Tax certificates

Frequently Asked Questions

Disclaimer

This document does not constitute financial, tax or investment advice or services. The document has been prepared to assist you with questions you may have regarding your tax certificates and other tax-related questions. We will not be liable for any loss or damage which you may suffer as a result of relying on information in this document. You must consult your own tax professional in this regard.

General questions

1. **Who needs to register for income tax?**
   Any natural person or entity who receives taxable income above the tax threshold (i.e. the amount above which income tax becomes payable) must register for income tax.

2. **What is an income tax return?**
   An income tax return is a declaration of all income earned, capital gains or losses realised, and allowable deductions claimed in a tax year by an individual or entity. The income tax return SARS issues to individuals is called an ITR12 return, whilst the income tax return SARS issues to companies is called an ITR14 return.

3. **Do I need to submit an income tax return?**
   Click here to access the tool on the SARS website which will help you to check if you need to submit a tax return.

4. **Do I need to pay income tax?**
   In most circumstances (see 8 below), you have an obligation to pay tax and submit a tax return to SARS if you earn taxable income above the tax threshold. More information is available on the SARS website.

   Examples of income an individual may receive (from which the taxable income is determined) include:
   - remuneration (income from employment) such as, salaries, wages, bonuses, overtime pay, taxable (fringe) benefits, allowances and certain lump sum benefits
   - profits or losses from a business or trade
   - income or profits arising from an individual being a beneficiary of a trust
   - director's fees
   - investment income, such as interest and foreign dividends
   - rental income or losses
   - income from royalties
   - annuities
   - pension income
   - certain capital gains

5. **What are the tax thresholds?**
   The tax thresholds for the current year of assessment can be found on the following page on the SARS website:
   https://www.sars.gov.za/tax-rates/income-tax/rates-of-tax-for-individuals/.

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6. **What is a SARS auto-assessment?**
During July, SARS will assess a significant number of taxpayers automatically. Taxpayers who are auto-assessed will be notified via SMS or email in July, and there will be no need for these taxpayers to call SARS or visit a SARS branch.

If you receive such a notification, please note that the SMS or email from SARS will direct you to eFiling or the SARS MobiApp to review your auto assessment. If you agree with the auto assessment, and have verified that all details reflect correctly, there is no further action required from you and SARS will regard your auto assessment as your final return.

The auto-assessment is not subject to objection and appeal. If you do not agree with it, you can complete your return as normal and file it within 40 business days of the date that SARS issued the auto-assessment to you. If you cannot file the tax return within 40 business days of receiving the auto-assessment, you can request an extension via eFiling or the SARS MobiApp.

Some taxpayers may also receive communication from SARS indicating why they will not be auto-assessed or receive communication alerting them to findings on their return submissions from previous years (to assist them with submitting outstanding return/s). Taxpayers who are not auto-assessed by SARS will need to submit a return.

7. **When does the tax season start/when can I submit my tax return?**
The tax season opens on 1 July 2022 and closes on 24 October 2022 for non-provisional taxpayers who use eFiling and the SARS MobiApp, 23 January 2023 for provisional taxpayers who use eFiling, and 31 October 2022 for taxpayers who manually submit returns. During this period, you will need to submit an income tax return to SARS (unless you have been auto-assessed and agree with the outcome of the assessment).

8. **How do I know if I am a provisional taxpayer?**
Any person who receives income (or to whom income accrues) other than from a salary, is a provisional taxpayer. A provisional taxpayer is defined in paragraph 1 of the Fourth Schedule of the Income Tax Act, No.58 of 1962, as any –
   - natural person who derives income, other than remuneration or an allowance or advance as mentioned in section 8(1) or who derives remuneration from an employer who is not registered for employees' tax (for example, an embassy is not obligated to register as an employer for employees' tax purposes)
   - company; or
   - person who is told by the Commissioner that he or she is a provisional taxpayer.

Excluded from being a provisional taxpayer (as defined) are any –
   - approved public benefit organisations or recreational clubs that have been approved by the Commissioner in terms of section 30 or section 30A of the Income Tax Act, No.58 of 1962;
   - body corporates, share block companies or certain associations of persons;
   - non-resident owners or charterers of ships or aircraft;
   - natural persons who do not earn any income from carrying on any business – provided that person's taxable income will not be more than the tax threshold or the taxable income of that person (earned from interest, foreign dividends, rental from letting of fixed property and remuneration from unregistered employer) will not be more than R30 000;
   - small business funding entities; and
   - deceased estates.

9. **How do I submit a tax return?**
You must first register as a taxpayer via SARS eFiling. Once you are registered, you can submit your return via eFiling. If you experience any issues in your tax registration via eFiling, you may register at your nearest SARS branch. Please also take note of the documents you will need to register as a taxpayer and the guidance provided by SARS.

10. **Where do I source information for completing the investment information in my tax return?**
Each financial service provider who is the administrator of an investment held in your name must provide you with tax certificates (where applicable), which you will need to use to complete your tax return. SARS may require you to submit these tax certificates as supporting documents to your tax return.

11. **Is the tax return I submit the only record that SARS receives?**
No. Certain financial institutions, like us, submit a third-party data file of all your taxable income derived from products held with that financial institution directly to SARS.

12. **As a financial institution, what is PSG's reporting obligation to SARS?**
In terms of the SARS requirements, financial institutions (such as PSG Wealth and PSG Asset Management) are required to submit third-party data on taxable income to SARS.
We report the following information to SARS:
    - local and offshore investment income (e.g. dividends, interest and other income) from funds and securities
    - capital gains or losses from the sale of local and offshore investments (funds and securities)
    - living annuity income
    - withdrawals and transfers from retirement annuity/provident preservation/pension preservation and living annuity funds
    - retirement annuity fund contributions
    - tax free investment plan information

13. **Does PSG Wealth submit my IRP5/IT3(a) directly to SARS on my behalf?**
We do submit IRP5/IT3(a) information to SARS electronically. However, you must still complete and submit an income tax return ensuring your return is accurate and complete.

14. **Do I pay tax in South Africa even if I am non-resident?**
In general, South Africa follows a residence-based tax system, which means residents are (subject to certain exclusions) taxed on their worldwide income, irrespective of where the income was earned. By contrast, non- residents are taxed on income they receive from a South African source, which may further also be subject to the application of a double taxation treaty. Read more about double taxation agreements and protocols on the SARS website.

Certificate specific queries

IT3(b) certificates

15. **Can I compare statements for investment products to my IT3(b) tax certificate?**
Whilst such a comparison can be made for securities products, it will be difficult to compare your monthly or quarterly statements for investment products to your income tax certificate. The purpose of the monthly or quarterly investment statement is to report the market value of your investment, taking into consideration market movements, actual and pending transactions, and realised and unrealised (or accrued) income or returns from your investments (e.g. dividends and interest, capital gains and losses). The purpose of the tax certificate is to disclose to SARS the source and nature of the returns on your investment, so it only discloses realised taxable income. You will not see any market movements or unrealised (or accrued) income on your tax certificate.

16. **Why is there a difference between the date when distributions are declared by a fund and the date when the distributions reflect on my investor statement as "reinvested distributions"?**
Funds declare distributions to investors on a monthly, quarterly, bi-annual or annual basis (depending on the frequency of distributions for the specific fund). The distribution declaration date is the date on which the distributions are deemed to accrue to an investor (for example 28 February). The distribution is then reinvested into client contracts and settled a few days later, as per normal trading times (for example 3 March). The distributions included on your tax certificate are based on the declaration dates of the distributions and not the reinvestment dates.

17. **What is dividends withholding tax (DWT)?**
Dividends withholding tax is a tax that is withheld from the dividends you earn as an investor in a security or underlying share of a unit trust fund, and paid over to SARS. You, however, remain ultimately responsible to pay DWT on cash dividends should we or any other withholding agent fail to do so, or fail to withhold the correct amount of tax. The current rate of DWT in South Africa is 20% (subject to certain exemptions and reductions under an applicable double tax treaty for non-residents).

    Read more about double taxation agreements and protocols on the SARS website.

18. **Are there any exemptions to dividends withholding tax (DWT)?**
SARS does allow certain exemptions from DWT (e.g. a local resident South African company), but the exemptions do not apply automatically. If you qualify for an exemption, you must first complete a declaration form which you can obtain from PSG Wealth before you are entitled to the exemption. You can also access these forms via the links below:
    - PSG Invest Dividends Tax Declaration - Reduced Rate of Tax
    - PSG Invest Dividends Tax Declaration - Exemption from Tax
    - PSG Securities Dividends Tax Declaration - Reduced Rate of Tax
    - PSG Securities Dividends Tax Declaration - Exemption from Tax

    More information is available on the SARS website.

19. **How are dividends received and withholding tax paid on the dividends from dual-listed companies treated on PSG Wealth tax certificates?**
Dual-listed companies are companies that have a primary listing on the JSE and a secondary listing on another (foreign) exchange. Dual-listed dividends are treated as normal South African dividends for South African Income Tax purposes. These are included on your certificate under 'Gross foreign dividends (dual listed) exempt locally'.

    The withholding tax on these dividends is subject to foreign withholding tax and a possible additional local withholding tax. The local dividends are exempt from income tax and the foreign withholding tax is not claimable. For disclosure purposes this has been included on your certificate under 'Local withholding tax on foreign dividends (dual listed) exempt locally' and 'Foreign withholding tax on foreign dividends (dual listed) exempt locally'.

IT3(c) certificates

20. **What is the purpose of the IT3(c) tax certificate?**
The IT3(c) is a tax certificate that provides you with a summary of any capital gains or losses realised from selling or otherwise disposing of holdings in investments or securities with a financial institution.

21. **What is capital gains tax (CGT)?**
Capital gains arise when you dispose of an asset for an amount that is higher than the base cost. Capital losses arise when you dispose of an asset for an amount that is less than the base cost.

    When a capital gain arises, individuals are entitled to a R40 000 annual exclusion of capital gains. After this is taken into account, there is an inclusion rate into normal tax of 40% for individuals and 80% for companies and trusts. Once this is included in the tax calculation it will be subject to the marginal rate of the individual, company or trust.

    For example, if an individual buys an asset at a cost of R100 000 (the base cost) and sells it for R150 000 (the proceeds of the disposal), they will have a capital gain of R 50 000. The R40 000 annual exemption means that capital gains tax is only payable on the remaining R10 000. At the normal inclusion rate of 40% for individuals, the capital gain included in income tax would amount to R4 000 (R10 000 x 40%) and the CGT (assuming the individual has the highest marginal tax rate) would equal R1 800 (R4 000 x 45%).

    However, for a company or trust buying an asset at a base cost of R100 000 and selling it for R150 000, the annual exclusion would not apply, and the normal inclusion rate would be 80% meaning the capital gain included in income tax would be R40 000 (R50 000 x 80%). The CGT would equal R11 200 (R40 000 x 28%).

22. **Is there a capital gain exemption? If so, how does it apply?**
Yes. Each individual has an annual capital gain exemption of R40 000 for the 2022 tax year. It applies automatically when the individual submits his/her return. The exemption increases to R300 000 in the year of the individual's death.

23. **I am only invested in the PSG Wealth Enhanced Interest Fund. How can I have a capital gain?**
Capital gains are relevant to all instruments with a fluctuating unit price and which are capital in nature. For an instrument to be capital in nature, the investor must not have the intention of trading the instrument frequently to make a profit, the instrument should be held for long term gains. The unit price for the PSG Wealth Enhanced Interest Fund is not fixed at R1 per unit (as traditional money market funds are) and there can therefore have a capital gain (or loss).

24. **What are switches?**
- A switch occurs when funds are moved from one unit trust fund to another.
- In practice, switch transactions involve selling units of one unit trust fund to buy units of another. For capital gains tax purposes, switches are therefore regarded as a disposal of instruments.
- Switching funds in your portfolio will therefore result in a capital gain or loss which you will need to include on your income tax return.

25. **Does switching between different fund fee classes of the same unit trust trigger capital gains tax (CGT)?**
No. When you switch between different fee classes of the same unit trust you are not disposing of your units in the unit trust. The switch occurs in the underlying unit trust fund itself, so no CGT event is triggered.

26. **Does selling units to pay advice fees trigger CGT?**
Yes. Any disposal of units in a unit trust triggers a CGT event, even if the sale of units is used to fund advice or platform fees.

27. **Why would my proceeds look overstated or do not agree to the amount I sold during the tax period?**
Capital gains tax is triggered by two types of event, namely unit sells and unit switches. When units are sold, a capital gain/loss is realised. With unit switches, if you have switched from one asset into another asset it also constitutes a disposal/deemed sale for capital gains purposes, even though no money was paid to you in the process.

28. **What happens when an instrument is delisted from the stock exchange?**
The delisting of an instrument from the stock exchange is not a disposal in terms of the 8th Schedule of the Income Tax Act No. 58 of 1962. The stock will be reversed at cost, which means there will be no capital gain or loss reflected on the IT3(c) tax certificate. Any transaction after the delisting will not be disclosed on the tax certificate as the tax certificate only reports on listed instruments held.

It remains the client's responsibility to disclose the transaction that occurred after the delisting when completing their tax return with SARS.

IT3(s) certificates

29. **What is an IT3(s) certificate?**
An IT3(s) certificate is a certificate we issue to you annually that includes the following information about your Tax Free Investment Plan:
- total contributions for the tax year
- total amounts withdrawn for the tax year
- total amounts transferred per tax year
- total net returns on investment, for example: realised gross return received for the period less any applicable costs and fees for the period

30. **Why does PSG Wealth need to provide SARS with information on tax-free products?**
It is a SARS requirement that PSG Wealth submit information in respect of Tax Free Investment Plans to SARS to enable them to collect data on these types of products and evaluate taxpayers' compliance with the tax benefit requirements.

IT3(f) certificates

31. **What is the purpose of the IT3(f)?**
Contributions to a retirement annuity must be disclosed to SARS for members of a retirement annuity to benefit from the allowable tax deduction. The IT3(f) certificate serves as proof of the amount you contributed during the applicable tax period.

IRP5/IT3(a) certificates

32. **What is the purpose of the IRP5/IT3(a) tax certificate?**
The IRP5/IT3(a) is the tax certificate that reflects the earnings received from, amongst others, your living annuity investment with us. It is issued to you at the end of each tax year detailing all related incomes, deductions and related taxes by both your employer and you (the employee).

33. **What must I do if my IRP5/IT3(a) information for my lump sum is not on my income tax return (ITR12)?**
If an IRP5/IT3(a) certificate has been issued to you, but the certificate information is not pre-populated on your income tax return, you can capture the certificate information manually on e-filing by increasing the number of certificates on the form wizard. This will generate a blank certificate which you must use to capture the IRP5/IT3(a) certificate detail, including the tax directive number, to avoid the return being rejected.

34. **Why is income from my living annuity disclosed under code 3603?**
As part of our annual tax certificate process, we have taken direction from the latest SARS Business Requirements Specifications and sought external expert advice on the tax codes that should be used. Based on this guidance, PSG Life will include income from living annuities under code 3603, which is appropriate for taxable pensionable income.

35. **What is the difference between IRP5 and IT3(a) tax certificates?**
IRP5 and IT3(a) tax certificates reflect the same information except for the tax amount. You will receive an IRP5 when an amount of tax was deducted from your income and paid over to SARS. You will receive an IT3(a) where no tax was deducted (usually due to either a zero-tax directive, or the taxpayer earning income lower than the annual tax threshold).

36. **Can I decrease the tax payable on my ELLA product?**
You would need to apply to SARS for a tax directive which SARS may grant in certain circumstances. We suggest you consult a tax professional for advice and assistance with this application.

37. **Can I increase the tax payable on my ELLA product?**
Yes. You would need to send an instruction to clientservice@psg.co.za to ask for an increase in tax amount. This can either be a specific percentage or amount.

38. **What does the tax directive number on the certificate relate to?**
A tax directive number will only appear on an IRP5/IT3(a) certificate where either a withdrawal or transfer of funds took place from your retirement fund during the tax year. As the fund administrator, PSG Wealth is required to notify SARS (via a tax directive application) if retirement funds have been moved. The tax directive number on the tax certificate will indicate to SARS what taxes have been withheld (or that no taxes have been withheld) as per their instruction.

Other technical matters

39. **What is a recognition of transfer (ROT)?**
An ROT is a document completed and submitted to SARS by the fund administrator receiving your funds once you have transferred from one fund administrator to another. The purpose of an ROT is to confirm to SARS that a transfer of funds has taken place and that you haven't withdrawn any funds. This is relevant as a withdrawal would be subject to tax.

40. **I got a notification from SARS to say that my ROT is outstanding, and my return will not be assessed. What should I do?**
Where SARS contacts you to notify you that there is a ROT outstanding, they will provide the name of the fund administrator who needs to submit the ROT. You will need to contact that fund administrator to process your ROT. Where PSG Wealth is the fund administrator, please email your request to clientservice@psg.co.za.

41. **Why didn't I receive a tax statement for my endowment?**
The endowment is issued under the PSG Life licence, which means that you invest in an endowment policy issued by PSG Life Ltd and PSG Life Ltd owns the underlying assets. Your policy is a claim against the life company for the market value of your investment, but since the underlying assets are held in the name of the life company, it is the life company (and not you as the policyholder) that is taxed on the return on the investment/underlying assets. If you claim from your endowment policy, the return you receive from the life company is therefore net of taxes. The life company must submit a tax return and pay the tax on the endowment. You, as the policyholder, do not need to submit any tax information in respect of your endowment policy.

42. **Can you claim PSG fees as a deduction against capital gains tax or interest income?**
In terms of Section 11(a), read together with section 23(g) of the Income Tax Act No. 58 of 1962, expenditure and losses which are of a capital nature, and which are not incurred in the production of income and for the purposes of trade, may not be allowed as a deduction from a taxpayer's income.

    Thus, where your investment is of a capital nature or the expenditure is not incurred in the production of income (e.g. exempt divided income) or not for purposes of trade, it cannot be deducted from your taxable income (i.e. from capital gain or interest income). We recommend that you contact your tax professional for advice in this regard.

43. **Why are the tax implications of the natural person investing directly into offshore securities via the asset swap structure of PSG Securities different from investing into unit trusts by means of the PSG Life asset swap structure?**
In the case of an offshore investment through the PSG Life asset swap structure, the underlying assets are held in a wrapper. This means that PSG Life becomes the registered owner of the underlying assets and the individual has a claim against PSG Life for the value of the underlying assets.

    In the case of the asset swap structure facilitated through PSG Securities, no such wrapper exists. The asset swap share investment facilitated through PSG Securities is held in the name of the investor, although the nominee structure prevents access to the foreign assets as per South Africa Reserve Bank requirements. As a result, the asset swap structure of PSG Securities has the same tax implications for natural persons, trusts and companies (bearing in mind the different 'conversion' to rand treatment). We recommend you consult a tax professional to better understand the impact it may have on you.

44. **What foreign currency conversion method is used to calculate the taxable capital gain or loss for direct offshore investments?**
For individuals and non-trading trusts, the capital gain or loss on the disposal of the investment is calculated in the relevant foreign currency and thereafter converted to rands by applying the official closing rate on the date of disposal (spot rate).

For companies, the expenditure (base cost) is converted to rands at the closing rate on the date of purchase and proceeds are converted into rands on the date of disposal (spot rate). The capital gain or loss is determined in rands thereafter.

The spot rates we use are supplied by IRESS.

We strongly recommend you consult with a tax professional in determining your taxable income.

45. **How do I query the values on my tax reporting if I think they may be incorrect?**
Please contact us at PSGWealth.tax@psg.co.za and inform us of your concern. We will investigate and take steps to correct the information with SARS if it is necessary. Keep in mind that tax treatment may differ from one person to the next due to differing personal tax circumstances. We suggest you always consult your tax professional.

46. **If I have any other questions on my tax certificates, who do I contact?**
You can email PSGWealth.tax@psg.co.za if you have any technical tax-related questions. We remind you that we cannot provide you with any tax advice and recommend that you consult a tax professional for assistance in completing your tax returns.