed of at the time and to the same person as the primary residence itself.

Annual exclusion

The annual exclusion of a natural person and a special trust type A in respect of a year of assessment is R10 000. All capital gains and / or losses are added together and thereafter the total amount of such capital gains and / or losses is reduced by the annual exclusion of R10 000, limited to the amount of the gain / loss, should the gain / loss be less than R10 000.

Where a natural person dies during the year of assessment, that person's annual exclusion for that year is increased to R50 000.

NOTE:
The exclusion applies to gains as well as losses.

Inclusion rate to determine taxable income in respect of CGT

Where a net capital gain for the current year of assessment has been determined, such amount is multiplied by the inclusion rate (25%) to determine the taxable capital gain, which is to be included in the taxable income for the year of assessment.

NOTE:
A capital loss can be offset only against a capital gain.

Complete Income Schedule 3 by using the following main asset type source code table:

Description of assets	SOURCE CODES	
	Local assets	Foreign assets
Fixed / immoveable assets (e.g. land, buildings, mineral rights)	6502	6530
LOSS: Fixed / immoveable assets (e.g. land, buildings, mineral rights)	6503	6531
Primary residence (e.g. house, townhouse, flat, boathouse, caravan)	6504	6532
LOSS: Primary residence (e.g. house, townhouse, flat, boathouse, caravan)	6505	6533
Financial instruments - Listed (e.g. shares, units in unit trusts, bonds, futures, options)	6506	6534
LOSS: Financial instruments - Listed (e.g. shares, units in unit trusts, bonds, futures, options)	6507	6535
Financial instruments - Unlisted (e.g. shares, debentures, promissory notes, bonds, options, forward contracts, swaps, debt)	6508	6536
LOSS: Financial instruments - Unlisted (e.g. shares, debentures, promissory notes, bonds, options, forward contracts, swaps, debt)	6509	6537
Intangible assets (e.g. goodwill, trade marks, patents, copyrights, franchises, licences, fiduciary, usufructuary and other like interests)	6510	6538
LOSS: Intangible assets (e.g. goodwill, trade marks, patents, copyrights, franchises, licences, fiduciary, usufructuary and other like interests)	6511	6539
Foreign currency	6512	N/A
LOSS: Foreign currency	6513	N/A
Plant and machinery	6514	6540
LOSS: Plant and machinery	6515	6541
Other moveable property used for business purposes (e.g. aircrafts, boats, motor vehicles, office furniture and equipment)	6516	6542
LOSS: Other moveable property used for business purposes (e.g. aircrafts, boats, motor vehicles, office furniture and equipment)	6517	6543
Other moveable property not used for business purposes excluding personal use asset (e.g. Krugerrands, personal use boats < 10 metres and personal use aircraft < 450 kg)	6518	6544
LOSS: Other moveable property not used for business purposes excluding personal use asset (e.g. Krugerrands, personal use boats < 10 metres and personal use aircraft < 450 kg)	6519	6545

SCHEDULE 4: TOTAL TAXABLE FOREIGN INCOME

To enable SARS to calculate the credit amount allowable in respect of foreign tax paid on foreign income received during the current year of assessment, you need to calculate the taxable income / loss in respect of the following categories of income:

- Foreign rental income;
- Foreign trading income;
- Foreign services provided;
- Foreign annuities;

- Other foreign income (excluding investment income, capital gains and foreign farming activities); and
- Net income from a Controlled Foreign Company.

Foreign currency translation

A resident who derives income measured in a foreign currency must, in translating the taxable income to Rand, make an election between either -

- the spot rate; or
- the average exchange rate for the relevant year of assessment.

The average exchange rates can be obtained from the SARS website www.sars.gov.za,<Forms>,<Income Tax>,<Average exchange rates for a year of assessment>.

SCHEDULE 5: OTHER LOCAL RECEIPTS AND ACCRUALS NOT ELSEWHERE DECLARED

Executor's, curator's or similar fees, royalties, honoraria and any payment, accrual or receipt, from whatever source. Particulars of the nature and origin of the income must be set out on a separate schedule.

SCHEDULE 6: RECEIPTS AND ACCRUALS WHICH YOU CONSIDER NON-TAXABLE

Complete Schedule 6 on page 10 of the return if you received any income which you consider not taxable and furnish full details of the nature and amounts received.

SCHEDULE 7: FARMING OPERATIONS

All income derived directly from pastoral, agricultural or other farming operations will constitute farming income. Income from farming activities will, besides including the ordinary farming income, also include, for example, grazing fees derived by a person who carries on farming operations, recoupment of wear and tear allowed on vehicles, implements and machinery used to carry on farming activities and subsidies received by farmers, whether in respect of farm products or capital expenditure on dams. Stakes won by a farmer as a result of racing horses bred by him / her and a fixed rental income received in respect of farming property will, for example, not constitute farming income.

NOTE:
Income derived from foreign farming activities must be recorded separately. Refer to Schedule 7 of your return.

PRIVATE CONSUMPTION

If livestock has been utilised for private consumption, an amount equal to the cost price of such livestock or produce must be included in the income.

LIVESTOCK SOLD ON ACCOUNT OF DROUGHT, STOCK DISEASE, ETC.

Furnish -

- the names and addresses of persons to whom you sold livestock and / or produce or to whom you gave livestock and / or produce in exchange;
- a description of the livestock or produce; and
- the amount received.

The proceeds in respect of the sale of livestock -

- on account of conditions of drought, stock disease or damage to grazing by fire or plague; or
- by reason of your participation in a livestock reduction scheme organised by the Government, are taxable and must be declared as income.

The Act provides that, subject to certain conditions, you may choose to deduct the cost of livestock purchased in replacement, either:

- in the year of assessment during which you purchased such livestock; or
- in the year of assessment during which the original livestock was sold.

If you wish for the cost of livestock purchased in replacement of livestock sold under special conditions to be deducted in the year of sale (i.e. your assessment for that year will be reduced) you must notify SARS of your choice for the year in which the sale took place and furnish full particulars of the livestock sold and the reason for the sale. The concession will only be granted if you comply with the following conditions:

- You must replace livestock sold on account of drought or stock disease or damage to grazing by fire or plague within four years after the close of the year of assessment during which the livestock was sold.
- You must replace livestock sold by reason of your participation in a livestock reduction scheme organised by the Government within nine years after the close of the year of assessment during which the livestock was sold.

LIVESTOCK SALES DEPOSITED WITH LAND BANK

Where a farmer has disposed of livestock on account of drought on or after 1 March 1982 and the whole or any portion of the proceeds of such disposal has been deposited in an account in the name of the farmer with the Land Bank of South Africa, the amount of such deposit will be deemed not to be gross income for the year of assessment. Only that portion of the proceeds deposited within 3 months after receipt thereof will qualify for this concession.

An amount, being the whole or any portion of the proceeds so deposited, will;

- if it is withdrawn within 6 months after the last day of the year of assessment in which such disposal took place, be deemed to be gross income on the date of such disposal; or
- if it is withdrawn after a period of 6 months, but within 6 years after the last day of the year of assessment in which such disposal took place, be deemed to be gross income on the date of such withdrawal; or
- in the event of a farmer's death or insolvency before the expiration of the 6 year period, be deemed to be gross income on the day before the date of the farmer's death or insolvency, as the case may be; or
- if it is not withdrawn within the 6 year period, be deemed to be gross income on the last day of the 6 year period.

You cannot make use of this concession if you have elected that the cost of livestock purchased in replacement be allowed as a deduction in the year of assessment the livestock was sold on account of drought.

The following may be used as a guide to determine your income / loss from farming operations and to complete Schedule 7 of your return.

NOTES:

- If your spouse has conducted farming operations for his / her personal account, he / she has to submit a separate return.
- Local and foreign farming activities must be reported separately.

(a) Livestock and produce sold or bartered	**R**
(b) Livestock and produce donated	**R**

Furnish -

- the names and addresses of persons to whom livestock and / or produce was donated;
- a description of the livestock or produce donated; and
- the market value thereof.

(c) Livestock and produce removed from RSA	**R**

If you removed livestock or produce from the Republic for purposes other than sale, furnish -

- a description of the livestock or produce removed; and
- the market value thereof.

(d) Value of livestock and produce consumed by yourself, your family and domestic servants	R

Furnish the number of persons in your family, the number of domestic servants and the estimated value (based on the cost of production) of the livestock and produce consumed.

(e) Recoupment of machinery, implements, utensils and articles brought into use on or before 1 July 1988	R
(f) Subsidies received	R

Furnish -

- the type of subsidy received, e.g. for bond interest, dams, fencing, soil erosion, approved bulls, etc.; and
- the amount received in respect of each type of subsidy.

(g) Any other farming income, including a withdrawal from Land Bank account of the amount invested in respect of livestock sold on account of drought	R

Furnish details of any other farming income not specifically mentioned above - this includes bonuses from agricultural co-operatives. Rental received from farming property must be reflected as rental income in Schedule 2.

(h) Recoupment of expenditure incurred in respect of development and improvements	R

Did you or any person other than an employee occupy, during the year of assessment, any farm building, the cost of which has previously been allowed as a deduction for tax purposes?

(Yes or No)		**If "yes", furnish full particulars on a separate schedule.**

The total amount received or accrued in respect of moveable assets must be included under this section as a recoupment.
The total amount recouped will be included in your income, except where a balance in respect of expenditure on development and improvements has been brought forward from the previous year of assessment. In such a case the amount recouped will be set off against the relevant balance and only the excess, if any, will be brought into account as farming income.

The following information in respect of such assets sold, given in exchange or donated must be furnished on a separate sheet:

- description of asset;
- original purchase price;
- date sold, exchanged or donated; and
- selling price or market value of asset given in exchange or donated.

NOTE:
The total amount of the recoupment in respect of machinery, implements, utensils or articles brought into use on or after 1 July 1988, must be included under part (e) of this section.

TOTAL (A) = Total (a) to (h). Carry this amount to Schedule 7 of your return.	R

FARMING EXPENSES - N.B. Expenses in respect of your dwelling or household must be excluded.

(a) Rent	R

Furnish -
- a description of the property or properties in respect of which rent was paid;
- the names and addresses of persons to whom payment was made; and
- the amount which was paid in respect of each property.

(b) Interest	R

State -
- names and addresses of persons or institutions to whom payment was made;
- the amount of each loan;
- rate of interest payable on each loan;
- purpose for which each loan was utilised; and
- the amount of interest paid on each loan.

CAPITAL REPAYMENTS MUST NOT BE INCLUDED.

(c) Rates and taxes	R

State -
- nature of the taxes; and
- the amount paid.

INCOME TAX MUST NOT BE INCLUDED.

(d) Seed and fertiliser	R

State -
- names and addresses of persons or firms from where you purchased; and
- the amounts paid to each group.

(e) Cash wages paid to farm employees	R

Furnish -
- number of employees normally employed;
- number of casual employees; and
- the actual amounts paid to each group.

Do not include wages of domestic servants.
Wages paid in respect of improvements must not be claimed under cash wages, but under improvements.

(f) Rations purchased for farm employees	R

Furnish the names and addresses of persons or firms from whom you purchased rations and the amounts paid.
Do not include the value of farm produce produced by you or stock bred or purchased by you which has already been included.

(g) Expenses, i.e. motor vehicles, machinery and implements

(i) Fuel, oil and grease	
(ii) Repairs and maintenance	
(iii) Insurance and licences	
(iv) Wear and tear allowance	
(v) Deduction - machinery and implements	
(vi) Other (specify on separate schedule)	
Sub-total	
Less: Private use of vehicles	
TOTAL	**R**

Repairs

State the nature of the repair. This part only refers to repairs to vehicles, machinery and implements. Repairs to other items must be shown under item (j) of this section.

Wear and tear allowance of an asset owned by you or acquired in terms of an instalment credit agreement

This allowance may only be claimed in respect of motor vehicles (of which the exclusive or primary function is the transportation of people), caravans, aircraft (except an aircraft used solely or mainly for crop-spraying), office furniture or office equipment used for farming purposes.
The following information must be furnished:

- Particulars and value of assets on which wear and tear is claimed and which were on hand at the beginning of the year of assessment;
- Dates, description and purchase price of assets purchased or received in exchange during the year of assessment; and
- Dates and descriptions of assets sold, exchanged, traded in or scrapped during the year of assessment and the amounts received for such assets.
- The original date of purchase and cost price of each asset must be stated.

Deduction - machinery and implements owned by you or acquired in terms of an instalment credit agreement

A deduction in respect of machinery, implements and utensils brought into use for farming purposes for the first time, will be allowed as follows:

- 50% of the cash cost of the asset in the year of assessment the asset is brought into use;
- 30% of such cost in the following year of assessment; and
- 20% of such cost in the third year of assessment.

This deduction also applies to an aircraft used solely or mainly for the purpose of crop-spraying. The cash cost of a new asset, acquired to replace an asset which was damaged or destroyed, must be reduced by the amount recouped in respect of the latter asset.
The amount recouped is, therefore, not included in the farmer's income.

(h) Finance charges	**R**
(i) Cost of material and / or contract price i.r.o. eradication of noxious plants and prevention of soil erosion	**R**

- Only the actual costs which were specifically incurred in eradicating noxious plants or soil conservation must be claimed.
- Wages, rations, fuel, materials, etc., which have already been claimed under other headings must not again be claimed here.
- If the work was undertaken by independent contractors, the names of the contractors and the amounts paid to them must be furnished. The nature of the work done by yourself or the contractor must be described.
- If the work includes the building of dams, weirs or the erection of fences, explain why the expenses are claimed under this part.

(j) Repairs (excluding those claimed under item (g)(ii) above)	R

Furnish -
- the nature of the repairs; and
- the cost of the work done.

Only repairs to buildings (except your private dwellings or the dwellings of persons who are not employees), windmills or pumping plant, etc. or expenses for the maintenance of other assets used for farming purposes may be claimed. Wages paid to own farm employees must not be included in this part.

(k) Other expenses (specify on a separate schedule)	R
TOTAL (B) = Total (a) to (k). Carry this amount to Schedule 7 of your return.	**R**

EXPENDITURE ON DEVELOPMENTS AND IMPROVEMENTS

(a)	Dipping tanks	R
(b)	Dams, irrigation schemes, boreholes and pumping plant	R
(c)	Fences	R
(d)	Erection of or additions or improvements to farm buildings, dwellings for employees	R
(e)	Planting of trees, scrubs or perennial plants for the production of grapes or other fruit, nuts, tea, coffee, hops, sugar, vegetable oils or fibres and the establishment of an area for such purposes	R
(f)	Building of roads and bridges and used in farming operations	R
(g)	Carrying of electric power from the main transmission lines to the farm apparatus	R
TOTAL		**R**

The following details must be furnished separately in respect of development and improvement works;
- description of the work undertaken; and
- how the expenses were compiled, i.e. what amounts were spent on wages, materials, etc. If the work was undertaken by an independent contractor, the name and address of the contractor and the amount paid to him / her must be furnished.

.
Wages claimed under item (e) must not be claimed again.
Housing erected for employees does not include housing for your relatives.

TOTAL (C) = Total (a) to (g). Carry this amount over to Schedule 7 of your return.	**R**

LIVESTOCK PURCHASED AND RECEIVED IN EXCHANGE

Example:

Farming income		R 5 000
Closing stock - Livestock		R 1 500
		R 6 500
LESS: Opening stock - Livestock	R 1 000	
Livestock purchases	R 8 000	R 9 000
Loss on livestock		R 2 500

The loss of R2 500 is not allowable and is carried forward to the following year of assessment.
- This provision is not applicable if the farmer can show that he / she no longer held and had not disposed of the livestock which he / she acquired on or after 31 May 1988.
- If the farmer can prove that, for example, due to drought, the fair market value of his / her livestock at the end of the year of assessment is less than the loss on livestock as shown above, together with the value of opening stock, such loss is reduced by the difference.

Example:

Amount to be carried forward (loss on livestock)	R 2 500
Plus:	
Opening stock of livestock	R 1 000
	R 3 500
Less:	
Fair market value of closing stock	R 3 000
Allowable	R 500

The amount of R2 500 is reduced to R 2 000.

STANDARD CLASSIFICATION AND STANDARD VALUES OF LIVESTOCK

Deaths during the year	Standard Classification		Standard value (Rands)	Own value (Rands)	Number on hand	Total value (Rands)
	CATTLE	Bulls	50			
		Oxen	40			
		Cows	40			
		Tollies and heifers: 2 – 3 years	30			
		Tollies and heifers: 1 - 2 years	14			
		Calves	4			
	SHEEP	Wethers	6			
		Rams	6			
		Ewes	6			
		Weaned lambs	2			
	GOATS	Fully grown	4			
		Weaned kids	2			
	HORSES	Stallions, over 4 years	40			
		Mares, over 4 years	30			
		Geldings, over 3 years	30			
		Colts and fillies: 3 years	10			
		Colts and fillies: 2 years	8			
		Colts and fillies: 1 year	6			
		Foals, under 1 year	2			
	DONKEYS	Jacks, over 3 years	4			
		Jacks, under 3 years	2			
		Jennies, over 3 years	4			
		Jennies, under 3 years	2			
	MULES	4 years and over	30			
		3 years	20			
		2 years	14			
		1 year	6			
	OSTRICHES	Fully grown	6			
	PIGS	Over 6 months	12			
		Under 6 months	6			
	POULTRY	Over 9 months	1			
	CHINCHILLAS	All ages	1			

TOTAL (D) Total value of livestock on hand. Carry this total over to Schedule 7 of your return.	**R**

PRODUCE (gathered and marketable) on hand, value at cost of production or market value, whichever is the lower		
PRODUCE	QUANTITY	TOTAL VALUE (RANDS)
TOTAL (E) Total value of produce on hand. Carry this total over to Schedule 7 of your return.		**R**

ELECTION OF LIVESTOCK VALUES

Have you already exercised the COMPULSORY election in this regard? "Yes" or " No" ☐

If "NO", complete the following declaration:

I hereby elect the following classification and values and understand that my election may be varied only with the consent and approval of the Commissioner for the South African Revenue Service.

Mark with an "X":

☐ (a) The standard classification and standard values as fixed by the Regulations under the Income Tax Act and set out above.

☐ (b) The standard classification, but at my own values as detailed above.

☐ (c) My own classification and my own values, as per attached statement.

Date: ______________ Signature: ______________

ELECTION IN RESPECT OF EQUALISED NORMAL TAX RATES

If you elect to have your normal tax calculated at equalised tax rates and you have not previously exercised such an election, such an election must be made in writing:

I, ... hereby elect that, with effect from the

year of assessment ended ...., my normal tax be calculated at the equalised tax rate in terms of the provisions of paragraph 19 of the First Schedule to the Income Tax Act.

I understand and accept that this decision is binding for all future years of assessment.

Date: ______________ Taxpayer / Executor / Trustee ______________

1. N.B. - This election must be exercised only if you wish to adopt the system of equalised normal tax rates. If normal tax is to be calculated at ordinary rates the election need not be made.
2. The election must be made by the person who is carrying on farming operations. In the case of a deceased or insolvent person, the executor or trustee, as the case may be, must make the election.

ASSETS AND LIABILITIES

Declare the total amounts in respect of local and foreign assets and liabilities respectively on page 12 of your return and attach a list with a description of all individual foreign assets to page 13 of your return. Should there be a discrepancy in the assets compared to the prior year, it is suggested that an explanation of such discrepancy be attached to your return.

Indicate the gross turnover as reflected on your financial statement next to the code 4501.

ADDITIONAL INFORMATION REQUIRED

Should you reply in the affirmative to any of the questions in this Schedule of your return, you need to submit the following information:

1. **Acquisition of fixed property**
   Submit a schedule with a description and location (address) of the asset, as well as the purchase price thereof.

2. **Disposal of fixed property**
   Submit a schedule with a description and location (address) of the asset disposed of and indicate the amount received in respect of the disposal.

3. **Acquisition of moveable assets such as a motor vehicle, caravan, boat, etc.**
   Submit a schedule with a description of all the assets of which the market value exceeds R30 000 and indicate the individual purchase price of such assets.

4. **Disposal of moveable assets**
   Submit a schedule with a description of all the assets of which the market value exceeds R30 000 and indicate the amount received in respect of each disposal.

5. **Donations received**
   Submit a schedule of all donations received in excess of R30 000, with a description of the donation, the value thereof and the name, address and identity number of the donor.

6. **Donations made**
   Submit a schedule of all donations made in excess of R30 000, with a description of the donation made, the value thereof and the name, address and identity number of the donee.

7. **Inheritance received**
   Submit a schedule detailing all bequests, the value of which exceeds R30 000, together with a description and value of each such bequest.

8. **Beneficiary of a trust**
   Submit a schedule reflecting the name, registered address and income tax reference number (if applicable), as well as the name of the country where the trust is registered.

9. **Transfer of funds**
   Submit a schedule detailing the amounts transferred and how they were utilised.

10. **Foreign currency**
    Submit a schedule detailing the amount and the reason why you consider it a non-taxable amount.

11. **Transfer pricing**
    Furnish details indicating the gross amount received / accrued from international transactions, the nature of such amount and the relationship.

12. **Insurance policies ceded**
    Furnish the following details:
    - Policy number
    - To whom or by whom the policy was ceded
    - Valuation certificate from the insurer on the date of cession
    - Amount of consideration received or paid in consequence of the cession.

13. **Shares in private companies or any interest in a close corporation**
    Furnish the following:
    - Name of company / close corporation
    - Number of shares held on 28 February 2005
    - Particulars of any advance, loan (including any form of credit) or payment made by such company to you or on your behalf.

15. **Leased assets**
    Attach a copy of the lease agreement to your return.

16. Income received or accrued to your spouse
Furnish the amount received / accrued and nature of donation made / service performed and / or the extent of participation in the business.

17. Selection in terms of par. 65 and / or par. 66 of the Eighth Schedule to the Income tax Act.
Furnish the following details:
- A description of the asset disposed of
- A description of the replacement asset
- The dates of acquisition and disposal of the original asset.
- The purchase price of the original asset
- The proceeds at disposal of the original asset

For more information refer to the Explanatory Memoranda on the Revenue Laws Amendment Bill (71 of 2003), which is available on the SARS website www.sars.gov.za, or contact your local SARS office.

18. (b) Learnership agreements Section 12H

Furnish the amount recouped i.r.o. each learner and copies of the IT 180 pertaining to such learners i.r.o. such amounts recouped.

19. Assets from non-residents

Attach a schedule with a description and location (address) of the immoveable property to your return.

20. Capital Gains
Furnish the information requested in the return.

DETAILS OF PERSON COMPLETING THE RETURN

If the return and supporting schedules were prepared by another person, such person must complete and sign the schedule on page 14 of the return.

TAX COMPUTATION

Summary of information furnished in your return to assist you in calculating you tax liability

GENERAL INFORMATION

If you received foreign income the allowable deductions in respect of DONATIONS, RETIREMENT ANNUITY FUND CONTRIBUTIONS and MEDICAL AND DENTAL EXPENSES will be proportioned in the ratio your foreign and local income bears to the total income before offsetting the above-mentioned deductions. For further details refer to the relevant Interpretation Note on the SARS website www.sars.gov.za or contact your local SARS office.

Statutory rates of tax applicable to individuals	
WHERE THE TAXABLE INCOME -	
Does not exceed R80 000	18% of each R1 of the taxable income
Exceeds R80 000 but does not exceed R130 000	R14 400 plus 25% of the amount by which the taxable income exceeds R80 000
Exceeds R130 000 but does not exceed R180 000	R26 900 plus 30% of the amount by which the taxable income exceeds R130 000
Exceeds R180 000 but does not exceed R230 000	R41 900 plus 35% of the amount by which the taxable income exceeds R180 000
Exceeds R230 000 but does not exceed R300 000	R59 400 plus 38% of the amount by which the taxable income exceeds R230 000
Exceeds R300 000	R86 000 plus 40% of the amount by which the taxable income exceeds R300 000

Tax rebates for 2006
Rebates: primary rebate R6 300 - 65 years and older R 4 500

CALCULATION OF TAX LIABILITY **Note: If you received Foreign Income refer to paragraph under "general information" on page 35 before calculating your tax liability.**		
INCOME		
All items reflected in part 3 of your return, but excluding non-taxable amounts		R
Local investment income (Schedule 1, part 2.1)		R
Foreign interest (Schedule 1, part 2.2)		R
Foreign dividends (Schedule 1, part 2.3)		R
Local rental income (Schedule 2)		R
Other local income (Schedule 5)		R
Sub-total		**R**
LESS: EXEMPTIONS Exempt investment income (R15 000 if you are under the age of 65 years and R22 000 if you are 65 years and older). Refer to the example in the paragraph dealing with investment income to determine the apportionment of the exemption in respect of local and foreign investment income.		**R**
Sub-total		**R**
LESS: DEDUCTIONS		
Pension fund contributions (parts 5.3 / 5.4 of your return)		R
Retirement annuity fund contributions (parts 5.5 / 5.6 of your return)		R
Any other deductions not specifically addressed, e.g. travelling, but excluding donations and medical deductions (parts 5.9, 5.10 and 5.11 of your return)		R
Sub-total		**R**
ADD: (IF LOSS, DO NOT INCLUDE IN CALCULATION)		
Calculated capital gain (Schedule 3)	R..................	
Less: annual exclusion (R10 000)	R..................	
Sub-total (Aggregate capital gain)	R..................	
Aggregate capital gain x 25% (inclusion rate)		R
Total taxable foreign income (Schedule 4 - Excluding foreign investment income)		R
Sub-total		**R**
LESS:		
Donations (part 5.2 of your return)		R
Sub-total (a)		**R**
LESS:		
Medical (part 5.1 of your return)		
Medical deduction code 4008	R..................	
Less: 5% of sub-total (a)	R..................	R
Allowable medical deduction	R..................	
OR Medical deduction code 4009 (handicapped person)	R..................	
Less: Limitation	R500	R
Allowable medical deduction	R..................	R
OR: If you are older than 65 years there will be no limitation		**R**
TAXABLE INCOME		
Normal tax on taxable income (see tax rates, page 35 of this brochure)		R
LESS:		
Rebates (see page 35 of this brochure)		R
TOTAL TAX PAYABLE		**R**
LESS:		
SITE (refer to the SITE (4101) column in part 4 of your return)		R
PAYE (refer to the PAYE (4102) column in part 4 of your return)		R
Foreign taxes paid (refer to page 6 of this brochure for limitations)		R
Provisional tax paid (if applicable)		R
TAX PAYABLE BY / TO YOU		**R**

SCHEDULE OF MEDICAL EXPENSES NOT SUBMITTED TO / OR RECOVERED FROM YOUR MEDICAL FUND

DETAILS OF MEDICAL EXPENSES NOT SUBMITTED TO / RECOVERED FROM YOUR MEDICAL FUND

Please note that expenditure will not be considered if this schedule is not completed **in full** and attached to page 13 of your return.

Date	Supplier / Doctor	Prescription medication Yes / No	Was the claim submitted to the fund? Yes / No	Reason for non-submission to medical fund / Reason for non-reimbursement by medical fund	Amount
				TOTAL:	

If space provided is not sufficient, an additional schedule must be attached.