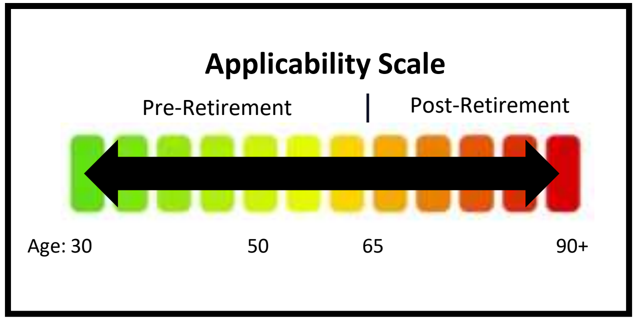


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## TOPIC: South Africa – Tax Basics for Individuals

# Tax Basics for Individuals

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## Types of Tax for Individuals

- There are 4 types of tax an individual can incur as a tax resident in South Africa:
  1. Income Tax
  2. Capital Gains Tax (CGT)
  3. Dividend withholding Tax
  4. Estate Duty or Death Tax

## Income Tax

- Income tax, as the name suggests, is the tax paid on any income a person earns in their individual capacity. The most common types of income include a salary or rental from an investment property.
- Income tax works on a sliding scale. The more you earn, the more tax you pay. The current income tax rates for individuals work as follows:

**2021 tax year (1 March 2020 - 28 February 2021)**

| Taxable income (R) | Rates of tax (R) |
|---|---|
| 1 – 205 900 | 18% of taxable income |
| 205 901 – 321 600 | 37 062 + 26% of taxable income above 205 900 |
| 321 601 – 445 100 | 67 144 + 31% of taxable income above 321 600 |
| 445 101 – 584 200 | 105 429 + 36% of taxable income above 445 100 |
| 584 201 – 744 800 | 155 505 + 39% of taxable income above 584 200 |
| 744 801 – 1 577 300 | 218 139 + 41% of taxable income above 744 800 |
| 1 577 301 and above | 559 464 + 45% of taxable income above 1 577 300 |

# Tax Basics for Individuals

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- Calculating exactly what tax is payable on a salary is tricky, as the employer, by law, has to deduct a portion of the tax (PAYE) as well as contributing to the Unemployment Insurance Fund (UIF). As such, I suggest using a free online calculator to work out exactly how much tax you'd pay.
- I'd recommend either using Neuvoo.com or taxtim.com. However to illustrate the concept on how income tax works, I include two examples below. Note the tax values calculated here will differ from actual tax payable owing to the fact that we haven't deducted the employer and UIF values.

**Income Tax example 1 (Illustration purposes only):**

Example 1: John works for a company and earns a salary of R34,500 a month or R414,000 a year. He falls into the tax bracket indicated by the red arrow and box below:

**2021 tax year (1 March 2020 - 28 February 2021)**

| Taxable income (R) | Rates of tax (R) |
|---|---|
| 1 – 205 900 | 18% of taxable income |
| 205 901 – 321 600 | 37 062 + 26% of taxable income above 205 900 |
| 321 601 – 445 100 | 67 144 + 31% of taxable income above 321 600 |
| 445 101 – 584 200 | 105 429 + 36% of taxable income above 445 100 |
| 584 201 – 744 800 | 155 505 + 39% of taxable income above 584 200 |
| 744 801 – 1 577 300 | 218 139 + 41% of taxable income above 744 800 |
| 1 577 301 and above | 559 464 + 45% of taxable income above 1 577 300 |

- John therefore has to pay tax as follows:
- He has to pay R67,144 on the amount up to R321,601 and then 31% tax on the value above R321,601.
- Portion above R321,601 therefore equals R414,000 – R321,601 = **R92,399**
- And 31% of R92,399 = **R28,643.69**
- Therefore adding R28,643.69 to the initial R67,144.00 = **R95,787.69** a year or  R7,981.31 a month.

In conclusion John has to pay R95,787.69 in tax on his annual earnings of R414,000.00.

# Tax Basics for Individuals

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**Income Tax example 2 (Illustration purposes only):**

- Example 2: Staying with the same example as before, John works for a company and earns a salary of R34,500 a month or R414,000 a year. In addition, he has a cottage that earns R12,000 a month rent, or R144,000 a year.
- John's new annual income is his salary plus his rental income i.e. R414,000 + R144,000 = R558,000
- He now falls into a higher tax bracket indicated by the red arrow and box below.

**2021 tax year (1 March 2020 - 28 February 2021)**

| Taxable income (R) | Rates of tax (R) |
|---|---|
| 1 – 205 900 | 18% of taxable income |
| 205 901 – 321 600 | 37 062 + 26% of taxable income above 205 900 |
| 321 601 – 445 100 | 67 144 + 31% of taxable income above 321 600 |
| 445 101 – 584 200 | 105 429 + 36% of taxable income above 445 100 |
| 584 201 – 744 800 | 155 505 + 39% of taxable income above 584 200 |
| 744 801 – 1 577 300 | 218 139 + 41% of taxable income above 744 800 |
| 1 577 301 and above | 559 464 + 45% of taxable income above 1 577 300 |

- He therefore has to pay tax as follows:
- John has to pay R105,429 on the amount up to R445,101 and then 36% tax on the value above R445,101.
- The portion above R445,101 therefore equals R558,000 – R445,101 = **R112,899**
- And 36% of R112,899 = **R40,643.64**
- Therefore adding R40,643.64 to the initial R112,899 = **R153,542.64** a year, or R12,795.22 a month.

In conclusion John has to pay **R153,542.64** in tax on his annual earnings of R558,000.00.

# Basic Living & Life Annuity Information

**Marginal Income Tax rate:**

- Calculating your marginal income tax rate is fairly simple once you know which tax bracket you fall into.
- In example 1 John fell into the third tax bracket which means his marginal income tax rate is 31%.
- In example 2, John changed tax bracket, and this means his marginal income tax rate is now 36%.

**Capital Gains Tax (CGT)**

- In order to calculate your CGT you need to know what a capital gain is. A capital gain is usually associated with investments. The Capital Gain is the amount by which something you bought has appreciated. If you bought 50 shares in Unilever for R100 a share you'd have a Unilever portfolio value of R5,000.00. If the value of the Unilever share increased from R100 to R120, your portfolio value is now worth R6,000.00 (50 shares x R120). The Capital Gain is therefore R1,000.00 (Current Value of shares – Initial value of shares or R6k – R5k = R1k)
- Once you know what your marginal income tax rate and capital gain are, calculating your CGT is very straight forward. Your CGT rate is equal to 40% of your marginal income tax rate.
- Using John's examples again
    - In example 1, marginal income tax rate = 31%
    - Therefore CGT = 40% of 31% = 12.4% (40/100 x 31)

    - In example 2, John's marginal income tax rate = 36%
    - Therefore CGT = 40% of 36% = 14.4% (40/100 x 36)

# Basic Living & Life Annuity Information

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## Dividend Withholding Tax

- Dividend withholding tax is a tax levied to on individuals receiving a dividend of some kind. A dividend is essentially a portion of a company's profits which, by mutual agreement, is paid to its shareholders. So if you are a shareholder in any company and they declare a dividend, you are required to pay dividends withholding tax. The current dividends withholding tax rate is 20% for individuals.
- As an example if you owned a 25% share in a company that declared a dividend of R1m, you would be entitled to receive a dividend equal to R250,000.00 less the withholding tax of 20%. Therefore you'd receive a total of R200,000.00 into your account.
- Dividend withholding tax is "withheld" by the company paying the dividend and so the company would be the one to pay the tax authority, not the individual.

## Estate Duties or Death Tax

- This is a complicated area of the tax system as there are lots of exemptions and special rules that need to be applied when calculating tax on death, however for the sake of this document we'll review the basics.
- A term that you'll need to understand when discussing Estate Duty is something called Net Asset Value (NAV). In simple terms, you can think of your net asset value as a summation of all your assets (houses, investments, cars, life policies, retirement annuities, living annuities etc.) less any liabilities or debt you have (loans, mortgages, credit cards etc.).

# Basic Living & Life Annuity Information

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**Estate Duties or Death Tax contd.**

- When an individual passes away and provided they have a spouse (someone to whom they are legally married) then estate duty can be deferred to when the surviving spouse eventually dies.
- Individuals do not have to pay tax on his or her estate if the Net Asset Value of their estate is less than, or equal to, R3,5m. If their estate is higher than this value then tax is paid as follows:
    - Any amount above R3.5m incurs a tax rate of 20% up to R30m
    - Any amount above R30m is taxed at a rate of 25%.
- It is important to note that if one spouse leaves their whole estate to the other, then tax is only paid as per above on amounts above R7m (2 times R3,5m).

- Let's say Mary and James are married and James dies with his estate having a NAV of R14.5m. If he didn't leave his estate to Mary, then he'd be liable to pay tax on a value of R11m (R14,5m – R3,5m = R11m).
- If James does leave Mary, his entire estate and Mary dies a few years later. The NAV on her estate would be the combination of her NAV plus those left to her by James. So let's assume this new combined NAV is R24,0m. The estate duty tax would now be payable on R17m (R24m-R7m = R17m).
- Estate duties are very difficult to calculate, and it is strongly advised that you seek the advice of a qualified individual to work this out for you. Your financial adviser should be able to either work this out or put in you in contact with someone who can.

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