

## EXTERNAL REFERENCE GUIDE

# GUIDE FOR EMPLOYERS IN RESPECT OF ALLOWANCES (2015 TAX YEAR)

GUIDE FOR EMPLOYERS IN RESPECT OF ALLOWANCES (2015 TAX YEAR)  
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## **DISCLAIMER**

The information contained in this guide is intended as guidance only and is not considered to be a legal reference, nor is it a binding ruling. The information does not take the place of legislation and readers who are in doubt regarding any aspect of the information displayed in the guide should refer to the relevant legislation, or seek a formal opinion from a suitably qualified individual.

### **For more information about the contents of this publication you may:**

- Visit the SARS website at [www.sars.gov.za](http://www.sars.gov.za)
- Visit your nearest SARS branch
- Contact your own tax advisor/tax practitioner
- If calling from within South Africa, contact the SARS Contact Centre on 0800 00 SARS (7277)
- If calling from outside South Africa, contact the SARS Contact Centre on +27 11 602 2093 (only between 8am and 4pm South African time).

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**1 PURPOSE**

- The purpose of this document is to assist employers in understanding their obligations relating to allowances paid or payable to their employees.

**2 SCOPE**

- This basic guide explains the methods to be applied by employers in respect of allowances paid or payable to employees and includes the legislation requirements as well as examples.

**3 REFERENCES**

**3.1 LEGISLATION**

TYPE OF REFERENCE	REFERENCE
Legislation and Rules administered by SARS:	Section 8(1)(a) read with Section 8(1)(b), 8(1)(c), 8(1)(d) and 8(1)(f) of the Income Tax Act No. 58 of 1962 Section 1 of the Tax Administration Act No. 28 of 2011 <b>The Employment Tax Incentive Act No. 26 of 2013</b>
Other Legislation:	None

**3.2 CROSS REFERENCES**

DOCUMENT #	DOCUMENT TITLE	APPLICABILITY
PAYE-AE-06-G01	Guide for completion and submission of Employees' Tax certificates	All
PAYE-AE-06-G02	Guide for completion and submission of reconciliation declarations	All
PAYE-AE-06-G03	Guide for validation rules for fields applicable to reconciliation documents	All
PAYE-AE-06-G04	Guide for codes applicable to Employees' Tax certificates	All
PAYE-AE-06-G05	Guide for creation of CSV files – Employees' Tax certificate information	All
PAYE-AE-06-G06	Guide for PAYE e@syFile™ Employer for employee Income Tax registration or verification	All
PAYE-AE-06-POL01	Completion and submission of reconciliation documents	All
PAYE-GEN-01-G01	Guide for employers in respect of Employees' Tax deduction tables	All
PAYE-GEN-01-G01-A01	Weekly tax deduction tables	All
PAYE-GEN-01-G01-A02	Fortnightly tax deduction tables	All
PAYE-GEN-01-G01-A03	Monthly tax deduction tables	All
PAYE-GEN-01-G01-A04	Annual tax deduction tables	All
PAYE-GEN-01-G02	Guide for employers in respect of fringe benefits	All
PAYE-GEN-01-G03-A01	Rate per kilometre schedule	All
PAYE-GEN-01-G03-A02	Subsistence allowance in respect of foreign travel	All
PAYE-GEN-01-G04	Guide for employer in respect of Employees' Tax	All
PAYE-GEN-01-G05	Guide for Employers in respect of Employment Tax Incentive	All
SDL-GEN-01-G01	Guide for employers in respect of the SDL	All
UIF-GEN-01-G01	Guide for employers in respect of the UIF	All

**4 DEFINITIONS AND ACRONYMS**

<b>4th Schedule</b>	<ul style="list-style-type: none"> <li>The Fourth Schedule to the Income Tax Act No 58 of 1962.</li> </ul>
<b>7th Schedule</b>	<ul style="list-style-type: none"> <li>The Seventh Schedule to the Income Tax Act No 58 of 1962.</li> </ul>
<b>Alternate period</b>	<ul style="list-style-type: none"> <li>A period, whether of 12 months or not, commencing on the day following the last day of the preceding alternate period in relation to the employer and ending on a date falling not more than 14 days before or after the last day of February, or such greater number of days as the Commissioner, having regard to the circumstances of the case, may allow.</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 person (in relation to an employer) for ETI purposes only</b>	<ul style="list-style-type: none"> <li>Where the employer is a company, means any other company which is associated with that employer by reason of the fact that both companies are managed or controlled directly or indirectly by substantially the same persons; or</li> <li>Where the employer is not a company, means any company which is managed or controlled directly or indirectly by the employer or by any partnership of which the employer is a member;</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>Balance of remuneration</b>	<ul style="list-style-type: none"> <li>Any amount of remuneration after deducting the allowable deductions for Employees' Tax purposes.</li> </ul>
<b>Broad-based employee share plan</b>	<ul style="list-style-type: none"> <li>A plan in terms of which: <ul style="list-style-type: none"> <li>equity shares in that employer, or in a company that is an associated institution in relation to the employer, are acquired by employees from that employer, for consideration which does not exceed the minimum consideration required by the Companies Act, 1973;</li> <li>employees who participate in any other equity scheme of the employer or of a company that is an associated institution in relation to the employer, are not entitled to participate and where at least 80% of all other employees who are employed by the employer on a permanent basis on the date of grant are entitled to participate;</li> <li>the employees who acquire the equity shares are entitled to all dividends and full voting rights in relation to those equity shares; and</li> <li>no restriction have been imposed in respect of the disposal of the equity shares, other than: <ul style="list-style-type: none"> <li>a restriction imposed by legislation;</li> <li>a right of any person to acquire those equity shares from the employee or former employee who acquired the equity share: <ul style="list-style-type: none"> <li>in the case where the employee or former employee is or was guilty of misconduct or poor performance, at the lower of market value on the date of the grant or acquisition by that employer; or</li> <li>in any other case, at market value on the date of acquisition by that person.; or</li> </ul> </li> <li>a restriction in terms of which the person who acquired the equity shares may not dispose of the equity shares for a</li> </ul> </li> </ul> </li> </ul>

	period which may not extend beyond five years from the date of grant.
<b>CCMA</b>	<ul style="list-style-type: none"> <li>The Commission for Conciliation, Mediation and Arbitration.</li> </ul>
<b>Commissioner</b>	<ul style="list-style-type: none"> <li>The Commissioner for the South African Revenue Service.</li> </ul>
<b>Employee</b>	<ul style="list-style-type: none"> <li>An employee for Employees' Tax purposes is defines as: <ul style="list-style-type: none"> <li>A natural person who receives remuneration or to whom remuneration accrues;</li> <li>A person (including a company) who receives remuneration or to whom remuneration accrues by reason of services rendered by such person to or on behalf of a labour broker;</li> <li>A labour broker;</li> <li>A person or class or category of persons whom the Minister of Finance by notice in the Government Gazette declares to be an employee;</li> <li>A personal service provider;</li> <li>A director of a private company.</li> </ul> </li> <li>An employee for UIF purposes is defined as any natural person who receives any remuneration or to whom remuneration accrues in respect of services rendered or to be rendered by that person but excluding an independent contractor</li> <li>An employee for SDL purposes is defined as an employee for Employees' Tax purposes</li> <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>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>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 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 principal but includes any person acting in a fiduciary capacity or in his/her capacity as a 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.</li> </ul>
<b>Equity instrument</b>	<ul style="list-style-type: none"> <li>Means a share or a member's interest in a company, including: <ul style="list-style-type: none"> <li>an option to acquire such a share, part of a share or member's interest;</li> <li>any financial instrument that is convertible to a share or member's interest; and</li> <li>any contractual right or obligation the value of which is determined directly or indirectly with reference to a share or member's interest.</li> </ul> </li> </ul>
<b>ETI Act</b>	<ul style="list-style-type: none"> <li>Employment Tax Incentive Act No. 26 of 2013</li> </ul>
<b>Gain</b>	<ul style="list-style-type: none"> <li>A gain for purposes of a broad based employee share plan and qualifying equity instruments means the amount by which any amount received by or accrued to the employee from the disposal exceeds the consideration given by the employee for the qualifying equity share,</li> </ul>

	right or interest.
<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 Councillor, 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>Labour broker</b>	<ul style="list-style-type: none"> <li>• Any natural person who conducts or carries on any business whereby such person for reward provides a client of such business with other persons (or procures other persons) to render a service or to perform work for the client, for which services or work of such other persons are remunerated by such person.</li> </ul>
<b>Lump sum benefit Section 1</b>	<ul style="list-style-type: none"> <li>• Means a retirement fund lump sum benefit or retirement fund lump sum withdrawal benefit.</li> </ul>
<b>Market value</b>	<ul style="list-style-type: none"> <li>• In relation to an equity instrument: <ul style="list-style-type: none"> <li>▫ of a private company or a company that would be regarded as a private company if it were incorporated under the Companies Act of 1973, means an amount determined as its value in terms of a method of valuation: <ul style="list-style-type: none"> <li>○ prescribed in the rules relating to the acquisition and disposal of that equity instrument;</li> <li>○ which is regarded as a proxy for the market value of that equity instrument for the purposes of those rules; and</li> <li>○ used consistently to determine both the consideration for the acquisition of that equity instrument and the price of the equity instrument repurchased from the employee after it has vested in that employee; or</li> </ul> </li> <li>▫ of any other company, means the price which could be obtained upon the sale of that equity instrument between a willing buyer and a willing seller dealing freely at arm's length in an open market and, in the cases of a restricted equity instrument, had the restriction to which that equity instrument is subject not existed.</li> </ul> </li> <li>• In relation to equity share means the price which could be obtained upon the sale of that equity share between a willing buyer and a willing seller dealing freely at arm's length in an open market and without having regard to any restrictions imposed in respect of that equity share.</li> </ul>
<b>Marketable security</b>	<ul style="list-style-type: none"> <li>• Any security, stock, debenture, share, option or other interest capable of being sold in a share-market or exchange or otherwise</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>Net remuneration</b>	<ul style="list-style-type: none"> <li>• The balance of remuneration, excluding the following: <ul style="list-style-type: none"> <li>▫ Special remuneration paid/payable to any mine worker as contemplated in section 5(9);</li> <li>▫ (b) Remuneration received by an employee who incurred deductible expenses in the production of income (the quantum of</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>expenses can only be determine on assessment);</li> <li>▫ Remuneration which is under the provisions of Section 7(2) deemed to be income that accrued to the spouse of the employee;</li> <li>▫ (f) Remuneration not derived:             <ul style="list-style-type: none"> <li>○ from standard employment; or</li> <li>○ by way of an annuity provided or payable by a pension fund, pension preservation fund, provident fund, provident preservation fund or benefit fund;</li> </ul> </li> <li>▫ (g) Remuneration paid or payable to a director of a company or member of a close corporation;</li> <li>▫ (h) Travel allowance which is subject to Employees' Tax (80% portion);</li> <li>▫ (h) An allowance granted to the holder of any public office, which is subject to Employees' Tax (50% portion);</li> <li>▫ (i) Remuneration derived by an employee in respect of which such employee is entitled to set off an assessed loss under Section 20(1); and</li> <li>▫ (j) Any retirement fund lump sum benefit or retirement fund lump sum withdrawal benefit.</li> </ul>
<b>PAYE</b>	<ul style="list-style-type: none"> <li>• Pay-As-You-Earn (Employees' Tax)</li> </ul>
<b>Prescribed rate</b>	<ul style="list-style-type: none"> <li>• In relation to any interest payable, means such rate as the Minister may from time to time fix by notice in the Gazette in terms of section 80(1)(b) of the Public Finance Management Act, 1999 (no. 1 of 1999): Provided that where the Minister fixes a new rate in terms of that Act, that new rate will apply from the first day of the second month following the date on which that new rate came into operation.</li> </ul>
<b>Qualifying employee for ETI purposes only</b>	<ul style="list-style-type: none"> <li>• An employee as contemplated in section 6 of the ETI Act</li> </ul>
<b>Qualifying equity share</b>	<ul style="list-style-type: none"> <li>• An equity share acquired in a tax year in terms of a broad-based employee share plan, where the market value of all equity shares, which were acquired by that employee in terms of that plan in that year and the two immediately preceding tax years does not in aggregate exceed R50 000.</li> </ul>
<b>Relevant material</b>	<ul style="list-style-type: none"> <li>• As defined per section 1 of the Tax Administration Act means any information, document or thing that is foreseeable relevant for tax risk assessment, assessing tax, collecting tax, showing non-compliance with an obligation under a tax Act or showing that a tax offence was committed</li> </ul>
<b>Remuneration for Employees' Tax purposes</b>	<ul style="list-style-type: none"> <li>• Remuneration for Employees' Tax purposes is defined as any amount of income which is paid or is payable to any person by way of any salary, leave pay, wage, overtime pay, bonus, gratuity, commission, fee, emolument, pension, superannuation allowance, retiring allowance or stipend, whether in cash or otherwise and whether or not in respect of services rendered, including:             <ul style="list-style-type: none"> <li>▫ restraint of trade payments;</li> <li>▫ an amount, including a voluntary award, received or accrued in commutation of amounts due in terms of a contract of employment or service;</li> <li>▫ an amount received or accrued in respect of the relinquishment, termination, loss, repudiation, cancellation or variation of an office or employment or of an appointment;</li> <li>▫ An allowance or advance paid to an employee in respect of accommodation, meals or other incidental costs while the employee is by reason of the duties of his/her office obliged to spend at least one night away from his/her usual place of residence in the Republic is deemed to become payable to the employee in the following month in respect of services rendered.</li> </ul> </li> </ul>



	<p>This deeming provision applies where such an allowance or advance was paid to an employee during any month in respect of a night away from his/her usual place of residence and that employee has not by the last day of the following month either spent the night away from his/her usual place of residence or refunded that allowance or advance to the employer;</p> <ul style="list-style-type: none"> <li>▫ 50 per cent of the amount of any allowance referred to in section 8(1)(d) granted to the holder of a public office contemplated in section 8(1)(e)</li> <li>▫ 80 per cent of the amount of any allowance or advance in respect of transport expenses referred to in section 8(1)(b), other than any such allowance or advance contemplated in section 8(1)(b)(iii) which is based on the actual distance travelled by the recipient, and which is calculated at a rate per kilometre which does not exceed the appropriate rate per kilometre fixed by the Minister of Finance under section 8(1)(b)(iii), provided that where the employer is satisfied that at least 80 per cent of the use of the motor vehicle for a year of assessment will be for business purposes, then only 20 per cent of the amount of such allowance or advance must be included;</li> <li>▫ 80 per cent of the amount of the taxable benefit as determined in terms of paragraph 7 of the Seventh Schedule, provided that where the employer is satisfied that at least 80 per cent of the use of the motor vehicle for a year of assessment will be for business purposes, then only 20 per cent of such amount must be included;</li> <li>▫ any gain determined in terms of section 8B, which must be included in that person's income under that section;</li> <li>▫ any gain determined in terms of section 8C which is required to be included in the income of that person;</li> <li>▫ any amount deemed to be income accrued to that person in terms of section 7(11).</li> <li>▫ fringe benefits received in terms of the Seventh Schedule to the IT Act;</li> <li>▫ a gratuity received by or accrued to a person from his/her employer because such person obtained a university degree or diploma or has been successful in an examination;</li> </ul> <ul style="list-style-type: none"> <li>• but not including: <ul style="list-style-type: none"> <li>▫ Amounts paid to common law independent contractors, but excluding amounts paid to common law independent contractors who do not employ three or more qualifying employees and are required to render services mainly at the premises of the client and are subject to the control or supervision of any person as to the manner in which their duties are performed or as to the hours of work. <ul style="list-style-type: none"> <li>▫ This exclusion does not apply to: <ul style="list-style-type: none"> <li>• any person who receives any remuneration or to whom any remuneration accrues by reason of any services rendered by such person to or on behalf of a labour broker;</li> <li>• any labour broker;</li> <li>• any personal service provider; or</li> <li>• a person who is not ordinarily resident in South Africa. <ul style="list-style-type: none"> <li>▫ Any pension or additional pension under the Social Assistance Act.</li> <li>▫ Any disability grant or additional or supplementary allowance under the Social Assistance Act.</li> <li>▫ Any grant or contribution under the provisions of Section 89 of the Children's Act.</li> </ul> </li> </ul> </li> </ul> </li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>▫ Amounts paid to an employee, wholly in reimbursement of expenditures actually incurred by such employee in the course of employment.</li> <li>▫ Any annuity in terms of an order of divorce or decree of judicial separation or agreement of separation.</li> </ul>
<b>Remuneration proxy</b>	<p>Remuneration proxy means –</p> <ul style="list-style-type: none"> <li>• remuneration as defined in para 1 of Fourth schedule;</li> <li>• if previous year's remuneration is less the 365 days, the remuneration to be grossed up to 365 days;</li> <li>• if employee not employed in the previous year, the first month's remuneration to be grossed up to 365 days.</li> </ul>
<b>Remuneration for SDL proposes</b>	<ul style="list-style-type: none"> <li>• Remuneration for SDL purposes is defined as remuneration for Employees' Tax purposes (this means after taking the allowable deductions into account which the employer may have deducted for purposes of calculating employees tax, including remuneration of employees who earn less than the tax threshold), but does not include any of the following amounts: <ul style="list-style-type: none"> <li>▫ an amount paid or payable to any labour broker or any person declared by the Minister of Finance by notice in the Government Gazette as an employee to whom a certificate of exemption has been issued by SARS;</li> <li>▫ an amount paid or payable to any person by way of pension, superannuation allowance or retiring allowance;</li> <li>▫ an amount contemplated in paragraphs (a), (d), (e) or (eA) of the definition of gross income in Section 1 of the Income Tax Act: <ul style="list-style-type: none"> <li>○ by way of annuity [par (a)];</li> <li>○ any amount, including a voluntary award received or accrued in respect of the relinquishment, termination, loss, repudiation, cancellation or variation of any office or employment or of any appointment [par (d)];</li> <li>○ a retirement fund lump sum benefit or retirement fund lump sum withdrawal benefit [par (e)]; or</li> <li>○ lump sum benefits from a pension fund (where the rules provide that on retirement a portion of the benefit has to be taken in the form of an annuity, etc.) [par (eA)]; and</li> </ul> </li> <li>▫ an amount payable to a learner in terms of a contract of employment contemplated in Section 18(3) of the Skills Development Act</li> </ul> </li> </ul>
<b>Remuneration for UIF contribution proposes</b>	<ul style="list-style-type: none"> <li>• Remuneration for UIF purposes is defined as remuneration for Employees' Tax purposes (before taking any allowable deductions into account which the employer may have deducted for purposes of calculating employees' tax), but does not include any amount paid or payable to an employee: <ul style="list-style-type: none"> <li>▫ by way of pension, superannuation allowance or retiring allowance;</li> <li>▫ that constitutes an amount contemplated in Paragraphs (a), (cA), (d), (e) or (eA) of the definition of gross income in Section 1 of the Income Tax Act;</li> <li>▫ by way of commission.</li> </ul> </li> </ul>
<b>Representative employer</b>	<ul style="list-style-type: none"> <li>• Representative employer contemplated in the Fourth Schedule means: <ul style="list-style-type: none"> <li>▫ In the case of the company, the public officer of that company, or, in the event of such company being placed in liquidation or under judicial management, the liquidator or judicial manager, as the case may be;</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>▫ In the case of any municipality or any body corporate or unincorporated (other than a company or a partnership), any manager, secretary, officer or other person responsible for paying remuneration on behalf of such municipality or body;</li> <li>▫ In the case of a person under legal disability, any guardian, curator, administrator or other person having the management or control of the affairs of the person under legal disability; or</li> <li>▫ In the case any employer who is not resident in the Republic, any agent of such employer having authority to pay remuneration.</li> </ul> <ul style="list-style-type: none"> <li>• The representative employer is not relieved from any liability, responsibility or duty of the employer and is therefore, subject to the same duties, responsibilities and liabilities as the employer.</li> </ul>
<p><b>Restricted equity instrument</b></p>	<ul style="list-style-type: none"> <li>• An equity instrument: <ul style="list-style-type: none"> <li>▫ which is subject to any restriction (other than a restriction imposed by legislation) that prevents the employee from freely disposing of that equity instrument at market value;</li> <li>▫ which is subject to any restriction that could result in the employee forfeiting ownership or the right to acquire ownership of that equity instrument otherwise than at market value or being penalised financially in any other manner for not complying with the terms of the agreement for the acquisition of that equity instrument;</li> <li>▫ if any person has retained the right to impose a restriction contemplated in the first two instances above, on the disposal of that equity instrument;</li> <li>▫ which is an option contemplated in the definition of equity instrument and where the equity instrument which can be acquired in terms of that option will be a restricted equity instrument;</li> <li>▫ which is a financial instrument contemplated in the definition of equity instrument and where the equity instrument to which that financial instrument can be converted will be a restricted equity instrument;</li> <li>▫ if the employer has at the time of acquisition by the employee of the equity instrument undertaken to: <ul style="list-style-type: none"> <li>○ cancel the transaction under which that taxpayer acquired the equity instrument; or</li> <li>○ repurchase that equity instrument from the employee at a price exceeding its market value on the date of repurchase; or</li> </ul> </li> <li>▫ which is not deliverable to the taxpayer until the happening of an event, whether fixed or contingent?</li> </ul> </li> </ul>
<p><b>Retirement-funding employment</b></p>	<ul style="list-style-type: none"> <li>• The part of remuneration as is taken into account in the determination of the contributions made by the employee or on his/her behalf to a pension fund or provident fund (where the employee is a member of or contributed to) established for the benefit of employees of his/her employer from whom such remuneration is derived.</li> </ul>
<p><b>SARS</b></p>	<ul style="list-style-type: none"> <li>• The South African Revenue Service.</li> </ul>
<p><b>SDL</b></p>	<ul style="list-style-type: none"> <li>• Skills Development Levy</li> </ul>
<p><b>SETA</b></p>	<ul style="list-style-type: none"> <li>• Sector Education and Training Authority.</li> </ul>
<p><b>SEZ</b></p>	<ul style="list-style-type: none"> <li>• Special Economic Zone designated by the Minister of Trade and Industry pursuant to an Act of Parliament (currently the Special Economic Zones Bill, B3 of 2013), will be designated areas that promote targeted economic activities, supported through special arrangements and support systems including incentives, business support services, streamlined approval processes and infrastructure.</li> </ul>

	The tax incentives for these zones will be authorised by the Minister of Finance, after consultation with the Minister of Trade and Industry.
<b>SIC</b>	<ul style="list-style-type: none"> <li>• Standard Industrial Classification</li> </ul>
<b>Standard employment</b>	<ul style="list-style-type: none"> <li>• Any employment where an employee (including scholars and students), is required to render services to a single employer for a period of at least 22 hours in every full week provided that no regard shall be had to: <ul style="list-style-type: none"> <li>▫ Periods of temporary absence of the employee due to leave or exceptional circumstances; or</li> <li>▫ Any temporary reduction in working hours imposed by the employer, for instance due to a reduction in the demand of the company's product, the employer imposes a temporary working week of less than 22 hours.</li> </ul> </li> </ul>
<b>Tax period</b>	<ul style="list-style-type: none"> <li>• Means, in relation to employees' tax, skills development levies as determined in section 3 of the SDL Act and contributions as determined in section 6 of UIC Act, the period in respect of which the amount of tax payable must be determined under the relevant tax Act.</li> <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) or any unbroken period 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>Taxable benefit</b>	<ul style="list-style-type: none"> <li>• A voluntary or otherwise benefit contemplated in the 7th Schedule, but excluding: <ul style="list-style-type: none"> <li>▫ any benefit, the amount or value of which is specifically exempt from normal tax in terms of Section 10;</li> <li>▫ any benefit provided by a benefit fund in respect of medical, dental and similar services, hospital services, nursing services and medicines;</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;</li> <li>▫ any benefit or privilege received by or accrued to a person contemplated in section 9(2)(g) or (h) stationed outside the Republic which is attributable to the person's services rendered outside the Republic; or</li> <li>▫ any severance benefit.</li> </ul> </li> </ul>
<b>UI Commissioner</b>	<ul style="list-style-type: none"> <li>• The Unemployment Insurance Commissioner.</li> </ul>
<b>UIC Act</b>	<ul style="list-style-type: none"> <li>• The Unemployment Insurance Contributions Act.</li> </ul>
<b>UIF</b>	<ul style="list-style-type: none"> <li>• Unemployment Insurance Fund</li> </ul>
<b>Unrestricted equity instrument</b>	<ul style="list-style-type: none"> <li>• An equity instrument which is not a restricted equity instrument. The share is freely disposable upon acquisition.</li> </ul>
<b>Variable remuneration</b>	<ul style="list-style-type: none"> <li>• As defined per section 7B of the Income Tax Act means overtime pay, bonus or commission contemplated in the definition of "remuneration" in paragraph 1 of the 4th Schedule</li> </ul>
<b>Year of assessment</b>	<ul style="list-style-type: none"> <li>• The year of assessment for taxpayers covers a period of 12 months.</li> </ul>

	For individuals and trusts, the commencement date of the year of assessment starts on 1 March and ends on the 28/29 February each year. For Companies and Close Corporations the year of assessment is the applicable financial year
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## 5 ALLOWANCES

### 5.1 SUBSISTENCE ALLOWANCE

**Reference to the Act** Section 8(1)(a) read with section 8(1)(c) of the Income Tax Act No. 58 of 1962 (the Income Tax Act).

**Meaning** A subsistence allowance is any allowance given to an employee or a holder of any office for expenses incurred or to be incurred in respect of personal subsistence and incidental costs (for example, drinks).

**Important** Compensation or an allowance paid to employees who reside far away from their normal place of employment or who do not spend the night away from home is **not regarded** as a subsistence allowance and is subject to Employees' Tax. This also applies in the case of a labour broker.

**Amounts deemed to be expended** Section 8(1)(c) of the Income Tax Act prescribes that the employee shall be deemed to have actually expended a certain amount (daily expenses in respect of meals and/or incidentals costs) where the employee is absent from his/her usual place of residence —

- Where the accommodation to which the allowance or advance relates is **in the Republic**, an amount equal to the following is deemed to be expended for each day or part of a day in the period during which the employee is absent from his/her usual place of residence —
  - 
  - Only incidental costs – R103
  - Meals and Incidental costs – R335
- Where the accommodation to which the allowance or advance relates is **outside the Republic**, an amount equal to prescribed amount applicable to the relevant country is deemed to be expended for each day or part of a day in the period during which the employee is absent from his/her usual place of residence in accordance with the table for the country in which that accommodation is located, please refer to PAYE-GEN-01-G03-A02 - Subsistence allowance - foreign travel - external annexure.

The rates are for guidance purposes only. The rates for each tax year will be published by notice in the Government Gazette.

The amounts laid down in respect of travelling abroad will only apply to employees who are ordinarily resident in the Republic in respect of continuous periods spent outside the Republic.

**Employer borne expenses** The amounts that shall be deemed to be expended do not apply to the extent that the employer has borne the expenses (otherwise than by way of payment or granting of an allowance or advance) in respect of which the allowance was paid for each day or part of a day.

**Please note** A subsistence allowance is intended for abnormal circumstances and therefore an allowance of this nature cannot form part of the remuneration package of an employee. It is an amount paid by an employer to the employee **IN ADDITION** to the employee's normal remuneration.  
For more information in this regard, please refer to Interpretation Note No. 14 on

the SARS website, [www.sars.gov.za](http://www.sars.gov.za) under Interpretation Notes/Income Tax.

If a subsistence allowance or advance is paid to an employee on or after 1 February 2006, the allowance or advance is deemed to become payable to the employee in the following month in respect of services rendered where such an allowance or advance was paid to the employee during any month in respect of a night away from his/her usual place of residence and that employee has not by the last day of the following month either spent the night away or refunded that amount to the employer.

**Employees' Tax** Employees' Tax must not be deducted from the subsistence allowance, regardless of whether or not the deemed amounts and/or prescribed periods are exceeded.

**IRP5/IT3(a) detail** The subsistence allowance must be reflected in full on the certificate under —

- code 3704 (for local travel) and/or code 3715 (for foreign travel) in cases where the deemed amounts and/or periods are exceeded.
- code 3705 (for local travel) and/or code 3716 (for foreign travel) in cases where the deemed amounts and periods are not exceeded.

## 5.2 TRAVEL ALLOWANCE

**Reference to the Act** Section 8(1)(b)

**Meaning** A travel allowance is any allowance paid or advance given to an employee in respect of travelling expenses for business purposes.

Any allowance or advance in respect of travelling expenses not to have been expended on business travelling to the extent that it has been spent on private travelling (this includes travelling between the employee's place of residence and his/her place of employment), shall be deemed not to have been actually expended on travelling on business.

The following two situations are envisaged, namely —

- a **travel allowance** given to an employee to finance transport (for example, a set rate or amount per pay period).
- a **reimbursement** given to an employee based on actual business travel.

**Reimbursive travel allowance** Where an allowance or advance is based on the actual distance travelled for business purposes (that is excluding private use), the amount expended on business is deemed to be the actual distance travelled, multiplied by the prescribed rate per kilometre fixed by the Minister of Finance.

**Prescribed rate per kilometre** The current rate per kilometre fixed by the Minister of Finance is —

- R3.30 per kilometre; **OR**
- the **determined rate** (refer to the rate per kilometre schedule).

**Vehicle let to the employer** Where an employee, his/her spouse or child owns or leases a motor vehicle (whether directly or indirectly by virtue of an interest in a company, trust or otherwise) and such vehicle is let to the employer or associated institution in relation to the employer, the sum of the rental paid by the employer together with any expenditure in respect of the vehicle which was borne by the employer, is deemed to be a travel allowance. This deemed travel allowance must be declared as such and the employee will be entitled to claim

expenses incurred for business travel as a deduction on assessment.

**Note:** The rental received by the employee must not be declared as rental income but as a travel allowance. Although the employee obtains the right of use of the vehicle from his/her employer, he/she is not subject to tax on the benefit arising from the private use of such motor vehicle.

**Combination of travel and reimbursive allowance**

Where a travel allowance is paid in addition to a reimbursive allowance or vice versa, both amounts will be combined on assessment. This combined allowance will be treated as a travel allowance.

**Employees' Tax**

The table hereunder shows in which circumstances a travel allowance is subject to Employees' Tax and the relevant code under which it must be reflected on the IRP5/IT3(a) certificate.

Scenario	Must PAYE be deducted?	Code
A fixed allowance is paid	Yes	3701
Fuel and expenses paid by the employer (e.g. petrol, garage and maintenance cards).	Yes	3701
Reimbursed at <b>not</b> more than the prescribed rate per kilometre and travels <b>not</b> more than 8 000 kilometres. <b>No other</b> travel allowance is received	No	3703
Reimbursed at <b>not</b> more than the prescribed rate per kilometre and travels <b>not</b> more than 8 000 kilometres	No (reimbursement)	3702
Receives a travel allowance or certain expenses are paid for by the employer	Yes (fixed allowance)	3701
Reimbursed at <b>not</b> more than the prescribed rate per kilometre and travels <b>more</b> than 8 000 kilometres. <b>No other</b> travel allowance is received	No	3702
Reimbursed at <b>not</b> more than the prescribed rate per kilometre and travels <b>more</b> than 8 000 kilometres	No (reimbursement)	3702
Receives a travel allowance or certain expenses are paid for by the employer	Yes (fixed allowance)	3701
Reimbursed at a rate exceeding the prescribed rate per kilometre	No	3702

**Employees' Tax**

80% of the travel allowance paid to an employee is subject to the deduction of Employees' Tax. Where the employer is satisfied that at least 80% of the use of the motor vehicle for a year of assessment will be for business purposes, then only 20% of the allowance is subject to the deduction of Employees' Tax effective 1 March 2011.

An allowance or advance which is based on the actual distance travelled for business purposes (reimbursive travel), is not subject to Employees' Tax but the unexpended portion may be subject to normal tax when the employee's Income Tax assessment is finalised.

**IRP5/IT3(a) detail**

The **total travel allowance** (100%) must be reflected on the IRP5 certificate under code 3701.

The Employees' Tax deducted in respect of the travel allowance must be reflected as Pay-As-You-Earn (PAYE).

An allowance or advance which is based on the actual distance travelled for business purposes (reimbursive travel), is not subject to employees' tax but the **full amount** must

be reflected on the IRP5 certificate —

- under code 3703 where the reimbursive allowance does not exceed 8 000 kilometres AND the prescribed rate per kilometre AND no other compensation is paid to the employee.
- under code 3702 where the reimbursive allowance **exceeds** 8 000 kilometres **OR** the prescribed rate per kilometre **OR** any other compensation is paid to the employee.

### 5.3 ALLOWANCE TO A HOLDER OF A PUBLIC OFFICE

**Reference to the Act**

- Section 8(1)(d) and 8(1)(f)

**Meaning**

Any allowance granted to the holder of a public office to enable him/her to defray expenditure incurred by him/her in connection with his/her office, to have been expended by him/her to the extent that he/she has actually incurred expenses for the purposes of his/her office in respect of —

- secretarial or duplicating services, stationery, postage or telephone calls.
- the hire and maintenance of office accommodation.
- Travelling.
- hospitality extended at any official or civic function which the holder of the office is by reason of the nature of such office normally expected to arrange.
- Subsistence and incidental costs incurred.

**Portion of salary deemed to be a public office allowance**

Where it is expected from the following office holders:

- 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, a member of a provincial legislature.

to defray any expenditure out of his/her salary, an amount equal to a portion of such salary is deemed to be an allowance to the holder of a public office. This is prescribed by the provisions in section 8(1)(f) and the amount is determined by the National Assembly or the President.

Where the employee has held a public office for less than 12 months, the portion of his/her salary which is deemed to be an allowance to a holder of a public office in terms of section 8(1)(f), must be apportioned to determine the amount relevant for the actual period for which the office was held. A part of a month shall be reckoned as a full month.

**Employees' tax**

Only a 50% portion of the allowance is subject to the deduction of Employees' Tax.

**IRP5/IT3(a) details**

The full allowance (100%) must be reflected under code 3708; and

All the other income components must be reflected under the relevant codes (e.g. salary, overtime, bonus, etc.).

**Example**

**Holder of a public office not in standard employment:** A holder of a public office receives an allowance of R4 000 per month to enable him to defray expenditure



in respect of his office.

The portion of the allowance which is subject to the deduction of Employees' Tax is 50% and must be taxed at a rate of 25% as the holder of the public office is not in standard employment.

Employees' Tax deductible on R2 000 (R4 000 x 50%) at the rate of 25% .....	R500.00
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**Example:**

**Holder of a public office in standard employment:** A holder of a public office is employed as a permanent employee of the department where he holds the public office. His total salary is R200 000 per annum and the portion of his salary which is deemed to be a public office allowance in terms of section 8(1)(f) is R120,000 per annum.

The portion of the allowance which is subject to the deduction of Employees' Tax is 50% and must be taxed according to the tax tables as the holder of the public office is in standard employment.

Salary (R200 000 less R120 000) .....	80 000
Add: Public office allowance subject to employees' tax (R120 000 x 50%) .....	<u>60 000</u>
Total remuneration subject to the deduction of employees' tax .....	<u>140 000</u>

**6 QUALITY RECORDS**

- Completed forms as listed below —

Number	Title
IRP5/IT3(a)	Employee Income Tax certificate.

**7 DOCUMENT MANAGEMENT**

Designation	Name/Division
Business Owner:	GE: Enterprise Business Enablement
Policy Owner:	GE: Enterprise Business Enablement
Author:	C Rossouw
Detail of change from previous revision:	Updated to include 2015 Budget Speech changes
Template number and revision	POL-TM-07 - Rev 3