



Practical Payroll Solutions

Session 2

Tax Practice on the Move Series

YOUR KEY TO THE TAX COMMUNITY

PRACTICAL PAYROLL SOLUTIONS

Today's Discussion Points

Introduction

14h45

- Subsistence Allowances
- 'Day Trip' Reimbursements
- Bursaries and Scholarships
- Long Service Awards

Closing and Queries

16h15

House Keeping

- 5-minute break after 45 minutes
- The webinar recording, slide presentation and CPD quiz will be loaded onto the SAIT website.



Meet the speaker

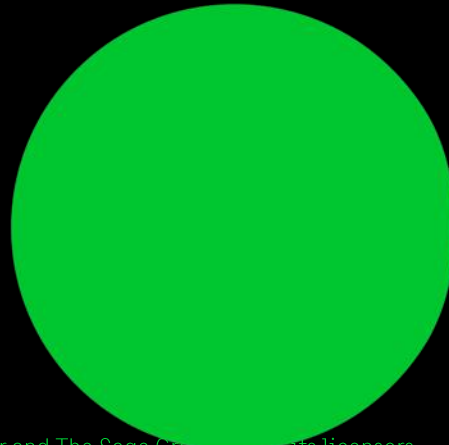
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Rob is a founding member of the PAGSA, a body that since 1989 represents the payroll industry in discussions with the statutory organisations.

As chairman, his focus over the past 35 years has been on the legislation that governs the employment and payroll industry.

He is held in high regard as an employment tax expert and is a respected writer and presenter at tax seminars and workshops around the country.



Subsistence Allowances

Meals & Incidentals

Principles of Subsistence Allowances

Under the ‘Deemed’ expense method, a Subsistence allowance is –

- An amount paid by the employer to employees
- That spend at least one night away from their usual place of residence (home) for business purposes
- To compensate employees that incur the following expenses during the business trip:
 1. ‘Meals and Incidental’ expenses, or
 2. ‘Incidental’ expenses

‘Incidental’ expenses are understood to be expenses that are -

- Not a (formal) meal, and that are
- Directly related to either the business trip, or to the accommodation used during the business trip

Subsistence allowances may not be granted –

- For ‘Meals and/or Incidental’ expenses that are, or will be, paid for by the employer

‘Accommodation’ expenses –

- Subsistence allowances under the ‘deemed expense’ method do not provide for ‘Accommodation’ expenses
- Employers should pay for the accommodation
- But what about breakfast?

Subsistence Allowances

'Actual' and 'Deemed' Subsistence Expense Methods

Two 'Methods' of providing for Subsistence expenses –

[Section 8(1)(c)]

1. 'Actual expense' method
2. 'Deemed expense' method

'Actual Expense' Method –

[SARS IN#14 Par 5.3.2]

1. The subsistence expenses in respect of Accommodation, Meals, and Incidental expenses
2. Incurred by the employee on behalf of the employer
3. Excluding any expenditure paid for by the employer (other than by paying a subsistence allowance)
4. SARS will allow a deduction up to the subsistence allowance amount reported on the tax certificate (code 3704)
5. 'Proof' of the expenses paid by the employee must be available if requested by SARS on assessment

'Deemed Expense' Method –

[SARS IN#14 Par 5.3.3]

1. An amount not exceeding the deemed daily expense thresholds published by SARS, in respect of
2. Meals and/or Incidental expenses (only),
3. Is deemed to be expended for each day (or part of a day), and
4. Can be paid as a Subsistence allowance, and
5. The employer should pay for any expenses not provided for by the Subsistence allowance (such as Accommodation)

Deemed Daily Expense Thresholds

SARS publishes 'Deemed daily expense Thresholds' -

1. For a night spent away from home for business trips inside the Republic:
 - **R169** per day for incidental expenses [for 2025]
 - R548 per day for meals and incidental expenses [for 2025]
2. For a night spent away from home for business trips outside of the Republic:
 - SARS publishes a list of the deemed daily expense thresholds for meals and incidental expenses per country

What is a 'Night'?

1. Dictionary definition: A 'Night' is *"the time between sunset and sunrise"*
2. Literal application: The employee must be away from his home from sunset of one day to sunrise of the next day
3. Practical application: Where did the employee sleep – at home, or at the business trip accommodation?

What is a 'Day'?

1. 'Day' is the period of 24 hours from one midnight to the next
2. The 'deemed expenditure' is not apportioned if the recipient is away for part of the day – the full amount is available
3. This means that:
 - If one night is spent away from home: Two days of subsistence allowance can be granted
 - If five nights are spent away from home: Six days of subsistence allowance can be granted, etc.

Tax Calculation Rules for Subsistence Allowances

Income: The deemed daily expense limits ‘split’ the subsistence allowance between ‘Business’ and ‘Private’ portions –

- Business portion: Up to and including the limit Is not income
- Private portion: Above the threshold Is income

Remuneration: All subsistence allowances (above and below the limit) are not Remuneration by definition, except for:

- Subsistence allowances paid in month 1 and if the related business travel did not happen by the end of month 2, they are
- Re-classified as remuneration in month 2 [as a Taxable allowance (code 3713) and subject to PAYE, SDL, UIF, and ETI]

Subsistence allowance amounts that exceed the Deemed daily expense limits are -

- Not taxed in the payroll (no PAYE, SDL, UIF, and ETI)
- Taxed on assessment by SARS (the full subsistence allowance amount is subject to Income tax)
- Because no PAYE was withheld, the income tax calculated on the full subsistence allowance can result in hardship

Subsistence allowance amounts that do not exceed the Deemed daily expense limits are -

- Not taxed in the payroll (no PAYE, SDL, UIF, and ETI)
- Not taxed on assessment (no Income tax)
- This is where you want to be ... (in subsistence allowance heaven ... 😊)

Tax Certificate Codes

Summarised: Tax rules for Subsistence allowances -

1. All subsistence allowance amounts are not remuneration (with one exception), therefore no PAYE, SDL, UIF, and ETI
2. Amounts that do not exceed the daily expense threshold are not income, therefore no income tax
3. Amounts that exceed the daily expense threshold are income and the full amount is subject to income tax on assessment
4. The employee can claim subsistence-related expenses up to the subsistence allowance amount

Subsistence allowances must be reported on tax certificates under codes that indicate -

1. Whether the allowance is granted in respect of local or foreign travel
2. Whether or not the full amount exceeds, or does not exceed, the daily deemed expense limit

The subsistence allowance tax certificate codes used to report the Full subsistence allowance amount are -

- | | | |
|--------------------------------------|--|--------------|
| 1. Code 3704 – Local travel (IT) | Amount exceeds the daily deemed thresholds | [Income Tax] |
| 2. Code 3714 – Local travel (Excl) | Amount does not exceed the daily deemed thresholds | [No tax] |
| 3. Code 3715 – Foreign travel (IT) | Amount exceeds the daily deemed thresholds | [Income Tax] |
| 4. Code 3714 – Foreign travel (Excl) | Amount does not exceed the daily deemed thresholds | [No tax] |

'Day Trip' Reimbursements

Meals & Incidentals

'Day' Business Trip Reimbursements

Principles

'Day' business trips are trips during which the Employee -

- Is away from the workplace during the day for business purposes
- But does not spend the night away from home

Therefore –

- 'Day' business trips don't qualify for a subsistence allowance, and
- Any 'meals and/or incidental' expenses incurred by the employee on the 'day' business trip must be reimbursed

Conditions that must be met to achieve a 'Valid' (tax-free) reimbursement are -

1. The employer must instruct the employee to incur the 'meal and incidental' expense
2. The employer must ensure that proof of the expense was provided before reimbursing the employee
3. The expense must be incurred in the furtherance of the employer's business
4. If the expense incurred was for the purchase of an asset, the ownership of the asset lies with the employer

For 'Day' business trip meal and/or Incidental expenses are concerned -

- The two conditions of instruction and proof are the most important
- The Reimbursement conditions for 'Day' business trip 'meals and incidental' expenses have been relaxed in the legislation
- But the rules now overlap to a certain extent with subsistence allowances rules

'Day' Business Trip Reimbursements

Amended Tax rules for 'Meal and Incidental' expenses

'Day' business trip reimbursements for 'meals and/or incidental' expenses are now tax free if -

1. A general 'instruction' policy is applied (this replaces the burden of specific instruction for every trip),
2. Proof of the expenses is provided to the employer
3. The reimbursed amount does not exceed the deemed daily expense limit for 'meal and incidental' expenses

Note that the 'Day' business trip reimbursement is included in Remuneration (therefore subject to PAYE, SDL, UIF, and ETI) if -

1. Proof of the 'meal and incidental' expense is not provided, the full reimbursement amount is remuneration, OR
2. The reimbursement amount exceeds the Deemed daily expense limit, the excess portion above the limit is remuneration

Confusing 'Similarities' and 'Differences' exist between Subsistence allowances and 'Day' business trip reimbursements -

- Both compensate for 'meals and incidental' expenses
- Both are subject to daily expense limits for the tax rules and calculations AND the two limits have the same value
BUT
- The one is an 'allowance', and the other is a 'reimbursement' (the difference lies in the 'proof' of expense requirement)
- The deemed daily expense limit, while the same value for both, is in respect of different categories of expenses:
 1. 'Incidental' expenses for the subsistence allowance (R169 pd for 2025)
 2. 'Meals and incidental' expenses for the reimbursement (R169 pd for 2025)

'Day' Business Trip Reimbursements

Application of the 'Day' Business trip Deemed Daily Threshold

The Reimbursement for 'day' trip 'meal and incidental' expenses –

1. Is 'Tax free' up to the deemed 'day' business trip expense threshold (R169 pd for 2025)
2. But only if the Employee provides proof of the expense to the Employer

The tax rules for 'Day' business trips are illustrated in the following table

S8(1)(a)(ii)	'Day' Trip Expense		2025	'Day' Trip Reimbursement			
	Tax Calc Day Trip	Employee Expense		Proof to Employer	'Day' Trip Threshold	Paid By Employer	No-Tax Portion
Day 1	R100.00	No proof	R169.00	R100.00		R100.00	3713
Day 2	R100.00	R100.00	R169.00	R100.00	R100.00		
Day 3	R130.00	R130.00	R169.00	R130.00	R130.00		
Day 4	R180.00	R180.00	R169.00	R180.00	R169.00	R11.00	3713
TOTAL	R510.00	R410.00	R676.00	R510.00	R399.00	R111.00	

Employer 'Cost Containment' Policy -

1. The employer can add a further 'Cost containment' limit on the 'meals and incidentals' expense for 'day' business trips
2. The employer's 'Cost containment' limit does not influence the application of the tax rules in any way

Bursaries & Scholarships

Principles, Tax rules, & Benefits

Principles of Bursaries

'Bona fide' bursaries granted and paid by an organisation –

1. To assist any person
2. To study
3. At a recognised educational or research institution
4. Are fully or partially exempt from that person's taxable income subject to specified conditions

Two types of Bursaries -

1. 'Open' Bursaries:
 - Are open for anyone to apply for (therefore not restricted to the employment environment)
 - There are no tax implications for a recipient who is not an employee and to whom an 'open' bursary is granted
 - However, if the bursary is granted to an employee, the tax implications are the same as for 'Closed' bursaries
2. 'Closed' Bursaries:
 - Are granted by an employer to assist an employee (or a relative of an employee) to study
 - The employer pays for the studies, resulting in a taxable fringe benefit in the hands of the employee
 - The exemption (sections 10(1)(q) and (qA)) reduce the fringe benefit amount to provide a tax incentive to encourage studies

Understanding the Principles

Recognised Educational or Research institution -

- Schools, universities and FET colleges
- Institutions established by, or registered under South African law, including the Higher Education Act, the National Research Foundation Act, and the Skills Development Act
- 'Accredited Training Providers' in terms of the Skills Development Act are recognised educational institutions
- If the educational or research institution is outside of South Africa, the institution is recognised if the qualification is recognised by the South African Qualifications Authority under the National Qualifications Framework Act

'To Study' -

- 'To study' means the formal process of enhancing knowledge, aptitude, or expertise
- An individual is seen to 'study', even if a degree, diploma, or certificate is not attained on completion of the studies

'Job-related' studies -

- The studies paid for by the bursary need not be related to the skills required for the employee's job. If the studies are not job-related training, the tax exemption will apply if the other conditions are met
- The employer can set any rules that it likes in its bursary policy. Any training, whether job-related or not, is good for the employer because it is good for the employee's morale, self-esteem, and general outlook on life

Tax Calculation - Important Concepts

Bursary Agreement -

- If a bursary is granted to assist an employee to study, there should be an employer/employee bursary agreement
- The bursary agreement must contain a clause that stipulates that the employee agrees to reimburse the employer for the bursary costs if he fails to complete his studies for reasons other than death, ill-health, or injury
- Without this clause, the exemption is not allowed
- A bursary agreement is not required for the exemption of bursaries granted to assist the studies of a relative

Study loans -

- If the employee fails to complete his studies and must repay the bursary costs to the employer as required by the bursary agreement, the bursary amount is converted into a loan that is owing to the employer
- However, if the interest rate on this loan is below the Official Rate of Interest, a 'Low interest' fringe benefit must be raised because this loan was not granted initially as a 'study loan' (the 'no value' concession only applies to 'study loans')

Specialised Training Course -

- In-house, or on-the-job training, by training institutions does not raise a taxable benefit if the training is job-related and takes place at the employer's premises (see paragraph 10(2)(c): "*for the better performance of their duties*")

Bursary Exemption Calculation – Relatives with no Disability

1. Bursaries for Employees who are not Disabled –

- The full value of the bursary is exempt (the employee agrees to repay the bursary if he fails to complete)

2. Bursaries for ‘Relatives’ of the Employee who are not Disabled -

- The exemption thresholds for bursaries provided by an employer to assist the studies of a relative of an employee

Bursary Exemption Thresholds ‘Relatives’ – With no Disability	Up To 28 Feb 2017	From 1 Mar 2017
‘Remuneration Proxy’ eligibility threshold of the employee	R 400,000	R 600,000
Bursary for Grade R to grade twelve, and NQF level 1 to 4	R 15,000	R 20,000
Bursary for NQF level 5 to 10	R 40,000	R 60,000

IRP5 Code	Bursaries Granted to Non-Disabled Persons	Education	Tax
3809	Taxable Bursaries	Basic	PAYE
3815	Non-taxable Bursaries	Basic	Excl
3820	Taxable Bursaries	Further	PAYE
3821	Non-taxable Bursaries	Further	Excl

Note:

- The ‘Exempt’ and the ‘Taxable’ portions of a Bursary must be processed in the Payroll and reported on Tax certificates

Bursary Exemption Calculation – Employees and Relatives with Disability

The calculation of the exemption for an employee who is disabled, is the same as for an employee who is not disabled

New fringe benefit exemption thresholds to assist the studies of a disabled -

1. “Family member” of the employee to whom the employee provides
2. “Family care and support”

New Concepts –

1. “Disability”: Doctor must diagnose (same procedure as for medical expenses)
2. “Family Member”: SARS ‘Guide: “related by blood, adoption and marriage”
3. “Family Care and Support”: Common law concept

Bursary Exemption Thresholds ‘Family Members’ – With a Disability	Up To 28 Feb 2017	From 1 Mar 2017
‘Remuneration Proxy’ eligibility threshold of the employee	N/A	R 600,000
Bursary for Grade R to grade twelve, and NQF level 1 to 4	N/A	R 30,000
Bursary for NQF level 5 to 10	N/A	R 90,000

IRP5 Code	Bursaries Granted to Disabled Persons	Education	Tax
3829	Taxable Bursaries	Basic	PAYE
3830	Non-taxable Bursaries	Basic	Excl
3831	Taxable Bursaries	Further	PAYE
3832	Non-taxable Bursaries	Further	Excl

Note: The ‘Exempt’ and the ‘Taxable’ portions of a Bursary must be processed in the Payroll and reported on Tax certificates

Tax calculation – More Aspects

A *Bona fide* bursary can provide for the following expenses if they are related to the Studies -

- Tuition fees
- Registration fees and Examination fees
- Books and Equipment needed for the particular field of study
- Accommodation (other than the employee's home)
- Meals or meals voucher cards
- Transport (from residence to campus and *vice versa*)

Remission of Study Fees (teachers, lecturers and their relatives)

- Education institutions such as schools and universities allow their employees and their relatives to study at that education institution either free of charge or at a reduced fee
- The marginal cost of the education of the employees and their relatives is a fringe benefit, but to assist these individuals, the marginal cost is treated as a bursary payment and will be exempt if the exemption conditions for bursaries are met

Payment -

- Employer usually pays the Educational institution directly (but can reimburse the employee if it is a 'valid' reimbursement)
- Note: A reimbursement of study expenses after the completion of the studies is not a *bona fide* bursary and does not qualify for the tax exemption - bursaries must be planned and agreed to in advance of the studies

Salary Sacrificing using Bursaries

History of Legislation changes to curb ‘Salary Sacrificing’ using Tax-exempt Bursaries -

1. From 1992: The bursary exemption was not allowed if there was an element of salary sacrificing
2. From 2006: The bursary exemption was allowed if there was an element of salary sacrificing
3. From 2022: The bursary exemption is not allowed if there is an element of salary sacrificing.

Amendment to Section 10(1)(q)(ii)(cc) and (qA)(ii)(cc) -

[Effective from 1 March 2021]

[S10(1)(q)(ii)(cc)]

“The exemption under this paragraph shall not apply—

if any remuneration to which the employee was entitled or might in the future have become entitled was in any manner whatsoever reduced or forfeited as a result of the grant of such scholarship or bursary”

This is the latest amendment to curb ‘Salary sacrificing’ by reducing the ‘cash component’ with a tax-exempt bursary

Bursaries & Scholarships

Benefits of Bursaries

The Employer benefits -

- The bursary cost is tax deductible in the employer's hands
- The employer can exercise control over the training
- Up-skilled, motivated, and happier employees, are good for business and morale

The Employee benefits -

- Tax free training: Improved skills, potential pay increases, and more employable
- Good for the employee's self-esteem and general outlook on life
- Education for his relatives is tax free up to significant levels

The Country benefits –

- From better skilled employees

Last word: Bursaries are something to think about seriously if you are not already providing them

Long Service Awards

Principles, Tax rules, & Tips

Long Service Awards

Principles

When an employee 'Acquires an Asset' from an employer -

- Either for no consideration or for a consideration that is less than the value of the asset
- A taxable fringe benefit arises, and
- The fringe benefit value is either the 'Cost of the asset' to the employer, or the 'Market value' of the asset

When an employee 'Acquires an Asset' from an employer as an award in recognition of 'Long service' -

- The fringe benefit value is the 'Cost of the asset' to the employer, and
- If the conditions for long service are met, then
- The fringe benefit value can be reduced by the lower of the 'Cost of the asset', and R5 000

2021 Budget Review -

- Some employers have been rewarding employees for 'Long service' in ways other than the 'Acquisition of an Asset' benefit
- Instead of penalties and interest, a very welcome pragmatic approach was taken by the authorities
- Proposal to increase the award options that employers can choose from to 'legalise' what was happening in practice

Long Service Awards

Amendments to the 'Long Service' Award Rules

The Amendment added three new types of awards for 'Long service'

Four types of awards that are options for 'Long service' awards from 1 March 2022 -

1. Acquisition of an Asset [Existing option]
2. Right of Use of an Asset [New option]
3. Free or Cheap Services [New option]
4. Cash [New option]

Note the following -

- Point 1 above is not new (as far as I can determine, this provision has been in the Act since 1985)
- Points 2, 3, and 4, are the new types of award that are available from 1 March 2022
- Points 1, 2, and 3, are fringe benefits
- Point 4 is an award paid in cash – this is a radical, but welcome, change

The Reduction value for the tax calculation was not increased -

- The total taxable value of the four types of awards can be reduced by the lower of the cost of the award and R5 000
- But only if the 'long service' conditions are met

Long Service Awards

What are the 'Long Service' Conditions?

The 'Long service' Conditions that must be met, are -

1. An initial unbroken period of service of not less than 15 years,
OR
2. Any subsequent unbroken period of service for the same employer of not less than 10 years

Application of the 'Long service' Conditions -

1. If any one of the two conditions is met, the total award value can be reduced by up to R5 000
2. If neither of the two conditions are met when an award is granted to an employee:
 - The value of the award must be taxed in full, and
 - Reported on the tax certificate according to 'what it is' (i.e. cash or the actual Fringe benefit type)

The Employer's 'Long service' policy can -

1. Specify which award (or awards) to make available,
2. Limit the total value of the award (or awards), and
3. Specify the number of years' service that must be provided before a Long service award can be granted

Note: The Tax rules are not influenced in any way by the Employer's policy

Long Service Awards

Tax Certificate Codes for Long Service Awards

Code 3622 – Long Service Cash Award

- ‘Long service’ awards paid in cash must be reported under code 3622 (the ‘gross’ value before the R5,000 reduction)

Code 3835 – Lump sum Fringe Benefit Award

- The total of the fringe benefit ‘long service’ awards must be reported under code 3835 (the ‘gross’ value before the reduction)

Code 3605 – Annual Payment

- ‘Long service’ awards paid in cash are ‘annual payments’ (normally code 3605), but must be reported as: Code 3622

Code 3801 – General Fringe Benefits

- An ‘Acquisition of an Asset’ or a ‘Use of an Asset’ benefit granted as a ‘Long service’ award must be reported as: Code 3835
- An ‘Acquisition of an Asset’ fringe benefit that is not granted as a ‘Long service’ award, must be reported as: Code 3801
- A ‘Right of use of an Asset’ fringe benefit that is not granted as a ‘Long service’ award, must be reported as: Code 3801
- Note that two benefits can be granted in the same tax year as an ‘Acquisition of an asset’ fringe benefit:
 1. The one is in respect of a ‘Long service’ award, reported as: Code 3835
 2. The other one is not in respect of a ‘Long service’ award, reported as: Code 3801

Code 3806 – Free or Cheap Services

- ‘Free/Cheap Services’ benefits granted as a ‘Long service’ award must be reported as: Code 3835

Long Service Awards

Processing 'Long Service' Awards in the Payroll

More than one of the available 'Long service' awards can be granted to a 'Qualifying' employee

For example -

- R8 000 award in total: R2 000 for each of the four types of awards (R2 000 in cash and R6 000 in fringe benefits)
- Report the R8,000 total amount on the Tax certificate as follows:
 1. Code 3622 = R2 000
 2. Code 3835 = R6 000
- PAYE calculation: The payroll will reduce the R8 000 by R5 000, and add R3 000 to remuneration for the PAYE calculation

Gift Vouchers are -

- Practical and popular awards (the value is clear, and employees have flexibility to buy whatever they want)
- Regarded by SARS as an asset for the purposes of the long service award requirements
- Processed as an 'Acquisition of Asset' fringe benefit provided that the 'Long service' conditions are met

Krugerrands are -

- Seen as 'goods or commodities' rather than "money" (Krugerrands don't have a 'face value')
- Regarded by SARS as an asset for the purposes of the 'Long service' award requirements
- Processed as an 'Acquisition of Asset' fringe benefit provided that the 'long service' conditions are met

Long Service Awards

When are the 'Long Service' Conditions Met?

The 'Long service' award must be paid or granted -

- During the tax year in which one of the two 'Long service' conditions are met
- But in which month of the tax year?

SARS Legal opinion:

- The 'up to R5 000' reduction can be applied in any month in the qualifying tax year but only from the anniversary month of the employee's date of appointment onwards

Example 1: If the anniversary month of the employee's 15-year/10-year qualifying service period is -

- March: Then the reduction can be applied in any month of that tax year from March until February
- February: Then the reduction can only be applied in the February payroll

Example 2: The employee's anniversary month is November, and the award was granted 5 months earlier in June -

- This is not compliant, and will be subject to penalties and interest if discovered
- Also, if the employee's services end between June and November, the reduction applied in June should be reversed ...

Bottom line -

- A 'Long service' policy that, for administrative convenience, seeks to apply the reduction to those employees that qualify in a certain year in any month of the year other than February, would potentially be non-compliant

Long Service Awards

Applying the ‘Long Service’ Conditions

Employers:

1. Can prescribe longer periods of service than the legislated periods and still benefit from the ‘up to R5 000’ reduction, but
2. Cannot prescribe shorter periods of service and benefit from the reduction (the award will be fully taxable)

Example 1

1. Employees who receive their first ‘Long service’ award in their 18th year of unbroken service can legally benefit from the ‘up to R5 000’ reduction
2. But must wait for a further minimum of 10 years (after at least 28 years of work for the same employer) for the next award

Example 2

1. The employer’s policy is to pay a long service award in cash after every 5 years of service
2. The tax result is shown in the table, including the tax certificate codes that are still to be discussed

Period of Service	Cash Award Amount	Is the Award Taxed?	IRP5 Code
5 Years	R3,000	Yes	3605
10 Years	R4,000	Yes	3605
15 Years	R5,000	Up to R5,000 tax free	3622
20 Years	R6,000	Yes	3605
25 Years	R7,000	Up to R5,000 tax free	3622
30 Years	R8,000	Yes	3605
35 Years	R9,000	Up to R5,000 tax free	3622

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