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REPUBLIC OF SOUTH AFRICA
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Mr MS Mashele

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1/6/9

11 February 2003

TO HEADS OF ALL THE DEPARTMENTS AND PROVINCIAL ADMINISTRATIONS

PAYMENT OF SUBSISTENCE ALLOWANCE AND THE TAX IMPLICATIONS THEREOF

1. The attached letter dated 17 January 2003 received from South African Revenue Service (SARS) refers.
2. Emanating from certain amendments to section 8(1)(c) of the Income Tax Act, 1962, SARS has issued guidelines to clarify the new tax legislation for subsistence allowance. Departments are requested to ensure the implementation of the said amendments as contemplated in the above-mentioned letter.


DIRECTOR-GENERAL

AIDS is a deadly reality. We are individually responsible to prevent the spread of AIDS

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Policy & Law Application:
Direct Taxes



Reference
18/13/5

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Date
17 January 2003

South African Revenue Service

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Mr. K. Govender
Department of Public Service and
Administration
Private Bag X916
PRETORIA
0001

Dear Mr. Govender

INCOME TAX: REVISED POLICY FOR SUBSISTENCE ALLOWANCES

It has come to the attention of this office that various Departments in the Public Sector require clarity on the new tax legislation for subsistence allowances in order to formulate their Travel and Subsistence policies. Kindly forward the contents of this letter to all Departments in the Public Sector to assist them accordingly.

Certain amendments to section 8(1)(c) of the Income Tax Act, 1962 (the Act), were approved by Parliament and promulgated in the Taxation Laws Amendment Act, 2002 with effect from 01 March 2002. A copy of this Act, its Bill and the Explanatory Memorandum for the Bill are available on the South African Revenue Service (SARS) website, www.sars.gov.za under "Legislation".

However, these amendments were reviewed in the Revenue Laws Amendment Act, 2002, also with effect from 01 March 2002, to accommodate the effect of inflation, and to ease the administration burden associated with these allowances. A copy of this Act, its Bill and the Explanatory

Memorandum for the Bill are also available on the SARS website mentioned above.

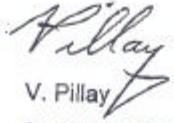
The new amendments still exclude the accommodation component from the amounts but now deem increased subsistence amounts (fixed by the Minister of Finance by Gazette) to have been expended by an employee when determining the taxability of the allowance.

Generally, a subsistence allowance under the current dispensation is tax-free:

- where an employee in his or her tax return submits proof of the subsistence expenditure; or
- where the allowance is granted for **incidental costs only** for business trips in South Africa and does not exceed R 53 per day (this is the new category, relating to circumstances where the allowance is paid for incidental costs only); or
- where the allowance is granted for **meals and incidental costs** for business trips in South Africa and does not exceed R 173 per day (previously R 65 per day); or
- where the allowance is granted for **meals and incidental costs** for business trips **outside** South Africa and does not exceed \$190 per day (previously \$120 per day).

It will not be practical to make the \$190 amount available in all other currencies in view of the number of other currencies and the regular fluctuations that they go through in a year of assessment. Where the subsistence allowance for business trips outside South Africa is not paid in US Dollar, it is suggested that the currency be converted to US Dollar by using the applicable exchange rate at the time when the subsistence expenditure is incurred and then comparing the converted amount to the \$190 yardstick to determine the tax implications. This exchange rate can be obtained from the South African Reserve Bank.

Sincerely



V. Pillay

for COMMISSIONER FOR THE SOUTH AFRICAN REVENUE SERVICE