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To: The South African Revenue Service

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Dear SARS Colleagues

RE: ITR12 VALIDATION ERROR

Introduction

The Fourth Schedule to the Income Tax Act, No. 58 of 1962 (the ITA), determines the calculation of the value of the employees' tax that an employer must withhold from an employee's income.

Although the calculations approximate the same factors relevant to an income tax calculation, the employees' tax calculation stands on its own. The factors relevant to employees' tax and individual income, are: Gross income, exclusions, exemptions, deductions, and rebates. Finally, at assessment, a reconciliation is required when the affected individual submits their annual tax return.

Problem analysis

Employees' tax: General non-taxable income/remuneration (exclusion applies)

Source code **3652** relates to foreign income amounts indicated as non-taxable due to the fact that a particular exclusion applies. It follows that such an amount is already excluded from the balance before any exemptions are applied.

According to the Business Requirement Specification, source code **4587** (refer to the discussion hereunder) is not applicable to income source code **3652**.

Employees' tax: Section 10(1)(o)(ii) qualifying foreign service income/remuneration

On 11 December 2020, SARS published version 19.5 of the Business Requirements Specification: PAYE Employer Reconciliation.

Certain foreign service income qualifies for the section 10(1)(o)(ii) exemption. If all the requirements in respect of this provision are met, employers may take the exemption into account when calculating employees' tax.

From the 2021 year of assessment, source code **4587** was made applicable to foreign service income source codes included in the remuneration of an employee. Therefore, source code **4587** represents the sum of all the foreign service income codes qualifying for the section 10(1)(o)(ii) exemption (referred to as "X"), but limited to the lower of R 1.25 million or the total of the values declared under "X".



The following foreign service income source codes (totaling to "X"), are listed in paragraph 6.6 of the Business Requirements Specification:

- Income Source codes - 3651; 3655; 3656; 3657
- Allowance codes – 3751 (the full amount must be included); 3763; 3767; 3768; 3772
- Fringe Benefit codes – 3851; 3852; 3855; 3856; 3858; 3859; 3860; 3863; 3866 (the full amount must be included); 3867; 3870; 3875; 3878; 3879; 3881; 3883

Individual income tax: Pre-populated individual ITR12

IRP5 tax certificates are created by employers as part of their bi-annual reconciliation and reporting process. These IRP5 tax certificates together with the EMP501 reconciliations are then submitted by employers to SARS. The information is then used to pre-populate the relevant individual taxpayers' ITR12 income tax returns.

When information on an IRP5 tax certificate is pre-populated on a ITR12 return, certain fields are locked and cannot be amended, whilst other fields remain open for information to be added.

IRP5 validation error on 2021 ITR12 return

The South African Institute of Taxation (SAIT) has received several queries from members regarding an IRP5 validation error experienced on attempted submission of 2021 ITR12 income tax returns. Specifically, if the ITR12 income tax return has been pre-populated with source code **3652** (general non-taxable income due to an exclusion applying), the SARS system creates a validation error upon attempted submission. The validation error prevents submission and states that the taxpayer must declare source code **4587** income (section 10(1)(o)(ii) qualifying foreign service income).

We attached an annexure for ease of reference.

From the analysis above, the two source codes should not have any interaction for either employees' tax or individual income tax purposes.

Affected taxpayers

According to our understanding the error would prevent the electronic submission of any ITR12 income tax return where the individual has general non-taxable income/remuneration (exclusion applies), which has been pre-populated on the ITR12 income tax return. Examples of non-taxable income are:

- Non-taxable - Relocation allowance;
- Non-taxable - Subsistence allowance for local and foreign travel not exceeding the daily limits; and
- Non-taxable allowance for a uniform, which is clearly distinguishable from ordinary clothing.



SAIT Proposal

SAIT recommends that the validation requirement built into the ITR12 process where source code 3652 is pre-populated on an ITR12 income tax return, that the source code 4587 should be populated, be removed from the ITR12 income tax return.

Yours faithfully,

SAIT

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