

**GUIDE FOR EMPLOYERS  
IN RESPECT OF FRINGE BENEFITS  
(2011 TAX YEAR)**

**TABLE OF CONTENTS**

|          |   |           |
|----------|---|-----------|
| <b>1</b> | <b>PURPOSE</b>  | <b>3</b>  |
| <b>2</b> | <b>SCOPE</b>  | <b>3</b>  |
| <b>3</b> | <b>REFERENCES</b>   | <b>3</b>  |
| 3.1      | LEGISLATION   | 3         |
| 3.2      | CROSS REFERENCES  | 3         |
| <b>4</b> | <b>DEFINITIONS AND ACRONYMS</b>   | <b>4</b>  |
| <b>5</b> | <b>GENERAL AND OBLIGATIONS OF THE EMPLOYER</b>                                      | <b>6</b>  |
| <b>6</b> | <b>BENEFITS GRANTED TO RELATIVES OF EMPLOYEES AND OTHERS</b>                        | <b>7</b>  |
| <b>7</b> | <b>TAXABLE BENEFITS</b>   | <b>7</b>  |
| 7.1      | ACQUISITION OF AN ASSET AT LESS THAN THE ACTUAL VALUE                               | 7         |
| 7.2      | RIGHT OF USE OF AN ASSET  | 8         |
| 7.3      | RIGHT OF USE OF A MOTOR VEHICLE   | 10        |
| 7.4      | MEALS, REFRESHMENTS AND MEAL AND REFRESHMENT VOUCHERS                               | 13        |
| 7.5      | ACCOMMODATION   | 14        |
| 7.6      | FREE OR CHEAP SERVICES  | 18        |
| 7.7      | LOW INTEREST OR INTEREST FREE LOANS   | 19        |
| 7.8      | SUBSIDIES IN RESPECT OF LOANS   | 21        |
| 7.9      | PAYMENT OF AND EMPLOYEE'S DEBT OR RELEASE EMPLOYEE FROM AN OBLIGATION TO PAY A DEBT | 21        |
| 7.10     | MEDICAL SCHEME CONTRIBUTIONS PAID BY AN EMPLOYER                                    | 23        |
| 7.11     | MEDICAL COSTS INCURRED BY AN EMPLOYER   | 24        |
| <b>8</b> | <b>QUALITY RECORDS</b>  | <b>25</b> |
| <b>9</b> | <b>DOCUMENT MANAGEMENT</b>  | <b>25</b> |

## 1 PURPOSE

- The purpose of this document is to assist employers in understanding their obligations relating to determining the cash equivalent of the value of a taxable fringe benefit as provided for in the Seventh Schedule to the Income Tax Act.

## 2 SCOPE

- This basic guide explains the methods to be apply by employers in determining the taxable fringe benefit and includes the legislation requirements as well as examples.

## 3 REFERENCES

### 3.1 LEGISLATION

| TYPE OF REFERENCE                           | REFERENCE   |
|---|---|
| Legislation and Rules administered by SARS: | <b>Income Tax Act No. 58 of 1962:</b> Sections 1, 5(3), 5(9), 5(10), 6, 7A, 8(1)(a) to (f), 8A, 8B, 8C, 10(1)(cN), 10(1)(gB), 10(1)(nA), 10(1)(nB), 10(1)(nG), 10(1)(nH), 10(1)(o), 10(1)(q), 10(1)(x), 18(1), 18(2), 69(1), 74(1), 75A, 89bis(2), 89sex, 89ter; <b>Fourth Schedule Paragraphs</b> 1 to 16, 29 and 30; <b>Seventh Schedule all Paragraphs</b> ; <b>Interpretation Notes</b> 3, 4, 8, 7, 14, 16, 17, 26, 27, 34 and 35 and <b>Practice Notes</b> 17 and 25 and General Note 35.<br><b>Skills Development Levies Act No. 9 of 1999:</b> Sections 1 to 6 and 11 to 13<br><b>Unemployment Insurance Contributions Act No.4 of 2002:</b> Sections 1, 3, 4, 5, 6, 7, 8, 10, 12, 13 and 14 |
| Other Legislation:                          | <b>Children's Act No. 33 of 1960:</b> Section 89<br><b>Companies Act No. 61 of 1973:</b> Chapter VI<br><b>Marine Traffic Act No. 2 of 1981:</b> Section 1<br><b>Skills Development Act No. 97 of 1998:</b> Section 18(2) and (3)<br><b>Social Assistance Act No. 13 of 2004:</b> Sections 4, 5, 6, 9, and 10<br><b>Medical Schemes Act No. 131 of 1998:</b> Section 67(1)(g)<br><b>Pension Funds Act No. 24 of 1956:</b> Section 15B and 15C  |
| International Instruments:                  | None  |

### 3.2 CROSS REFERENCES

| DOCUMENT #       | DOCUMENT TITLE                                      | APPLICABILITY |
|------------------|---|---------------|
| AS-SDL-01        | Quick reference guide on SDL                        | All           |
| AS-UIF-01        | Quick reference guide on UIF                        | All           |
| FIN-CH-02        | SARS payment rules                                  | All           |
| AS-PAYE-05       | Guide in respect of Employees' Tax                  | All           |
| AS-PAYE-05-G1    | Guide in respect of Employees' Tax Deduction Tables | All           |
| AS-PAYE-05-G1-A1 | Weekly tax deduction tables                         | All           |
| AS-PAYE-05-G1-A2 | Fortnightly tax deduction tables                    | All           |
| AS-PAYE-05-G1-A3 | Monthly tax deduction tables                        | All           |
| AS-PAYE-05-G1-A4 | Annual tax deduction tables                         | All           |
| AS-PAYE-05-G3    | Guide for Employers in respect of Allowances        | All           |
| AS-PAYE-05-G3-A1 | Rate per kilometre schedule                         | All           |
| AS-PAYE-05-G3-A2 | Subsistence Allowance in respect of Foreign Travel  | All           |
| AS-PAYE-05-A1    | Allowances  | Withdrawn     |
| AS-PAYE-05-A2    | Fringe benefits                                     | Withdrawn     |
| AS-PAYE-05-A3    | Rate per kilometre schedule                         | Withdrawn     |
| AS-PAYE-05-A8    | Subsistence deemed amount per country               | Withdrawn     |
| AS-PAYE-05-F1    | Personal Service provider                           | All           |
| AS-PAYE-05-F2    | Seasonal Workers                                    | All           |

| DOCUMENT #    | DOCUMENT TITLE  | APPLICABILITY |
|---------------|---|---------------|
| AS-PAYE-13    | External policy: Completion and submission of reconciliation documents    | All           |
| AS-PAYE-13-G1 | Guide: Completion and submission of employees' tax certificates           | All           |
| AS-PAYE-13-G2 | Guide: Completion and submission of reconciliation declarations           | All           |
| AS-PAYE-13-G3 | Guide: Validation rules for fields applicable to reconciliation documents | All           |
| AS-PAYE-13-G4 | Guide: Codes applicable to employees' tax certificates                    | All           |
| AS-PAYE-13-G5 | Guide: Creation of CSV file – employees' tax certificate information      | All           |

#### 4 DEFINITIONS AND ACRONYMS

|                                |   |
|--------------------------------|---|
| <b>4<sup>th</sup> Schedule</b> | <ul style="list-style-type: none"> <li>• Fourth Schedule to the Income Tax Act.</li> </ul>  |
| <b>7<sup>th</sup> Schedule</b> | <ul style="list-style-type: none"> <li>• Seventh Schedule to the Income Tax Act.</li> </ul>   |
| <b>Annual equivalent</b>       | <ul style="list-style-type: none"> <li>• An amount equal to the sum of net remuneration multiplied by the ratio which a full year bears to the period in respect of which such net remuneration is payable.</li> </ul>  |
| <b>Annual payment</b>          | <ul style="list-style-type: none"> <li>• An amount of net remuneration that is, in accordance with the employee's conditions of service or the employer's practice, paid in a lump sum to the employee or it is an amount that is calculated without reference to a period.</li> </ul>  |
| <b>Associated institution</b>  | <ul style="list-style-type: none"> <li>• In relation to an employer for taxable benefit purposes and for purposes of the definition of a personal service provider, means — <ul style="list-style-type: none"> <li>▫ where the employer is a company, any other company which is managed or controlled directly or indirectly by substantially the same persons; or</li> <li>▫ where the employer is not a company, any company which is managed or controlled directly or indirectly by the employer or any partnership of which the employer is a member; or</li> <li>▫ any fund established mainly for providing benefits for employees or former employees, but excluding: <ul style="list-style-type: none"> <li>○ funds established by trade unions and industrial councils; and</li> <li>○ funds established for post-graduate research which are not financed by the employer.</li> </ul> </li> </ul> </li> </ul> |
| <b>Backdated salary</b>        | <ul style="list-style-type: none"> <li>• Salary, wage or similar remuneration (excluding a bonus) payable by the employer to an employee.</li> </ul>  |
| <b>Cash equivalent</b>         | <ul style="list-style-type: none"> <li>• For taxable benefit purposes, a cash equivalent shall be the value of the taxable benefit less any consideration (if applicable) given by the employee.</li> </ul>   |
| <b>CC</b>                      | <ul style="list-style-type: none"> <li>• Close corporation.</li> </ul>  |
| <b>Commissioner</b>            | <ul style="list-style-type: none"> <li>• Commissioner for the South African Revenue Service.</li> </ul>   |
| <b>Consideration</b>           | <ul style="list-style-type: none"> <li>• For taxable benefit purposes means any consideration given by an employee but does not include any consideration in the form of services rendered by the employee.</li> </ul>  |
| <b>Employees' tax</b>          | <ul style="list-style-type: none"> <li>• An amount of tax that an employer must deduct from all regular or periodic payments (remuneration), paid or which becomes payable to an employee.</li> </ul>   |
| <b>Employee</b>                | <ul style="list-style-type: none"> <li>• An employee for taxable benefit purposes is defined as any person who receives remuneration or to whom remuneration accrues and includes any director of a company but excludes persons who retired before 1 March 1992 except for purposes of the provisions which deal with the payment of an employee's debt or the release of an employee from an obligation to pay a debt.</li> </ul>   |
| <b>Employer</b>                | <ul style="list-style-type: none"> <li>• Any person who pays or is liable to pay a person an amount by way of remuneration including a person responsible for the payment of an amount</li> </ul>   |

|   |  |
|---|--|
|   | <p>by way of remuneration to a person under the provisions of a law or out of public funds or out of funds voted by parliament or Provincial Council. This definition excludes any person not acting as a principle but includes any person acting in a fiduciary capacity or in his / her capacity as trustee in an insolvent estate, an executor or an administrator of a benefit fund, pension fund, pension preservation fund, provident fund, provident preservation fund, retirement annuity fund or any other fund.</p>   |
| <b>Holder of a public office</b>                      | <ul style="list-style-type: none"> <li>• The President, Deputy President, a Minister, a Deputy Minister, a member of the National Assembly, a permanent delegate to the National Council of Provinces, a Premier, a member of an Executive Council or a member of a provincial legislature;</li> <li>• Any member of a municipal council, a traditional leader, a member of a provincial House of Traditional Leaders or a member of the Council of Traditional Leaders; and</li> <li>• A person occupying the office of president, chairman or chief executive officer of any non-profit organisation, shown to the satisfaction of the Commissioner to be organised on a national or regional basis to represent persons with a common interest and the funds of which are derived wholly or mainly from subscriptions from members or donations from the general public.</li> </ul> |
| <b>Long service</b>                                   | <ul style="list-style-type: none"> <li>• For taxable benefit purposes means an initial unbroken period of service of not less than 15 years or any subsequent unbroken period of service of not less than 10 years.</li> </ul>   |
| <b>Month</b>  | <ul style="list-style-type: none"> <li>• In relation to an employer for taxable benefit purposes means any twelve portions into which any calendar year is divided.</li> </ul>   |
| <b>Official rate of interest</b>                      | <ul style="list-style-type: none"> <li>• The rate of interest fixed by the Minister from time to time by notice in the Gazette, where the loan is denominated in the currency of the Republic and a market related rate of interest, where the loan is denominated in a foreign currency.</li> </ul>   |
| <b>PAYE</b>   | <ul style="list-style-type: none"> <li>• Pay-As-You-Earn.</li> </ul>   |
| <b>RAF</b>  | <ul style="list-style-type: none"> <li>• Retirement annuity fund.</li> </ul>   |
| <b>Recognised educational or research institution</b> | <ul style="list-style-type: none"> <li>• A college or university as defined in Section 18A, or a school or any other educational or research institution wheresoever situated which is of a permanent nature, open to the public generally and offering a range of practical and academic courses.</li> </ul>  |
| <b>Relative</b>                                       | <ul style="list-style-type: none"> <li>• A relative as defined in Section 1 means in relation to any person — <ul style="list-style-type: none"> <li>▫ in the first degree: children (own, adopted and / or step) and parents;</li> <li>▫ in the second degree: grandchildren, grandparents, brothers and sisters;</li> <li>▫ in the third degree: great grandchildren, great grandparents, uncles, aunts, nephews and nieces;</li> <li>▫ his / her spouse and any of the spouse's relatives related to the spouse in the same manner above; or</li> <li>▫ the spouse of any relative referred to above.</li> </ul> </li> </ul>  |
| <b>Representative employer</b>                        | <ul style="list-style-type: none"> <li>• Any public officer, liquidator, judicial manager, manager, secretary, officer, guardian, curator, administrator or other person having authority to pay remuneration on behalf of an employer.</li> </ul>   |
| <b>SARS</b>   | <ul style="list-style-type: none"> <li>• South African Revenue Service.</li> </ul>   |
| <b>SDL</b>  | <ul style="list-style-type: none"> <li>• Skills Development Levy.</li> </ul>   |
| <b>SITE</b>   | <ul style="list-style-type: none"> <li>• Standard Income Tax on Employees.</li> </ul>  |
| <b>Taxable benefit</b>                                | <ul style="list-style-type: none"> <li>• A benefit contemplated in the 7<sup>th</sup> Schedule, but excluding — <ul style="list-style-type: none"> <li>▫ any benefit, the amount or value of which is specifically exempt from</li> </ul> </li> </ul>  |

|                        |  |
|------------------------|--|
|                        | <ul style="list-style-type: none"> <li>normal tax in terms of Section 10;</li> <li>▫ any benefit provided by a benefit fund in respect of medical, dental and similar services;</li> <li>▫ any lump sum benefit payable by a benefit, pension, pension preservation fund, provident fund or provident preservation fund, as defined in the Act; and</li> <li>▫ any benefit received by or accrued to a person stationed outside the Republic and employed by any national or provincial sphere of government or any national or provincial public entity, which is substantially funded by Parliament, if they are attributable to that official's services rendered outside the Republic.</li> </ul>  |
| <b>Tax period</b>      | <ul style="list-style-type: none"> <li>● In relation to any employer, as a period of 12 months ending on the last day of February of the relevant tax year or at the option of the employer, an alternate period, in respect of which remuneration is paid or has become due.</li> <li>● in relation to an employee, a tax year (1 March to 28 / 29 February of the next year) <b>or any unbroken period</b> during the tax year — <ul style="list-style-type: none"> <li>▫ during which the employee was employed by one employer in the Republic in standard employment; or</li> <li>▫ during which any annuity was paid or became payable to him / her by one employer; or</li> <li>▫ such period as the Commissioner considers appropriate in the circumstances, where the Commissioner has in relation to the employment of any employee, issued a ruling to the employer.</li> </ul> </li> </ul> |
| <b>UI Commissioner</b> | <ul style="list-style-type: none"> <li>● Unemployment Insurance Commissioner.</li> </ul>   |
| <b>UIC Act</b>         | <ul style="list-style-type: none"> <li>● Unemployment Insurance Contributions Act.</li> </ul>  |
| <b>UIF</b>             | <ul style="list-style-type: none"> <li>● Unemployment Insurance Fund.</li> </ul>   |

## 5 GENERAL AND OBLIGATIONS OF THE EMPLOYER

**Reference to the Act** Paragraph 3, 4, 17, 18 and 19 of the 7<sup>th</sup> Schedule.

**Meaning** An obligation is placed upon the employer to determine the cash equivalent of the value of a taxable benefit.

SARS may, on assessment from normal tax, re-determine the cash equivalent of the taxable benefit if it is considered that the determination made by the employer is incorrect.

If any employee is dissatisfied with the determination of the cash equivalent of the value of a taxable benefit by his / her employer, SARS may consider the matter and, if necessary, issue a directive to the employer.

**Associated institution granting benefits** Where any associated institution in relation to any employer grants a benefit to an employee as a reward for services rendered, it constitutes a taxable benefit deemed to be granted by the employer to the employee.

The employer must determine the cash equivalent of the value of the taxable benefit granted by the associated institution to the employee as if he / she has granted the relevant benefit.

**Certificates by employers** Every employer must deliver an IRP5 / IT3(a) certificate to the employee. The nature of the taxable benefit and the cash equivalent of the value thereof must be reflected on the IRP 5 / IT 3(a) certificate.

Where the employer fails to comply with this requirement, a penalty equal to 10% of

the cash equivalent of the value of the taxable benefit or 10% of the amount by which the cash equivalent is understated may be imposed.

**Annual statement by employer**

The employer must declare that all taxable benefits enjoyed by their employees are included in the certificate issued to employees.

This declaration forms part of the EMP 501 reconciliation statement that must be submitted annually by all employers.

**Offence**

Any person who makes or issues or causes to be made or issued or knowingly possesses or uses or causes to be used any IRP5/IT3(a) certificate which is false, shall be guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding twelve months.

## 6 BENEFITS GRANTED TO RELATIVES OF EMPLOYEES AND OTHERS

**Reference to the Act** Paragraph 16 of the 7<sup>th</sup> Schedule

**Meaning**

An employee is deemed to have been granted a taxable benefit by his / her employer if, as a reward for services rendered or to be rendered by the employee —

- The employer has granted a benefit or advantage directly or indirectly to a relative of the employee; or
- Anything is done by the employer under any agreement, transaction or arrangement so as to confer any benefit or advantage upon any person other than the employee, whether directly or indirectly; and
- The benefit or advantage would have been a taxable benefit if it had been granted to the employee.

## 7 TAXABLE BENEFITS

### 7.1 ACQUISITION OF AN ASSET AT LESS THAN THE ACTUAL VALUE

**Reference to the Act** Paragraph 2(a) and 5 of the 7<sup>th</sup> Schedule

**Meaning**

A taxable benefit shall be deemed to have been granted if any asset consisting of any goods, commodity, marketable security or property of any nature (other than money) is acquired by an employee from the employer or any associated institution, for no consideration or for a consideration less than the value of the asset.

**Value to be placed on the benefit**

The value to be placed on the asset is the market value thereof at the time the employee acquired the asset.

- **However**, where the asset is —
  - movable property and the employer acquired the asset in order to dispose of it to the employee, the value to be placed on the asset is the cost thereof to the employer;
  - trading stock of the employer, the value to be placed on the asset is the lower of the cost thereof to the employer or the market value;
  - marketable securities, the value to be placed on the asset is the market value; and
  - an asset which the employer had the right to use prior to acquiring ownership thereof (for example, a leased asset on which the employer had the right to acquire ownership at the end of the lease agreement),

the value to be placed on the asset is the market value.

|  |   |
|--|---|
| <b>Reducing the value of the benefit</b> | Where <b>assets</b> are presented to the employee as an award for bravery or for long service, the value determined is reduced by the lesser of the cost to the employer of all such assets so awarded to the relevant employee during the tax year and R5 000. For example, if the value of the asset is R5 600, only R600 will be taxable and reflected on the IRP5/IT3(a) certificate.   |
| <b>No value</b>                          | Assets (other than cash) disposed of to an employee in the following circumstances are not regarded as a taxable benefit — <ul style="list-style-type: none"> <li>• Fuel or lubricants supplied for use in a motor vehicle where the private use of such vehicle is brought into account as a taxable benefit according to other provisions of the Schedule (in other words, a company vehicle);</li> <li>• Meals, refreshments, vouchers, board, fuel, power or water which are brought into account as taxable benefits according to other provisions of the Schedule;</li> <li>• Marketable securities acquired by the exercise by the employee of any right to acquire such marketable security, as is contemplated in Section 8A.</li> </ul> |
| <b>Employees' tax</b>                    | Employees' tax must be deducted in the month during which the employee acquires the asset. If the amount of employees' tax to be deducted is excessive in relation to the employee's remuneration for that month, the deduction of the tax in respect of the benefit may be spread over the balance of the tax year during which the benefit accrued to the employee.   |
| <b>IRP5/IT3(a) details</b>               | The cash equivalent of the benefit must be reflected under code 3801.   |
| <b>Examples</b>                          | <ul style="list-style-type: none"> <li>• Prizes given to an employee by an employer or any other person by arrangement with the employer, for sales performance, outstanding work, etc.</li> <li>• Benefits enjoyed by employees according to an agreement whereby employees are provided with credit cards and may purchase goods.</li> <li>• In cases where the employer arranges for the employee to acquire an asset from any other person at a discount, a benefit accrues to the employee.</li> <li>• The provision of security for the protection of the private home of an employee in the form of the installing of an alarm system, burglar bars or the provision of armed response.</li> </ul>   |

## 7.2 RIGHT OF USE OF AN ASSET

|                                      |  |
|--------------------------------------|--|
| <b>Reference to the Act</b>          | Paragraph 2(b) and 6 of the 7 <sup>th</sup> Schedule   |
| <b>Meaning</b>                       | Prescribes that a taxable benefit shall be deemed to have been granted where an employee is granted the right of use of any asset (other than residential accommodation or any motor vehicle) for private or domestic purposes, either free of charge or for a consideration which is less than the value of such use.   |
| <b>Value to be placed on benefit</b> | <p><b>Where the employer is leasing / hiring the asset:</b> The amount of the rental payable by the employer for the period during which the employee has the use of the asset.</p> <p><b>Where the employer owns the asset:</b> An amount calculated for the period during which the employee has the use of the asset, at the rate of 15% per annum on the</p> |



lesser of the cost of the asset to the employer and the market value of the asset at the date of commencement of the period.

**Sole right of use of the asset is granted to the employee:** Where an employee is granted the sole right of use of the asset for a period extending over the useful life of the asset or a major portion thereof, the value to be placed on the use of the asset shall be the cost thereof to the employer.

The taxable benefit will be deemed to have accrued to the employee on the date on which he was first granted the right of use of such asset.

#### No value

Exemptions in respect of assets used for private or domestic purposes are applicable when one of the following criteria is met —

- The private use is incidental to the use of the asset for the employer's business.
- The asset is provided by the employer as an amenity for recreational purposes for the use of his / her employees in general at his / her place of work.
- Any equipment or machine that the employer allows his / her employees in general to use from time to time for short periods where the value of the private use of the asset is negligible.
- The asset consists of telephone or computer equipment which the employee uses mainly for the purposes of the employer's business.
- Books, literature, recordings or works of art.

#### Employees' tax

The cash equivalent of the benefit must be apportioned and is deemed to have accrued on a monthly or weekly basis during the year at the same intervals that the employee receives his / her cash remuneration, except in respect of those cases where the employee is granted the sole right of use of the asset during its useful life or a major portion thereof. As the latter benefit is deemed to accrue on the date on which he / she was first granted the right of use of such asset, employees' tax must be deducted from the full value of the benefit during that specific month.

#### IRP5/IT3(a) details

The cash equivalent of the benefit must be reflected under code 3801.

#### Example

**Employer rents the asset:** The employer rents a caravan from a third party and makes it available to the employee for a holiday. The employer pays R100 per day for 10 days, which amounts to R1 000 rent paid by the employer.

The R1 000 is subject to employees' tax and the employer must deduct the employees' tax from the employee at the same intervals at which the employee is remunerated for the relevant period of use.

**Employer owns the asset:** The employer owns a caravan which he makes it available to the employee for a holiday of 10 days. The employer paid R60 000 on the date he bought the caravan but the market value of the caravan on the date he made it available for use by the employee is R40 000.

- The taxable benefit is calculated on the lesser of —
  - $15\% \times R60\,000 \div 365 \times 10 \text{ days} = R247$  (cost of the asset to the employer); or
  - $15\% \times R40\,000 \div 365 \times 10 \text{ days} = R164$  (market value of the asset on the commencement date of the period of use).

The R164 would be subject to employees' tax and the employer must deduct the employees' tax from the employee at the same intervals at which the employee is remunerated for the relevant period of use.

### 7.3 RIGHT OF USE OF A MOTOR VEHICLE

|   |  |
|---|--|
| <b>Reference to the Act</b>                               | Paragraph 2(b) and 7 of the 7 <sup>th</sup> Schedule   |
| <b>Meaning</b>  | A taxable benefit shall be deemed to have been granted where an employee is granted the right of use of any motor vehicle for private or domestic purposes, either free of charge or for a consideration which is less than the value of such use. The private use of the vehicle includes travelling between the employee's place of employment and place of residence.   |
| <b>Determined value of motor vehicle means:</b>           | <p>Vehicle was <b>acquired under a bona fide agreement of sale or exchange</b> concluded by parties acting at arm's length: the original cost of the vehicle to the employer (excluding finance charges, interest, sales tax or value-added tax borne by him / her);</p> <p>Where the vehicle is <b>supplied by a manufacturer of motor vehicles</b> to his / her employee: the cost of manufacturing of the vehicle;</p> <p>Where the vehicle was <b>held by the employer under a lease and the ownership thereof was acquired</b> by him / her on the termination of the lease or is held by the employer under a lease agreement only: the retail market value thereof at the time the employer first obtained the right of use of the vehicle or where at the time the lease was a lease as contemplated in paragraph (b) of the definition instalment credit agreement in Section 1 of the Value-Added Tax Act, the cash value thereof as contemplated in the definition of cash value in the said Section, but excluding the value-added tax; or</p> <p>Where the employer has granted an employee the right of use of a motor vehicle and a <b>limit was placed on the value of such vehicle to be acquired</b> for this purpose by the employer and the employee makes a contribution towards the purchase price of a more expensive vehicle, the contribution made by the employee, must be deducted from the cost price of the asset for the purpose of determining the determined value.</p> <p>Employees of <b>dealers in new and second hand vehicles</b> may use several vehicles over short periods before they are sold. The determined value for the use of the vehicles may be based on the average cost of all stock in trade at the end of the immediate preceding tax year.</p> <p>Where an employee and the motor vehicle allocated to him / her are both <b>transferred to an associated institution</b>, the determined value of the motor vehicle must be determined as on the date that the employee first became entitled to the right of use of such vehicle.</p> <p><b>In any other case</b>, for example, a <b>gift</b>: the market value at the time the employer first obtained the right of use of the vehicle.</p> |
| <b>Reducing the determined value of the motor vehicle</b> | If the employer acquired the vehicle or the right of use of the vehicle 12 months or more before the date on which the employee is granted the right of use of the vehicle, a depreciation allowance must be deducted from the value of the vehicle as determined. The allowance is calculated according to the reducing balance method at the rate of 15% for each completed period of 12 months, calculated from the date on which the employer first obtained such vehicle or the right of use thereof to the date on which the employee was first granted the use of the vehicle.  |

**Example:** A vehicle with a cost of R55 000 (exclusive of value-added tax and finance charges) was acquired by the employer on 1 January 2008. Employee A uses the vehicle for 30 months from 1 January 2008 where after the right of use was granted to employee B.

- With regard to employee A, the determined value for the period he has the use of the vehicle is R55 000.
- With regard to employee B, the determined value of the vehicle is calculated as follows:

|   |               |
|---|---------------|
| Cost price on 01/01/2008 .....  | 55 000        |
| Less: depreciation allowance for period 01/01/2008 to 31/12/2008<br>(R55 000 x 15%) ..... | 8 250         |
| Less: depreciation allowance for period 01/01/2009 to 31/12/2009<br>(R46 750 x 15%) ..... | 7 013         |
| Determined value on 01/07/2010 .....  | <u>39 737</u> |

**Note:** The depreciation allowance can only be granted for each completed period of 12 months.

**Value to be placed on the benefit**

For each month during which the employee is entitled to use the vehicle for private purposes, the value is 2,5% of the determined value of the motor vehicle.

**More than one vehicle is made available to a particular employee at the same time:**

Where the employee has the use of more than one motor vehicle simultaneously, the value of the second or successive vehicle must be calculated at 4% - the vehicle with the highest determined value must be taxed at 2,5%.

**Employee receives travel allowance in respect of the relevant vehicle:**

Where the employee receives a travel allowance in respect of the relevant vehicle, the value must be calculated as if the vehicle is the second vehicle (4%).

**Use of motor vehicle for a period less than a full month:**

Where the employee has the use of the vehicle for part of a month, the amount of the value of private use must be determined in the same ratio as the number of days the employee had the use of the vehicle to the total number of days in the month.

**Maintenance contract included in the purchase price of a vehicle:**

Where a motor dealer includes a maintenance contract in the purchase price of a vehicle, the value of the maintenance contract should be excluded from the calculation of the value of the benefit received by an employee when the right of use is granted to such employee.

**Example**

- **Employer bears the costs of fuel and maintenance**
  - The employer allocates the use of a motor vehicle with a determined value of R60 000 to the employee. The employer bears all the costs in respect of fuel and maintenance.
  - The taxable value of the benefit is R1 500 per month.  
(R60 000 x 2,5%)
- **Employer bears only the costs of maintenance:**

- The employer allocates the use of a motor vehicle with a determined value of R120 000 to the employee. The employee bears all the costs in respect of fuel but the employer bears all the costs in respect of maintenance.
  - The taxable value of the benefit is R2 736 per month.  
[R120 000 x (2,5% — 0,22%)]
- **Employee bears the costs of fuel and maintenance:**
  - The employer allocates the use of a motor vehicle with a determined value of R80 000 to the employee. The employee bears all the costs in respect of fuel and maintenance.
  - The taxable value of the benefit is R1 680 per month.  
[R80 000 x (2,5% — 0,22% — 0,18%)]
- **Employee pays compensation for the use of the vehicle:**
  - The employer allocates the use of a motor vehicle with a determined value of R120 000 to the employee. The employee pays R200 per month compensation to the employer for the private use and bears all the costs in respect of fuel but the employer bears the costs of maintenance.
  - The taxable value of the benefit is R2 536 per month.  
[R120 000 x (2,5% — 0,22%) — R200]
- **Employee receives a travel allowance in respect of the relevant vehicle:**
  - The employer allocates the use of a motor vehicle with a determined value of R130 000 to the employee. The employee receives a travel allowance of R1 000 per month and bears all the costs in respect of fuel and maintenance.
  - The taxable value of the benefit is R5 200 per month.  
(130 000 x 4%)
- **Employee has the use of more than one vehicle:**
  - The employer allocates the use of a motor vehicle with a determined value of R125 000 to the employee. The employee also has the use of a second motor vehicle with a determined value of R110 000.
  - The taxable value of the benefit is R7 525 per month.  
[(R125 000 x 2,5%) + (R110 000 x 4%)]

**Reducing the value of the benefit**

Where the employee does not receive a travel allowance or advance in respect of the vehicle and the employee —

- bears the cost of all fuel used for the purposes of the private use of the vehicle, the monthly value of the benefit must be determined by deducting 0,22 percentage points from the percentage to be applied to the determined value of that motor vehicle.
- bears the cost of all maintenance (including repairs, servicing, tyres, etc.), the monthly value of the benefit must be determined by deducting 0,18 percentage points from the percentage to be applied to the determined value of that motor vehicle.
- pays any consideration for the private use of the vehicle, it must be deducted from the value of the benefit. However, where the employee receives a travel allowance in respect of the relevant vehicle, no consideration paid for the use of the vehicle may be deducted from the benefit.

**Note:** No reduction in the value of private use may be made for any period the vehicle is temporarily not used for private purposes. If an employee is, however, required to travel for business purposes away from his / her usual work place by his / her employer for a period exceeding one month and leaves his / her company vehicle at the premises of the employer, no benefit accrues for the duration the employee is away.

**No value** The private use by an employee of a motor vehicle shall be deemed to have no value, if —

- the vehicle is available to and is used by other employees of the employer in general and the private use of the vehicle by the employee is infrequent or is merely incidental to the business use and the vehicle is not normally kept at or near the residence of the employee concerned when not in use outside business hours; or
- the nature of the employee's duties are such that he / she is regularly required to use that vehicle for the performance of such duties outside his / her normal hours of work and he / she is not permitted to use such vehicle for private purposes (other than travelling between his / her place of residence and place of work) or private use which is infrequent or is merely incidental to its business use.

**Important** If the employee keeps an accurate record of the distance travelled for private purposes and the distance so travelled is less than 10 000 kilometres per year, the Commissioner may, when the employee's income tax assessment is raised for the relevant year, place a lesser value on the private use of the vehicle. The employee must retain an accurate logbook showing actual distances travelled.

Where more than one motor vehicle is made available to an employee at the same time, the employer must determine the value of the taxable benefit according to the prescribed rules [2,5% of vehicle with the highest determined value and 4% for other vehicle(s) determined value(s)]. If the Commissioner is satisfied that each vehicle is used during the tax year primarily for business purposes (more than 50% of the total distance travelled with each vehicle), the value of the taxable benefit in respect of all the vehicles may be re-determined upon assessment by using the value of the vehicle having the highest taxable benefit value, unless the Commissioner directs otherwise. The employee must retain an accurate logbook for each vehicle showing actual distances travelled for business and private purposes and full details of the reasons why it was necessary to make more than one vehicle available to the employee may be requested when the employee makes an application for this concession.

**Employees' tax** The cash equivalent of the benefit accrues monthly and employees' tax must be deducted.

**IRP5/IT3(a) detail** The cash equivalent of the benefit must be reflected under code 3802.

## 7.4 MEALS, REFRESHMENTS AND MEAL AND REFRESHMENT VOUCHERS

**Reference to the Act** Paragraph 2(c) and 8 of the 7<sup>th</sup> Schedule

**Meaning** A taxable benefit shall be deemed to have been granted where the employee has been provided with any meal or refreshment or voucher entitling him / her to any meal or refreshment, either free of charge or for a consideration which is less than the value of such meal, refreshment or voucher.

**Value to be placed on the benefit** The amount of the cost to the employer less any consideration paid by the employee.

**No value** Shall be placed on —

- Any meal or refreshment supplied by an employer to his / her employees in any canteen, cafeteria or dining room operated by or on behalf of the employer and patronised wholly or mainly by his / her employees or on the business premises of the employer;
- Any meal or refreshment supplied by an employer to any employee during business hours or extended working hours or on special occasions;
- Any meal or refreshment enjoyed by an employee in the course of providing a meal or refreshment to any person whom the employee is required to entertain on behalf of the employer;
- Board and meals provided with accommodation. They are dealt with as part of the accommodation benefit.

**Employees' tax** Employees' tax must be deducted from the cash equivalent of the benefit.

**IRP5/IT3(a) detail** The cash equivalent of the benefit must be reflected under code 3801.

**Example** The employer pays R20 a meal for his employees at a dining place close to where his business is situated. He provides each employee with 20 coupons per month for which the employees must pay R160 (R8 per coupon). One meal can be enjoyed at the dining place for each coupon. The taxable value of the benefit is calculated as follows:

|                                  |            |                         |
|----------------------------------|------------|-------------------------|
| Cost to the employer .....       | 400        | (20 coupons x R20 each) |
| Less: cost to the employee ..... | <u>160</u> | (20 coupons x R8 each)  |
| Taxable benefit .....            | <u>240</u> |                         |

## 7.5 ACCOMMODATION

**Reference to the Act** Paragraph 2(d) and 9 of the 7<sup>th</sup> Schedule

**Meaning** A taxable benefit shall be deemed to have been granted where the employer has provided the employee with residential accommodation either free of charge or for a rental consideration which is less than the value of such accommodation.

**Value to be placed on the benefit** **Residential accommodation:** The value to be placed on the benefit is the greater of —

- an amount determined according to the following formula: or
 
$$(A - B) \times \frac{C}{100} \times \frac{D}{12}$$
- an amount equal to the cost for the employer (in other words, rentals paid and other expenses defrayed in order to provide such accommodation).

**Holiday accommodation:** The value to be placed on the benefit which is temporarily occupied depends on whether the accommodation is owned or hired by the employer.

- **Hired:** Where such accommodation is hired by the employer from a person other than an associated institution in relation to the employer, so much of the rental payable and any amounts chargeable in respect of meals, refreshments or any other services as have been borne by the employer.

- **Owned:** Where such accommodation so owned by the employer or hired by the employer from an associated institution in relation to that employer, an amount calculated at the prevailing rate per day at which such accommodation could normally be let to a person other than an employee.

**Formula symbols meaning**

For purposes of the above formula —

- A represents the remuneration factor as determined in relation to the tax year;
- B represents an abatement equal to an amount of R54 200, provided that the abatement is reduced to ZERO where:
  - the employer is a private company and the employee or his / her spouse controls the company or is one of the persons controlling the company, whether control is exercised directly as a shareholder in the company or as a shareholder in any other company; or
  - the employee, his / her spouse or minor child has a right of option or pre-emption granted by the employer or any other person by arrangement with the employer or any associated institution in relation to the employer, whereby the employee, his / her spouse or minor child may become the owner of the accommodation, whether directly or indirectly by virtue of a controlling interest in a company or otherwise;
- C represents a quantity of 17, provided that —
  - C represents a quantity of 18 where the accommodation consists of a house, flat or apartment consisting of at least four rooms; and:
    - such accommodation is unfurnished and power or fuel is supplied by the employer; or
    - such accommodation is furnished, but power or fuel is not supplied by the employer; or
  - C represents a quantity of 19 where the accommodation consists of a house, flat or apartment consisting of at least four rooms and such accommodation is furnished and power or fuel is supplied by the employer; and
- D represents the number of full months in relation to the tax year during which the employee was entitled to the occupation of the accommodation.

**Remuneration**

For purposes of the above formula means, in relation to an employee, the aggregate remuneration as determined for employees' tax purposes excluding 80% of a travel allowance, which has been derived by him / her from his / her employer and any associated institution in relation to the employer, but excluding —

- the value of the taxable benefit derived in respect of the private use of a vehicle and the taxable benefit in respect of residential accommodation; and
- the amount of the remuneration derived by an employee who is not the controlling shareholder or one of the controlling shareholders of the employer company, from an associated institution in relation to the employer if it is shown to the satisfaction of the Commissioner that the employee's employment with the employer is not in any way connected with the employment with the associated institution.

**Remuneration factor**

for purposes of the above formula means, in relation to a tax year during which residential accommodation has been occupied, the remuneration derived by the

employee during the tax year immediately preceding that tax year, provided that —

- where the employee was not employed by the employer concerned for the whole of the preceding year, the remuneration he / she received from the employer for the portion of the year he / she was employed by the employer, must be calculated pro rata for the full 365 days; and
- if the employee was not employed by the employer for any portion of the preceding year, the employee's remuneration for the first month he / she is employed by the employer, must be calculated pro rata for a full 365 days.

**Employer rents a residence from his / her employee**

There is one important exception to the formula method of determining this benefit. This exception occurs when an employer rents from his / her employee a residence in which the employee has an interest.

An employee will be deemed to have an interest in the accommodation if —

- such accommodation is owned by the employee or a connected person in relation to such employee;
- any increase in the value of the accommodation in any manner whatsoever, whether directly or indirectly, accrues for the benefit of the employee or a connected person in relation to such employee; or
- such employee or a connected person in relation to such employee, has a right to acquire the accommodation from his / her employer.

**Employee has an interest in the accommodation**

In all cases where it can be said that the employee has an interest in the accommodation and such accommodation has been let to the employer who in turn has granted such employee free or cheap occupation thereof, the value of the benefit is the greater of —

- the value determined in accordance with the formula; or
- an amount equal to the rental together with any other expenditure paid by the employer,

and is therefore, fully taxable in the hands of the employee.

**Important**

The value determined in accordance with the formula (except where the employee has an interest in the accommodation in question) shall apply where —

- it is customary for an employer in the industry concerned to provide free or subsidised accommodation to his / her employees;
- it is necessary for the particular employer, having regard to the particular kind of employment, to provide free or subsidised accommodation —
  - for the proper performance by the employees of their duties;
  - as a result of the frequent movement of employees; or
  - as a result of the lack of employer-owned accommodation; and
- the benefit is provided solely for bona fide business purposes, other than the obtaining of a tax benefit.

Where all three criteria have been met, the formula-based value will be included in the taxable income of the employee, even though the employer does not own the accommodation. The valuation based on the cost for the employer will however, not apply.



**More than one residential accommodation available to the employee**

Where more than one residential accommodation at different places has been made available to the employee, which he / she is entitled to occupy from time to time while performing his / her duties, the amount of the value of the unit with the highest rental value over the full period during which the employee was entitled to occupy more than one unit, must be included in his / her gross income.

**Reducing the determined value**

Where, by reason of the situation, nature or condition of the accommodation or any other factor, the Commissioner is satisfied that the rental value is less than the rental value determined, he / she may determine such rental value at a lower rate / amount which he / she considers fair and reasonable. An application for a ruling for employees' tax purposes should be made to SARS. This ruling must be renewed annually.

**No value**

Is placed on any accommodation away from an employee's usual place of residence —

- In the Republic while such employee is absent from his / her usual place of residence in the Republic for the purpose of performing the duties of his / her employment. This provision shall not apply to any residential unit where more than one residential accommodation at different places has been made available to the employee which he / she is entitled to occupy from time to time while performing his / her duties.
- Outside the Republic for a period not exceeding 2 years from the date of arrival of that employee in the Republic for the purposes of performing the duties of his / her employment or if that accommodation is provided to the employee during the year of assessment and that employee is physically present in the Republic for a period of less than 90 days in that year. These provisions do not apply —
  - if the employee was present in the Republic for a period exceeding 90 days during the year of assessment immediately preceding the date of arrival of that employee in the Republic; or
  - to the extent that the cash equivalent of the value of the taxable benefit derived from the occupation of the residential accommodation exceeds an amount equal to R25 000 multiplied by the number of months during which the employee was away.

**Employees' tax**

The cash equivalent of the benefit must be calculated during the year at the same intervals at which the employee receives his / her cash remuneration and employees' tax must be deducted.

**IRP5/IT3(a) detail**

The cash equivalent of the benefit must be reflected under code 3801.

**Example**

**Employer owns the accommodation:** The employee was in the employer's employ for the full previous tax year. His salary was R7 800 per month. The employer owns accommodation and supplies the employee with unfurnished accommodation that consists of at least four rooms.

The employee uses the accommodation for the full year and pays R500 rent per month. All other expenses in respect of the accommodation are borne by the employer.

The value of the taxable benefit must be determined as follows:

|  |            |
|--|------------|
| R93 600(A) — R54200(B) x $\frac{18(C)}{100}$ x $\frac{1(D)}{12}$ = | 591        |
| Less: rental paid by employee for the accommodation                | <u>500</u> |
| Taxable benefit  | <u>91</u>  |

**Employer rents the accommodation** The employee rents a flat for R2 000 per month. The employer decides to pay half of the employee's rent instead of an

annual salary increase. To simplify the administration involved, the employer deducts R1 000 every month from the employee's salary and pays the R2 000 to the land lord. The taxable value of the benefit is calculated as follows:

|                                     |              |
|-------------------------------------|--------------|
| Amount paid by the employer .....   | 2 000        |
| Less: employee's contribution ..... | 1 000        |
| Taxable benefit .....               | <u>1 000</u> |

## 7.6 FREE OR CHEAP SERVICES

**Reference to the Act** Paragraph 2(e) and 10 of the 7<sup>th</sup> Schedule

**Meaning** A taxable benefit shall be deemed to have been granted if any service has at the expense of the employer been rendered to the employee (whether by the employer or by some other person) and that service has been utilised by the employee for his / her private or domestic purposes and no consideration or an inadequate consideration has been given by the employee.

**Value to be placed on the benefit** **In the case of any travel facility** granted by an employer engaged in the business of conveying passengers for reward by sea or air, to enable any employee or his / her relative to travel to any destination outside the Republic for private purposes, an amount equal to the lowest fare payable by any passenger utilising such facility less any amount paid by the employee or his / her relative. For this purpose, the forward and return journey is regarded as one journey.

**In the case of rendering of any other service**, the cost to the employer in rendering such service or having such service rendered, less any amount paid by the employee.

**Example** If an educational institution such as a university or technikon provides free or cheap tuition to the children of personnel, a taxable benefit arises. The value that must be placed on the benefit is the marginal cost involved in the tuition of the additional person. If the employee makes a contribution that is equal to or more than the marginal cost, no taxable benefit accrues.

**No value** Shall be placed on —

- Any travel facility granted by an employer engaged in the business of conveying passengers for reward by land, sea or air, to enable any employee, his / her spouse or minor children to travel —
  - to any destination in the Republic or to travel overland to any destination outside the Republic; or
  - to any destination outside the Republic if such travel was undertaken on a flight or voyage made in the ordinary course of the employer's business and such employee, spouse, or minor child was not permitted to make a firm advance reservation of the seat or berth occupied by him / her.
- Any transport service rendered to employees in general for the conveyance of such employees from their home to the place of their employment and vice versa.
- Any communication service provided to an employee if the service is used mainly for the purposes of the employer's business.
- Services rendered to employees at their place of work —
  - for better performance of their duties,
  - as a benefit to be enjoyed by them at their place of work, or

- for recreational purposes at work or a place of recreation, other than at the place of work that is for the use of employees in general.
- The provision of parking for motor vehicles of personnel at their place of work is not a taxable benefit.
- Any travel facility granted by an employer to the spouse or minor child of the employee if —
  - The employee is for the duration of his / her employment stationed for purposes of the employer's business at a specific place in the Republic further than 250 kilometres away from his / her usual place of residence in the Republic;
  - The employee is required to spend more than 183 days during the tax year at that specific place; and
  - Such a facility is granted in respect of travel between the employee's usual place of residence in the Republic and that specific place where the employee is so stationed.

**Employees' tax** Employees' tax must be deducted from the cash equivalent of the benefit.

**IRP5/IT3(a) detail** The cash equivalent of the benefit must be reflected under code 3801.

## 7.7 LOW INTEREST OR INTEREST FREE LOANS

**Reference to the Act** Paragraph 2(f), 10A and 11 of the 7<sup>th</sup> Schedule

**Meaning** Prescribes that a taxable benefit shall be deemed to have been granted if a loan (other than a loan for purposes of paying any consideration by the employer in respect of a qualifying equity share, the payment of any stamp duties or uncertified securities tax payable in respect of that share or a loan in respect of which a subsidy is payable to the borrower by the employer), has been granted to the employee, whether by the employer, by any other person by arrangement with the employer or any associated institution in relation to the employer.

**Value to be placed on the benefit** The amount of interest that would have been paid on the loan during the tax year if any interest had been paid at the official rate, less the amount of interest (if any) actually incurred by the employee.

Where an employer provides loans financed out of his / her own funds to employees, the taxable benefit will be the amount of interest that the employees would have paid in respect of the tax year, if they were obliged to pay interest at the official interest rate.

**No value** Shall be placed on the benefit derived in consequence of —

- The granting of a casual loan or loans if the aggregate of such loans do not exceed the sum of R3 000 at any time. The loans contemplated in this exclusion are short-term loans granted at irregular intervals to employees and not all loans merely because they are less than R3 000. A taxable benefit would arise if the loans were granted on a regular basis to all employees or a certain category of employees notwithstanding the fact that the loan does not exceed R3 000.
- The granting of a loan for the purpose of enabling the employee to further his / her own studies.

If a financial institution such as a bank provides loans to its employees at the same rate as to the customers of the institution on the same conditions and under the

same circumstances, no taxable benefit will accrue if such customer rate is below the official interest rate.

If a low interest or interest free loan is provided to a director of a company or to a member of a close corporation, no taxable benefit will accrue if such loan is, for example, provided only as a result of the director's share holding and not in respect of any services rendered. In such a case, the interest on the loan will not be deductible in the hands of the company or close corporation.

**Deemed loans**

Paragraph 10A of the 7<sup>th</sup> Schedule makes provision for the benefits granted to employees under a certain type of housing scheme, to be deemed to constitute a loan. Under this type of scheme, the employee's house is acquired by and registered in the name of his / her employer. The employee is in terms of the agreement with the employer either entitled or obliged to acquire the house, either on termination of his / her service or after the expiration of a fixed period, at a price stated in such an agreement. The employee is granted the right to occupy the house and as a consideration in respect of his / her occupation pays a rental to the employer, which is calculated as a given percentage of the cost of the house to the employer. This scheme is in effect identical to the granting by the employer of a low-interest housing loan and is in terms of Paragraph 10A to be treated as such.

Where the employee ultimately purchases the house from the employer, which will probably be at a price considerably lower than its then market value, the difference between the market value and the purchase price will not be subject to tax in the hands of the employee, provided that the purchase price is not lower than the market value of the house on the date on which the original agreement was concluded between the employer and the employee.

**Deemed interest**

Where a loan obtained by the employee from the employer is used by the employee to produce income, for example where the employee uses the money to purchase fixed property from which he / she derives rental income, the cash equivalent of the taxable benefit which is included in the employees' taxable income, will be deemed to be interest actually paid by him / her and will be allowed as a deduction from the income earned.

**Accrual of taxable benefit**

A portion of the cash equivalent is, for employees' tax purposes deemed to have accrued to an employee where —

- interest on the loan becomes payable by the employee at regular intervals during the tax year, on each date during the year on which interest becomes payable;
- interest on the loan becomes payable at irregular intervals or where interest is not payable, on the last day of each period during the year in respect of which any cash remuneration becomes payable to the employee.

**Employees' tax**

The amount that is subject to employees' tax is determined by calculating the interest at the official rate for the portion of the year mentioned above, reduced by the amount and interest (if any) actually payable by the employee for the portion in question.

An alternative method for the calculating of the cash equivalent for employees' tax and normal tax purposes may be used if the Commissioner is satisfied that such method achieves substantially the same result as the prescribed methods.

**IRP5/IT3(a) detail**

The cash equivalent of the benefit must be reflected under code 3801.

## 7.8 SUBSIDIES IN RESPECT OF LOANS

|                             |  |
|-----------------------------|--|
| <b>Reference to the Act</b> | Paragraph 2(g), 2(gA) and 12 of the 7 <sup>th</sup> Schedule   |
| <b>Meaning</b>              | <p>That a taxable benefit shall be deemed to have been granted if the employer has paid any subsidy in respect of the amount of interest or capital repayments payable by the employee in terms of any loan.</p> <p>That a taxable benefit shall be deemed to have been granted if the employer has made a payment to a third party in respect of the granting by that party of a low interest or interest free loan to an employee. Such payment would be deemed to be a subsidy.</p>   |
| <b>Value of the benefit</b> | The amount of any subsidy paid by the employer in respect of the amounts of interest or capital repayments.  |
| <b>Employees' tax</b>       | The full amount of the subsidy in respect of loans is subject to the deduction of employees' tax.  |
| <b>IRP5/IT3(a) detail</b>   | The cash equivalent of the benefit must be reflected under code 3801.  |
| <b>Example</b>              | <p><b>Interest paid on a loan exceeds the official rate of interest:</b> The employee obtains a loan from a financial institution and is required to pay interest thereon at a rate of 7%. The reason for the low interest rate is that his employer has arranged to recompense the financial institution for the loss of interest on the difference between 7% and the normal rate of interest charged, for example 13%.</p> <p>As the interest paid by the employee and the payment made by the employer exceeds the official interest rate of 8%, the payment is deemed to be a subsidy which is subject to tax under the provisions of Paragraph 12 of the 7<sup>th</sup> Schedule.</p> <p>The value of the benefit (subsidy) will be equivalent to <math>13\% - 7\% = 6\%</math>.</p> <p><b>Interest paid on a loan does not exceed the official rate of interest:</b> The employee obtains a loan from an associated institution and is required to pay interest thereon at a rate of 6%. His employer has arranged to recompense the associated institution for the loss of interest but only to a maximum of 7%.</p> <p>As the interest paid by the employee and the payment made by the employer does not exceed the official interest rate of 8%, the benefit is regarded to be a low interest loan which is subject to tax under the provisions of Paragraph 11 of the 7<sup>th</sup> Schedule.</p> <p>The value of the benefit will be equivalent to <math>7\% - 6\% = 1\%</math>.</p> |

## 7.9 PAYMENT OF AND EMPLOYEE'S DEBT OR RELEASE EMPLOYEE FROM AN OBLIGATION TO PAY A DEBT

|  |   |
|--|---|
| <b>Reference to the Act</b>              | Paragraph 2(h) and 13 of the 7 <sup>th</sup> Schedule   |
| <b>Meaning</b>                           | A taxable benefit shall be deemed to have been granted if the employer has paid an amount owing by the employee to a third party, whether directly or indirectly, without requiring the employee to make any payment for the amount paid or the employer has released the employee from an obligation to pay an amount owing by the employee to the employer. This excludes medical contributions made by the employer or medical costs incurred by the employer. |
| <b>Value to be placed on the benefit</b> | The amount paid by the employer or the amount of the debt from which the employee has been released.  |

There is no limitation on the method by which this debt may have been arisen or the size of the debt.

**No value**

- No value shall be placed on the benefit derived by reason of the fact that an employer has paid subscriptions to a professional body due by the employee, if such membership of such body is a condition of the employee's employment.
- No value shall be placed on the benefit should the new employer grant a low interest or interest free loan to the employee in order to enable him / her to recompense the previous employer, such new loan cannot be regarded as a study loan in respect of which no benefit is considered to arise. However, a refund of any bursary, study loan or similar assistance by an employer on behalf of his / her employee to the employee's previous employer, is not regarded as a taxable benefit, if —
  - the employee's previous employer made a grant on condition that the employee rendered service to the employer for an agreed period;
  - on termination of service before the expiration of the period agreed upon, the employee is liable to refund an amount to his / her previous employer;
  - upon accepting employment with a new employer, the outstanding amount is refunded to the previous employer by the new employer on behalf of the employee; and
  - the employee consequently is liable to work for the new employer for a period not shorter than the remaining period which he / she should still have worked for the previous employer.

**Note:** A Scholarship, which is subject to repayment if certain written conditions are not met, is treated as a bona fide scholarship or bursary until the conditions are not fulfilled. In the tax year in which such conditions are not fulfilled, the amount of the scholarship will be regarded as a loan and any benefit that the employee may have received will constitute a taxable benefit.

**Employees' tax**

Employees' tax must be deducted from the cash equivalent during the month in which the benefit accrues to the employee. If however the amount of employees' tax to be deducted is excessive in relation to the employee's monthly remuneration for that month, the deduction of the tax in respect of the benefit may be spread over the balance of the tax year during which the benefit accrued to him / her.

**IRP5/IT3(a) detail**

The cash equivalent of the benefit must be reflected under code 3801.

**Examples**

Where any debt owing by an employee to an employer is extinguished by prescription, the employer shall be deemed to have released the employee from his / her obligation to pay the debt, unless it can be shown to the satisfaction of the Commissioner that it was not the intention of the employer to confer a benefit on the employee.

Payment by employers of a portion or the whole of an employee's mortgage bond payment, credit card account, clothing account, etc., is fully subject to tax notwithstanding the fact that the payment is made by the employer directly to the institution or supplier.

Where an employee changes employment and is obliged to repay a study loan or a bursary to his / her previous employer, the new employer may pay this debt on behalf of the employee. Such a payment constitutes a benefit to the employee, which must be taxed in full.

## 7.10 MEDICAL SCHEME CONTRIBUTIONS PAID BY AN EMPLOYER

|  |  |
|--|--|
| <b>Reference to the Act</b>  | Paragraph 2(i) and 12A of the 7 <sup>th</sup> Schedule<br>Section 18(5)  |
| <b>Meaning</b>   | A taxable benefit shall be deemed to have been granted where the employer contributes, directly or indirectly, to a medical scheme on behalf of an employee and his / her dependants.  |
| <b>Value to be placed on the benefit</b>                                 | The amount of the contribution or payment by the employer (directly or indirectly) to a medical scheme for the benefit of the employee and dependants of such employee for any period.   |
| <b>Appropriate portion cannot be attributed to the relevant employee</b> | <p>In cases where the contribution or payment is made by the employer in such a manner that an appropriate portion thereof cannot be attributed to the relevant employee, in other words, where the employer makes a lump sum payment to the scheme in respect of all employees or a class of employees, the amount of that contribution or payment in relation to that employee and his / her dependants is deemed to be an amount equal to the total contribution or payment by the employer to the scheme during the relevant period for the benefit of all employees and their dependants divided by the number of employees in respect of whom the contribution or payment is made.</p> <p>If the Commissioner is in any case satisfied that the apportionment of the contribution or payment amongst all employees does not reasonably represent a fair apportionment of that contribution or payment amongst the employees, he / she may direct that the apportionment be made in such other manner as to him / her appears fair and reasonable to him / her.</p> |
| <b>No value</b>  | <p>Shall be placed on the benefit, if the payment by the employer is made on behalf of —</p> <ul style="list-style-type: none"> <li>• a pensioner (a person who by reason of superannuation, ill-health or other infirmity retired from the employ of such employer);</li> <li>• the dependants of a pensioner after the death of the pensioner, (if such pensioner retired from the employ of such employer by reason of superannuation, ill-health or other infirmity);</li> <li>• the dependants of a deceased employee after such employee's death, if such deceased employee was in the employ of the employer on the date of death; or</li> <li>• an employee who is 65 years or older.</li> </ul>   |
| <b>Employees' tax</b>  | Employees' tax must be deducted during the month in which the benefit accrues.   |
| <b>IRP5/IT3(a) detail</b>  | <p>The fringe benefit value taxed in the hands of the employee must be added to the value of code 4005 as it is deemed in terms of Section 18(5) to have been paid by the employee if the benefit was included in the employee's remuneration.</p> <p>Employer's medical scheme contributions made for the benefit of the employee must be reported under —</p> <ul style="list-style-type: none"> <li>• code 3810 (fringe benefit value); and</li> <li>• code 4474 where the employee is not a retired employee or the contributions were not made for the benefit of the dependants of a deceased</li> </ul>   |

employee; or

- code 4493 where the “no value” provisions apply in respect of the relevant employee / former employee.

**Example**

The employer pays R2 200 of the total monthly medical fund contribution of R3 594. The employer deducts the difference of R1 394 from the employee’s monthly remuneration.

The taxable value of the benefit is R2 200.

## 7.11 MEDICAL COSTS INCURRED BY AN EMPLOYER

**Reference to the Act**

Paragraph 2(j) and 12B of the 7<sup>th</sup> Schedule

**Meaning**

A taxable benefit shall be deemed to have been granted where the employer, directly or indirectly, incurred any amount (other than a medical scheme contribution paid to a registered medical scheme) in respect of medical, dental and similar services, hospital services, nursing services or medicines provided to the employee, his / her spouse, child, relative or other dependant.

**Value to be placed on the benefit**

The amount incurred by the employer (directly or indirectly) in respect of any medical, dental and similar services, hospital services, nursing services or medicines in respect of that employee, his / her spouse, child or other relative or dependants.

**Appropriate portion cannot be attributed to the relevant employee**

Where the payment is made in such a manner that an appropriate portion thereof cannot be attributed to the relevant employee and his / her spouse, children, relatives and dependants, the amount of that payment in relation to that employee and his / her spouse, children, relatives and dependants is deemed to be an amount equal to the total amount incurred by the employer during the relevant period in respect of all medical, dental and similar services, hospital services, nursing services or medicines for the benefit of all employees and their spouses, children, relatives and dependants divided by the number of employees who are entitled to make use of those services.

**No value**

No value must be placed on any benefit —

- resulting from the provision of medical treatment listed in any category of prescribed minimum benefits determined by the Minister of Health in terms of Section 67(1)(g) of the Medical Schemes Act no. 131 of 1998, which is provided to the employee or his / her spouse or children in terms of a scheme or programme of that employer —
  - which constitutes the carrying on of the business of medical schemes if that scheme or programme is approved by the Registrar of Medical Schemes as being exempt from complying with the requirements of medical schemes; or
  - which does not constitute the carrying on of the business of medical schemes, if that employee and his / her spouse and children —
    - are not beneficiaries of a medical scheme registered under the Medical Schemes Act no. 131 of 1998; or
    - are beneficiaries of such medical scheme and the total cost of that treatment is recovered from that medical scheme;
- where the services are rendered or the medicines are supplied for purposes of complying with any law of the Republic,
- derived from an employer by—



- a person who by reason of superannuation, ill-health or other infirmity retired from the employ of that employer;
- the dependants of a person after that person's death, if that person was in the employ of that employer on the date of death;
- the dependants of a person after that person's death, if that person retired from the employ of that employer by reason of superannuation, ill-health or other infirmity; or
- an employee who is 65 years or older; or

Where the services are rendered by the employer to its employees in general at their place of work for the better performance of their duties.

**Employees' tax**

Employees' tax must be deducted during the month in which the benefit accrues.

**IRP5/IT3(a) detail**

The information in respect of the taxable benefit must be reflected under the following codes —

- Code 3813 — cash equivalent of the benefit (costs paid on behalf of the employee, irrespective if the expenses was in respect of immediate family or other relatives / dependants).
- Code 4024 — medical costs deemed to be paid by the employee.

**8 QUALITY RECORDS**

- Completed forms as listed below —

| Number      | Title                       |
|-------------|-----------------------------|
| IRP5/IT3(a) | Employees' tax certificate. |

**9 DOCUMENT MANAGEMENT**

| Designation                              | Name / Division                    |
|--|------------------------------------|
| Business Owner:                          | GE: Enterprise Business Enablement |
| Policy Owner:                            | GE: Enterprise Business Enablement |
| Author:                                  | Cathy Rossouw                      |
| Detail of change from previous revision: | Initial release                    |
| Template number and revision             | POL-TM-07 - Rev 3                  |