Media Release
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It pays to understand your total tax liability if you have multiple sources of income

South African taxpayers with different sources of income are often shocked when they discover at the end of the tax year that pay-as-you-earn (PAYE) deductions did not cover their tax liabilities and that they owe money to the South African Revenue Service (SARS).

Peter Stephan, senior policy adviser at the Association for Savings and Investment South Africa (ASISA), says pensioners who are not provisional taxpayers* but who receive annuities from different sources are particularly at risk of this happening and often do not have the means to pay the tax due to SARS.

According to Stephan, tax legislation aimed at addressing this problem in part will only come into effect from 1 March 2022. Until then, the best way to avoid a nasty tax shock at the end of the tax year is to understand your total tax liability when you are not a provisional taxpayer. This will enable you to request that your employer as well as insurance companies and/or retirement funds apply a higher rate of PAYE to your income.

“Ensuring that you are appropriately taxed during the year will ease your financial burden and eliminate surprises when submitting your tax return,” explains Stephan.

Why PAYE can leave you with a shortfall

Stephan says taxpayers who are not provisional taxpayers and who receive income from multiple sources that has already been subjected to PAYE during the year are usually left questioning how they can possibly owe more tax.

He explains that South African taxpayers pay income tax on their local and world-wide taxable income, which is all added together to determine their overall tax liability. Since South Africa has a progressive income tax system as opposed to a flat rate of tax, income tax is paid according to published tax tables. The current individual tax tables for the tax year ending February 2021 start at a minimum tax rate of 18% on a taxable annual income of R205 900 progressing through various bands to reach a maximum rate of 45% on taxable income greater than R1 577 301.

Stephan points out that since you are required to pay income tax on your total combined annual taxable income, the tax liability on your total taxable income may be much higher than the combined amount of PAYE that was applied to each source of income.

Stephan provides the following example:

You might be earning a salary from which your employer deducts the monthly PAYE in line with the current PAYE tables and your allowable rebates. However, you may also receive a monthly compulsory purchase annuity from an insurance company arising from the death of your spouse. The insurance company will also deduct PAYE on the pension amount paid to you in line with the current PAYE tables and your allowable rebates. However, your employer and the insurance company are both applying the tax tables and rebates independently on each source of income and not on the combined amount of taxable income. To make matters worse they are both applying the applicable rebates that you are entitled to when deducting PAYE.

Stephan points out that you are only entitled to your rebate(s) once and not for each different source of income.

He says that on final assessment, taxpayers will be taxed on their cumulative taxable income at a much higher marginal tax rate than their individual sources of income. The PAYE deductions, which would have been applied on each individual source of income, will therefore not cover your total tax liability.

"Since many taxpayers who receive income from various sources that deduct PAYE are not aware that the tax deducted is unlikely to cover their tax liability, they have not budgeted for it. Unfortunately, this often leads to delayed payments and therefore penalties, which makes the situation worse for the taxpayer."

Understanding your tax liability

Stephan says that once taxpayers are aware of their overall tax liability, they can approach their employer, insurance company or retirement fund making the income payments and request that a higher rate of PAYE is deducted than what is prescribed by the PAYE tables. By doing this, he adds, you can avoid having to pay in on final assessment.

You can establish your taxable income and your tax liability by using the following formula:

Calculation to establish your tax liability:

a) Gross Income (e.g. salary, investment income, annuities and/or pensions received)
b) **Less** Exempt income (e.g. local dividends)
   = Income
c) **Less** allowable deductions (e.g. contributions to retirement funds)
d) **Add** any specific inclusions (e.g. taxable capital gains)
e) **Less** any assessed loss carried forward from a previous tax year
   = Taxable income (or assessed loss)
f) **Apply** the tax tables to your taxable income
g) **Deduct** the applicable rebates which are based on your age
   = Tax due to SARS or refund due to you

Stephan points out that all taxpayers get a primary rebate off their taxes (currently R14 958). In addition, a secondary rebate of R8 199 applies if you are 65 and older. A tertiary rebate of R2 736 applies if you are aged 75 and older.

In effect because of the rebates applicable to you, you will not pay income tax below the taxable income threshold of:

- Below 65 - R83 100
- Age 65 to 75 - R128 650
- Age 75 and over - R143 850

Don’t wait for legislation

Stephan says in an effort to assist taxpayers, National Treasury has proposed new legislation, which will require life insurers and retirement funds to withhold PAYE without applying rebates. However, since this legislation will only be effective from 1 March 2022, taxpayers should be doing their calculations and requesting their employers, insurance companies or retirement funds to apply a higher rate of PAYE if they do not want to have to pay in later on.

“Applying these changes now will certainly reduce your financial burden when you submit your 2021 and 2022 tax returns,” advises Stephan.

** Tax is collected from individual taxpayers by way of pay-as-you-earn (PAYE) tax and/or provisional tax. Provisional taxpayers earn income that is not subject to PAYE and are required to make two provisional tax payments in a tax year, one six months into the year of assessment and one at the end of the year of assessment.*

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ASISA represents the majority of South Africa’s asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies.