



the dpsa

Department:
Public Service and Administration
REPUBLIC OF SOUTH AFRICA

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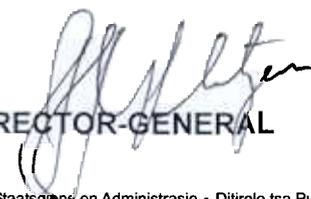
8 March 2006

TO THE HEADS OF ALL NATIONAL/PROVINCIAL DEPARTMENTS AND ADMINISTRATIONS

(ATTENTION: CHIEF FINANCIAL OFFICERS/HEADS OF CORPORATE SERVICES/HR MANAGERS)

INCOME TAX: STATE AND OTHER HOUSING

- 1 This Department has in the circular minute dated 16 October 2002 communicated to all departments South African Revenue Service's (SARS) method of taxing residential accommodation for employees in the Public Service.
2. According to a ruling issued by SARS on 18 September 2002, the taxable benefit will be limited to R802 per month where it is found that the employees occupy the premises under unique circumstances. This meant that an affected employee has a nil taxable benefit where the employee contributed R802 per month for the residential accommodation that was provided by his/her employer.
3. Please note that SARS has increased the limited amount of R802 referred to above to an amount of R976 per month for the 2006 tax year. The details of the increase are contained in the attached letter from SARS.
4. Departments are therefore expected to effect the implementation of the said increase in the 2006 tax year.


DIRECTOR-GENERAL
FOA

Staatsdienste en Administrasie • Ditirelo tsa Puso le Tsamaiso • Ditshebeliso tsa Mmuso le Tsamaiso • uMnyango wemiSebenzi kaHulumeni nokuPhata

A: 0603070150c • Umphiso ya Tshumelo ya Muvhuso na Vhulanguli • Kgoro ya Ditirelo tsa Mmuso le Taolo • Ndzawulo ya Vutirhela-Mfumo na Vulawuri

LiTiko le Tebasebenti baHulumende nekuPhatsa • ISebe leNkonzo kaRhulumente noLawulo • UmNyango wemiSebenzi kaRhulumente nokuPhata

This man has an affected employee had tax lease benefit with the employee provided R80 per month for the residential accommodation that was intended for his own use.

6. The value of the lease for the month of the date on which was the effects of the on the

7. The reference to the R 1000000 of R 176

the employee will be liable to pay tax on the amount received by the employee from the employer.

When the employer provides a residential accommodation for the employee to live in, the employer is liable to pay tax on the value of the accommodation.

the value of the accommodation is determined when the value is to be determined. An example of this is the value of the accommodation.

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The effect of the tax is to reduce the value of the accommodation from R 1000000 to R 800000.

that the maximum amount of tax payable on the value of the accommodation will be R 1000000.

used for the employee's private use. The value of the accommodation will be determined when the value is to be determined.

10. When the value of the accommodation is determined when the value is to be determined. An example of this is the value of the accommodation.

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R976. In these cases, the lesser amount must be used as the taxable benefit.

12. Due to practical constraints, specific rulings will not be issued to each employer confirming whether or not the R976 limitation is applicable. Employers must make the final decision based on the guidance provided in this ruling.
13. This ruling is applicable with effect from the 2006 year of assessment until further notice from the South African Revenue Service

Sincerely



S. Mukatuni

for COMMISSIONER FOR THE SOUTH AFRICAN REVENUE SERVICE

ANNEXURE A – EXAMPLES

Mr. X is a prison warden employed by the Department of Correctional Services. His conditions of service stipulate that he must reside on the premises of the prison to be available at all times should there be a prison riot or break. He was therefore provided with an official residence on the prison premises. He pays R200 per month to the Department of Correctional Services as rental for the residential accommodation. In this case, Mr. X will qualify for the capping of the taxable benefit due to the nature of his duties, his conditions of service and the fact that he does not have choice to live wherever he chooses. The value of the taxable benefit will therefore be the lower of the value determined by using the formula or an amount of R976 per month, less any amount paid by Mr. X in respect of renting the accommodation from his employer. If, therefore, the formula calculates the benefit to be R1 500 per month, the value of the taxable benefit must be limited to R976 less R200 per month, i.e. R776 per month. This taxable benefit of R776 will be added to his gross salary and employees' tax (e.g. PAYE) will be deducted from the total amount.

2. Due to her vast expertise, Dr. Y was requested by the Department of Health to promote primary health care in a hospital in a rural area in the Limpopo Province for two years. She has a house in Durban and has no intention of settling in the Limpopo Province. The Limpopo Provincial Government therefore provided her with residential accommodation in an area close to the hospital but where the rental value for properties of a class similar to the residential accommodation is well below the average national rental value of properties of a similar class. She does not pay any consideration for the use of residential accommodation. In this case, she will qualify for the capping for the taxable fringe benefit. The value of the taxable benefit must be calculated by using the formula and then limiting it to an amount of R976 per month. If, therefore, the formula calculates the benefit to be R3 000 per month, the value of the taxable benefit would be limited to R976 per month. This taxable benefit of R976 will be added to her gross salary and employees' tax (e.g. PAYE) will be deducted from the total amount.
3. Mr. A is a Director in the South African Police Service (SAPS). As part of his conditions of employment, he has the option of occupying residential accommodation owned by the SAPS. The residential accommodation is in an active rental market which results in the market rental value of the

residential accommodation being more or less the same value determined by using the formula. He pays R200 per month to the SAPS as rental for the use of the residential accommodation. In this case, the capping is not applicable which means that the value of the taxable benefit will be the value determined by using the formula. If, therefore, the formula calculates the benefit to be R3 000 per month, the value of the taxable benefit would be R3 000 less R200, i.e. R2 800 per month. This taxable benefit of R2 800 will be added to his gross income and employees' tax (c.g. PAYE) will be deducted from the total amount.

4. Ms. B was requested to serve her internship (to become a medical doctor) in a hospital in a remote part of the Eastern Cape. She will have to be on call for at least four nights per week. There are no flats or houses which she can rent or buy close to the hospital. To ensure her immediate availability for service, the Eastern Cape Provincial Government provided her with residential accommodation on the premises of the hospital. She will not pay any consideration for the use of the accommodation. In this case, she will qualify for the capping for the taxable fringe benefit. The value of the taxable benefit must be calculated by using the formula and then limiting it to an amount of R976 per month. Since interns are not paid high salaries, the formula calculates the benefit to be R700 per month, which is less than the capped amount of R976. In this case the R976 capping is applicable but it will be necessary to use the lesser amount of R700, which is the actual benefit according to the formula. This taxable benefit of R700 will be added to her gross salary and employees' tax (e.g. PAYE) will be deducted from the total amount.

ANNEXURE B – THE FORMULA

The formula in paragraph 9(3) of the Seventh Schedule is as follows:

$$(A - B) \times \frac{C}{100} \times \frac{D}{12}$$

in which formula –

- (i) 'A' represent the remuneration factor as determined in relation to the year of assessment;
- (ii) 'B' represents an abatement equal to an amount of R20 000:
Provided that ...
- (iii) 'C' represents a quantity of 17: Provided that where the accommodation consists of a house, flat or apartment consisting of at least four rooms –
 - (aa) 'C' represents a quantity of 18 if –
 - (A) such accommodation is unfurnished and power or fuel is supplied by the employer; or
 - (B) such accommodation is furnished but power or fuel is not supplied; or
 - (bb) 'C' represents a quantity of 19 if such accommodation is furnished and power or fuel is supplied by the employer; and
- (iv) 'D' represents the number of months in relation to a year of assessment during which the employee was entitled to occupation of such accommodation;

"remuneration" in relation to any employee, means the aggregate of the amounts of remuneration (as determined in accordance with the definition of 'remuneration' in paragraph 1 of the Fourth Schedule but excluding any amounts referred to in paragraph (c) and including any amounts referred to in paragraph (vii) of that definition) which have been derived by him or her from his or her employer and any companies and funds which are associated institutions in relation to the employer but excluding –

- (a) the value of any benefit or taxable benefit derived from private use of any motor vehicle or the occupation of residential accommodation;
- (b) the amount of any remuneration ...
- (c) any amount referred to in paragraph (iii) of the proviso to paragraph (c) of the definition of 'gross income' in section 1 of this Act;

'remuneration factor', in relation to a year of assessment during which an employee has occupied residential accommodation, means the remuneration derived by him or her during the year of assessment immediately preceding the first mentioned year of assessment: Provided that –

- (i) where during a portion of such preceding year the employee was not in the employment of the employer ...;
- (ii) where during the whole of such preceding year, the employee was not in the employment of the employer .