



Guide to

**tax savings**

NOVEMBER 2021

Due to the struggling economy, increasingly more people are thinking about ways to save money. One of these is by paying less tax. Here are a few hints to help you to pay less tax.

## Split the income between spouses

One of the easiest ways to pay less tax is to split the taxable income between spouses. A family will collectively always pay less as a husband and wife who earn more or less the same income per year, for example when each earn R400 000, compared to one who earns R800 000 and the other nothing. The reason for this is because each party does not have to pay tax on the first R87 000, and thereafter at a tax rate of only 18% up to R216 000. Thereafter, the tax rate increases more or less with every additional R100 000. If you therefore want to buy a house or flat for an extra income, it is important to rather register this property in both party's name to split the rental profit in this manner. Alternatively, you should register it in the name of the one who earns the least. You should therefore consider your individual circumstances and income thoroughly. Under normal circumstances, I would recommend that additional property (for example holiday homes) be registered in a trust, because the income can then be distributed further to the children and grandchildren.

## Discounts

Every person younger than 65 years enjoys an interest discount of R23 800, and people 65 years old and above R34 500. This means that a person who is 65 years or older and who receives R200 000 interest per year will only have to add R165 500 to his/her other taxable income and pay tax on this amount. If you are married in community of property, or each earns R100 000 interest, each will only have to add R65 500 to their other taxable income – which will result in a saving. If you earn capital gain, the first R40 000 per year is exempted from tax. If you sell property or shares and you are married in community of property, or if these properties or shares are registered in both names, the family enjoys a capital gains tax exemption of R80 000. If you sell a primary dwelling, the owner enjoys a capital gains tax exemption of R2 million. This is a significant benefit and it is therefore important to own a primary dwelling in your own name.

## Buying property

Do not buy primary dwellings or second properties in a company. The tax rate on companies is simply too high. The maximum tax that a person has to pay when selling a property is 18%. People who earn more than R1 665 000 per year, pay tax at 45%. Because 40% of capital gains tax is added to other taxable income, the effective tax rate is 18% (45% x 40%). A company's effective tax rate is 22,4%, because 80% of capital gains are taxable at 28%. However, the worst is dividend tax that will be payable when shareholders want their returns. If, for example, you buy a house in a company for R1 million and you lend this money to the company and sell it a few years later for R2 million, the company makes a profit of R1 million. The capital gains tax is therefore R224 000. The company can now pay your R1 million loan back to you free of tax, which means R776 000 is left. This must be declared a dividend to the shareholder. A further 20% dividend tax is payable on this amount. The total effective tax is therefore R224 000 plus R155 200 – almost 38%, therefore! This is even higher if you had a bond that has already been paid off, because then the dividend tax is even higher.

## Estate duty

A 20% estate duty applies if you bequeath more than R3,5 million to anyone other than your spouse. If your estate is therefore R10 million in value and you bequeath everything to your spouse, no estate duty will apply. The problem is, however, that your spouse will also pass away someday, and if their estate is worth R10 million, tax duty of 20% will apply to R6,5 million. However, you could instruct in your last will and testament that R3,5 million should be left in trust and then bequeath the rest to your spouse. You can name your spouse as the trust's main beneficiary. Your spouse can then do the same in their last will and testament, thereby reducing estate duty even further, namely only 20% on R3 million instead of R6,5 million. If you want to bequeath something to your child(ren), you should seriously consider bequeathing it to the child(ren)'s trust, rather than directly to the child(ren). The reason? Suppose you bequeath R5 million to a child. The child then decides to buy shares or property with the money but realises that it makes sense to buy it in their trust. He/she then lends R5 million to the trust. He/she will earn taxable interest on the loan to the trust, however. This can be prevented by simply bequeathing the bequest directly to the child's trust.

A further benefit when a grandparent makes a bequest to their grandchild(ren)'s trust(s), is that any income and capital gains that are generated by this bequest are paid out to the grandchild(ren). If a person lends money to the trust themselves, the child(ren) will only be income beneficiaries when he/she turns 18 years. Therefore, if the trust receives a bequest or loan from a grandparent, and buys property or shares, payments can be made to minors – even if they are only one year old. However, if their parent(s) advance this money and they are younger than 18 years, the parent(s) will be taxed on these payments.

I also want to recommend that you nominate your spouse or child(ren) as executors in your last will and testament. Your spouse or child(ren) can then approach attorneys, accountants or estate administrators to bargain for a fee to finalise the estate. Most people's last wills and testaments are at the bank, and these charge the full prescribed 3,5% executor's fee, plus VAT – i.e. about 4%. If you have assets worth R1 million at the time of your death, your estate will have to pay about R40 000 to the bank in executor's fees. Your neighbour with R10 million worth of assets will have to pay R400 000 – i.e. ten times more, while the amount of work is basically the same. Your spouse or child(ren) will be able to arrange for a much lower fee with an estate practitioner of whom they have the name. If the bank is the executor, you will have to correspond with a person whom you will never even meet!

## Different entities

You can buy assets in your own name, and/or in a company or trust. The benefit of a second property or shares in a trust is that any growth will not attract any estate duties. If you inherit R1 million today or receive a bonus, and use it to buy shares through your trust, the future growth thereof is no longer part of your estate. If you therefore lend R1 million to your estate today and years later this has grown to R10 million, tax duty will only apply to the other assets on your name.

There is a further benefit if you earn rental income from properties in a trust. As soon as a child turns 18, you can make a disbursement to this child. If your child goes off to study and you pay for the studies or help with a vehicle, you will not receive any deduction. On the other hand, if the trust pays out, your child will not pay tax on the first R87 000 of their income. The same principle applies

if the trust sells shares and earns in capital gains. For example, if the trust earns R240 000 in capital gains and pays this out to your child, there will be no tax if your child earns no other income. Your child uses their annual R40 000 capital gains tax exemption, and 40% of the remaining R200 000 must be added to their other taxable income (i.e. R80 000). If your child has no other taxable income, they will not have to pay any tax, because the first R87 000 is exempted from tax. If your child is older than 18 years, you cannot use this exemption if you funded the trust; you may use it, however, if the property was funded by a loan or donation from a grandparent. It is even more beneficial if the grandparent made this bequest to your trust, as mentioned before.

## Salary drawers and independent contractors (commission earners)

People who earn salaries and receive travel allowances often do not go to the trouble of keeping a proper logbook of their journeys, thereby forfeiting an opportunity to save on tax. No logbook in any year should take you more than three hours to compile. Unfortunately, too many people decide not to go to any trouble. This often cost them additional tax to pay in, or what they could have received back. If you indeed keep a logbook, it is important to indicate the starting kilometre reading for every day, as well as which portion is business related. You must also indicate who the client is and where they are situated.

Independent contractors and people who earn commission may claim for work-related expenses, like costs for internet access, cell phone calls, entertainment, stationery, memory sticks, printer ink and depreciation of computers and printers. People who work for commission and contractors may deduct any expenses incurred in generating income. In this case, it is important to think very creatively about everything that can be deemed deductible expenses incurred in generating income. If you are invited for dinner, for example, you normally take a bunch of flowers, a bottle of wine or chocolates with you. These may be deemed entertainment expenses, because your purpose is to meet people and tell them about your work. People at these events who hear about the services or the products that you offer may start using you or recommend you to their friends. In this way, you earn an income.

## Rental income and expenses

If you rent out property, you may deduct the following expenses from tax:

- interest on your bond
- municipal expenses and levies
- rental agency commission
- insurance on the buildings
- insurance on the content (in case of furnished rentals)
- repair work (expenses on improvements are not deductible, only against capital gains tax if you sell it; however if you install certain assets, such as air-conditioning or an alarm system, you can claim for depreciation)
- bank fees that relate to the property (fees that relate to bond payments, repairs and so forth)
- accountant fees
- travel expenses for inspections.

If your rental income is lower than for the previous tax years, it is important to include a letter or note to explain why the rental income is lower. An example is when your previous tenants had moved out and it took you three months to find another tenant. If your tenant gives notice that

they will be moving out by the end of June, for example, and you decide to do repairs or extend the property in July and August, and thereafter (from 1 September onwards) get a new tenant, SARS deems any municipal levies, insurance and repairs for July and August as capital expenses. This can be considered on sale to reduce capital gains tax. SARS often requests rental contracts. A possible solution can therefore be to do the work while you still have a tenant.

## Capital gains expenses on sale of property

Capital gains on sale of property comprise the selling price minus the –

1. fees for the estate agent;
2. the original cost price (including the legal fees of the attorney, as well as transfer fees);
3. improvements (i.e. extensions, new plants and so forth);
4. sale expenses such as costs for certificates of compliance for electricity, pest control and gas; and
5. exit levies that are payable if you live in an estate.

## Contributions to retirement annuities

If you earn an additional income or are self-employed, your contributions to retirement annuities can be up to 27,5% of your taxable income (limited to R350 000 per year). People who are self-employed are often prone to making insufficient provision for retirement. The contributions are not only deductible, but you also benefit from providing for your retirement in this way.

## Section 18A donations are deductible

If you donate to an institution, you do this to contribute to a matter that is close to your heart. It is also important to ask whether this institution is registered and may issue section 18A certificates. If so, your contribution is also tax deductible.

## Medical expenses

It is important to keep proper record of all your medical expenses. It is also advisable to submit all your medical expenses to your medical scheme, even those that are not covered by the scheme. These unpaid claims are then included on the tax certificate that the medical scheme sends to you at the end of the relevant tax year. In this way, you make it easier to claim it back.

If you are 65 years old or older, you can claim back a larger percentage of your medical expenses; also if you contribute to a spouse or child(ren) who are disabled. To have one of your dependents classified as disabled, you must have form ITR-DD completed by a registered medical person. Remember: It is not only general practitioners' accounts that are tax deductible – also accounts from medical professionals who are registered with the medical council, such as physiotherapists, psychologists and occupational therapists, as well as home carers who look after frail old people and other patients who need help. Please note: An old-age home's fees are not deductible, but the fees for the frail care unit (the sickbay) may be deductible.

## Home office expenses

If you work from home, you can also claim for certain expenses. You will need a letter from your employer that confirms that it is expected of you to work from home. This home office is an area

that is specifically set up for work-related duties. It cannot be a room with an extra bed for guests. If you spend between five and six hours on the road, you are not entitled to this deduction, because you spend less than half of your workday at this home office. The claim is proportional to the size of the dwelling and the home office area. The expenses for which you can claim include rent (or interest on the bond if you are the owner), municipal expenses, insurance on the building and contents, repair work, cleaning and gardening services. You can also apply depreciation on equipment, desk, chair and printer. Anyone who earn interest above the exemption limit and/or who earn commission, or who generate their own income can claim for accountancy fees.

## People who work abroad

If you work abroad, it is preferable to have a chat with a tax practitioner, because in certain cases your foreign income is wholly exempted from tax in South Africa; in other cases only partially or up to R1 250 000. It depends on where you work, for whom you work and whether the country in which you work has a double tax agreement with South Africa. If, for example, you work in the United Arab Emirates, you could be exempted completely; not so if you work in Saudi Arabia. If you work on ships or on oil rigs, a different set of rules apply. If you have foreign citizenship, it is very unlikely that you will have to pay tax in South Africa on your foreign income, as it seems that your intent is not to return to South Africa. However, if your spouse still lives in South Africa, it will be very difficult to prove that it is not your intent to return to South Africa.

## Provisional tax

It is important that you pay your provisional tax promptly, namely on the last workday of August (the first date for provisional tax) and February (the second date for provisional tax). Please note: If 31 August falls on a Sunday, for example, your payment should be made on Friday 29 August if you want to prevent paying fines. If you earn an income of more than R1 million, you cannot simply base your provisional tax on the previous year: You have to do a proper calculation of your estimated income to prevent fines.

You are welcome to contact me if you have any tax questions:

**Fanus Jonck**  
**Tax consultant**  
**Email: (tax@jonck.net)**