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THE STATUTORY RATES OF TAX: 2012 YEAR OF ASSESSMENT

In his Budget Speech on 23 February 2011, the Minister of Finance proposed new tax rates, tax rebates, thresholds and other tax amendments for individuals. These changes, as well as other changes announced in last year's Budget Speech, will come into effect from 1 March 2011. Details of these proposals have been listed below and you are requested to update your payroll systems accordingly.

1. RATES OF TAX: 2012 YEAR OF ASSESSMENT

The amount of employees' tax to be deducted from remuneration paid or payable to employees is calculated on the balance of remuneration, after the deduction of:

- allowable pension and / or retirement annuity fund contributions;
- allowable premiums in terms of certain insurance policies;
- allowable contributions to a registered medical scheme; and
- allowable donations made by the employer on behalf of an employee.

Statutory rates applicable to individuals are:

Taxable Income **R R**	**Rates of Tax** **R R**
0 — 150 000	18% of each R1
150 001 — 235 000	27 000 + 25% of the amount above 150 000
235 001 — 325 000	48 250 + 30% of the amount above 235 000
325 001 — 455 000	75 250 + 35% of the amount above 325 000
455 001 — 580 000	120 750 + 38% of the amount above 455 000
580 001 and above	168 250 + 40% of the amount above 580 000

Tax rebates applicable to individuals are:

- Primary rebate R 10 755
- Additional rebate (for persons 65 years and older) R 6 012
- Additional rebate (for persons 75 years and older) R 2 000

Tax thresholds applicable to individuals are:

- ▫ Persons under 65 years R 59 750
- ▫ Persons 65 years and older R 93 150
- ▫ Persons 75 years and older R104 261

Where an employee receives net remuneration from standard employment and is not employed by the employer for the full year of assessment, the annual equivalent of the employee's remuneration must be determined to establish whether such employee falls above the tax threshold.

Rates applicable to employees other than individuals:

- ▫ Personal service provider at 33%.
- ▫ Trusts at 40%.

2. SEVERANCE BENEFIT PAYMENTS (RETRENCHMENT GRATUITIES)

The R30 000 exemption that previously applied to retrenchment gratuity lump sums will be repealed with effect from 1 March 2011. "Severance benefit" payments will now be taxable in terms of the retirement fund lump sum benefits tax rates with effect from 1 March 2011.

Notes:

An employer is required to apply for a tax directive if this type of remuneration is paid to an employee – the exemption shall be determined by SARS with the processing of the tax directive application. The gross amount of the severance benefit must be reflected under code 3901 on the IRP5/IT3(a) tax certificate and the employees' tax withheld in terms of the directive, under code 4115. This is applicable to severance benefits payable to employees from 1 March 2011.

3. TRAVELLING ALLOWANCES

With effect from 1 March 2010, 80% of a travel allowance is subject to the deduction of employees' tax. With effect from 1 March 2011, an exception is allowed in cases where the employer is satisfied that at least 80% of the use of motor vehicle will, during the year of assessment be for business purposes, then only 20% of the allowance is subject to the deduction of employees' tax. Employees must, in order to claim travel expenses for business purposes against this allowance when completing their income tax returns, keep record of actual business distances travelled (e.g. a logbook). The full travel allowance must be reflected under the prescribed codes on the IRP5/IT3(a) tax certificates as described in the AS-PAYE-05-G3 Guide for Employers in respect of Allowances (2011 Tax Year).

4. MEDICAL SCHEME CONTRIBUTIONS

The amount of medical contributions paid or deemed paid by an employee to medical schemes, which may be allowed as a deduction from remuneration before employees' tax is determined, cannot exceed the monthly capped amount. With effect from 1 March 2011 the capped amounts will increase as follows:

- ▫ R 670 increase to R 720 in respect of only the taxpayer
- ▫ R1 340 increase to R1 440 in respect of the taxpayer and 1 dependent
- ▫ R 410 increase to R 440 in respect of every additional dependent.

5. SITE

Special provisions were introduced during 2010 to phase-out the Standard Income Tax on Employees (SITE) system over a three year period and will be effective from the 2012 year of assessment. This process does not affect employers and SITE calculations should be done and reflected on IRP5 tax certificates as in the past.

6. FRINGE BENEFITS:

6.1 EMPLOYER-PROVIDED MOTOR VEHICLES

With effect from 1 March 2011, the percentage rate for all employer-provided vehicles will be 3.5 percent per month of the vehicle's determined value. However, vehicles with maintenance plans included within the purchase price at the time of purchase will trigger only a 3.25 percent monthly fringe benefit.

The current exclusion from the determined value of the VAT paid on the acquisition of the vehicle changes from 1 March 2011. With effect from this date the determined value must now include the VAT paid on the acquisition of the vehicle. The full value of the taxable benefit must be reflected under code 3802 on the IRP5/IT3(a) tax certificate as in the past.With effect from 1 March 2011, only 80% of the taxable value of this benefit is subject to the deduction of employees' tax. Where the employer is satisfied that at least 80% of the use of motor vehicle will, during the year of assessment be for business purposes, then 20% of the taxable value of the benefit is subject to the deduction of employees'tax.

6.2 EMPLOYER-PROVIDED INDEMNITY INSURANCE

Certain organisations require that their members maintain indemnity insurance in respect of their professions. Often, employers pay these premiums on behalf of their employees. Under the current legislation, these premiums – if paid by employers – are taxable benefits in the hands of the employees. With effect from 1 March 2011, an exemption has been introduced in this regard. No value will be placed on the payment of indemnity insurance premiums by employers, provided that the premium covers only claims arising from negligent acts or omissions by the employee in the course of his employment. Policies that cover more serious acts such as criminal fines are not covered by the exemption.

6.3 OFFICIAL RATE OF INTEREST

The "official rate of interest" for calculating fringe benefits (in respect of low or free interest loans) will reduce with fifty basis points to 6.5% with effect from 1 March 2011. The reduction is due to the coming into effect of amendments to the definition of "official rate of interest" in the Seventh Schedule to the Income Tax Act. The amended definition of "official rate of interest" provides that the official rate, in the case of a loan denominated in Rand, is equal to the South African repurchase rate (i.e. repo rate) plus 1 per cent.

7. GENERAL

The employees' tax deduction tables applicable from 1 March 2011 which are prescribed in terms of paragraph 9(1) of the Fourth Schedule to the Income Tax Act, will be published on SARS' website before the effective date. The Guide for Employers will be published in due course.

If you have any further queries, call our help desk on 0800 00 7277.