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# Video Transcription: Introduction to Wealth Taxes



Hi there. South Africa taxes its citizens primarily through income tax and VAT. Income tax is a direct tax on the income earned by the taxpayer over a period of time, while VAT is an indirect tax on transactions. Some countries, such as France, Spain and Switzerland however, tax their citizens based on their wealth.

My name is Riley, and in this video we will be looking at South Africa's versions of wealth taxes – donations tax and estate duty.

So, what is a wealth tax? A wealth tax is a tax based on the value of a person's assets.

### **Donations tax**

Donations tax is a tax payable on the transfer of assets. It is imposed on taxpayers to prevent them from donating their assets to someone else to avoid paying or being liable for income tax. Giving these income earning assets to another taxpayer means that this taxpayer will earn the income and will be liable for the income tax.

Donations tax is payable at a flat rate of 20% on the value of property donated. It is levied at a flat rate as the rate does not change, regardless of how many donations are made or the value of the donations.

Donations tax applies to the donation of property by a person who is a resident of South Africa.

What is a donation? It is any gratuitous disposal of property or waiver of a right. Gratuitous means "for free" or "without payment or obligation". A waiver of a right is the giving up of a right. The value of the donation is the market value of property being donated. A donation includes property disposed of for an inadequate consideration, for example selling a motor car for R10 000 when the market value is R25 000. The difference of R15 000 is the donation.

The "person" to whom or which donations tax applies is any natural person (or individual), company or trust. This person must also be a resident of South Africa. Non-residents are not liable for donations tax. The person donating the property is called the donor and the person receiving the property or benefit is called the donee.

The person making the donation (remember, the donor) is liable for the tax, but if the donor fails to pay the tax within the set period the donor and donee are jointly and severally liable for the tax. This means that SARS can collect the tax from either the donor or the donee.



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There are many specific instances when donations tax is not applicable. These exemptions include:

- A donation to your spouse;
- A donation where the benefit or property only passes to the donee on the death of the donor;
- Donations by or to approved public benefit organisations;
- Donations by public companies;
- Donations within the same group of companies; and
- If the donation is for the maintenance of another person.

In addition to the specific exemptions, there are also annual exemptions applicable to donations. A donation will be exempt if the total value of donations for the year does not exceed R10 000 for casual gifts by companies and trusts and R100 000 for donations made by natural persons.

### **Estate duty**

Another type of wealth tax in South Africa is estate duty. When a person dies, they are referred to as the deceased. Any money, belongings and other property the deceased owned or was entitled to is referred to as the estate. Therefore, estate duty is a tax payable on the value of property owned by the deceased immediately prior to death. Estate duty is charged at 20% on the net value of the estate in excess of R3.5 million.

Estate duty applies to:

1. All assets of deceased persons who were ordinarily resident in South Africa when they died; and
2. Only South African assets of deceased persons who were not ordinarily resident in South Africa when they died.

Unlike the Income Tax Act, the Estate Duty Act does not have a definition of “resident”. In deciding whether someone is considered to be a resident we would have to look to case law. Essentially, you are ordinarily resident in the country you consider your home and to where you would “return from your wanderings”.

An estate includes property and deemed property at the date of death. “Property” is all the assets the deceased owns or is entitled to. “Deemed property” is property that was not owned by the deceased or did not exist at the time of death, for example some life insurance policies. These policies only pay out once the person has passed away, but must be included in property for estate duty purposes.



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Once the value of property has been determined, the estate is entitled to deduct certain expenses from this value. Allowable expenses include:

- Funeral expenses;
- Debts owed by the deceased (including the final income tax liability);
- Admin costs of the estate;
- Property left to your spouse;
- Charitable bequests (for example giving an asset to a public benefit organisation); and
- Books, pictures and other art.

The value of the property less the allowable expenses is referred to as the net estate value. The portion of the net estate value that is taxable is only the excess above R3.5 million. The R3.5 million is called the estate duty abatement. After considering the abatement, the dutiable (or taxable) amount is charged at a rate of 20%.

The executor of the estate, in other words the person in charge of the deceased's estate, must make the estate duty payment out of funds in the estate. This means that it is the people to whom the assets go to that bear the actual cost of estate duty.

So, whilst South Africa taxes its citizens primarily through income tax and VAT, South Africa does have two examples of wealth taxes. I hope you enjoyed the video and the insight into South Africa's versions of wealth taxes, being donations tax and estate duty.