Employ SA Staff

TAXS | TAX SMART SOLUTIONS

Tax Smart Solutions – a simple guide for companies that employ South Africans in light of the forthcoming tax changes in March 2020.

South African expat workers face drastic changes to the way they are taxed by SARS come March 2020. The 183 day exemption is falling away and whilst not all South Africans will be effected, some will. In layman's terms SARS has always taxed on worldwide income, but with exemptions. These exemptions saw most South African expat workers face no tax liability in South Africa. With the removal of the '183 day' exemption, hefty tax bills may now be incurred without action.

Do you have any South Africans earning in excess of the equivalent of GBP 57,000 per annum?

Your employee may face a potential tax liability in South Africa of up to 45% on all their earnings (total cost to company) over ZAR 1,000,000.

The proposed exemption on foreign earnings of ZAR 1,000,000 means no further action need to be taken at the moment.

POSSIBLE SOLUTIONS

- Employees holding another residency (other than South African) should seek advise as to whether tax emigration and/or financial emigration may be applicable.
- Staff could become contractors and look to set up the Tax Smart structure.

In the Taxation Laws Amendment Act, No 17 of 2017, amendments to s10(1)(o) will go into effect from 1 March 2020. These amendments limit the exemption available under this section to income up R1 million earned by a South African taxpayer while working abroad.

Prior to the amendment taking effect all remuneration earned by South African taxpayers that qualified for the exemption under s10(1)(o) was exempt from income tax, meaning that in certain cases, no employees' tax withholding obligation would arise. However, from 1 March 2020, where an employee earns more than R1 million in a 12-month period, employees' tax must be withheld for any further income beyond the R1 million threshold.

However, the country where the employee is deployed may also impose an employees' tax withholding obligation on the same income. Meaning that the same income would be subject to two withholding obligations, a classic example of double taxation.

The Budget therefore proposes that a provision be inserted into the IT Act, which would allow employers to reduce their amount withheld monthly for employees' tax by the amount of any foreign employee's tax withholding that applies to that income. This amendment is subject to a workshopping exercise by National Treasury and will be refined through the 2019 legislative cycle. The first workshop in this regard is scheduled to take place on 6 March 2019.

This amendment will provide vital relief for employees who work abroad, especially from a cash-flow perspective, given the increased tax burden they will face from March 2020. It also ensures that where an employee works in a country which has not concluded a double taxation agreement with South Africa, that they are not subject to double taxation.

Stuart James | + 27 (0) 82 325 7028 | stuart@tax-smart-solutions.co.za