

Secret Extra Tax

The first amount of interest income up to R22 300 (65 years and over – R32 000) is exempt from tax in the hands of a natural person.

The Minister of Finance proposed that these exemptions be limited to savings through widely available interest-bearing investments such as bank deposits, government retail bonds and collective investment money market funds.

This proposal seems innocent enough but to the unwary taxpayer, this simple proposal could increase his tax liability in the 2011 tax year by up to R8 920 (or R12 800 if 65 years or older) – far greater than the small savings as a result of tax bracket adjustments.

Mr “Big Salary” has R278 750 to invest in a 8% fixed deposit earning interest of R22 300 p.a.

Although his tax rate is 40%, the tax on this interest is zero.

Instead, his company needs working capital of R278 750. He cashes in the fixed deposit and lends the funds to his company at the same interest rate of 8% p.a. The interest he earns amounts to R22 300 and, although he has no other interest income, he enjoys no tax exemption and his tax liability on this interest at 40% is R8 920.

If he had ceded his fixed deposit to the bank to secure a loan from the bank to his company, the R8 920 extra tax would have been saved and would have more than compensated for any additional interest charged by the bank on the loan.



If the company has surplus cash to invest, it should repay his loan to enable him to invest at tax free interest rather than for the company to invest to earn taxable interest.

There are a number of similar scenarios which are possible. They all demonstrate that natural persons should ensure that they obtain the benefit of the R22 300 (or R32 000) interest exemption to save up to R8 920 (or R12 800) in tax.

No one should carelessly lose the benefit of this tax saving.

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