

Information on Income Tax  
for Salaried Employees

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2006

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## BACKGROUND

This brochure has been provided to assist you with the completion of your Personal Income Tax (IT12S) return. For easy reference, each section in this brochure is numbered to correspond with the same section in your IT12S form. Please read the brochure in conjunction with your IT12S form and your IRP5 / IT3(a) certificate(s).

Should you experience any difficulty in completing this form, you are welcome to make contact with your local SARS office. Visit us, phone us or write to us. We are here to help you.

There are four main categories of information that you are required to provide:

1. Details of type of income received or accrued (you will have received these from your employer / fund / institution, e.g. IRP5 / IT3(a);
2. Details of additional income;
3. Details of deductions claimed;
4. Additional financial information.

### NOTE:

If you received any income, from farming or business activities, please request an IT12BU return from your local SARS office, and request the SARS office to change the status of your registered taxpayer details accordingly.

**Do not include any payments or correspondence which does not relate to this return.**

## YOUR SIGNATURE

### The return must be signed by you

If the return is not signed by you it will be considered as not having been received and will be returned to you. This could result in penalties for the late rendition of your return.

### Completion of the return

If you have received a return, you are required to complete and submit it to your local SARS office, irrespective of whether or not your net remuneration exceeded R60 000 per annum.

### Late rendition and non-submission of your return

You are obliged to make a full and accurate disclosure of all relevant information. Misrepresentation, neglect, furnishing false information, or non-submission of your return could lead to penalties and / or additional assessments (together with interest), and / or prosecution.

### 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 days after the date of the assessment.

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

### NOTE:

Should you require any further assistance, contact your local SARS office, or visit the SARS website ([www.sars.gov.za](http://www.sars.gov.za)).



## SECTION 1: PERSONAL PARTICULARS

The form has already been pre-printed with your details. Check to ensure that they are correct. If they have changed, are incorrect, or are omitted, please complete the white areas of page 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.

### SECTION 1.15 BANKING DETAILS

It is vital that your banking details reflected on your 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 Section 1.15. Electronic transfers are effected by utilising the branch number of your bank, and not the name of the bank.

#### NOTE:

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



## SECTION 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 page 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 page 8 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.



## SECTION 3: ADDITIONAL FINANCIAL INFORMATION

(not used in the determination of taxable income)

Should you reply "Yes" to any of the questions in Section 3 of your return, you need to submit the following information:

### 3.1 Acquisition of fixed property

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

### 3.2 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.

### 3.3 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.

### 3.4 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.

### 3.5 Donations received

Submit a schedule detailing 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.

### 3.6 Donations made

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

### 3.7 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.

### 3.8 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.

## SECTION 4: INCOME RECEIVED AND / OR ACCRUED



### GENERAL INFORMATION

As from the 2002 tax year, all South African residents will be taxed on their worldwide income - although certain categories of income activities undertaken outside South Africa will be exempt from South African tax. "Resident", in terms of the Income Tax Act means any -

- person who is ordinarily resident in the Republic; or
- person who is not at any stage during the relevant year of assessment ordinarily resident in the Republic, but who -
  - is physically present in the Republic for a period exceeding 91 days (or part days) during the relevant year of assessment, as well as during each of the five years preceding the year of assessment; and
  - was physically present in the Republic for a period exceeding 915 days (or part days) in aggregate during the preceding five years of assessment,

in which case that person will be a resident with effect from the first day of the relevant year of assessment, but does not include any person who is deemed to be exclusively a resident of another country for purposes of the application of any agreement entered into between the governments of the Republic and that other country for the avoidance of double taxation.

Foreign taxes paid by these residents will, on receipt of proof of payment of such taxes, be considered as a credit against South African tax liability.

### SECTION 10(1)(o)(ii) EXEMPTION

Section 10(1)(o)(ii) exempts from income tax any remuneration received or accrued to a person in respect of services rendered outside the Republic, for or on behalf of any employer, if that person was outside the Republic -

- for a period or periods exceeding 183 full days in aggregate during any 12-months period commencing or ending during that year of assessment; and
- for a continuous period exceeding 60 full days during that period or periods.

Should you have received income which you consider exempt as described above, you need to declare the amount received in Schedule 6 "Receipts and accruals which you consider non-taxable".

### NOTE:

Proof of entry into, and exit from, the Republic must be available on request, if required.

## SECTION 4.1 TYPES OF INCOME

Please indicate the type of income received and / or accrued to you by marking the “yes” or “no” block in part 4.1, and complete the relevant part 4 and / or Schedules 1 to 6 on pages 7 to 10 of your return.

### NOTE:

If you received income from farming or business, please request an IT12BU return from your local SARS office and request the SARS office to change the status of your registered taxpayer details accordingly.

## SECTION 4.2 MAIN SOURCE OF INCOME

Use the undermentioned table (arranged alphabetically for ease of reference) to determine the sector in the economy from which your main income is derived and fill this in in the two blocks next to the number 35 in part 4.2.

### EXAMPLE:

- You receive salary income from a retail shop. You would then have to select code 22 (Retail trade) from the list below. Therefore, your main income source code will be 3522.
- Should you be in receipt of pension you need to select code 25 (Financing, insurance, etc.). Therefore, your main income source code will be 3525.
- If you are employed by, for example, one of the departments of the national or local government, you need to select code 26 (Public administration). Therefore, your main income source code will be 3526.

DESCRIPTION	SOURCE CODE	DESCRIPTION	SOURCE CODE
Agencies and other services	34	Mining and quarrying	02
Agriculture, forestry and fishing	01	Other manufacturing industries	18
Bricks, ceramics, glass, cement and similar products	11	Paper, printing and publishing	08
Catering and accommodation	23	Personal and household services	32
Chemicals and chemical, rubber and plastic products	09	Public administration	26
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
Machinery and related items	14	Vehicles, parts and accessories	15
Medical, dental and other health and veterinary services	29	Wholesale trade	21
Metal	12	Wood, wood-products and furniture	07
Metal products (except machinery and equipment)	13		

## SECTION 4.3 INCOME SHOWN ON YOUR IRP5 AND / OR IT3(a)

### Are you in receipt of an IRP5 or IT3(a) in respect of income received?

Complete Section 4.3 of your return by transcribing the information reflected on your IRP5 or IT3(a) certificate(s).

#### Example of the income section of an IRP5 / IT3(a) certificate

CODE	DESCRIPTION	RF IND	AMOUNT
3601	Salary	Y	100 000
3605	Annual payment	N	20 000
3701	Travel allowance	N	40 000
3713	Other allowance taxable	N	3 000
3901	Gratuity	N	10 000
3705	Subsistence non-taxable	N	1 000

All the items need to be reflected in part 4.3 of your return.

### Did you receive a lump sum payment from your employer or your pension / provident fund?

Complete Section 4.3 of your return by extracting the information reflected on the applicable IRP5 and / or IT3(a). The exempt portion will be calculated by SARS.

### Did you receive income from a retirement annuity fund?

Complete Section 4.3 of the return by extracting the information reflected on the applicable IRP5 and / or IT3(a).

#### NOTE:

All income items reflected on an IRP5 / IT3(a) must be reflected in Section 4.3 of the return. This includes salary income, gratuities, lump sum payments, annuities, etc.

### Gross retirement-funding income

Should the section on your IRP5 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 4.3 on your return.

#### Example of the gross remuneration section of an IRP5 / IT3(a) certificate

CODE	DESCRIPTION	AMOUNT
3695	Gross taxable annual payments	
3696	Gross non-taxable income	
3697	Gross retirement-funding income	XXXXXXXX
3698	Gross non-retirement-funding income	
3699	Gross remuneration	

→ This amount must be completed in part 4.3 of your return.

## SECTION 5: TAX CREDITS AND REASONS FOR NON-DEDUCTION

If you are in receipt of more than one IRP5 / IT3(a) certificate, the information in respect of each certificate must be recorded.

#### Example of the Employees Tax deduction section of an IRP5 certificate

CODE	DESCRIPTION	AMOUNT
4101	Standard Income Tax on Employees - SITE	4 500.00
4102	Pay As You Earn - PAYE	21 888.68
4103	Total Employees tax	26 388.68

### Information required in respect of IRP5

Record the IRP5 number, employer's (PAYE) reference number, gross remuneration (3699) and the Standard Income Tax on Employees (SITE) and Pay As You Earn (PAYE) (see example of SITE and PAYE above).

### Information required in respect of IT3(a)

Complete the IT3(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 (see example of the code for non-deductions below).

CODE	DESCRIPTION
02	Earned less than tax threshold
03	Independent contractor

Reason Code

The IRP5 / IT3(a) number and the Employer's (PAYE) reference number can be found on the top left hand side of your IRP5 / IT3(a) certificate, whereas the gross remuneration (3699) can be found on the gross remuneration section of your IRP5 / IT3(a).



## SECTION 6: DEDUCTIONS

### SECTION 6.1 MEDICAL AND DENTAL EXPENDITURE

#### SECTION 6.1.1 MEDICAL AND DENTAL CONTRIBUTIONS

Claim the contributions to your Medical Aid Scheme. This would normally be reflected next to code 4005 on your IRP5.

Please note, should a medical benefit be reflected next to code 3810 on your IRP5, it represents the fringe benefit in respect of medical contributions. This means that the contributions to the medical fund are paid on your behalf by your employer. As your employer is in fact paying the medical contributions, you may not claim this amount. Only amounts actually paid by yourself may be claimed and will qualify to be considered as a deduction.

#### SECTIONS 6.1.2 - 6.1.3 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;
- Medical expenses incurred and paid outside the Republic.



## SECTION 6.1.4 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.).

## SECTION 6.1.5 HANDICAPPED PERSON

A "HANDICAPPED PERSON" is a blind person, a deaf person, or a person who, as a result of a permanent disability, requires a wheelchair, calliper or crutch to assist him or 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 is impaired to such an extent that he or she cannot use hearing 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 an annual basis.

**The allowable medical deduction is subject to the following limitations:**

### 1. 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, i.e.:

A taxpayer receives a salary of R87 000.00 from which an amount of R6 525.00 is deducted in respect of pension contributions. The taxpayer also receives pension income of R36 000.00 per annum.

Income - Salary	87 000.00
Less: Pension contributions	<u>6 525.00</u>
	R 80 475.00
Plus: Pension income	<u>36 000.00</u>
	R116 475.00

Limitation of medical deduction:

$$\begin{aligned} & \text{R116 475.00} \times 5\% \\ & = \text{R } 5\,824.00 \end{aligned}$$

Thus: The first R 5 824.00 of the medical expenses will, therefore, not be allowed as a deduction. All expense must, however, be claimed, as the calculation will be done by SARS.

## 2. TAXPAYERS 65 YEARS AND OLDER

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

## 3. HANDICAPPED PERSON

Where you, your spouse, qualifying child or stepchild is a "handicapped person", that portion of expenses referred to above which exceeds R500 qualifies for deduction. In other words, the first R500 does not qualify as a deduction.

### **YOUR CLAIM WILL NOT BE CONSIDERED IF THE FOLLOWING DOCUMENTATION IS NOT ATTACHED TO YOUR RETURN TO SUBSTANTIATE YOUR CLAIM:**

- Proof of contributions paid to your medical fund, by yourself.
- 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 19 of this brochure and attach to page 9 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.

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

**Receipts must be available on request to substantiate your claim.**

## **SECTION 6.2 DONATIONS**

### **Did you make any donations?**

List the donations made and attach the original Section 18A receipts to page 9 of your return. Claim the total amount, as the allowable deductions will be determined programmatically by SARS.

## **SECTIONS 6.3 - 6.8 PENSION FUND, RETIREMENT ANNUITY FUND, PROVIDENT FUND AND INCOME PROTECTION CONTRIBUTIONS**

### **Did you contribute to a pension fund or provident fund?**

Complete sections 6.3 and / or Section 6.7 by using the information reflected on your IRP5(s).

Should you have made any arrear pension contributions, the amount must be claimed at section 6.4 of the return and proof of such amounts claimed must be attached to enable SARS to consider such claims.

### **NOTE:**

The pension contributions will be limited to 7.5% of your retirement-funding income (3697).

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.

### **Did you contribute towards a retirement annuity fund?**

Use the amount reflected on the certificate received from the applicable institution to complete Section 6.5. Contributions on the IRP5 will no longer be considered as a deduction.

#### **Your claim will be limited to the greater of either:**

- 15% of taxable income, excluding income from retirement-funding employment. (This amount will be reflected next to the code 3698 on your IRP5.) 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**
- R 3 500 less allowable pension fund contributions, **or**
- R 1 750.

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

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

Arrear retirement annuity fund contributions must be claimed at section 6.6 of the return.

#### **NOTE:**

Only a member's contributions during the year of assessment will be considered as a deduction, i.e. you may not claim contributions made on behalf of a third party (e.g. wife, child).

### **Did you make any Income Protection Contributions?**

Use the amount reflected on the certificate received from the applicable institution to complete section 6.8.

#### **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 where the amount payable in terms of the policy constitutes or will constitute income as defined.

## **SECTION 5.9 TRAVELLING EXPENSES**

Please turn to page 12 of this brochure to assist you in completing your travelling claim on page 6 of your return. Enter the result of the calculation in section 6.9 of your return.

## **SECTION 5.10 SUBSISTENCE**

### **Did you receive a subsistence allowance?**

Should your allowance be reflected as code 3704 (local) and / or 3754 (foreign), you need to determine the amount of your claim, based on the actual amount expended or the amounts deemed to be expended i.t.o. section 8(1)(c)(ii) of the Income Tax Act.

Claim the amounts expended in section 5.10 and attach a schedule detailing the following:

- The period (dates) in respect of which expenses are claimed;
- The destination where the money was spent; and
- The total number of days for which expenditure is claimed.
- 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), it is a non-taxable allowance and will, therefore, not be included in the determination of your tax liability. This being the case, you need not calculate your claim and enter an amount next to code 4017 (local) and / or 4019 (foreign), in part 6.10.1 and / or 6.10.2 of your return.

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 for local and foreign expenditure must be reflected next to code 4017 (local) and / or 4019 (foreign) on your return respectively.

**SECTION 6.11 OTHER EXPENSES**

If you incurred any other expenses, please provide full details of such expenses and enter the amount of your claim in section 6.11.

**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:

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

Where A = The area in m<sup>2</sup> of the area specifically equipped and used regularly and exclusively for trade, and

B = The total area in m<sup>2</sup> (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.

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

General deductions (excluding the deductions listed below) 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;
- Bad debts;
- Provision for bad debts; and
- 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 received in terms of that policy will be included as income.

### 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](http://www.sars.gov.za) or contact your local SARS branch office.



## SECTION 7: DIRECTORS OF COMPANIES / MEMBERS OF CLOSE CORPORATIONS

Please indicate whether you are a director of a company or a member of a close corporation, as this information directly influences your taxpayer classification status.



## TRAVELLING EXPENSES

### Did you receive a travel allowance?

Please complete page 6 of your return in order to claim Travelling Expenses. Travelling expenses may be claimed according to one of the following methods:

- (i) Where accurate records of expenses have been kept, complete sections 1, 2 and 4 on page 6 of your return to calculate your claim. 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.
- (ii) Where no records of expenses have been kept, use the information in the "scale of costs in respect of motor vehicles" and complete sections 1, 2 and 3 on page 6 of your return to calculate your claim.

### NOTE:

Your claim will not be considered if section 2 on page 6 of your return has not been completed. The value at the beginning of the year of assessment will only apply if you complete part 4 (actual expenditure) of this schedule. If the vehicle was used for a period of less than 365 days, the fixed cost component must be reduced pro rata on a day-to-day basis.

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

**NOTE:**

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.

<b>Scale of costs in respect of motor vehicles</b>			
<b>WHERE THE VALUE OF THE VEHICLE -</b>	<b>FIXED COST R</b>	<b>FUEL COST c</b>	<b>MAINTENANCE c</b>
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 1**

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 kilometres 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
<b>Less:</b> 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 6 of the return.

## EXAMPLE 2

All the details as Example 1 are applicable except that you used one vehicle from 1/3/2005 to 31/8/2005 (184 days) and 18 000 kilometres were travelled during this period, whereafter a new vehicle was purchased for R105 000. 11 000 km were travelled in this vehicle during 1/9/2005 to 28/2/2006 (181 days).

### Vehicle 1

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

The fixed cost element per kilometre is therefore:

$$\frac{19\,869}{18\,000} \times \frac{184}{365} = 55.6 \text{ cents}$$

The fuel cost element per kilometre is 36.2

The maintenance cost per kilometre is 22.4

Total cost per kilometre 114.2

Total km travelled {(32 000) limited to 16 000 (32 000 x 6/12)}

Business km limited to 8 000 {16 000 - (16 000 x 6/12)}

### Vehicle 2

Fixed cost element (see table of scales) R 35 578

The fixed cost element per kilometre is therefore:

$$\frac{35\,578}{11\,000} \times \frac{181}{365} = 160.4 \text{ cents}$$

The fuel cost element per kilometre is 40.7

The maintenance cost per kilometre is 27.8

Total cost per kilometre 228.9

Deemed private km 8 000 {16 000 - (16 000 x 6/12 cents)}

Deemed business km 3 000 (11 000 - 8 000)

Total cost of travelling:

Vehicle 1: Business km x total cost per km (i.e. 8 000 km x 114.2 cents)= R 9 136

Vehicle 2: Business km x total cost per km (i.e. 3 000 km x 228.9 cents)= R 6 867

Total claim R 16 003

\* This amount must be reflected next to code 4014 in part 6 of the return.

### NOTE:

If you incurred travelling expenses in the production of income, your claim may be calculated in section 4 of page 6, and the amount of your claim reflected in section 6.9.2 on the return.



## SCHEDULE 1: INVESTMENT INCOME

### SECTION 1 INCOME FROM INVESTMENTS

Investment income constitutes income primarily derived from an investment with any financial institution or company, such as a bank or unit trust administrator. 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 section 2.3 and section 3 of Schedule 1.



**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 section 2 of Schedule 1.

**SECTION 2 GROSS AMOUNTS RECEIVED FROM INVESTMENT INCOME**

The gross amounts received must be reflected in part 2 of schedule 1, as the exemptions will be done programmatically by SARS.

If you are married OUT OF community of property, or UNMARRIED, the income from foreign and local interest received must be listed in sections 1 and 2 of Schedule 1. If you are in receipt of income from foreign dividends, you must complete section 2.3 of Schedule 1, as well as section 3. If you are married IN community of property, only 50% of the income must be declared in section 2 of Schedule 1. The other 50% is taxable in the hands of your spouse. An income advice in respect of any investment must be obtained from the institution where your funds are invested and attached to page 9 of the return.

**NOTE:**

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. Should your investment income, therefore, exceed R25 000 if you are under the age of 65 years, and R32 000 if you are 65 years or older, you need to register as a provisional taxpayer. If, however, you are 65 years of age or older, and your taxable income does not exceed R80 000, you are exempt from the payment of provisional tax.

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.

Example	Gross	Taxable
<b>FOREIGN DIVIDEND INCOME RECEIVED</b> The R1 600 foreign dividend income 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	
<b>FOREIGN INTEREST RECEIVED</b> 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.	R 900	R 500
<b>LOCAL INTEREST RECEIVED</b> 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 investment income.	R13 600	R 600
<b>RESULT OF CALCULATION</b> 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 interest received).		R 1 100

**SECTION 3 FOREIGN DIVIDENDS**

You have the option to include as income the net dividend accrued, or received, from foreign dividends. Should you choose this option, it will not be necessary to determine the foreign tax credits in relation to the net dividend received, or accrued, as you will be taxed on the amount received, or accrued to you, after withholding tax. Should this be the case, no credit will be offset against the South African tax liability. This election will apply to all foreign dividends accrued or received during the year of assessment and the election is to be made on an annual basis. If no election is exercised, you will be taxed on the gross dividend - in which case foreign tax credits will be taken into account, if applicable.

Complete sections 2.3 and 3 of schedule 1 using the information reflected on the certificate issued by the institution administering your investments from which you receive foreign dividend income. Where specific information is required, and the information is not available, the relevant column must be left blank. Attach the certificates received to page 9 of your return.

If you are married in community of property and foreign taxes were withheld from your foreign investment income, claim 50% of the total of both spouses on part 5.3 of your return.



## SCHEDULE 2: RENTAL INCOME

### Background on Section 20A - Ring-fencing of assessed losses of certain trades

With effect from the 2005 year of assessment section 20A has been incorporated in the Income Tax Act. This section 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 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 3-out-of-5-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;
  - 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 6-out-of-10-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 6-out-of-10-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](http://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 completed.

#### **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 are incorrect on the pre-printed details, please complete the schedule with the correct details.

- **Unique Identifier**

The unique identifier on 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 page 8 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 or 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 17 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 should 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

South African resident taxpayers are liable to pay tax on any gain made from the sale of their worldwide assets. Non-residents will be liable to pay tax on any gain made from the sale of their assets in South Africa. Affected assets are considered to be property of any kind, including assets that are moveable or immovable, tangible or intangible, but excluding trading stock and mining assets which qualify for an income deduction.

Please ensure that Schedule 3 is completed in full to avoid SARS requesting the missing information.

Complete Schedule 3 using the following information:

- **PROCEEDS:** This is the selling price of the asset.
- **BASE COST:** This is the expenditure actually incurred in respect of the cost of the acquisition or creation of that asset together with expenditure directly related to its improvement. The base cost does not include any amounts otherwise allowed as a deduction for income tax purposes.

A separate schedule must be provided detailing how base cost was calculated.

### Calculation of the base cost in respect of assets held before 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);
- Market value of the asset as at 1 October 2001 (the “valuation date”), if market value was used the valuation certificate must be attached to page 9 of your return;
- Time apportionment method:

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

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

Improvements or additions made before 1/10/2001 are assumed to have taken place when the asset was acquired. The period before 1/10/2001 is limited to 20 years. Additions after valuation date are added to base cost.

Base cost in respect of assets acquired after 1 October 2001; this would traditionally be the purchase price plus any improvements made.

For detailed information please refer to the brochure on Capital Gains Tax available on the SARS website ([www.sars.gov.za](http://www.sars.gov.za))

- **ROLL-OVER BASE COST:** Roll-over means that a capital gain / loss is not triggered on the disposal of an asset, but is deferred until the subsequent CGT event takes place. In all cases the “pre-exchange” base cost is rolled over. Roll-overs apply in the following situation:
  - Transfer of assets between spouses (par. 67 of the Eighth Schedule to the Income Tax Act).

### NOTE:

The “roll-over base cost” does not result in a taxable capital gain / loss in the year of assessment in which the roll-over occurs.

- **EXCLUSIONS / ADJUSTMENTS (NOT ANNUAL EXCLUSIONS):** In the case of individuals not carrying on a trade, it would be personal-use assets, long-term insurance policies, etc.
- **CAPITAL GAIN / LOSS:** This would be the result of **Proceeds** minus **Base cost (Roll-over base cost and Exclusions, if applicable)**.

Indicate the main asset type source code as follows:

Local assets	Profit	Loss
Fixed / immovable assets (e.g. land, buildings)	6502	6503
Primary Residence (e.g. house, townhouse, flat, boathouse, caravan)	6504	6505
Financial instruments - Listed (e.g. shares, units in unit trust, bonds, futures, and options)	6506	6507

Foreign assets:	Profit	Loss
Fixed / immovable assets (e.g. land, buildings)	6530	6531
Primary Residence (e.g. house, townhouse, flat, boathouse, caravan)	6532	6533
Financial instruments - Listed (e.g. shares, units in unit trust, bonds, futures, and options)	6534	6535

Should the above not address the specific asset type, note the description of the type of asset on the schedule, and SARS will insert the applicable code.

Declare the profit / loss in respect of a capital gain transaction in section 2 of Schedule 3. Although the Act provides for a primary exclusion of R10 000, the full amount of the profit / loss must be declared, as the primary exclusion will be calculated programmatically by SARS.

The gain on the sale of a primary residence in excess of R1 million, and gains made on the disposal of shares, are typical examples of assets that would attract Capital Gains Tax. Should you have obtained a valuation certificate, it must be retained and lodged with the return in which the disposal of the asset is declared.

**NOTE:**

The local and foreign capital Gain / Loss must be declared separately on your return. If foreign tax credits was withheld in respect of foreign capital gains, claim the amount next to code 4114 in part 5 of your return. A capital loss can only be offset against a capital gain.

**SCHEDULE 4: TOTAL TAXABLE FOREIGN INCOME**



Foreign income received should be declared as follows:

- Remuneration income for which an IRP5 was issued - Section 2.3 of the return reflecting the income code on the IRP5;
- Foreign dividends received - Schedule 1 sections 2 and 3;
- Foreign interest received - Schedule 1 sections 1 and 2;
- Foreign capital gain / loss - Schedule 3 section 2; and
- Any other foreign taxable income received not specifically addressed above must be declared in South African currency in Schedule 4 (refer to Interpretation Note 18 on the SARS website, [www.sars.gov.za](http://www.sars.gov.za)).

**Foreign currency translation**

A resident who derives taxable 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](http://www.sars.gov.za), <Forms>, <IncomeTax>, <Average exchange rate for a year of assessment>.

### Did you pay any foreign taxes?

Claim the amount of foreign taxes paid in respect of foreign dividends, foreign interest, other foreign income or foreign CGT transactions, in section 5 of your return next to the applicable codes (4112, 4111, 4113 or 4114).

#### NOTE:

- (i) Should you have elected to be taxed on net foreign dividends, your claim in respect of foreign taxes paid on foreign dividends received will not be considered.
- (ii) Your claim in respect of foreign taxes paid will be limited, in terms of Section 6quat of the Income Tax Act, to the amount of South African tax payable in relation to the foreign income received, by applying the following formula

$$\frac{\text{Foreign Taxable Income} \times \text{Normal Tax Payable}}{\text{Total Taxable Income}}$$

The taxes which are attributable to any foreign taxable gain, will on assessment, in aggregate be limited to the amount of normal tax due in respect of such gains.

### What proof will be accepted as proof of payment of foreign taxes?

Proof of payment of foreign taxes will include the following:

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

For further information, contact your local SARS office, or visit the SARS website ([www.sars.gov.za](http://www.sars.gov.za)).

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### SCHEDULE 5: OTHER LOCAL RECEIPTS AND ACCRUALS NOT ELSEWHERE DECLARED

If you are in receipt of any other local income not yet declared, you need to complete Schedule 5. State the nature and source of the income. Should the space in the schedule be insufficient, record the total amount and attach a separate schedule detailing the amount, nature and sources of the various amounts.

## O

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

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







## TAX COMPUTATION

### Summary of information furnished in your return to assist you in calculating your 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 No. 18 on the SARS website [www.sars.gov.za](http://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

The example below illustrates the calculation of tax liability and the application of the rebates.

#### Example:

Your taxable income is	R167 025.00
Tax on R130 000.00 (as per statutory rates)	= R 26 900.00

#### Plus:

30% of R37 025.00 (R167 025.00 - R130 000.00)	= R 11 107.50
Total liability before rebates	R 38 007.50

#### Less:

Applicable rebate (under 65 years)	R 6 300.00
Tax liability	R 31 707.50

Please note that SITE (which is the amount of income tax that relates to the first R60 000 of your remuneration, e.g. salary) is refundable only in certain conditions, even though your taxable income may be under the tax threshold, as SITE is payable per income period.

**CALCULATION OF TAX LIABILITY**

Note: If you received Foreign Income refer to paragraph under “general information” on page 24 before calculating your tax liability.

<b>INCOME</b>		
All items reflected in part 4 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, part 2.1)		R
Other local income (Schedule 5)		R
<b>Sub-total</b>		<b>R</b>
<b>LESS: EXEMPTIONS</b>		
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
<b>Sub-total</b>		<b>R</b>
<b>LESS: DEDUCTIONS</b>		
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
Income Protection contributions (part 5.8)		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
<b>Sub-total</b>		<b>R</b>
<b>ADD: (IF LOSS, DO NOT INCLUDE IN CALCULATION)</b>		
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
<b>Sub-total</b>		<b>R</b>
<b>LESS:</b>		
Donations (part 6.2 of your return)		R
<b>Sub-total (a)</b>		<b>R</b>
<b>LESS:</b>		
Medical (part 6.1 of your return)		
Medical deduction code 4008	R.....	
Less: 5% of sub-total (a)	R.....	R
Allowable medical deduction	R.....	
<b>OR</b> Medical deduction code 4009 (handicapped person)	R.....	
Less: Limitation	R500	R
Allowable medical deduction	R.....	R
<b>OR: If you are older than 65 years there will be no limitation</b>		<b>R</b>
<b>TAXABLE INCOME</b>		<b>R</b>
Normal tax on taxable income (see tax rates, page 24)		R
<b>LESS:</b>		
Rebates (see page 24)		R
<b>TOTAL TAX PAYABLE</b>		<b>R</b>
<b>LESS:</b>		
SITE (refer to SITE (4101) column in part 5 of your return)		R
PAYE (refer to PAYE (4102) column in part 5 of your return)		R
Foreign taxes paid (refer to page 22 of this brochure for limitations)		R
Provisional tax paid (if applicable)		R
<b>TAX PAYABLE BY / TO YOU</b>		<b>R</b>

