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PSIberWORKS

Tax Terminology

www.psiberworks.com

15 Seventh Avenue, Edenvale
Gauteng, South Africa
Tel : +27 11 454 1074 Fax : +27 11 453 9343

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1. Allowance

Allowances are paid by an employer to an employee to enable the employee to meet the cost of expenditure incurred on behalf of the employer. This generally forms part of the employee's taxable income.

Generally allowances are fully taxable on a monthly basis. The benefit is realized at the end of the financial year, when the employee deducts the actual expenses from their taxable earnings i.e. claim back the tax that has been paid on the allowances. The deduction must not exceed the amount of the allowance.

2. Annual Equivalent

Where an employee's Tax Period is less than 12 months, the annual equivalent needs to be calculated in order for the employer to work out the PAYE payable i.e. the employer needs to calculate what the employee would have earned in 12 months had he been with that employer for a 12 month period. and then work out the tax payable on that annualized equivalent. Thereafter you work out the tax payable for the Tax Period. The following steps will lead you through the process.

- Annualize the earnings. To do this use the following calculation:

$$\text{YTD Earnings divided by no. of months worked} \times 12 = \text{Annualized}$$
- Look up the tax payable on the annualized earnings, under the annual tax tables
- Establish the tax payable over the tax period. To do this use the following calculation:

$$\text{Tax Payable on the Annualized Earnings divided by 12} \times \text{no. of months worked} = \text{Tax Payable}$$

EXAMPLE

Jane works for Company B from May until the end of September i.e. 5 months. Before paying Jane in September, Company B needs to annualize her earnings and if necessary adjust the tax deduction for September. Her monthly Taxable Income for the first 3 months was R5 500pm and for the last two months was R7 962.50 pm.

Calculate the annualized earnings:

$$(\text{R5 000} \times 3 \text{ months}) + (\text{R7 962.50} \times 2 \text{ months}) = \text{R30 925}$$

$$\text{R30 925} / 5 \times 12 = \text{R74 220}$$

Lookup the Tax payable in the annual tax tables:
 The Tax payable on R74 220 is R5 919.60

The tax payable for the tax period when Jane worked for Company B is: $\text{R5 919.60} / 12 \times 5 = \text{R2 466.50}$

Tax paid by Jane from May to August is: R 2 253.20

The Tax payable in September is therefore:

Tax Due	R2 466.50
Less Tax already Paid	<u>R2 253.20</u>
Tax to be paid	R 213.30

3. Average Rate of Tax

Mathematically, this is the amount of tax that you pay, expressed as a percentage of your total Taxable Income.

For example, if I earn R138 750 in the tax year and I pay R23 225 tax, my average rate of tax is 16.74%. ie Tax / earnings

However, from a tax point of view, the expression 'Average Rate of Tax' has a different meaning. This is where there are certain amounts of income (defined below) that are not added to your other taxable income and taxed at

your marginal rate, but are taxed at your average rate of tax. A formula called the 'Rating Formula' is used to determine the tax payable on these amounts.

Average Rate of Tax applied to the following:

- Special remuneration received by proto-team mine workers
- The taxable portion of certain bonuses, gratuities and compensation on termination of service
- Excessive farming profits derived in certain circumstances
- The taxable portion of any lump sum payments from pension, provident or retirement annuity funds

4. Casual Loan

A short-term loan granted at irregular intervals.

5. Connected Person

With reference to a natural person

- any relative of the natural person or any trust of which that natural person or his relative is a beneficiary.

With reference to a trust

- any beneficiary of the trust or any persons connected to the beneficiary.

With reference to a partnership

- any other partner or any person connected to a partner of such partnership.

With reference to a company

- it's holding company;
- It's subsidiaries;
- Any fellow subsidiary;
- Any shareholder (other than a company), who, individually or jointly with persons connected to himself, holds at least 20% of the company's equity share capital, members interest or voting rights;
- Any other company, if at least 40% of the equity share capital, members interest or voting rights of both companies is held by the same persons (but, with effect from 25 Nov 94, only if 20% equity of such company is held by the other company, and no shareholder holds the majority voting rights of the company).

With reference to a close corporation

- Any member of the close corporation;
- Any relative of a member or any trust which is a person connected to the member, and;
- Any other close corporation which is a person connected to the relative or trust mentioned above.

With reference to any person

- Who is connected to any other person in terms of the above provisions, such other person.

6. Deduction

Deductions are expenses incurred in the production of your income from trade within the Republic of South Africa. These expenses however, cannot be of a capital nature.

You are entitled to deduct various amounts from your income to determine your Taxable Income. Deductions fall into two categories, those amounts which fall under the General Deduction Formula category and those that fall under the Specific Deductions category.

General Deduction Formula - These include expenses and losses directly incurred, in the year of assessment, in the production of income. This must be for the production of income within the Republic of South Africa.

Specific Deductions - The Income Tax Act defines specific deductions and the maximum amounts of these deductions, which you may claim against your income. The following is a list of the most common deductions allowed for by the act:

- Repairs to property that is occupied for the purposes of trade;
- Wear and tear allowances (known as depreciation);
- Bad debts;
- Current and Arrear pension fund contributions;
- Current and Arrear Retirement annuity contributions;
- Medical Expenses;
- Donations.

The following deductions will not be accepted by the Receiver:

- Costs incurred in maintaining you, your family and your home;
- Domestic and Private expenses;
- Expenses and Losses recoverable under an insurance contract;
- Expenses incurred in receiving amounts that do not constitute income;
- Losses and expenses that were not incurred for the purposes of trade.

7. Employee

An employee is:

- A person who receives remuneration or to whom remuneration accrues;
- A person who receives remuneration or to whom remuneration accrues by reason of services rendered by such a person to or on behalf of a labour broker;
- A labour broker;
- A person or class or category of person whom the Minister of Finance declares to be an employee by notice in the Government Gazette;
- A personal service company;
- A personal service trust;
- A director of a private company.

8. Employees Tax

This is the amount of tax that an employer deducts up-front from your Remuneration (see [Remuneration](#)), also known as PAYE (Pay as you earn). This is deducted from your pay slip on a weekly or monthly basis.

The tax is calculated on the 'Balance of Remuneration' which is the taxable earnings after the deduction of all allowable deductions.

9. Exemptions

There are certain amounts of your gross income that are exempt from tax also known as 'Tax Free' Amounts. These are as follows:

- For persons under 65 years of age, the first R22 800 (2013) of any taxable interest received e.g. interest received on savings account and unit trusts
- For persons 65 years and older, the first R33 000 (2013) of any taxable interest received e.g. interest received on savings account and unit trusts
- Dividends received from investments
- Any benefit received from UIF (Unemployment Insurance Fund)
- Uniforms or Uniform allowances
- Certain Relocation or Transfer costs
- Certain Scholarship or Bursaries
- Maintenance
- Certain amounts received on termination or impending termination of your services e.g. leave gratuity, deferred compensation on retrenchment payout
- The capital element of a voluntary purchase annuity (from an insurance company)

10. Fringe Benefit

The package you receive from your employer may include certain benefits apart from your cash remuneration. These benefits, as listed below, are known as 'fringe benefits'. For income tax purposes, it is necessary to place a monetary value on these benefits and include it in your taxable income.

The fringe benefit is only worthwhile if the taxable value thereof is less than the cost of the actual benefit.

Fringe benefits are usually valued as follows:

Cost of the benefit to the employer	R 5 000
Less any amount paid by employee for the benefit	<u>R 2 000</u>
Amount included in taxable income	R 3 000

The exceptions to the above calculation are:

- Company car
- Residential Accommodation
- Holiday Accommodation
- Low Interest or Interest free loan
- Income Replacement and Key Person Policies

11. Gross Income or Gross Remuneration

Gross Income is defined in the Income Tax Act as follows:

'...the total amount, in cash or otherwise, received by or accrued to or in favour of such person during such year or period of assessment from a source within or deemed to be within the Republic, excluding receipts or accruals of a capital nature'.

The following will provide a definition for the terms used in the above extract:

Amount in Cash or Otherwise. This refers to the receipt of money or of anything else to which a monetary value can be placed. An example of 'otherwise' would be that you were a cashier at a supermarket and you received free groceries from your employer every month.

Received by or Accrued to you. This is where the cash or otherwise has been received by you or if it is owing to you, in that you are entitled to claim the payment. An example would be where you own shares and the company declares dividends in December but the payment will only be made to you in March.

During such Year or Period of assessment. This refers to the tax year for which you are submitting a return.

From a Source within or Deemed to be within the Republic - The source of the income must originate or be deemed to have originated in South Africa. To establish this you need to ask the question 'what action/s generated this income?', example: was the action manufacturing or was it services? You then need to establish where the originating action/s took place.

Example: Jane makes and creatively paints cushions and tablecloths in South Africa but sells them through a distributor in another country, where the contract was concluded in that country. The action is manufacturing and the originating action is in South Africa, irrelevant of the fact that the contract was concluded in a foreign country.

Excluding Receipts and Accruals of a Capital nature - Only receipts and accruals of an income nature are taxable and not those of a capital nature. To distinguish between the two however is not easy. The easiest method to determine the difference is to check the intention of purchasing the asset. If the intention was to use the asset in the production of income, then it is of a capital nature. If the asset was purchased for speculation i.e. with the purpose of selling the asset to make a profit, then it is an income. The following should be taken into account when determining whether it is of a capital or income nature:

- The frequency of the transactions with regard to the assets
- How you acquired and disposed of the asset
- How long you retained the asset before disposing of it
- How you financed the purchase of the asset
- What work you do to make a living

12. Holder of Public Office (HOPO)

Any Allowance granted to the holder of a public office to enable him to defray expenditure incurred by him in connection with his office is deemed to have been expanded to the extent that he has actually incurred expenses for the purposes of his office in respect of:

- Secretarial services
- Telephone
- Stationery
- Office accommodation
- Postage
- Travelling
- Hospitality extended at any official or civic function
- Subsistence and incidental costs while away from usual place of residence (See Subsistence allowance)

Holders of Public Office include::

- A Minister or Deputy Minister, a member of Parliament, the Presidents Council, a member of a provincial legislature
- A member of a Municipality or similar local institution, and a president, chairman or chief executive officer of a national or regional non-profit making organization representing persons with common interests and deriving funds wholly or mainly from subscriptions of member or from the general public.

13. Marginal Rate of Tax

The tax table is made up of various income bands to which different rates of tax apply. (see our PSIber Tax Tables). Marginal rate of tax refers to the tax rate applicable to the highest portion of your taxable income.

Example: If you earn R300 000 pa, the amount over R250 000 falls into the income band where a 30% rate of tax applies. You will therefore be paying 30 cents to the Receiver for every Rand that you earn over R250 000 pa.

14. Net Remuneration or Taxable Income

This is also known as 'Balance of Remuneration'. This refers to the employee's taxable income after the deduction of defined Exemptions and Deductions i.e.

Gross Remuneration (Income) - Exemptions - Deductions = Taxable Income

Please see the definitions of [Exemptions](#) and [Deductions](#).

Deductions, limited to the allowable contributions:

- current and arrear pension fund contributions
- current and arrear retirement annuity contributions
- medical aid contributions with respect to persons 65 years and older (please see 'Deductions' under Tax Rules Made Simple).

Exclusions:

- lump sum payments in terms of the Second Schedule to the Act paid by fund
- gratuities paid by the employer on termination of service due to old age, ill-health or general reduction in personnel (retrenchment)
- remuneration received by an employee who incurred deductible expenses in the production of income
- remuneration which is under the provisions of section 7(2) deemed to be income that accrued to the spouse of the employee
- remuneration not derived from 'standard employment'
- remuneration not derived from way of an annuity by a pension, provident or benefit fund
- remuneration paid to a director of a company or member of a CC
- Travel allowance which is subject to employees tax (20% or 80% portion)
- Holder of public office allowance
- Remuneration derived by an employee in respect of which such employee is entitled to set off an assessed loss under section 20(1)

Tax Directives are applicable to 'Gross remuneration' ie taxable earnings before the allowable deductions ie pension, retirement annuity and allowable medical aid contributions

15. Official Rate of Interest

This rate of interest is not the same as the prime or bank rate. This is a SARS decreed rate of interest and is documented in the Government Gazette. The Commissioner of Inland Revenue changes this official rate of interest from time to time. This rate affects the Fringe Benefit calculation of 'Low or Interest Free Loans'

16. PAYE

See [Employees Tax](#)

17. Provident Fund

The difference between a Pension and a Provident Fund is that an individual does not get a tax deduction for making a contribution to a Provident Fund himself, but if the employer contributes to a Provident Fund on the employee's behalf, the employee will not pay tax on that contribution.

18. Provisional Tax

Who is a Provisional Taxpayer? - If you receive Taxable Income, other than Remuneration (where you will pay weekly or monthly Income Tax), in excess of R10 000, you must register as a Provisional Taxpayer. Also, if you

become a director of a private company or a member of a close corporation, you must register as a Provisional Tax Payer.

Provisional Tax applies to all income that is not classified as Remuneration. Unlike PAYE, which is paid weekly or monthly, Provisional Tax is paid six monthly.

19. Remuneration

Remuneration is any amount of income which is paid or payable to any person whether in cash or otherwise in respect of services rendered or to be rendered. This includes:

- Salary
- Fees
- Overtime
- Tips
- Leave Encashment
- Gratuities
- Emolument
- Annuity
- Directors remuneration
- Bonuses
- Allowances
- Pension
- Wages
- Commissions
- Retirement Payments
- Superannuation Allowance
- Retirement Allowance or Stipend
- Amounts received in respect of services by Holders of Public Office
- Lumps sum Payments (includes those from retirements funds and those from leaving employment)
- Benefits from converting from a public sector Pension fund to a Provident Fund)
- Taxable portion of any travel or car allowance
- 50% of any Holders of Public Office allowance
- Restraint of trade payments
- Amount paid in terms of a contract of employment or service
- Amount paid in respect of the relinquishment, termination, loss, repudiation, cancellation or variation of a office or employment or of an appointment
- Fringe benefits received in terms of the Seventh Schedule to the Income Tax Act
- Gratuity paid with respect to the obtaining a university degree or diploma or passing an examination

Remuneration does not include:

- Amounts paid to independent contractors, this exclusion does not include:
- Labour broker
- Personal services company
- Personal services trust
- A person who is not ordinarily resident in SA
- Allowances and pensions that fall within the Aged Persons, Blind Persons, Disability Grants and Children's Acts.
- Amounts paid as reimbursements for expenses you incurred during the course of your employment
- Any annuity paid to you under an order of divorce or separation

Exclusions for UIF:

- Pension, superannuation allowance or retiring allowance

- Amounts contemplated in paragraphs (a), (cA), (d), (e) or (eA) of the definition of “gross income” in section 1 of the Income Tax Act:
- Compensation for Restraint of Trade
- Annuity
- Voluntary award in respect of the relinquishment, termination, loss, reduction, cancellation or variation of any office or employment or of any appointment
- Lumpsum benefits from pension fund
- commission

Exclusions for SDL:

- Amount paid to any labour broker who has an IRP30 exemption certificate
- Pension, superannuation allowance or retiring allowance
- Amounts contemplated in paragraphs (a), (cA), (d), (e) or (eA) of the definition of “gross income” in section 1 of the Income Tax Act:
- Annuity
- Voluntary award in respect of the relinquishment, termination, loss, reduction, cancellation or variation of any office or employment or of any appointment
- Lumpsum benefits from pension fund
- Amounts payable to a learner
- Allowable deduction / rebate for Medical Aid Contributions

20. Retirement Funding Income & Non Retirement Funding Income / Employment

Retirement-Funding income (RFI) is essentially income, which is defined as the basis for determining your contribution to any pension or provident fund as well as the allowable deductions for such contributions. The rules of the fund define the income types used to determine your pension or provident fund contributions.

If the rules of your particular pension fund include allowances eg travel allowances, in the definition of retirement-funding income, then those allowances are included in the amount used to determine your pension or provident fund contributions. Your deduction will be based on retirement-funding income before the deduction of tax.

Definition as per 'SARS Guidelines for Employees Tax' - the expression "retirement-funding employment" refers briefly to remuneration from which pension or provident fund contributions are deducted.

Only *taxable income* can be included in RFI.

Any taxable earnings that are not included in RFI, by default, form part of your Non Retirement Funding Income (NRFI), which is used to determine the allowable contributions to an Retirement Annuity.

Please note that allowances do not generally get included because they become deductible expenses at tax year end which in turn means they are non-taxable.

Example :

Earning/Deduction	Value	Taxable	RFI	RFI Value	NRFI
Normal Earnings	R15 000	R15 000	100%	15 000	0
Travel Allowance	R 2 400	R 1 920	100%	1 920	0
Employer Medical Aid Contr	R 1 500	R 1 500	0%	0	1 500
TOTALS	R18 900	R18 420		16 920	1 500

Pension: Contribution R 1 500 (10% of Normal Earnings)
 Allowable Deduction R 1 269 (7.5% of RFI)

RA: Contribution R 1 600
 Allowable Deduction R 225 (15% of NRFI)

Definition as per 'SARS Guidelines for Employees Tax' - the expression 'non-retirement-funding employment' refers to remuneration from which pension or provident fund contributions are NOT deducted.

21. Salary Sacrifice

Deductions subtracted from your salary prior to taxation. Also referred to as Reduce Basic.

22. Site Tax

SITE is the abbreviation for Standard Income Tax on Employees' and is the name given to a certain portion of the income tax that is deducted from employees. Please note that SITE is not applicable from the 2013 tax year.

Employees who fell within the SITE Tax parameters, did not have to submit an annual tax return. The down side of this is that if you were not submitting a tax return you could not claim any deductions and thus reduce your tax liability.

Where an employee's net Income (see [Net Remuneration](#)) did not exceed the stipulated tax thresholds, he/she was liable for SITE tax only. If their employment earnings were within the defined limits, but they received other income that pushed their income over the annual SITE limit, they were required to submit a tax return. If however, the other income was interest or distributions from Unit trusts, and it was less than the exemptions, then they were still only a SITE taxpayer.

23. Spouse

"spouse" definition - section 1

"spouse", in relation to any person, means a person who is the partner of such person —

- in a marriage or customary union recognized in terms of the laws of the Republic;
- in a union recognized as a marriage in accordance with the tenets of any religion; or
- in a same-sex or heterosexual union which the Commissioner is satisfied is intended to be permanent,
- and "married", "husband" or "wife" shall be construed accordingly: Provided that a marriage or union contemplated in paragraph (b) or (c) shall, in the absence of proof to the contrary, be deemed to be a marriage or union without community of property

24. Tax Evasion vs Tax Avoidance

Evading Tax is a criminal act. This is where you resort to illegal actions to reduce the amount of tax that you pay to the Receiver of Revenue. Because this is illegal, these actions are viewed as crime and are therefore punishable.

Avoiding Tax is your right and must not be confused with tax evasion. Where tax, that has been legally avoided, is recovered, interest will be charged on the amount recovered.

If you know the Income Tax system, you can legally avoid tax and will not have to resort to tax evasion.

25. Tax Payer

A Tax Payer is any person who pays Income Tax or has to submit a tax return, whether he earns any income as a tax payer or not.

Who is required to pay income tax :

- A person who receives remuneration or to whom remuneration accrues

- A person who receives or accrues remuneration for services rendered to or on behalf of a labour broker
- A labour broker
- A personal services company
- A personal services trust
- A director of a private company

26. Tax Period

The Receivers tax year runs from the beginning of March in one year until the end of February the following year.

Tax periods worked, is the period within that tax year for which you received remuneration from an employer.

Example: Employee Joe worked as follows:

Company A : 1st December 2012 until the end of June 2013 (4 months of the 2013 tax year)

Company B : 15th July 2013 to End Feb 2013 (7.5 months)

Joe's tax period wrt 2013 Earnings, would be 11.5 months

27. Tax Rebate

There are currently three rebates available to natural persons, which are as follows:

Rebates	Amount
Primary (all Tax Payers)	R11 440
Secondary (65 years and over)	R 6 390
75 years and older	R 2 130

Please Note: the rebates are accumulative eg if you are 68 years old, you get a rebate of R11 440 + R6 390.

These rebates are deducted from your income before defining your taxable income. Please see our tax tables for the current rebate values.

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