Healthi Choices

TAX PLANNING

Why not take a good look at your taxes? Perhaps you can pay less tax this financial year. It is well within your rights to claim for those expenses that can lower your tax burden.

It's the end of the financial year and tax season will soon be rolling around. Paying personal tax is part and parcel of good citizenship and it's also the law.

What is tax planning?

Maggie Kgobane, tax manager for Individual Tax Unit at Tax Consulting SA explains:


Maggie Kgobane

Tax planning is a process used to structure your taxes in such a way that you are able to get the maximum benefit of the rebates, allowances, deductions, exemptions and others that are available to you as a taxpayer. This process is often used to minimise the amount of tax payable. Tax planning can be used to assist with making investment choices as you are able to determine what the tax consequences are.

The legality of tax planning is determined by whether the process follows the law or not. The South African income tax act and the tax administration act provide guidelines on what you can and cannot do when preparing an income tax return.

One of the ways you can reduce your tax burden is to join a registered medical aid scheme and make a contribution to it monthly, invest in a retirement annuity or make donations to a Section 18A non-profit organisation. There are also various legal ways of structuring remuneration packages for tax efficiency.

Tax evasion vs. avoidance

Where tax avoidance is perfectly legal (provided it is correctly done), tax evasion is a criminal offense. With proper tax planning, you can reduce the amount of tax you need to pay over to SARS.

Some qualifying deductions

Medical aids

The taxpayer contributing to the medical aid can claim for payments for all dependants that were registered on the medical aid for the tax year. Medical Scheme Fees Tax Credits (MTC) for the 2017/2018 tax year are R303 per month for the main member and first dependant and R204 for each subsequent dependant.

Retirement savings

If you contribute towards your retirement in a pension, provident or retirement annuity fund, you are able to deduct up to 27.5% of your taxable income or remuneration, up to R350,000 per year. Any contributions which exceed the limitations may be carried forward to the next year.

Donation to charity

If you support public benefit organisations (PBOs), you can claim this as a deduction. These are limited to 10% of the taxable income (less retirement fund lump sums and severance benefits). Any amount exceeding 10% can be moved to the following tax year. To qualify, the organisation must be SARS registered and they must be able to issue you with a valid tax certificate. (See the box on tithing with a local church).

Tax-free savings accounts (TFSA)

You can put R33,000 per year in a dedicated tax-free savings account and you won't need to pay income tax, dividends tax or capital gains tax on the returns of these investments. There is also a maximum R500,000 life time limit per person – and if you exceed this there is a 40% penalty of the excess amount. You can have more than one tax-free investment, but the annual limit applies across all products.

Other important guidelines

› Always supply SARS with the correct information on your return – it is illegal not to and SARS can levy penalties if discrepancies are detected and you will pay even more tax.

› Keep your supporting information and documents in a format that you can present to SARS if you need to. Keep all information for five years.

› Ensure that your personal information is correct. Check bank details. If these are incorrect, any monies due to you will be paid into the wrong account.

Resources:
The South African Revenue Service & Tax Consulting South Africa

Who should submit a tax return?

You DO NOT need to file a return if your salary was less than R350,000 per annum, provided that:

› You only have one employer

› You have no other income - this includes rent paid to you or interest income and you do not have a car allowance

› You are not claiming for deductions like medical aid, travel and retirement annuity

› Your interest payments were under the following amounts: R23,800 – below 65 years; R34,500 – over 65 years; R23,800 for a deceased estate

› Dividends were paid to you and you were a non-resident during that tax year.

› Amount received or accrued from a Tax Free Investment.

Important to note: You DO need to file if you work a second job – you're a waiter, you sing in a bar, mark exam papers or deliver newspapers – and you need to file even if the total is under R350,000.

Why you should file

Even if you meet the criteria above, consider filing to maintain a complete record of your tax.

› An unbroken tax record stands in your favour.

› You also need a tax clearance certificate if you apply for a bond or other long term loan.

› You also need to be tax compliant to receive pay outs from your retirement fund.

› If you paid more tax than you have to, you'll get a refund.

If you are unsure about your personal tax situation, make an appointment to see a tax consultant to review your tax affairs.

Source: SARS

Got a refund?
Always settle or reduce your debts with any refunds you receive from SARS.

I PAY TITHES TO MY LOCAL CHURCH. CAN I CLAIM THIS AS A DONATION?

Maggie Kgobane of Tax Consulting SA answers:

The definition of a donation from the SARS Basic Guide to Tax-Deductible Donations (Issue 2) reads: *"A donation is a gratuitous disposal by the donor out of liberality or generosity, under which the donee is enriched and the donor impoverished. It is a voluntary gift which is freely given to the donee. There must be no quid pro quo, no reciprocal obligations and no personal benefit for the donor. If the donee gives any consideration in exchange it is not a donation"*

Tithes do meet the definition of donations. However, tithes and offerings to churches or other faith-based organisations in support of their religious activities are not allowed as a deduction according to section 18A. It is important to note that many of these organisations have a separate arm for welfare initiatives and programmes that they run, then in this case the separate arm will need to register with the exemption unit at SARS and they will be able to issue a section 18A certificate to the donor, therefore enabling the donor to receive the deduction. The deduction is limited to 10% of taxable income.

BENEFITS OF USING A REGISTERED TAX CONSULTANT FOR YOUR PERSONAL TAX

› He or she knows and understands tax law inside and out

› He or she can assist with tax planning – ensuring that you get the maximised tax benefits

› He or she can help to reduce your tax liability legally

› He or she will handle SARS queries or any audits on your return – this saves you time – you don't have to stand in a queue at SARS.